MILLENNIUM
CHALLENGE CORPORATION
UNITED STATES OF AMERICA

INVESTING IN RESULTS

ANNUAL REPORT 2009

“To the people of poor nations,
we pledge to work alongside you
to make your farms flourish
and let clean waters flow;
to nourish starved bodies
and feed hungry minds.”

PRESIDENT BARACK H. OBAMA JANUARY 20, 2009

Investing In Results

Annual Report 2009
Millennium Challenge Corporation
United States of America
October 1, 2008 to September 30, 2009

MILLENNIUM
CHALLENGE CORPORATION
Reducing Poverty Through Growth

"The Millennium Challenge Corporation is an essential partner as we work to combat global poverty..."

PRESIDENT BARACK H. OBAMA NOVEMBER 6, 2009

Overview & Table of Contents

The Millennium Challenge Corporation is an innovative U.S. Government approach to achieving President Obama's vision for fighting global poverty. MCC makes prudent choices about where to deliver development assistance by partnering with poor countries already committed to good governance, economic freedom, and the empowerment of their citizens. MCC expects partner countries to lead their development through homegrown ideas and local implementation, creating their own sustainable solutions. MCC-funded projects advance quantifiable results that improve the lives of the poor in practical and meaningful ways. Our transparent, country-driven, results-based approach to fighting global poverty is expected to raise incomes by over $8 billion over the life of our current investments, benefitting more than 45 million people. This generates opportunities for the poor and contributes to worldwide prosperity, which is critical to America's own economic recovery. For MCC, fighting global poverty means **investing in results** for both the world's poor *and* American taxpayers.

Message From Secretary of State Hillary Rodham Clinton, MCC Chair of the Board of Directors

The Millennium Challenge Corporation (MCC)'s approach to development assistance is one of the U.S. Government's most innovative and forward-thinking vehicles for leveraging resources in this fight against global poverty. MCC's progress is measured in more than indicators such as the number of schools opened, children vaccinated, roads built, farmers trained, and land titles issued. It is also measured by *how* MCC is investing in results. Additionally, we have made anticorruption a priority not only for qualifying for MCC's assistance (the "hard hurdle"), and subsequent program implementation, but also a platform for encouraging partners towards more responsible governance and enhanced accountability. MCC proves that a model for development can, in fact, work effectively when partnerships are predicated on sound policy reforms, where countries are responsible for their own development, and where tangible results are measured by indicators of success. MCC offers valuable lessons learned to inform the future of foreign assistance.

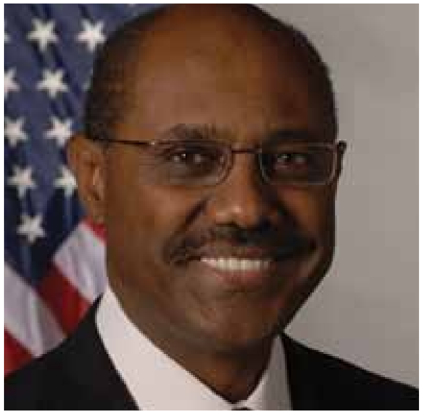
MCC's results-driven development model will continue creating opportunities for global growth and prosperity with the ongoing support of Congress and the development community, non-governmental organizations, the private sector, and key stakeholders, including the American people. Advancing MCC's work is one way all of us can make a sustainable difference in the lives of the world's poor.

The Obama Administration is also working toward increasing U.S. assistance for long-term agricultural productivity in order to strengthen global food security and reduce hunger and poverty. In addition, we are calling for a new, integrated approach to assistance for global health in order to bolster health systems and to provide investments for child and maternal health, family planning, and ways to save lives from HIV/AIDS, neglected tropical diseases, malaria, and tuberculosis.

Initiatives like these confirm a new chapter in American global engagement. It is "smart power" at its best, building partnerships not just through our defense and diplomacy capabilities but also through our development abilities to help the poor strengthen their capacity to sustain a higher standard of living for themselves and their families.

Hillary Rodham Clinton, Chair

Message From Daniel W. Yohannes, Chief Executive Officer



Results matter, and in the fight against global poverty, results are life-changing and life-saving. That is why the Millennium Challenge Corporation is committed to investing in programs that achieve sustainable results to improve the lives of the poor worldwide. To do this, we are thinking differently about the fundamental principles that make the delivery of development assistance effective. We are forging strong partnerships with others who share our goals to maximize efforts across key sectors. We are breaking new ground by measuring and reporting results in ways that are transparent and open to public scrutiny and feedback. We are proud to be part of the ongoing discussion about the future of development assistance.

The *2009 Annual Report* chronicles what has already been achieved, as partner countries worldwide continue implementing over $7 billion in Millennium Challenge grants to fight poverty and stimulate economic growth. With gender-inclusive investments in agricultural productivity, education, health, infrastructure, and land security, for example, MCC is a smart and effective investor of U.S. resources in the fight against global poverty. We are delivering the tangible opportunities that give poor communities a reason to hope. We are showing American taxpayers that their development dollars are being wisely spent for the benefit of the world's poor and to forge a more prosperous and secure world that benefits us all.

We still have much more to do. In my time as MCC's Chief Executive Officer, I am committed to advancing MCC's noble mission through innovation, through broader engagement of the private sector, through stronger partnerships both within and outside the U.S. Government, and through a continued focus on results. The valuable lessons learned by working with partner countries, interacting with supporters and critics in the development community, and implementing our programs continue to show us ways to more effectively invest in results. And through these results, MCC is delivering opportunities and sustainable solutions in the fight against global poverty.

Daniel W. Yohannes, Chief Executive Officer

FORWARD THINKING
PARTNERSHIPS THAT DELIVER TANGIBLE RESULTS

Through an innovative approach to development assistance, MCC **invests in results** by investing in critical sectors that improve the lives of the poor. These sectors reflect the Obama Administration's international development goals, and MCC is a key tool in helping the U.S. Government move forward in fulfilling these priorities through partnerships worldwide.

Promoting Food Security

Barbara Ayisa of Affumkrom, Ghana spends her day growing onions and maize. This year, she was among the 48 farmers in the Affumkrom Vegetable Growers' Association to receive training as part of an integrated solution to long-term agricultural productivity under MCC's $547 million compact with Ghana. The program also includes MCC-funded projects that enhance land tenure security, promote irrigation development, improve post-harvest handling of produce, expand credit, and rehabilitate secondary/feeder roads. In addition, Barbara and other farmers received seeds, fertilizers, self-sealing grain storage bags, and farming tools. Equipped with these new resources, as well as MCC-funded training, Barbara increased her field's yield. With the self-sealing plastic bags she received, she is able to safely store her maize to feed her family or until she can sell it at the best market price, earning the most she can.

An ocean away in Honduras, a better way to farm led Edras Mateo to a better life for himself and his family. Looking for an alternative to poverty and gangs, Edras sought out agricultural training through MCC's compact with Honduras. Through this training, Edras learned how to implement techniques to increase his lettuce yield to meet market demand and expand into other high-value crops. A year later, with his increased income, Edras was able to buy a home for his family, keep his two children in school, and purchase 5.6 hectares of land to farm. Now, nearly a dozen nearby farmers seek him out for technical assistance to emulate his success. Complementary projects in the Honduras compact that invest in irrigation, for example, create added benefits for Edras and farmers like him to increase productivity.

Barbara Ayisa and Edras Mateo—and thousands of other farmers benefitting from MCC assistance—are proof that alleviating global poverty requires investing in global food security. The U.S. Government is committed to this, and MCC is an effective and essential tool in achieving America's commitment to global food security by supporting long-term agricultural development and rural economic growth.

Nearly $3.7 billion of MCC's total worldwide commitment of over $7 billion supports sustainable, market-based advancements in food security. Through a diverse portfolio of investments, MCC supports all aspects of the food production and distribution system. This includes transferring agricultural technology, securing land rights and access to rural finance, increasing access to sufficient and clean water, and building rural roads and other farm-to-market infrastructure, like dry- and cold-storage facilities. These investments help farmers and rural businesses obtain productive inputs such as seeds, water, and fertilizers, overcome bottlenecks that hinder their ability to get produce from farm to market, and engage in higher-value production to generate rural income growth.

"Food security is not merely a question of getting food to hungry people. It represents the convergence of complex issues that have a direct bearing on economic growth, energy and environmental factors, and our strategic interests. And as such, it demands a comprehensive response. If we can build partnerships with countries to help small farmers improve their agricultural output and make it easier to buy and sell their products at local or regional markets, we can set off a domino effect. We can increase the world's food supply for both the short and the long term; diminish hunger; raise farmers' incomes; improve health; expand opportunity; and strengthen regional economies."

SECRETARY OF STATE
HILLARY RODHAM CLINTON
SEPTEMBER 25, 2009

Strengthening Human Development

Investing in human development is a prerequisite to sustainable poverty reduction and economic growth. That's why MCC promotes human development through investments in health, education, water, and sanitation. **In total, MCC is investing nearly $1 billion in education, health, water, and sanitation worldwide.** This investment strengthens human development and expands the capacities of citizens in partner countries to lead healthy lives, to increase their knowledge, and to attain a decent standard of living.

In Lesotho, where an estimated 24 percent of the adult population is HIV-positive, MCC is investing $122 million in compact funds to strengthen healthcare systems. In coordination with the *President's Emergency Plan for AIDS Relief* (PEPFAR), MCC is helping the children of HIV-positive mothers live long and healthy lives. MCC's renovations of health centers complement PEPFAR's particular focus on the prevention of mother-to-child HIV transmission. As more women deliver babies at these MCC-renovated health facilities with maternity wards, PEPFAR can better track mothers' and babies' adherence to HIV prophylaxis.

In Mongolia, MCC is investing compact funds to improve and expand the national non-communicable diseases and injury prevention program. By implementing programs aimed at changing poor dietary habits, lack of exercise, smoking rates, and alcohol abuse, MCC's partnership with Mongolia's Ministry of Health aggressively tackles non-communicable diseases, which are a major cause of death among working-aged Mongolians.

In Ghana, 65 schools have been renovated or are under renovation, with hundreds more to be built, as part of Ghana's $547 million MCC compact. Through a partnership with the *United States Agency for International Development* (USAID), these MCC-funded schools will be staffed with trained teachers. In addition to Ghana, MCC is funding educational and training programs in Burkina Faso, El Salvador, Mongolia, Morocco, and Namibia.

In Mozambique, $203.6 million of the country's $506.9 million MCC compact is improving access to water and sanitation in eight cities and 600 rural villages. Increasing access to safe, reliable water supplies and sanitation services boosts productivity and reduces water-borne diseases, the leading cause of death in children under five. MCC investments are also expanding the capacity of water treatment plants in Tanzania and rehabilitating water sanitation and irrigation systems in Georgia. Jordan's proposed compact, under development during this fiscal year, is expected to include major projects to increase access to drinking water, improve waste water collection, and reduce water losses in the country's second largest city.

Building Infrastructure

The prosperity of households and the growth of communities throughout the developing world depend on sound infrastructure. Adequate infrastructure facilitates private sector investments, expands trade opportunities, opens markets to farmers, and provides access to schools and health clinics. Without such infrastructure, the cost of doing business increases, transportation costs and times skyrocket, economic growth is stunted, and the standard of living for the world's poor remains bleak. It is no surprise, then, that MCC partner countries have overwhelmingly targeted their MCC investments to address their infrastructure needs, not only building critical roads and bridges but also renovating ports, electricity grids, and irrigation systems. **More than 33 percent of MCC's total worldwide commitments support transportation infrastructure alone.**

Cape Verde completed the construction of the road from Orgãos to Pedra Badejo on Santiago Island through its $110 million MCC compact. This marked MCC's first completed road project in Africa. The new road, inaugurated in June 2009, complies with all environmental requirements, decreases transportation costs, and improves access to markets, schools, and community services for families, farmers, businesses, non-governmental organizations, and social service providers who live and work along its path.

In Ghana, groundbreaking for *National Highway 1 (N1)* took place in October 2008. The *N1* is a linchpin project in Ghana's $547 million MCC compact, which is transforming the country's agriculture sector and making exports more competitive. Now, pineapples sit on the back of a lorry for three hours between Malam and Tetteh Quarshie on their way to the port of Tema, wasting time and fuel, and shortening the fruit's shelf-life. By facilitating movement around Accra and to Tema, the *N1* will reduce these transport costs and will complement the agriculture and rural development projects also funded by the compact.

Similarly, El Salvador witnessed the historic groundbreaking for the *Northern Transnational Highway* in April 2009, the major component of its $461 million MCC compact. The highway fulfills a generational dream to unite the Northern Zone with the rest of the country through a modern road system, slashing travel time from Metapan to Chalatenango from four *hours* to 45 *minutes*. On this and all road projects, MCC requires comprehensive resettlement plans. In El Salvador, for example, the *Northern Transnational Highway* will pass through the land of the López family. Through MCC-funded resettlement efforts, the family was compensated for their land and received a pair of cows and training in milk production to boost their earnings.

Also in El Salvador, the first 115 kilometers of rural electrification lines have been constructed and the first 450 solar panel systems have been installed, making a difference in the lives of more than 2,000 isolated households. This investment protects the environment, while harnessing a renewable energy source in the fight against poverty.

In Armenia, new and refurbished water canals continue to provide farmers with a reliable supply of water to irrigate their farms, expand production, invest in profitable crops, and increase their incomes. To further this, the rehabilitation of a 4.2 kilometer section of the main Arzni-Shamiram water canal started in December 2008, with portions completed during the harsh winter for use during the Spring 2009 irrigation season.

Securing Land Rights

MCA-Benin, which is responsible for managing the implementation of Benin's MCC compact, partnered with 54 villages to support activities that increase land tenure security and improve land management. Public ceremonies were held throughout the country to engage local authorities and inform beneficiaries of upcoming opportunities. These outreach efforts complemented technical innovations, including installation of seven *Continuously Operating Reference Stations* (CORS) as the core of a modern national geodetic reference framework, which allows surveyors—pictured here with GPS equipment—to survey and map land parcels accurately and efficiently. With this MCC-funded technology and technical assistance, Benin hopes to convert 30,000 occupancy permits in urban areas to land titles and to issue land titles or certificates to 75,000 rural households.

PHOTO COURTESY OF TRIMBLE, SUPPLIER OF THE GPS EQUIPMENT

Like Benin, many other MCC partner countries recognize that secure and efficient access to land and property rights contributes to poverty reduction and economic growth. Countries are supporting legal and regulatory reforms to bolster transparency and the rule of law, clarifying and formalizing land and property rights, developing more client service-oriented property registries, building the capacity of local institutions, and engaging in land-related outreach and education. These approaches reduce transaction costs, increase tenure security, and improve land allocation, resulting in more investments in land and property and higher land productivity and value.

MCC has invested over $297 million in country-determined and country-driven strategies to strengthen the real property rights and land policy systems in countries from Africa to Eurasia to Latin America. Because of this commitment, farmers, households, and businesses are more willing to protect and invest in their land or property. Secure tenure is critical for accessing credit, promoting investment and private sector activities, and generating self-sustaining market opportunities for economic growth. This commitment also promotes community development. Secure rights to property use, ownership, and transfer empower communities to demand basic services from their governments, like electricity, water, and sanitation. Investing in access to land and property rights protects women and their children, who, together, disproportionately shoulder the burden of poverty. Moreover, tenure security creates incentives for managing land and natural resources responsibly, thereby promoting environmental stewardship and addressing the implications of climate change.

Championing Gender Equality

The October 2008 launch of *Jordan's Women's Knowledge Network* is an example of the role gender integration plays in development. Funded through Jordan's MCC threshold program with support from the Jordanian National Commission for Women and USAID, the *Network* gives women a valued voice in society by promoting the gender integration of local councils. It focuses on empowering female municipal council members nationwide. As of March 2009, the *Network* conducted several regional meetings attended by over 260 female council members from over 70 municipalities. The *Network* also hosted a popular workshop focused on improving local government planning and capacity.

MCC continues to work to strengthen gender integration in the development and implementation of programs worldwide. In Benin, women are learning of the benefits associated with obtaining land titles and receiving microloans. Lesotho worked with MCC to ensure gender equality in economic rights. And, the largest component of Lesotho's compact focuses on delivering essential maternal and child health services, particularly related to HIV/AIDS prevention and treatment. In Mali, women will have access to irrigated land plots through women's associations so they can grow what they choose to feed their families or sell at market. Nicaragua established a consultative council of female representatives to help shape the country's compact program. Women entrepreneurs in Georgia are contributing to economic growth by expanding their agribusinesses.

MCC recognizes that gender inequality is a significant constraint to economic growth and poverty reduction; that is why we ensure that gender issues and the concerns of vulnerable populations are considered in all stages of our work with partner countries. **Throughout the selection of eligible countries, the development and design of compact programs, the implementation of projects, the monitoring of program results, and the evaluation of program impacts, gender plays an important role.** MCC's *Gender Policy* consolidates our commitment to gender integration as fundamental to sustainable poverty reduction and economic growth. An initial internal review of the implementation of this *Gender Policy* revealed progress in designing gender-inclusive programs that account for gender differences and inequalities, in creating opportunities for learning and capacity-building across sectors, in generating greater awareness of the value of gender integration to program quality and deliverables, and in broadening local interest in dedicating resources and staff to social and gender assessment.

Understanding the MCC Model

MCC invests in results by investing in a different way of delivering development assistance.

A policy performance-based model that rewards good governance

MCC works with those countries that show they are committed to good policies. MCC assistance is more likely to be successful when it is invested in countries committed to sound policy performance. To qualify for a large-scale grant—what we call a compact—potential partners must score better than their peers, either low-income or lower-middle-income countries, on 17 independent indicators that measure, among other factors, government effectiveness, control of corruption, civil liberties, immunization rates, girls' primary school graduation rates, days and cost to start a business, and trade policy.

The MCC selection process also provides an incentive for other countries to improve their policies so they too might qualify for a grant. Liberia's President Ellen Johnson Sirleaf stated in October 2008, *"MCC has had a transformative effect across the developing world. Responsible, reform-minded governments have set their sights on the MCC benchmarks, and this has accelerated the pace of reform while empowering governments to make decisions on their own path of development and the direction of their future."*

MCC has focused a particularly intense spotlight on corruption. MCC's Board of Directors generally requires that countries "pass"—score above the median on—at least half of the indicators in each of the three categories: *governing justly, investing in people,* and *encouraging economic freedom*. The Board also generally requires that countries pass the control of corruption indicator. As a result, many countries, including those in MCC's threshold program, focus their program on efforts to reduce corruption.

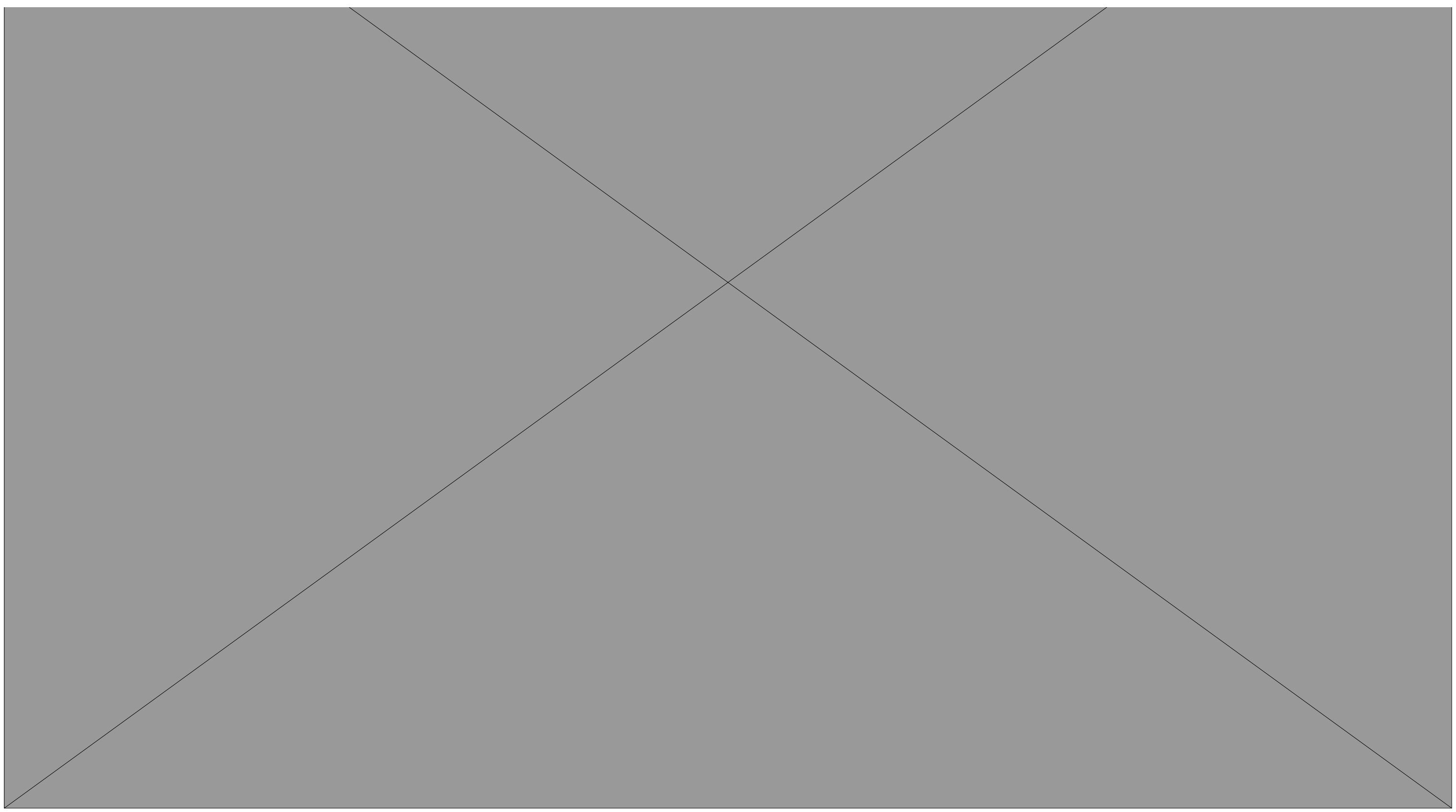
Visit www.mcc.gov and click on Selection Criteria to learn more.

View the comprehensive Policy on Preventing, Detecting, and Remediating Fraud and Corruption in MCC Operations at www.mcc.gov.

A country-driven model that demands country-led development

Country ownership is not just a catchphrase at MCC. It is a founding principle, stemming from the firmly held belief that significant and sustainable development cannot be imposed from outside but must be built from within. U.S. assistance through MCC can be a powerful catalyst for development, but only if partner countries seize the opportunities it creates. For that reason, once a country is selected, it is in control. The country, not MCC, identifies its barriers to poverty reduction and economic growth and develops its own compact proposal. Countries are asked to consult broadly—with civil society, the private sector, their legislature, political parties, international donors, and potential beneficiaries—either as a supplement to existing consultations or, in some cases, as their first public consultation.

Once the compact is approved, the country is responsible for implementing it. The country designates an entity to oversee compact implementation, which often takes the form of a board and program management office composed of partner country nationals. These country-specific entities are referred to as MCAs. Because of this leadership, MCC is able to maintain a small in-country presence, usually only two U.S. direct-hired staff members, with two or three local hires. MCC encourages consultation throughout implementation by insisting on transparency and public outreach. Because countries differ in capacity, MCC has adopted a sliding scale of technical assistance and oversight, never losing sight of the value of "learning by doing" among local stakeholders.



	Country	MCA Name	Website
	Armenia	MCA-Armenia	http://www.mca.am/new/enversion/index.php
	Benin	MCA-Benin	http://www.mcabenin.bj/
	Burkina Faso	MCA-Burkina Faso	
	Cape Verde	MCA-Cape Verde	http://www.mca.cv/
	El Salvador	FOMILENIO	http://www.mca.gob.sv/fomilenio/index.php
	Georgia	Millennium Georgia Fund	http://www.mcg.ge/
	Ghana	MiDA	http://www.mida.gov.gh/
	Honduras	MCA-Honduras	http://www.mcahonduras.hn/
	Lesotho	MCA-Lesotho	
	Madagascar	MCA-Madagascar	http://www.mcamadagascar.org/
	Mali	MCA-Mali	http://www.mcamali.org/
	Mongolia	MCA-Mongolia	
	Morocco	Agence du Partenariat pour le Progrès	
	Mozambique	MCA-Mozambique	
	Namibia	MCA-Namibia	
	Nicaragua	MCA-Nicaragua	http://www.cuentadelmilenio.org.ni/
	Senegal	MCA-Senegal	
	Tanzania	MCA-Tanzania	http://www.mca-t.go.tz/
	Vanuatu	MCA-Vanuatu	http://www.governmentofvanuatu.gov.vu/mca-vanuatu/Home/tabid/54/Default.aspx

Phases of Compact Development

1. Start up and Preliminary Analyses | **2. Project Definition** | **3. Project Development and Appraisal** | **4. Compact Negotiation and Compact Signing** | **5. Pre-Entry into Force Activities**

Implementation Preparations

6. Implementation

Getting started:

- Country names National Program Coordinator – key manager of the compact process
- Country establishes Core Team – responsible for completing the compact
- Country commences initial public consultations
- Country completes analysis of binding constraint to growth
- MCC provides feedback on analysis of binding constraints to growth
- MCC provides guidance on results focused project design principles and tools

Identifying priorities:

- Country consults stakeholders on potential projects
- Country develops and provides a Project Concept Paper for each potential project – each paper proposes a set of related investments
- MCC conducts a "peer review" of the proposed Project Concept Papers; MCC may undertake fact-finding mission to country
- MCC provides formal response to Project Concept Papers – identifying suitable candidates and indicates further studies that may be needed
- MCC provides 609(g) funding if needed for project development of approved concepts

Developing the program:

- Country further develops projects that appear promising for potential investment
- MCC disburses 609(g) funding and assists with needed preparatory studies –feasibility studies, environmental impact assessments, framework resettlement plans, preliminary designs, etc.
- Country consults stakeholders on project design and sustainability
- At an appropriate time, MCC prepares and submits Congressional Notification to commence negotiations*
- MCC conducts formal appraisal of developed projects, including second "peer review"

Negotiating the terms of the Compact:*

- MCC and country conduct compact negotiations (technical content)
- MCC prepares and submits Investment Memo to MCC Investment Committee
- MCC and country negotiate compact documents (legal documentation)
- MCC Board approves Compact
- MCC and country sign the Compact -- at this point funds are obligated, program objectives are defined and total dollar amount is set

Getting ready for implementation:

- Compact ratification, if necessary
- Completion of stand-up of Millennium Challenge Account (MCA) Accountable Entity
- Completion of Implementing Entity agreements
- Completion of annual budgets and implementation plans
- Completion of Terms of Reference and work plans for implementation and procurement
- Pre-qualification of consultants and contractors for early procurements

The clock starts:

- Compact "Enters Into Force" (EIF) and five year clock starts
- Compact provisions in full force and effect in the country
- Accountable Entity is responsible for overseeing implementation of projects
- PMU submits quarterly progress reports
- MCC authorizes disbursements, U.S. Treasury transmits funds
- Ongoing public updates on Compact
- Monitoring and evaluation of project impacts
- MCA Consultation may include: transparency; outreach; stakeholder committees; resettlement process, etc.

- **Country sets up its Project Management Unit (PMU) structures –** Accountable Entity, Fiscal Agent, Procurement Agent, and Implementing Entities established and trained

* As defined under Section 610 of the Millennium Challenge Act of 2003

A results-oriented model of accountability and sound stewardship that optimizes aid effectiveness and organizational efficiency

Results count. Each proposed MCC compact activity is assessed for its potential economic rate of return: To what extent will the additional income generated by MCC investments for local families and firms exceed the cost of MCC investments? Compact programs are also assessed for their projected impact on beneficiaries: To what extent will a significant share of the additional income go to low-income households? This focus on results defines MCC's aid effectiveness according to impact rather than process.

Other elements of MCC's approach are also in line with international principles of aid effectiveness. The emphasis on country ownership—including the broad participation of civil society and the private sector, the predictability of funding enabled by setting aside funds for the entire compact at the outset, fair and open international procurements run by partner countries, and coordination with other donors—are evident in every step of the MCC process. These factors help ensure that MCC investments are targeted to the right objectives and to maximizing value for our investments. With a headquarters staff limited to 300 people and an in-country footprint of only two U.S. direct-hires and two or three local hires in each compact country, MCC extends this same concern about ensuring value for limited resources to our own operations.

RESULTS THROUGH THE END OF FISCAL YEAR 2009

$1.4 billion

IN CUMULATIVE PROGRAM-RELATED* DISBURSEMENTS

$2.2 billion

IN CUMULATIVE COMPACT-CONTRACT COMMITMENTS

*Includes compact, threshold, 609(g), and due diligence

MCC's Board of Directors

The effectiveness of MCC's operations is enhanced by the experience of a unique public-private Board of Directors comprised of the Secretary of State (Chair), the Secretary of Treasury (Vice Chair), the U.S. Trade Representative, the U.S. Agency for International Development Administrator, MCC's CEO, and four individuals from the private sector appointed by the President with the advice and consent of the U.S. Senate. Contributing valuable insights and expertise, the private sector component of our Board is one of MCC's most distinct features.

Hillary Rodham Clinton
Secretary of State
Chair

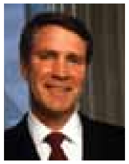
Timothy F. Geithner
Secretary of Treasury
Vice-Chair

Dr. Rajiv Shah
Administrator, U.S. Agency for International Development
(as of December 24, 2009)

Ambassador Ron Kirk
United States Trade Representative

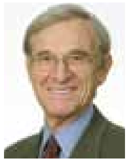
Daniel W. Yohannes
MCC Chief Executive Offiver
(as of December 1, 2009)

Lorne Craner
President, International Republican Institute



Senator William H. Frist, M.D.,
Schultz Class of 1951 Visiting Professor of International Economic Policy, Woodrow Wilson School of Public and International Affairs, Princeton University

Kenneth Hackett
President, Catholic Relief Services
(Term expired October 2009)



Alan J. Patricof
Founder and Managing Director, Greycroft, LLC

MCC's Value to American Taxpayers

"The simple reality is this: if we want others to help combat the threats that concern us most, then we must help others combat the challenges that threaten them most. For many nations, those threats are first and foremost the things that afflict human beings in their daily lives: corruption, repression, conflict, hunger, poverty, disease, and a lack of education and opportunity. When the United States joins others to confront these challenges, it's not charity. It's not even barter. In today's world, more than ever, America's interests and our values converge. What is good for others is often good for us."

U.S. PERMANENT REPRESENTATIVE TO THE UNITED NATIONS AMBASSADOR **SUSAN E. RICE**, AUGUST 13, 2009

MCC is designed to maximize each dollar invested for poverty reduction and economic growth.

Our increasingly globalized world brings immeasurable economic and cultural benefits, but with these benefits come an increasing reliance on citizens and governments beyond U.S. borders for long-term security and economic prosperity. Today, more than one billion people live on less than $1 a day. Nearly three billion live on less than $2 a day. Aside from the humanitarian imperative to assist those less fortunate, the case for acting in our own interest to help people pull themselves out of extreme poverty has never been stronger. We have all seen how terrorism, disease, and environmental degradation can cross borders and impact American lives.

MCC is an important U.S. instrument for addressing these threats. By challenging countries to adopt good governance, health, education, and economic policies that empower their citizens, MCC fosters stable, open societies that counter fanaticism and can evolve into positive role models in their regions. MCC investments lead to sustainable reductions in poverty that can decrease the need for emergency humanitarian assistance, increase access to education and health care, and strengthen efforts to protect the environment.

President Obama said, *"In an era of integration and interdependence, it is also my responsibility to lead America into recognizing that its interests, its fate, is tied up with the larger world; that if we neglect or abandon those who are suffering in poverty, that not only are we depriving ourselves of potential opportunities for markets and economic growth, but ultimately that despair may turn to violence that turns on us."*

Greater prosperity in the developing world will alleviate the poverty that breeds discontent and instability. It will expand markets for American exports. It will reduce the spread of disease. MCC is promoting America's security and well-being even as it generates a better life for millions around the globe.

MCC as Incubator of Ideas, Innovation in U.S. Foreign Assistance

> "My immediate reaction [to MCC] was this makes a tremendous amount of sense, sort of a criteria-based determination involving the people of the country in terms of priorities on our valuable tax dollars going for foreign assistance in a fashion that would demonstrate the greatest capacity to produce results. And that's what I think MCC is doing and is trying to achieve, and so I am a strong supporter of it… a lot of the ideas of MCC, to me, are a prototype for what should sort of take hold in our whole foreign assistance program. So not only is this important in terms of what it's doing in the countries it's now active in, but as a good indicator and a good instructor of directions we might go in with the whole foreign assistance program."
>
> CHAIRMAN OF THE HOUSE FOREIGN AFFAIRS COMMITTEE **HOWARD L. BERMAN** (D-CALIFORNIA), JUNE 24, 2009

MCC is making key contributions to the analysis of development policy. We are contributing to the *Quadrennial Diplomacy and Development Review* being conducted by the State Department. We are participating also on the interagency committee organized by the National Security Council to review the U.S. Government's development policy under the *Presidential Study Directive*.

MCC was created to fulfill one mandate—poverty reduction through economic growth. We do this by partnering with countries worldwide, using certain flexibilities we have, namely, no earmarks and no-year funding. MCC practices some of the most innovative lessons learned for aid effectiveness: incentivizing good policies, requiring country-led development to build homegrown capacity, engaging civil society, demanding accountability, applying rigorous measures to evaluate outputs and outcomes, and practicing transparency in all that we do. While MCC's approach is not easy, it is proving effective in delivering development assistance to reduce global poverty. We continue to share our experiences and best practices in the implementation of our principled approach.

FORWARD THINKING **PARTNERSHIPS THAT DELIVER** TANGIBLE RESULTS

To **invest in results**, MCC pursues an integrated approach to sustainable economic development. Working with partner countries, other U.S. Government agencies, donors, and the private sector, MCC demonstrates how we can achieve more through coordination and cooperation.

Partnering with countries through an integrated approach

MCC works closely with partner countries to increase the quality and sustainability of MCC-funded projects. From reforming policies to setting aside maintenance funds for the upkeep of newly constructed roads, partner countries themselves are doing what it takes to ensure that MCC-funded projects are able to continue delivering benefits well beyond the life of our partnerships.

★ **Jordan's** water sector is changing rapidly, and policy and institutional reforms are needed to ensure the impact and long-term sustainability of proposed MCC investments. MCC has worked closely with the Jordanian government and other donors to ensure that the investments proposed for Jordan's compact program reinforce the recently adopted *National Water Strategy*. In particular, the proposed investments would support efforts to reduce water losses due to leaking pipes, poor connections, or weak administrative controls; to restructure tariffs and establish water companies that will manage water resources on a commercial basis; to limit groundwater extraction to sustainable levels; and to substitute treated wastewater for freshwater resources, wherever possible.

★ **Moldova** has agreed to draft and support the enactment of a new *Water User Association Law*, to be presented to the Parliament for approval and official publication early in the compact's life and prior to the start of any rehabilitation construction. In accordance with international best practices, the enactment of the new law will create a solid legal foundation to transfer responsibility for management and operation of irrigation systems rehabilitated with MCC funding from the state to existing and newly-created water user associations to sustain agricultural productivity.

WOMEN FARMERS IN HONDURAS BENEFIT FROM TRAINING, INCREASED INCOMES

"As a result of the better yields, product quality, and markets, my conditions at home have improved. We now have more money to buy clothes and schools supplies for our kids, and we can provide the health care required for one of our daughters who needs special health assistance," shares **Ana Cristina Vasquez Rodriquez** of Honduras. With technical assistance through the rural development program of Honduras's MCC compact, she diversified her farm to include the high-value production of coriander, lettuce, and potatoes. As a result, Rodriquez's net sales per hectare jumped from $1,315 before such MCC-funded technical training to $6,142 in 2008 and $9,892 as of August 2009. Women farmers are increasingly benefitting from MCC-funded training in horticulture production. In 2006, only seven women farmers participated in the program. As of September 2009, that number skyrocketed to 440.

Partnering with other U.S. Government agencies through an integrated approach

A BRIDGE TO PROGRESS

"To go to the market, we had to cross the river bed every day, without any security conditions and we often put our lives at risk. Today, we are happy because we calmly cross the bridges," explains **Antónia Cândida**. *"At our age, for the tranquility we need, this is a great work. That's all we needed for a future with progress,"* adds **Paula Inês**. Both are residents of Paul on Santiago Island in Cape Verde. Part of the island-nation's $110 million MCC compact built critical infrastructure, such as bridges, to increase economic activity and facilitate access to markets.

Maximizing the value of U.S. development dollars invested abroad means closer coordination among U.S. Government agencies providing such funds. This coordination minimizes waste and costly duplications, and builds an integrated way of achieving sustainable results.

★ The **United States Trade and Development Agency (USTDA)** awarded grants to three MCC partner countries—Morocco, Ghana, and El Salvador—to fund technical assistance and feasibility studies to support MCC-funded projects and stimulate private sector activity to sustain those projects. USTDA awarded a $462,970 grant to Morocco's *National Office of Fisheries* for technical assistance associated with necessary cold storage infrastructure to complement the Moroccan compact's small-scale fisheries project. This follows a previous $531,810 USTDA grant to Morocco for cold storage capabilities to reduce losses in palm date production related to MCC-funded fruit tree productivity projects. USTDA also provided $1.13 million in grants to support MCC-funded projects in El Salvador, providing technical assistance to the Municipality of Chalatenango, the National Development Commission, and the Salvadoran Foundation for Economic and Social Development (FUSADES). Similarly, in Ghana, USTDA provided a $360,000 grant to support the development of an agricultural leasing sector to promote mechanized farming and higher crop yields for smallholder farmers benefitting from the MCC compact.

★ From the earliest days of compact development, Senegal partnered and coordinated with all stakeholders in the Senegal River Valley, including **USAID** and the **United States Department of Agriculture** to ensure that MCC's investments would be complementary to other existing and planned investments throughout the region and would be supported by other donors.

Partnering with donors through an integrated approach

As the number of MCC partner countries increases, we maximize our investments by strengthening our cooperation with other development partners. For example, in late 2008, we signed a memorandum of understanding with both the **Danish Ministry of Foreign Affairs** and the **Agence Française de Développement** to expand coordination in partner countries. MCC activities build on and complement other donors' work, resulting in valuable cost and time savings.

★ MCC joined the **World Bank, African Development Bank, European Union, the Netherlands,** and **Spain** to purchase equipment and provide technical assistance in Cape Verde to help create one of the world's most transparent and efficient public financial management systems.

★ In Vanuatu, both the **Australian Agency for International Development (AusAID)** and **New Zealand's International Aid and Development Agency (NZAID)** are providing supplemental funding to complete roads proposed under the MCC program. AusAID is rehabilitating three roads and is helping the Public Works Department develop long-term infrastructure maintenance capability. NZAID is adding NZ$14 million (US$10 million) to MCC funding to finish another major road.

★ The **World Food Program (WFP)** signed a memorandum of understanding with MCC in December of 2008 that outlines cooperation in agricultural production, policy and program reforms, and gender integration, all of which strengthen local markets and help achieve sustainable food security. Already, MCC and the WFP are seeking ways to develop synergies in countries of mutual focus between MCC-funded investments in market-access infrastructure, technology transfer, land reform and property rights, and access to water, inputs, and finance and WFP-funded programs supporting domestic food purchase initiatives that involve developing procurement systems for locally-grown food. This includes purchases of food produced by farmers and farmer groups—benefitting from MCC and the **Alliance for a Green Revolution in Africa (AGRA)** programs—to be distributed in schools, clinics, and other public and private institutions.

CREATING JOBS IN HONDURAS

"I'd like to generate more job opportunities. I'm sure more producers from my community will see this example and do the same," stated **Rafael Antonio Andino Rodriquez** of Honduras. Through technical assistance and training provided through the rural development program of Honduras's MCC compact, Rodriquez learned modern systems and technologies to boost his productivity and profitability. With his traditional approach, his onion yields were 3,246 kilograms per hectare. Now, through what he has learned—from using contour plowing to maintaining drip irrigation systems—Rodriquez managed to produce a yield of 78,893 kilograms per hectare in 2008. His net income skyrocketed from $376 to $16,329 per hectare, allowing him to invest in an irrigation system and improvements to his home. Most important, Rodriquez's training allowed him to expand and create jobs. His labor force increased from 120-person days before the MCC-funded training to 342 person-days in 2008.

Partnering with the private sector through an integrated approach

Partner countries are doing more to leverage MCC funding through innovative finance mechanisms with the private sector. They are also using MCC compacts to attract investments, connect MCC beneficiaries to global markets, and spur trade.

★ As MCC partner countries develop their projects, MCC continues to talk with the private sector about ways of increasing the impact of MCC funding. During the past year, the Philippines and Malawi have sought private sector advice for their MCC proposals, issuing "Requests for Information" (RFIs) to solicit written feedback. MCC's partner countries are using these private sector dialogues and RFIs to learn best practices from the private sector, solicit information about technology solutions to identified growth constraints, and generate opportunities to leverage compact funds with private sector financing, trade, and investment.

★ El Salvador's FOMILENIO (the Salvadoran entity responsible for implementing the compact) approved a $33 million public-private participation agreement with Virginia-based AES Corporation, leveraging more than $8 million from AES and the Government of El Salvador. This arrangement will support 1,300 kilometers of new rural electrification lines, connections, and extensions of existing lines throughout the country's Northern Zone. Combined with an existing public-private participation agreement, over 30,000 poor families in the area who do not have access to electricity will be connected to the grid.

★ Malawi has proposed a renewable energy project that would help increase access to electricity for the 92 percent of the population that currently does not have access. Increased access to electricity could also stimulate potential agricultural, agro-processing, and business activity. Malawi's proposal includes an innovative, public-private partnership approach that could include a performance-based financing structure in order to maximize the number of beneficiaries obtaining access to electricity. MCC is helping Malawi identify and promote investment opportunities and income-generating activities around future energy sites.

★ Ghana's MiDA (the Ghanaian entity responsible for implementing the compact) is beginning to leverage compact funding with private sector commitments. For example, a large international production and marketing company is exploring sourcing its European market from compact-funded Ghanaian pineapple farms and considering long-term contracts with compact-supported Ghanaian farmers. This company has identified farms with which it may contract, including medium-size farms that work with small out-growers, furthering economic benefits for smallholders. Farmers are expected to benefit from training to world-class quality and sanitary standards, less expensive globally-sourced inputs, and the potential to increase the productivity of their operations.

FORWARD THINKING PARTNERSHIPS THAT DELIVER **TANGIBLE RESULTS**

Our commitment to **investing in results** signals our commitment to transparency and accountability. This fiscal year marked the groundbreaking launch of the results section on MCC's website, a gateway to MCC's results as they emerge from every stage of our poverty reduction partnerships worldwide. A pioneering compilation that strives to be unique and comprehensive, the results section showcases MCC's cutting-edge approach to managing for results and using information to improve decision-making. Planning, measuring, and tracking results are essential for delivering on our investments.

MCC's systematic approach to achieving results

Constraints Analysis

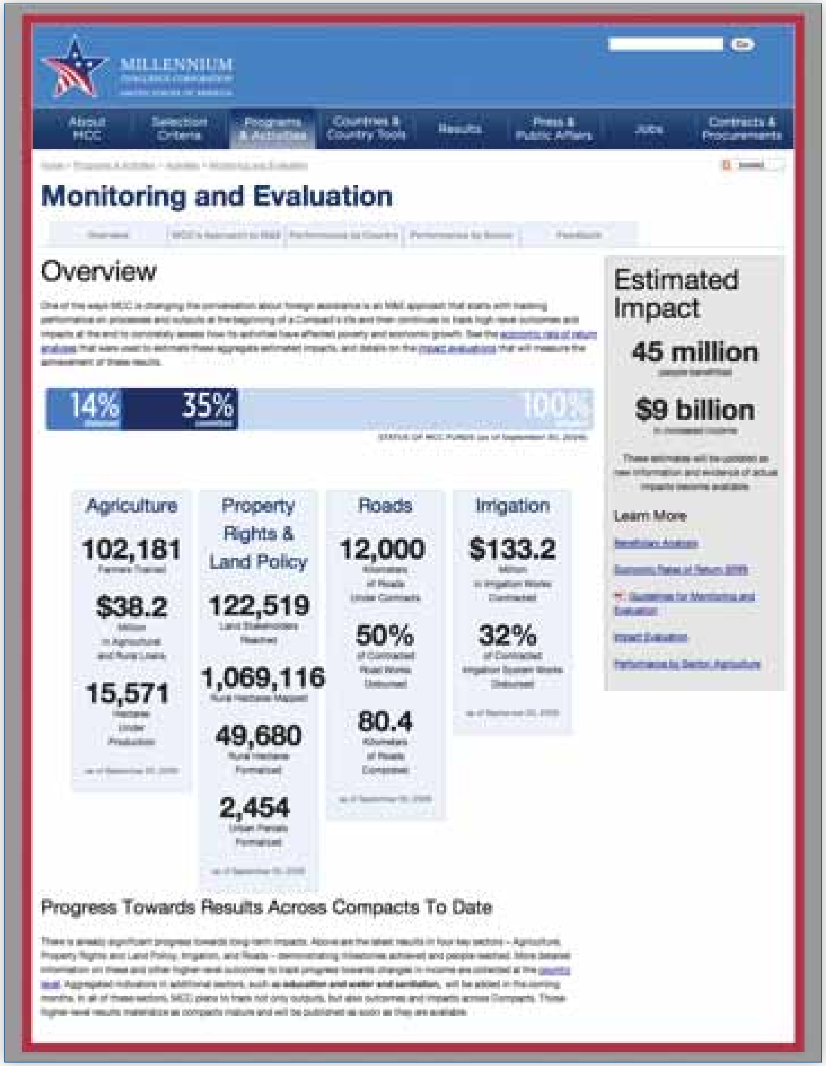
Before any compact project is proposed, typically MCC asks partner countries to undertake a constraints analysis to identify the primary impediments to economic growth in the country. This exercise helps focus country proposals on programs that will remove barriers to growth and poverty reduction.

Economic Rate of Return Analysis

MCC's unique approach to poverty reduction through economic growth includes analyzing each program to determine its likely economic impact, as reflected in an economic rate of return (ERR). The ERR compares a project's costs and benefits and incorporates factors that will determine the sustainability of the proposed investment. MCC economists calculate the additional income expected to be earned by beneficiaries as a result of a project and compare it to the project's overall costs. As part of our commitment to transparency, we make all ERR data available to the public on our website.

Beneficiary Analysis

The ERR analysis projects the total new household income that is expected to be generated by MCC investments, but it does not provide direct information on which households are likely to receive those benefits. Beneficiary analysis represents an extension of the ERR analysis by describing which segments of society will benefit from increased incomes. Beneficiary analysis can help determine the impact of MCC projects on particular populations, such as women, the aged, children, and regional or ethnic sub-populations. Early discussions of the distributional implications of initial designs provide opportunities to consider revised or alternative implementation approaches that might generate better distributional outcomes, higher ERRs, or, sometimes, both.



Monitoring and Evaluation

To fulfill MCC's commitment to deliver results, monitoring and evaluation (M&E) is integrated into all phases of compact development and implementation. We collaborate with a partner country to finalize program benchmarks and to create an M&E plan, which tracks performance on processes and outputs at the beginning of a compact's life. MCC then tracks outcomes and impacts at the end of a compact to assess how activities have affected poverty and economic growth. Achievements are reported throughout the compact's lifecycle.

Impact Evaluation

Impact evaluation also contributes to our focus on results. MCC is carrying out rigorous, scientific impact evaluations in every compact, covering roughly 50 percent of all activities and almost 60 percent of all funds. We hire professional researchers to conduct independent impact evaluations of key programs. These analyses measure the changes in individual, household, or community income and well-being that result from a particular project or program by comparing the final results with a credible estimate of what would have happened without the project. Evaluators establish this counterfactual scenario by conducting extensive surveys and data collection of project participants and a statistically similar comparison group. In addition to these impact evaluations that are contracted at the start of each compact and designed into implementation approaches, MCC plans to contract independent evaluations for most of the remaining activities as part of the compact close-out process. In many cases, these evaluations will also use baseline and endline data to assess the impact of programs. The results of these evaluations and their supporting data will be made publicly available on our website, and we expect such results to guide future investment decisions.

Increasing Government Transparency in Delivering Results

Reflecting a commitment to transparency and accountability, MCC is a trailblazer in making information about results accessible to the general public. Through www.mcc.gov, visitors can access spreadsheets detailing the ERR calculations, monitoring indicator tracking tables, and summarizing impact evaluations. Constraints analyses, beneficiary analyses, and impact evaluation data can be viewed too. We not only make this information available to the public but also encourage feedback on it from our stakeholders.

GREEN DEVELOPMENT

Together with partner countries, MCC recognizes that sustainable economic growth and a healthy environment are interdependent. In Morocco, we see an excellent opportunity to maximize this critical relationship. Moroccan artisans have traditionally used techniques that burn tires, wood, and other materials, producing significant amounts of often toxic smoke, which pollutes the environment and harms public health. Part of MCC's $697.5 million poverty reduction grant to Morocco will help address this problem. The MCC-funded *Artisan and Fez Medina Project* will assist the potters of Fez and Marrakech in meeting growing demand for high-quality Moroccan pottery by investing in modern techniques and equipment, including cleaner-burning kilns. Replacing traditional kilns with modern ones in Morocco will improve the quality of life for artisans.

Responding with Responsibility

MCC is committed to maximizing the value of every dollar invested in the fight against global poverty and sometimes must make tough choices regarding compact partnerships, whether this means terminating assistance because of an undemocratic change in government; or deciding not to fund certain compact projects due to poor policy performance; or restructuring project activities because of changing market conditions, cost escalations, or new information resulting from updated feasibility studies. Given our willingness to make necessary changes to realign resources most efficiently, MCC exercises a dynamic, flexible approach that allows us to deliver results that are meaningful and sustainable.

SUMMARY OF PROJECT RESTRUCTURINGS AND RE-ALLOCATIONS

Country	Project	Restructure Cause	Solution Implemented
Armenia	Irrigation Infrastructure	• Dollar depreciation • Increased input costs	Project re-scoped to reduce the number of components to be repaired, focusing on irrigation infrastructure with high ERRs that can be completed within the compact term
Mongolia	Rail Project	• Unable to complete the financial audit of the UBTZ Railroad, the major condition precedent to the project, the Government of Mongolia notified MCC in April 2009 that it must withdraw the rail component from the compact.	Re-allocate funding from rail project to the expansion of the three remaining projects (Health, Education, Property Rights) and explore potential new projects
Ghana	Transportation, Agriculture, and Rural Development	• Increased project costs	Re-allocation of funds among projects

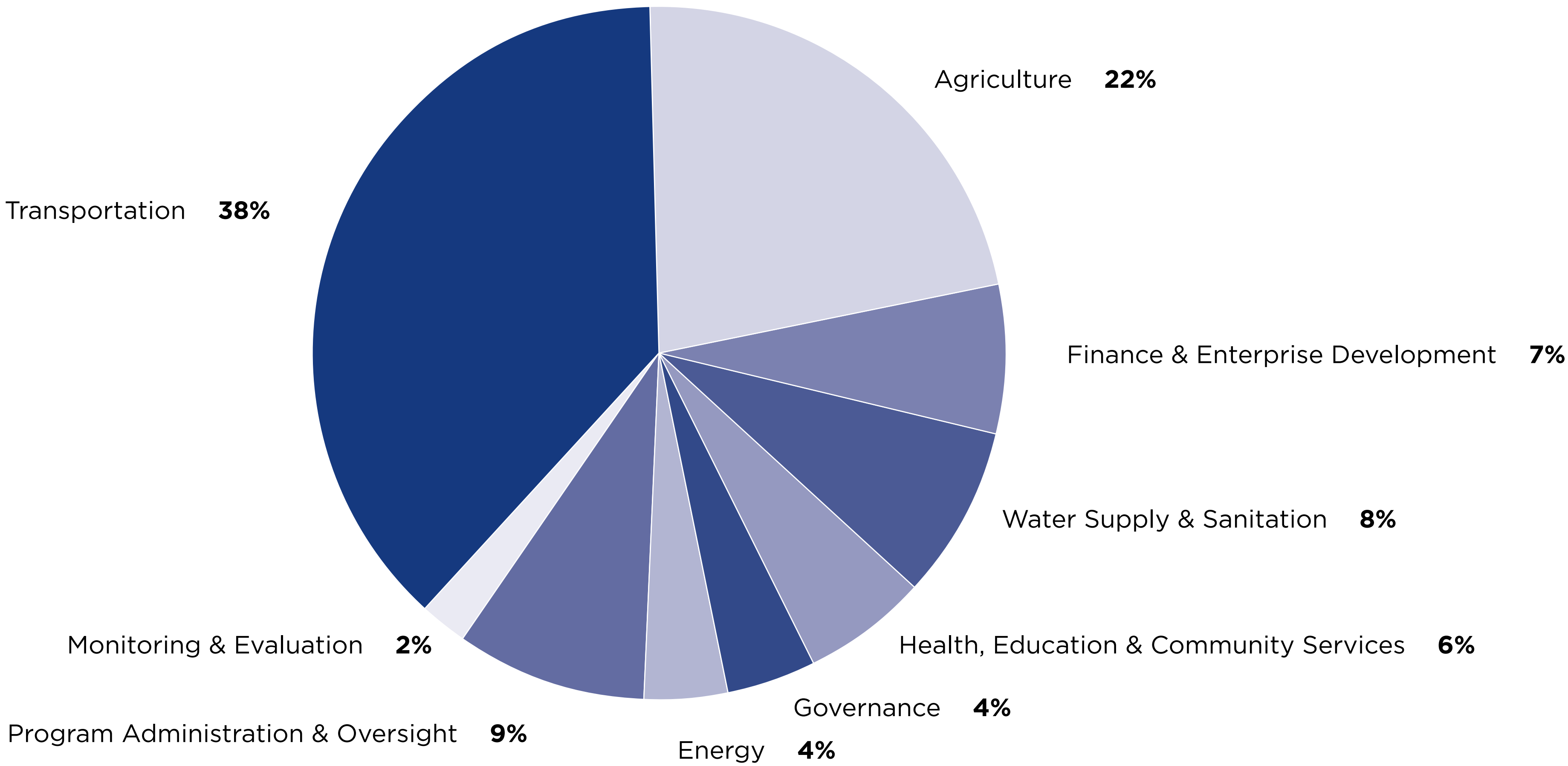
SUMMARY OF PROJECT HOLDS, SUSPENSIONS, AND TERMINATIONS

Country	Project	Restructure Cause	Solution Implemented
Armenia	Roads	• Due to a pattern of actions by the Government of Armenia inconsistent with the criteria used by MCC to determine eligibility for assistance, the MCC Board decided to place an operational hold on the project, leading MCC to fully disengage from the road project as of September 2009.	Project re-scoped to reduce the number of components to be repaired, focusing on irrigation infrastructure with high ERRs that can be completed within the compact term
Nicaragua	Property Regularization	• Pattern of actions by the Government of Nicaragua inconsistent with the criteria used by MCC to determine eligibility for assistance. Electoral irregularities were reported surrounding the November 2008 municipal elections.	Funding for all activities in this project was terminated.
Nicaragua	Transportation	• Pattern of actions by the Government of Nicaragua inconsistent with the criteria used by MCC to determine eligibility for assistance. Electoral irregularities were reported surrounding the November 2008 municipal elections.	Terminated funding for road works not yet contracted, including upgrading a major stretch of the Pacific Corridor Highway, and technical assistance to the Government of Nicaragua. Continuing with upgrading 18 kilometers of highway and 50 kilometers of rural secondary roads.
Honduras	Transportation	• Pattern of actions by the country inconsistent with the criteria used by MCC to determine eligibility for assistance. The manner of the removal of the President and the failure to reestablish democratic order in Honduras are contrary to sound performance on MCC's eligibility criteria, which require countries to demonstrate a commitment to "just and democratic governance."	In September 2009, MCC's Board voted to terminate assistance for the vehicle weight control activity, representing approximately $5 million. This termination became effective as of October 2, 2009. In addition, MCC placed a hold on MCC funding related to the Tegucigalpa to Villa de San Antonio section of highway CA-5, which is jointly financed by MCC and the Central American Bank for Economic Integration.
Honduras	Rural Development	• Pattern of actions by the country inconsistent with the criteria used by MCC to determine eligibility for assistance. The manner of the removal of the President and the failure to reestablish democratic order in Honduras are contrary to sound performance on MCC's eligibility criteria, which require countries to demonstrate a commitment to "just and democratic governance."	In September 2009, MCC's Board voted to terminate assistance for approximately 93 kilometers of farm to market roads, representing approximately $5 million of MCC funding. This termination became effective as of October 2, 2009.
Madagascar	Compact terminated	• Undemocratic transfer of power.	MCC's Board decided in May 2009 to terminate the compact. Termination was effective August 31, 2009 with administrative closure to be completed in early December 2009.

Results at a Glance

Commitments by Sector: All Compact Countries

Millions USD, Total $7 billion (as of September 30, 2009)



Results in Agriculture

	Capacity Building of Farmers		Other Support to Farms & Agribusiness (irrigation, inputs, credit, and marketing support)		Growth in Agricultural Sector & Employment Generation
Indicator Type	Output	Output	Output	Output	Outcome
Progress Indicators	Number of farmers trained	Number of enterprises assisted	Value of agricultural and rural loans	Number of hectares under production with MCC support	Increase in income
Totals	102,181 farmers trained	1,499 agribusiness assisted	$38.2 million in agricultural and rural loans	15,571 hectares under production	Income increase attributable to MCC activities will be measured by impact evaluations
Currently Implementing	Armenia .... 30,150 Cape Verde .... 83 El Salvador .... 3,751 Ghana .... 19,667 Honduras .... 5,997 Madagascar* .... 35,123 Nicaragua 7,410	Armenia .... 106 El Salvador .... 38 Georgia .... 188 Ghana .... 413 Honduras .... 416 Madagascar* 338	Armenia .... $4.228 million Cape Verde .... $.252 million Georgia** .... $9.613 million Ghana .... $13.105 million Honduras .... $9.9 million Madagascar*** $1.08 million	El Salvador ... 3,392 hectares Honduras .... 6,000 hectares Nicaragua ...... 6,174 hectares Cape Verde 4.5	MCC investments in agriculture aim to increase incomes by creating jobs in the agriculture sector; increasing farmers' capacity, productivity, and access to markets; improving access to credit; and strengthening agribusiness.
Pending Implementation	Mali Morocco Mozambique	Cape Verde Morocco Mozambique	Burkina Faso Mali	Armenia Burkina Faso Ghana Mali Morocco Mozambique	

All program data are as of September 30, 2009. Data are preliminary and are subject to adjustment. *MCC's compact with Madagascar has been terminated. Final project numbers are not available yet. ** This number has been revised downward to rectify an error in last quarter's reporting on Value of Agriculture Loans (Georgia) ***The "value of loans" indicator for Madagascar includes both agricultural and non-agricultural rural loans.

102,181
farmers trained

1,499
agribusinesses assisted

15,571
hectares under production with MCC support

$38.2 million
in agricultural and rural loans

Results in Irrigation

	Feasibility and/or Detailed Design Includes Environmental Impact Assessments, Environmental Management Plans, and Resettlement Action Plans, as applicable (6 to 12 months)		**Procurement for Works** (4 to 8 months)	**Construction** (1 to 5 years)	**Expected Outcomes** (up to 15 years)
Indicator Type	Process	Process	Process	Process	Outcome
Progress Indicators	Value of signed contracts for feasibility, design, supervision and program mgmt contracts	% disbursed for contracted studies	Value of signed contracts for works for irrigation systems	% contracted irrigation works disbursed	Expected upon completion of works
Totals	$43 million in studies contracted	39% disbursed for contracted studies	$133.2 million in works contracted	32% of contracted irrigation system works disbursed	Expected upon completion of works
Currently Implementing	Armenia .... $7.67M Burkina Faso .... $0.3M Ghana .... $7M Morocco .... $18.95M Nicaragua $0.7M	Armenia .... 35% Burkina Faso .... 78% Ghana .... 9% Mali .... 3% Morocco .... 5% Nicaragua 100%	Armenia .... $47.8M Cape Verde .... $6M Mali $79.4	Armenia .... 4% Cape Verde .... 80% Mali 12%	MCC investments in irrigation include the construction and rehabilitation of irrigation systems and watershed management systems. They aim to increase income and productivity of agricultural producers.
Pending Implementation			Burkina Faso Ghana Morocco Nicaragua	Burkina Faso Ghana Morocco Nicaragua	

All program data as of September 30, 2009. Data are preliminary and subject to adjustment.

$43 million

contracts for feasibility, design, supervision and/or program management contracts

39%

disbursed, contracted feasibility, design, supervision and/or management contract for canals, pipes, and other water conveyance systems

$133.2 million

contracts for irrigation system construction

32%

disbursed, irrigation system works contracts

Results in Roads

	Feasibility and/or Detailed Design Includes Environmental Impact Assessments, Environmental Management Plans, and Resettlement Action Plans, as applicable (12 to 36 months)		Procurement for Construction Contractors (6 to 9 months)		Construction (1 to 3 years)	Expected Outcomes (up to 15 years)	
Indicator Type	Process	Process	Process	Process	Process	Outcome	Outcome
Progress Indicators	Value of signed contracts for feasibility, design, supervision and program mgmt contracts	% disbursed for contracted studies	Value of signed contracts for road works	Kilometers (km) of roads under works contracts	% of contracted roads works disbursed	Kilometers (km) of roads completed	Expected upon completion of works
Totals	$96.5 million in studies contracted	48% of contracted studies disbursed; 4,170 km of roads under design	$526 million in works contracted	1,200 km of roads under works contracts	50% of contracted roads works disbursed	80.4 km of roads completed	Expected upon completion of works
Currently Implementing	Armenia .... $3.06M Burkina Faso .... $3.8M Cape Verde* .... $3.2M El Salvador* .... $8.3M Georgia .... $12.1M Ghana .... $17.1M Honduras .... $8.3M Mozambique .... $13.4M Nicaragua .... $6.9M Tanzania $18.5M	Armenia .... 90% 892km Burkina Faso .... 145km Cape Verde ...... 83%* 62.2km El Salvador ...... 36% 150km Georgia .... 63% 253km Ghana .... 33% 1,186km Honduras .... 68% 200km Mozambique .... 416km Nicaragua .... 87% 384km Tanzania* 4% 363km	Armenia*** .... $4.7M Cape Verde .... $22.7M El Salvador .... $50.2M Georgia .... $166.1M Ghana .... $42.2M Honduras .... $107.7M Mali .... $34.8M Nicaragua .... $41.1M Vanuatu** $56.3M	Armenia*** ... 24.5km Cape Verde ..... 40km El Salvador ... 43.5km Georgia .... 219km Ghana .... 6km Honduras .... 599km Mali .... 81km Nicaragua .... 68km Vanuatu .... 119 km	Armenia .... 100% Cape Verde .... 87% El Salvador .... 18% Georgia .... 34% Ghana .... 12% Honduras .... 44% Mali .... 25% Nicaragua .... 69% Vanuatu 59%	Armenia .... 24.5km Cape Verde .. 26.9km Vanuatu 29km	MCC investments in roads aim to reduce transportation costs, improve access to basic services, increase farm to market access, and facilitate trade.
Pending Implementation	Vanuatu** $1.8M	Vanuatu** 63% 119km	Burkina Faso Mozambique Tanzania	Burkina Faso Mozambique Tanzania	Burkina Faso Mozambique Tanzania	Burkina Faso El Salvador Georgia Ghana Honduras Mozambique Nicaragua Tanzania	

All program data are as of September 30, 2009. Data are preliminary and subject to adjustment. *Additional studies associated with compacts have been funded by the governments in El Salvador and Tanzania, and by another donor in Cape Verde. **Design-Build contract, where the value of design work is included in the value of the works contract. Contract amount listed in first column is a supervision contract only.***Due to the operational hold on the roads project in the Armenia and Honduras compacts, MCC will no longer be funding additional works contracts that were previously reported.

$96.5 million
contracts for feasibility ,design, supervision and/or program management contracts

48%
disbursed, contracted feasibility, design, supervision and/or management contracts

4,170
kilometers of roads under design

$526 million
contracts for roads design and/or works

1,200
kilometers of road under works contracts

50%
disbursed, road works contracts

80.4
km of roads completed

Results in Property Rights and Land Property

	Regulatory, Legal, and other Work	Public Outreach	Institutional Upgrading and Capacity Building	Clarification and Formalization of Land Rights	Expected Outcomes (up to 20 years)
Indicator Type	Output	Output	Output	Output	Outcome
Progress Indicators	Preparatory Studies Completed; Legal and Regulatory Reforms Adopted	Stakeholders Reached	Buildings Built or Rehabilitated; Equipment Purchased; Personnel Trained	Rural Hectares (Ha) mapped/formalized; Urban Parcels mapped/formalized	Effective Property Rights System
Totals	39 studies completed; 8 legal and regulatory reforms adopted	122,519 Stakeholders Reached	122 Buildings built/ rehabilitated; $7.52 million in equipment purchased; 14,307 personnel trained	1,069,116 rural hectares mapped; 49,680 rural hectares formalized; 2,454 urban parcels formalized	
Currently Implementing	Benin..........16 studies; 0 reforms Burkina Faso 0 studies; 1 reform Ghana ....4 studies; 1 reform Lesotho .... 1 study; 0 reforms Madagascar ..8 studies; 4 reforms Mali..............0 studies; 2 reforms Mongolia.....5 studies; 0 reforms Mozambique. 1 study; 0 reforms Nicaragua .. 4 studies; 0 reforms	Benin ....38,960 Ghana..............................5,458 Lesotho ....125 Madagascar .... unavailable Mali .... 614 Mongolia ....7,921 Mozambique....................406 Nicaragua 69,035	Benin ....0 bldgs; $0.88 mil; 62 trained Ghana.........................0 bldgs; $0.07 mil; 83 trained Madagascar ....114 bldgs; $4.8 mil; 12,216 trained Mongolia ....0 bldgs; $0.0 mil; 308 trained Mozambique............0 bldgs; $0.06 mil; 28 trained Nicaragua ....8 bldgs; $1.69 mil; 1,610 trained	Ghana ....3,501 rural Ha mapped Madagascar ....46,392 rural Ha mapped and formalized Mongolia...... 988,334 rural Ha mapped Nicaragua .... 30,889 rural Ha mapped; 3,288 rural Ha formalized; 2,454 urban parcels formalized	Reduced Transaction Costs Increased Tenure Security Improved Allocation of Land Increased Transactions and Investment in Land and Property Increased Land Productivity and Value
Pending Implementation	Senegal	Burkina Faso Namibia Senegal	Burkina Faso Lesotho Mali Senegal	Benin Burkina Faso Lesotho Mali Mozambique Namibia Senegal	

All program data are as of September 30, 2009. Data are preliminary and subject to adjustment.

14,307
stakeholders trained in land registration, surveying, conflict resolution, land use planning, land legislation, land management and/or new technologies

49,680
rural hectares formalized

2,454
urban parcels formalized

122,519
stakeholders reached

8
legal and regulatory reforms adopted

Compact Portfolio Performance

COMMITMENTS AND DISBURSEMENTS AS PERCENT OF COMPACT TOTAL				
Country	Entry Into Force Date	Compact Total (in USD millions)	% Committed through FY09Q4	% Disbursed through FY09Q4
Madagascar	Jul-05	$109.77	79%	74%
Honduras	Sep-05	$215.00	90%	51%
Cape Verde	Oct-05	$110.08	91%	55%
Georgia	Apr-06	$395.30	84%	37%
Vanuatu	Apr-06	$65.69	97%	59%
Nicaragua	May-06	$174.71	56%	43%
Armenia	Sep-06	$235.65	46%	18%
Benin	Oct-06	$307.30	65%	16%
Ghana	Feb-07	$547.01	63%	16%
El Salvador	Sep-07	$460.94	39%	11%
Mali	Sep-07	$460.81	37%	10%
Mongolia	Sep-08	$284.91	5%	3%
Morocco	Sep-08	$697.50	17%	3%
Mozambique	Sep-08	$506.92	15%	2%
Tanzania	Sep-08	$698.14	6%	1%
Lesotho	Sep-08	$362.55	20%	5%
Burkina Faso	Jul-09	$480.94	4%	7%
Namibia	Sep-09	$304.48	3%	1%
Senegal	TBD	$540.00	0%	0%
Total		$6,957.70	32%	13%

* Senegal has been added to the table as of FY09 Q4; the compact was signed on September 16th, 2009

COMPACT PERFORMANCE AGAINST FY09 FINANCIAL TARGETS						
	FY09 Targets	FY09 Actuals	FY09 Peformance on Targets	Cumulative Targets through the end of FY09	Cumulative Actuals through the end of FY09	Cumulative Performance
Contract Commitments	$945 M	$1,275M	135%	$1.8-2.0 B	$2.22 B[1]	117%
Compact Disbursements	$475 M	$535 M	112%	$745-850 M	$889 M[2]	111%

[1] Commitment figure of $2.22B represents projections submitted by Accountable Entities as of early September 2009 Based on MCC's reporting cycle, FY09 Q4 commitment actual figures will be available next quarter. MCC expects FY09 actual figures to be approximately $950 million, based on the delayed signature of several major contracts in Ghana, Georgia, El Salvador, and Morocco until next quarter.

[2] Compact disbursement figure includes $917K in disbursements for the Burkina Faso Bright 2 Schools Project ($817k) and Kenya grant project ($100k).

Estimating Compact Beneficiaries

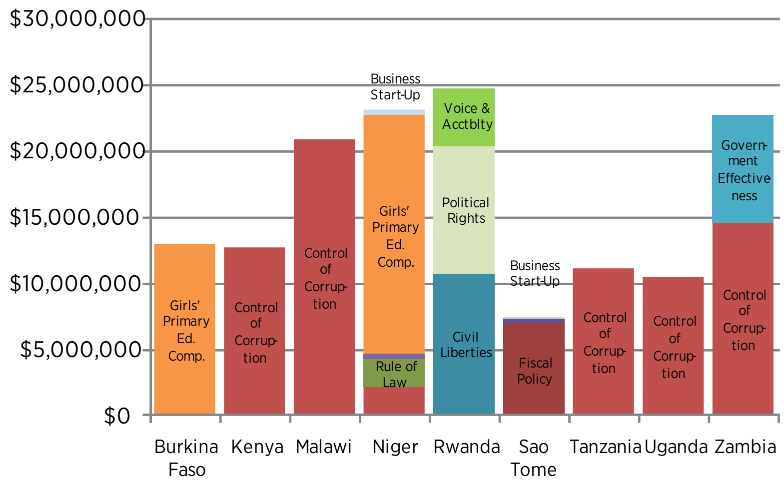
In 2009, MCC reviewed, and subsequently revised, estimates of the number of individuals expected to benefit from compacts. These revisions reflect MCC's updated approach to counting beneficiaries *ex ante*, consistent with our *Guidance on Beneficiary Analysis*, and do not represent corrections of errors in the original calculations. Recognizing that there are often several ways to estimate potential beneficiaries, this guidance was designed to enhance the consistency of practices across MCC compacts. Characteristics of the guidelines include: classifying projects by scope, counting as beneficiaries only the portion of project participants expected to derive an income gain, avoiding double-counting beneficiaries that benefit from multiple projects, and projecting beneficiaries over the long term when relevant. Beneficiary estimates will be updated as new information and evidence of actual impacts become available and will be made available on MCC's website.

Compact	Estimated Number of Beneficiaries	Estimated Income Gain over the Long Term[1]
Armenia	427,623[2]	$435,000,000
Benin	13,421,000	$435,000,000
Burkina Faso	1,181,296	$186,872,277
Cape Verde	384,765	$178,000,000
El Salvador	904,207	$530,000,000
Georgia	4,592,000[3]	$292,000,000[4]
Ghana	1,217,000	$683,000,000
Honduras	1,818,000[2]	$331,000,000
Lesotho	1,041,000	$375,000,000
Madagascar	462,594[2]	$123,000,000
Mali	2,837,000	$457,000,000
Mongolia	2,600,000[5]	$158,000,000
Morocco	973,107	$806,000,000
Mozambique	4,445,000	$632,000,000
Namibia	1,761,029	$335,797,817
Nicaragua	108,910[2]	$193,000,000
Tanzania	5,425,000	$1,336,000,000
Senegal	1,662,129	$1,276,532,940
Vanuatu	14,783	$84,000,000

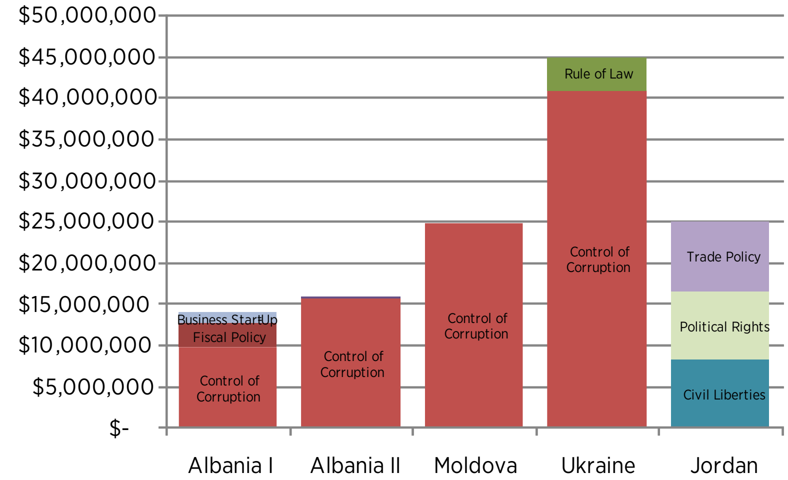
1 Typically 20 years.
2 These estimates do not include beneficiaries of projects or activities that have been terminated or suspended by MCC. In the case of Madagascar, the estimates account for the compact's early termination.
3 This estimate is still preliminary and subject to further adjustment.
4 This estimate is being revised to include benefits from the injection in 2008 of $100m in additional compact funds.
5 This estimate does not include beneficiaries from the rail project, which was part of the original compact but has since been discontinued at the Government's request. Additional beneficiaries from compact re-scoping options currently under review are not reflected in the estimate.

Threshold Program Update — September 2009

Africa



Eastern Europe / Middle East



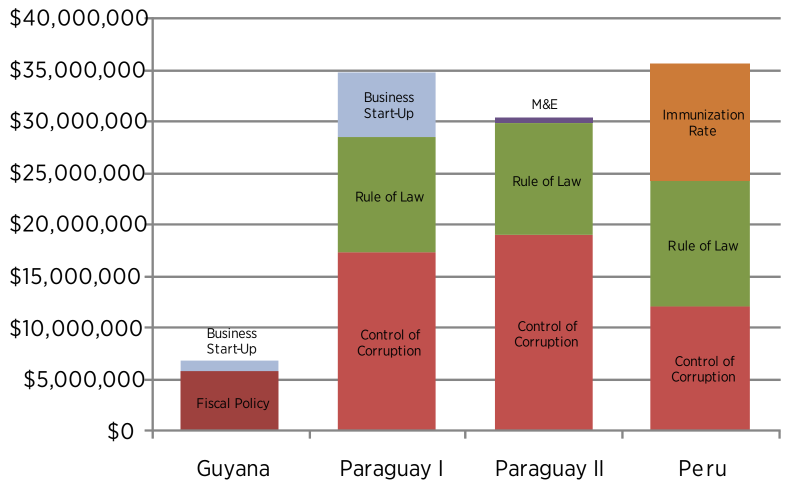
Quick Facts

- ★ MCC has signed **21 threshold programs** with 19 countries totaling nearly **$470 million**.
- ★ Of the 19 threshold program countries, **eight have become compact eligible**. Two countries—Burkina Faso and Tanzania—have signed compacts. Six others—Indonesia, Jordan, Moldova, Malawi, the Philippines, and Zambia—are actively developing compact proposals.
- ★ USAID administers the majority of the threshold programs. The U.S. Department of Treasury administers the Sao Tome and Principe program and participates, along with the U.S. Department of Justice, in several programs by providing direct technical assistance and training in a number of areas.
- ★ Liberia and Timor-Leste were selected as threshold eligible in December 2008 and are working to develop program proposals.

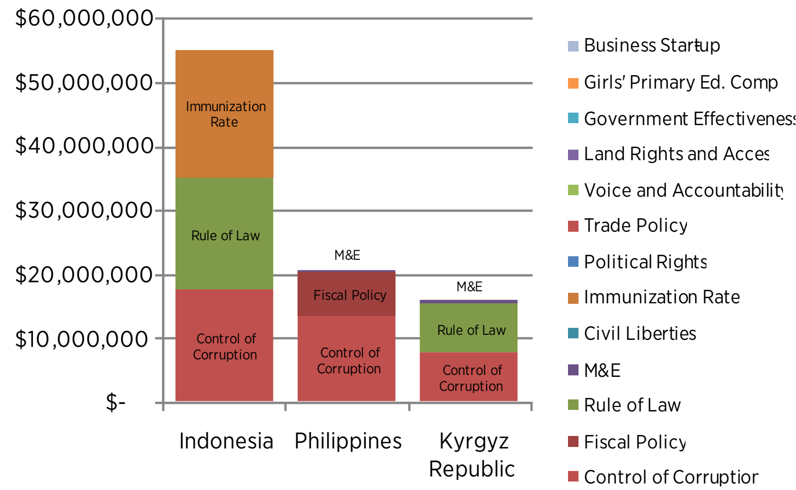
Threshold Program Successes

- ★ **Indonesia's** threshold program focuses on increasing immunization rates and reducing public corruption. The immunization component concluded in March 2009, increasing immunization coverage through the use of local health centers to 97 percent in the targeted districts and helping to vaccinate over five million children, as planned, for measles and DPT3. The corruption component also achieved success. Through trainings on judicial codes of conduct, an increase in wealth reporting by judges, and increased transparency in Supreme Court decisions, the threshold program helped facilitate a change in the Supreme Court's organizational culture and create momentum within the government and donor community for continued judicial reform.
- ★ **Jordan's** threshold program concluded in August 2009. The customs modernization component of the program upgraded 14 customs centers with an integrated risk management system and implemented the "single window" customs procedures in five locations to improve efficiency and help eliminate possibilities of corruption. As a result, the average time to complete the customs clearance

Latin America



Asia/Eurasia



process dropped by 50 percent in four targeted MCC customs centers. The program's local governance component strengthened the performance of community representatives in municipal planning, including improving the performance and participation of locally-elected women officials.

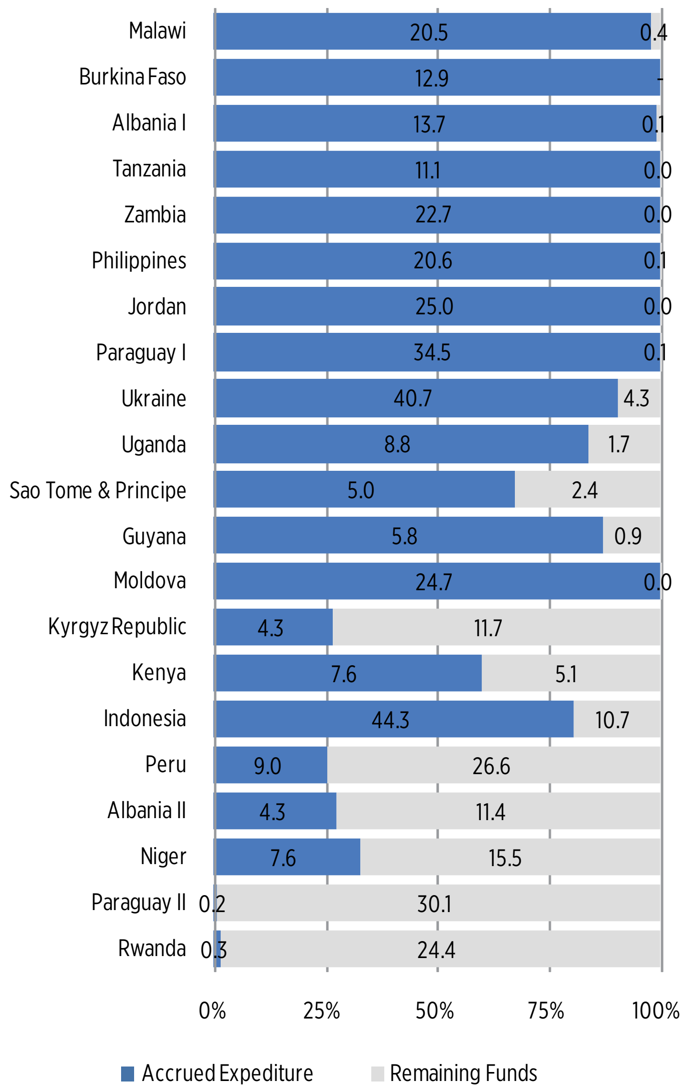
★ **The Philippines'** threshold program concluded in May 2009, meeting all its programmatic targets. These include increasing the annual conviction rate at the Office of the Ombudsman from 19 percent to 76 percent, increasing the number of cases filed against smugglers and tax evaders at the Department of Justice from 11 to 95 and from 44 to 117, respectively, and computerizing 97 percent of the offices of the Bureau of Internal Revenue nationwide.

★ **Uganda's** threshold program focuses on reducing and preventing corruption in public procurement and increasing the number of successful public corruption prosecutions. Through diligent procurement audits of government entities, advocacy from civil society, and media support, the threshold program facilitated the publication and distribution of 17 procurement audits that highlight the challenges in central and local government entities.

★ **Ukraine's** threshold program focuses on reducing corruption in the public sector and in higher education through such avenues as civil society monitoring, advocacy, and improved legal structures prosecuting corruption. Through the program's civil society networks, 114 advocacy campaigns were supported, resulting in 127 reforms, including 10 at the national level. The threshold program also supported the creation of standardized testing for higher education admissions, which is now used across the country.

★ **Zambia's** threshold program concluded in February 2009. The program helped reduce administrative corruption and barriers to trade and investment. By increasing transparency and accountability and streamlining procedures in seven pilot ministries, the threshold program decreased the processing time for registering a property at the Ministry of Lands from 52 to 16 days, reduced the time to register a business from 35 to 18 days, and strengthened the Anticorruption Commission's relationship with the Zambian business community.

Funds Flow in Millions USD per Threshold Program graphically displayed as a percentage of total funds expended



How MCC is Achieving Results Toward the MDGs

The Obama Administration embraces the *United Nations Millennium Development Goals (MDGs)* as America's goals too in the fight against global poverty. The MDGs outline a series of targets to be achieved by 2015 to reduce extreme poverty, hunger, disease, and child mortality, and to increase gender equality, access to education, maternal health, safe drinking water, and environmental stewardship. MCC is one tool the Administration is using to achieve the MDGs.

MCC works to meet the MDGs by supporting country-driven programs that address these goals and country-led policies that are essential for their sustainability well beyond 2015.

On the one hand, partner countries are choosing to address the MDGs in the design of their antipoverty compacts. MCC's compacts with Namibia, Mongolia, and Lesotho, for example, contain education and health components. MCC's compact with Mozambique invests in water and sanitation systems, which contributes to the MDG to expand safe drinking water. Several MCC compacts invest in secure tenure and land titling, giving farmers an incentive to improve, rather than abandon, cultivated land. MCC investments in roads, like in Senegal, Cape Verde, Ghana, and El Salvador, not only enable crops to get to markets but also provide better access to schools and health facilities.

On the other hand, MCC creates a strong incentive for policy reform that supports progress on the MDGs. Many of the 17 policy indicators our Board uses to select partners converge with the MDGs, including those that assess a country's commitment to improve girls' primary school completion rates, immunization rates, incidence of child mortality, gender equality, access to water and sanitation, and natural resources management. Moreover, MCC threshold programs focus mainly on rooting out corruption and improving governance that foster a policy framework where poverty reduction and economic growth can take root.

Putting Results a Click Away

Results for each MCC partner country are a simple click away on our website, www.mcc.gov. There, under the dedicated *Results* tab, you can access a comprehensive and regularly-updated portfolio of performance metrics by country. Be sure to visit the website often and view:

- country-specific tables of performance indicators used to monitor progress toward results, like the one pictured here,
- country-specific impact evaluations in progress,
- country-specific quarterly status reports, and
- country-specific economic rates of return spreadsheets.

A feedback tab allows you to submit comments on every facet of how we work with partner countries to plan for and measure results.

GEORGIA	Entry Into Force: 4/7/2006 Compact Ends: 4/30/2011 Currently in Year 4 of Implementation					Cumulative Past Performance Through Last Completed Compact Year (Year 3) Quarter 1 to Quarter 12 (April 2006 - March 2009)			Performance for Current Compact Year (Year 4) Quarter 13 - Quarter 16 (April 2009 - March 2010)			End of Compact Target Q1 to Q20
	Indicator 1	Unit	Level	Classification	Baseline	Cumulative Target	Cumulative Actual	Deviation	Annual Target	Cumulative Actual through September 2009 2	% Complete Towards Annual Target	Target
Regional Infrastructure Rehabilitation Project	Household Savings from Infrastructure Rehabilitation Activities	$US Million	Objective	Cumulative	0	0	0	0%	7790	NA	NA	7790
	Savings in Vehicle Operating Costs (VOC) 3	$ US Thousands	Outcome	Cumulative	0	157		-100%	13177	NA	NA	13,204
	International Roughness Index (IRI)	Meters/ Kilometer	Outcome	Level	16.6	17		-100%	14.6	NA	NA	3.2
	Annual Average Daily Traffic (AADT)	Vehicles (thousands)	Outcome	Level	5.3	6		-100%	6.6	NA	NA	6.7
	Travel Time	Hours and Minutes	Outcome	Level	5:33	4:33		-100%	3:03	NA	NA	2:45
	Road Paved/completed	Km	Output	Cumulative	0	0	0	0%	83.5	0	0%	119.5
	Construction Works completed (Contract 1)	%	Process	Cumulative	0	25	15	-41%	70	18.6	27%	100
	Road Construction Works completed (Contract 2)	%	Process	Cumulative	0	20	4	-80%	65	11	17%	100
	Signed road contracts for feasibility and/or design studies 4	$US Million	Process	Cumulative	0	NA	3.95	NA	NA	10.2	NA	NA
	% of contracted Road studies disbursed 5	%	Process	Cumulative		NA	98	NA	NA	53	NA	NA
	Km of Roads Under Design 6	Km	Process	Cumulative		NA	253	NA	NA	253	NA	NA
	Signed contracts for road works 7	US $ Million	Process	Cumulative		NA	99.3	NA	NA	138.4	NA	NA
	Km of Roads Under Works Contracts 8	Km	Process	Cumulative		NA	171	NA	NA	217	NA	NA
	Pipeline Sites Rehabilitated (Phases I,II,III)	Number	Outcome	Cumulative	0	15	8	-47%	23	10	43%	23
	Pipeline Construction Works Completed (Phase II)	%	Output	Cumulative	0	100	65	-35%	100	92	92%	100
	Savings in Household Expenditures for all RID Sub-projects	$US thousands	Outcome	Cumulative	0	0	0	0%	3,810	NA	NA	7,790
	Population Served by all RID Sub-projects	Number	Outcome	Cumulative	0	42,000	42,000	0%	228,000	42,000	18%	265,964
	RID Sub-projects Completed	Number	Output	Cumulative	0	1	1	0%	2	1	50%	5
	Value of RID Grant Agreements Signed	$ US thousands	Process	Cumulative	0	38,892	64,401	66%	38,892	64,401	166%	40,000
	Value of RID Works and Goods Contracts Signed	$ US Thousands	Process	Cumulative	0	28,800	20,274	-30%	37,400	29,269	78%	37,400
	RID Sub-projects with Works Initiated	Number	Process	Cumulative	0	4	4	0%	4	5	125%	5
Enterprise Development Project	Jobs Created - ADA and GRDF	Number	Objective	Cumulative	0	2,043	1,033	-49%	3,700	NA	NA	4,342
	Household Net Income - ADA and GRDF	$US	Objective	Cumulative	0	1,543	1,307	-15%	5,581	NA	NA	6,617
	Jobs Created - ADA	Number	Outcome	Cumulative	0	1,665	885	-47%	2,450	1,462	60%	2,450
	Firm Income - ADA	$ US	Outcome	Cumulative	0	189	235	24%	525	864	165%	571
	Household Net Income - ADA	$ US	Outcome	Cumulative	0	920	866	-6%	3,086	1,237	40%	3,499
	ADA Beneficiaries (Direct and Indirect)	Number	Outcome	Cumulative	0	25,242	27,313	8%	50,991	40,071	79%	54,246
	ADA Grant Agreements Signed (Primary Producer)	Number	Output	Cumulative	0	126	101	-19%	145	122	84%	145
	ADA Grant Agreements Signed (Value Adder)	Number	Output	Cumulative	0	16	13	-19%	18	14	78%	18
	ADA Grant Agreements Signed (Value Chain Initiative)	Number	Output	Cumulative	0	33	17	-48%	41	24	59%	41
	ADA Grant Agreements Signed (Farm Service Center)	Number	Output	Cumulative	0	26	25	-4%	30	28	93%	30
	Increase in Gross Revenues of GRDF Portfolio Companies	$ US Million	Outcome	Cumulative	0	5310	2,491	-53%	16,890	2,491	15%	22,200
	Increase in GRDF Portfolio Company Employees	Number	Outcome	Cumulative	0	378	148	-61%	1,250	174	14%	1,892
	Increase in Wages Paid to the GRDF Portfolio Company Employees	$ US	Outcome	Cumulative	0	623	441	-29%	2,495	441	18%	3,118
	GRDF Portfolio Companies	Number	Output	Cumulative	0	8	8	0%	14	10	71%	20
	Funds Disbursed to the GRDF Portfolio Companies	$ US thousands	Process	Cumulative	0	4250	16,450	287%	11,800	20,150	171%	22,000

1. Not all indicators have an annual target for every year of the Compact. In cases where an indicator does not have an annual target, and is not required to be reported on, it is marked with NA. In cases where an indicator does have an annula target, but it was not reported on, it is left blank. In addition, Georgia's Monitoring and Evaluation Plan was revised in September 2008; some of the indicators listed here were only added to the plan at that time. As a result, the first annual targets accompanying those indicators would come due in Quarter 12, and the end of Program Year 3.

2. Includes complete data through Quarter 13, and some preliminary data from Quarter 14, which will be updated in the following quarter, per MCC's reporting cycle. For a complete quarterly breakdown, see the accompanying Quarterly Breakdown table.

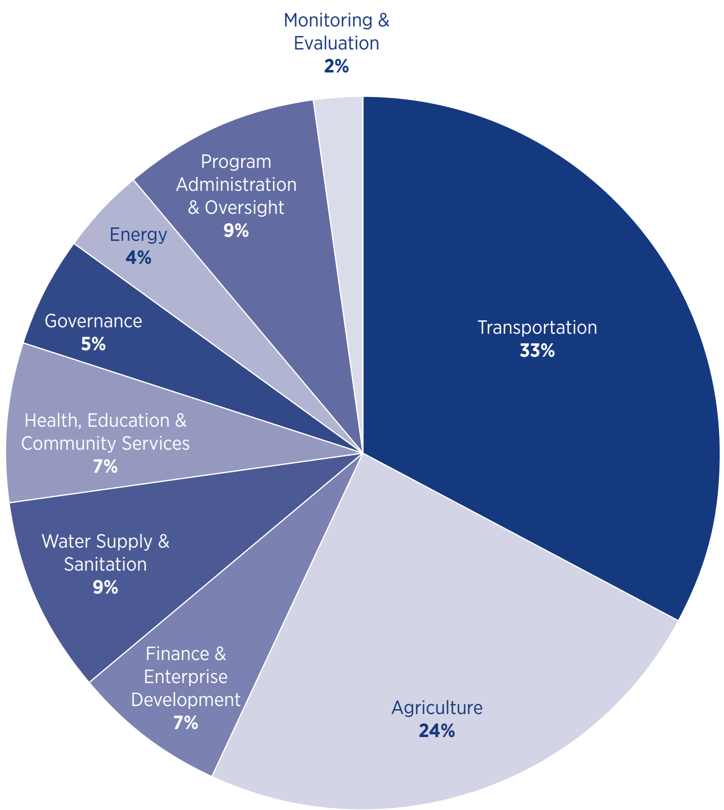
3. Indicators and targets for the Samtske-Javakheti Road and Regional Infrastructure Development activities do not yet reflect an additional $100 million in Compact funds that Georgia received in 2008. MCC anticipates doing a revision of the M&E Plan to adjust the monitoring framework as necessary to account for these additional funds.

4 - 8. This indicator is for tracking purposes only, and does not have targets.

Results by Region

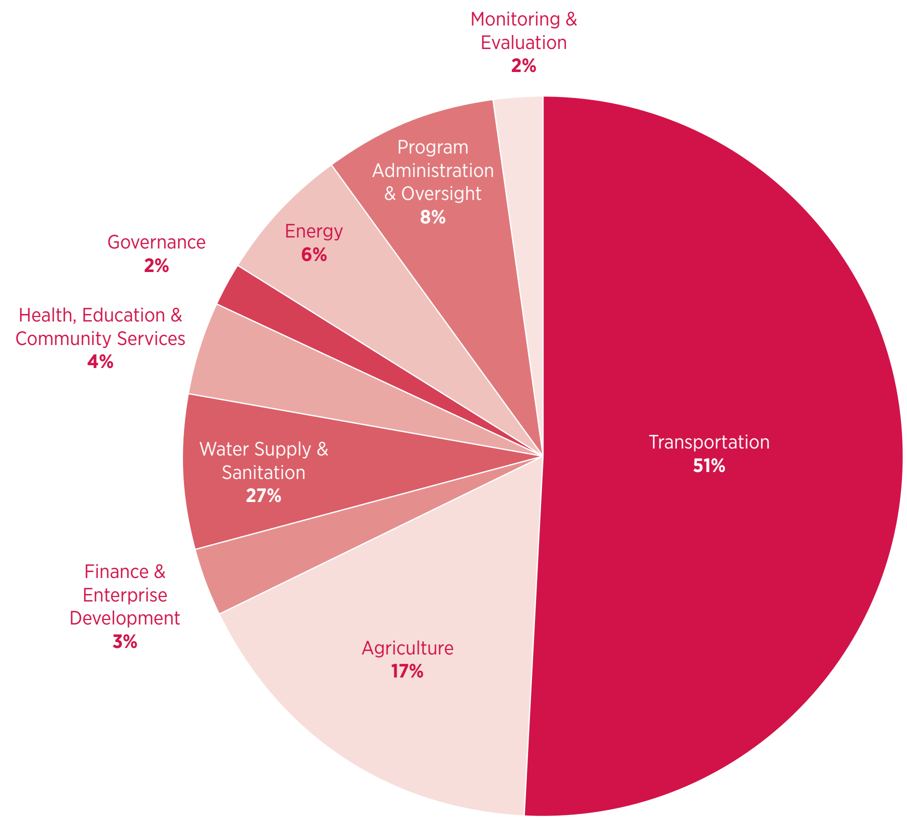
MCC Commitments by Sector — Africa

Millions USD, Total $5.1 billion • As of Sept. 30, 2009



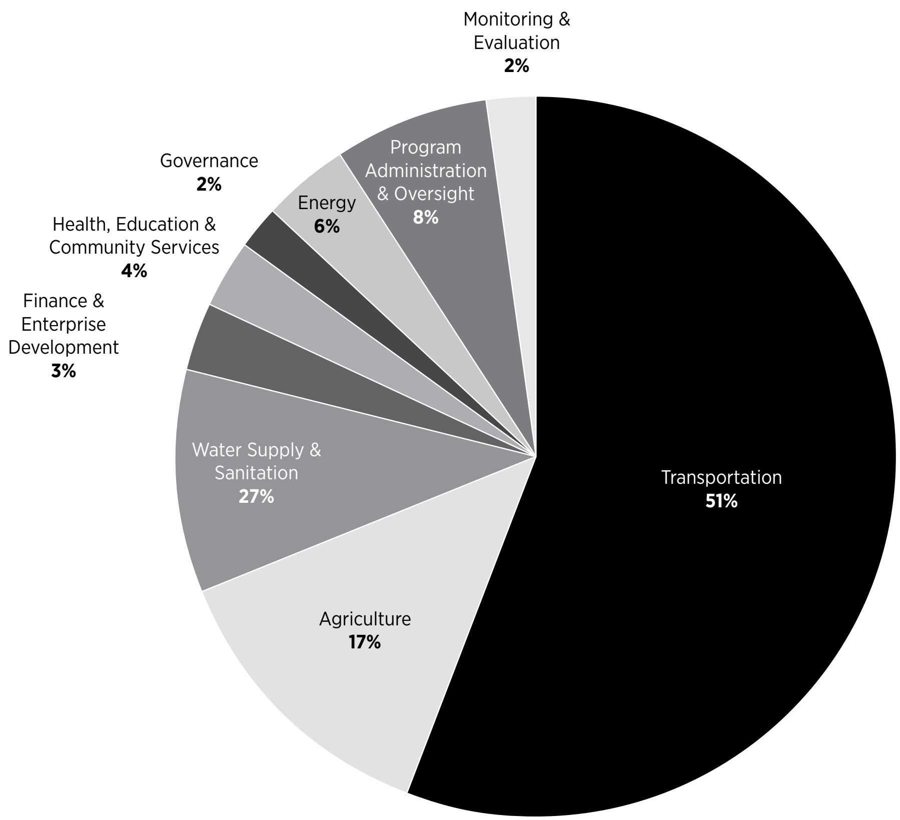
MCC Commitments by Sector — Eurasia and Pacific

Millions USD, Total $982 million • As of Sept. 30, 2009



MCC Commitments by Sector — Latin America

Millions USD, Total $851 million • As of Sept. 30, 2009



For performance indicator data, impact evaluations in progress, and economic rates of return spreadsheets for all MCC compacts, visit www.mcc.gov/results.

Benin Compact Update

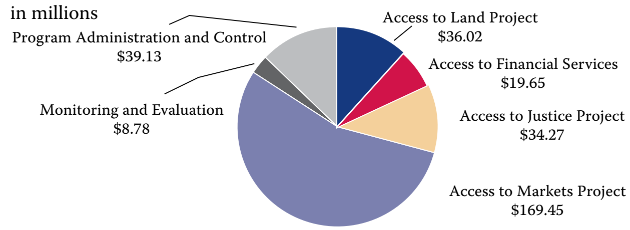
Compact At-A-Glance

Signed 2/22/2006

Entry Into Force.......................... 10/6/2006

The five-year, $307.3 million compact will increase access to land through more secure tenure, expand access to financial services through grants to enterprises, provide access to justice by bringing courts closer to rural populations and improve access to markets through improvements to the Port of Cotonou.

Obligations by Project



$200,350,499 total contract commitments

$49,027,313 disbursed to date

Country At-A-Glance

Population.................................... 8,662,086*

GNI per Capita $690*

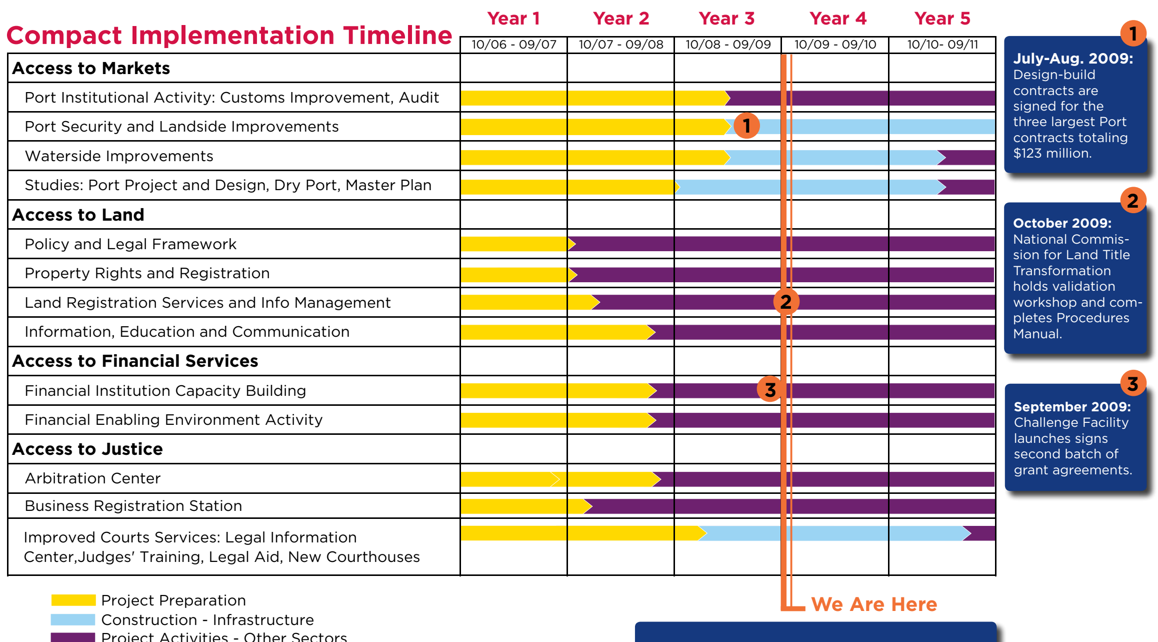
On the Web:

www.mcc.gov

MCA-Benin:

www.mcabenin.bj

Compact Implementation Timeline



As of September 30, 2009
Disbursements to Date................ $49,027,313
Total Contract Commitments.... $200,350,499

* For more information on country proposals, due diligence, program set-up, implementation and monitoring, and ongoing impact, please see the diagram entitled *Typical MCC Program Cycle* at www.mcc.gov.

Burkina Faso Compact Update

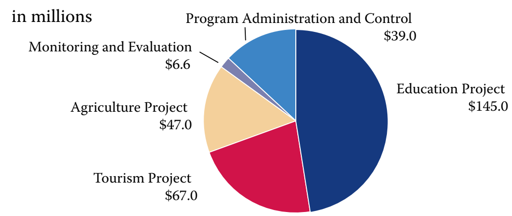
Compact At-A-Glance

Signed 07/14/2008

Entry Into Force........................ 07/31 /2009

The five-year, $480.94 million compact seeks to reduce poverty in Burkina Faso through economic growth by making strategic investments to improve agricultural productivity, land use rights and land management, farm-to-market roads, and girls' primary education.

Obligations by Project



$21,119,050 total contract commitments
$31,820,348 disbursed to date

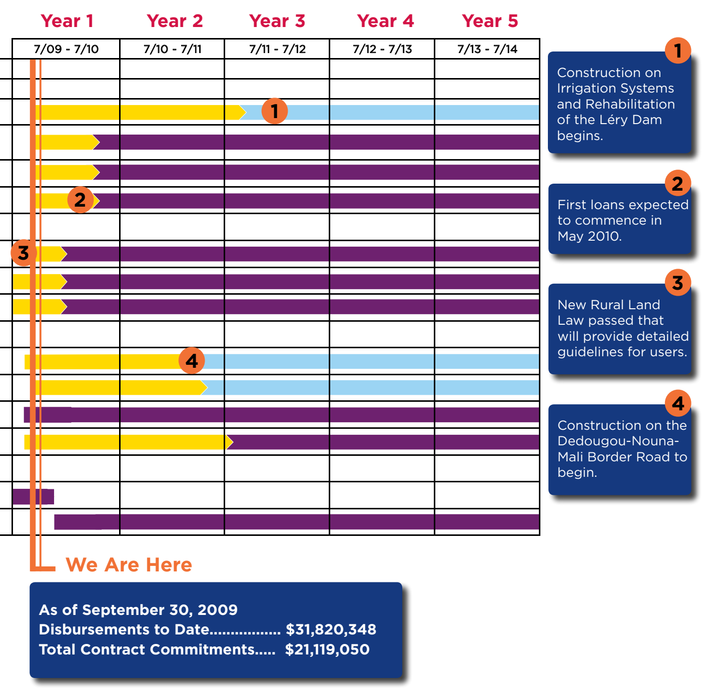
Country At-A-Glance

Population.................................... 15,208,590*

GNI per Capita $480*

On the Web:
www.mcc.gov
MCA Burkina Faso:
www.mcaburkina.bf

Compact Implementation Timeline



* For more information on country proposals, due diligence, program set-up, implementation and monitoring, and ongoing impact, please see the diagram entitled *Typical MCC Program Cycle* at www.mcc.gov.

Cape Verde Compact Update

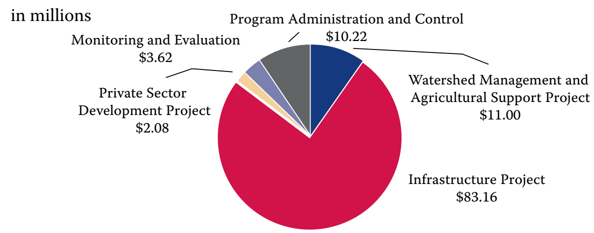
Compact At-A-Glance

Signed 7/4/2005

Entry Into Force......................... 10/17/2005

The five-year, $110.0 million compact seeks to improve investment climate, reform the financial sector, develop infrastructure to support increased economic activity and provide access to markets, employment and social services. Other goals include increasing agricultural productivity and rural incomes.

Obligations by Project



$99,869,930 total contract commitments

$61,090,075 disbursed to date

Country At-A-Glance

Population....................................... 498,672*

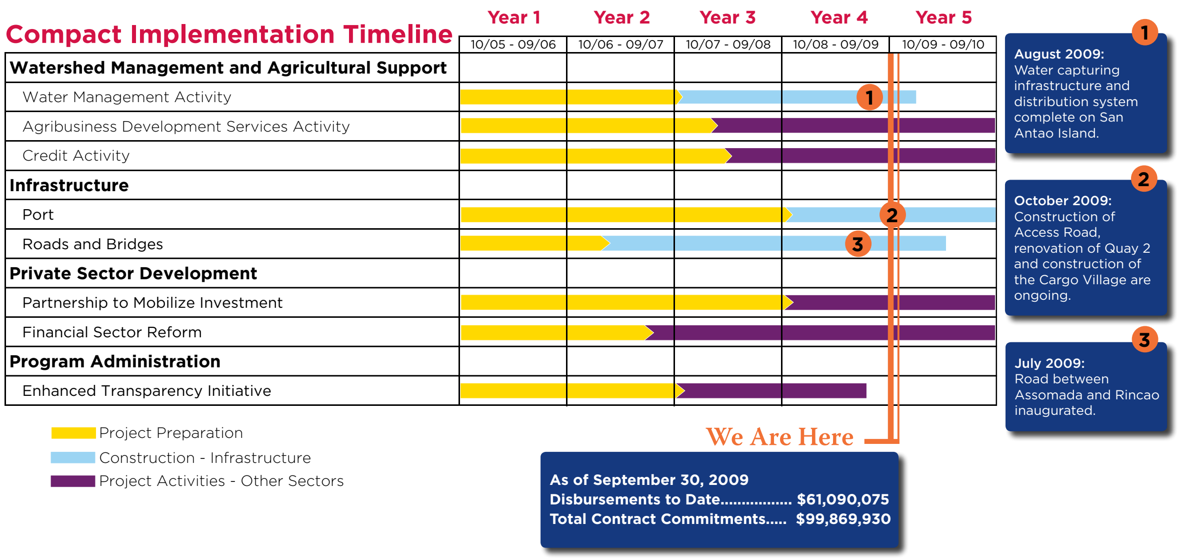
GNI per Capita $3,130*

On the Web:

www.mcc.gov

MCA-Cape Verde:

www.mca.cv



* For more information on country proposals, due diligence, program set-up, implementation and monitoring, and ongoing impact, please see the diagram entitled *Typical MCC Program Cycle* at www.mcc.gov.

Ghana Compact Update

Compact At-A-Glance

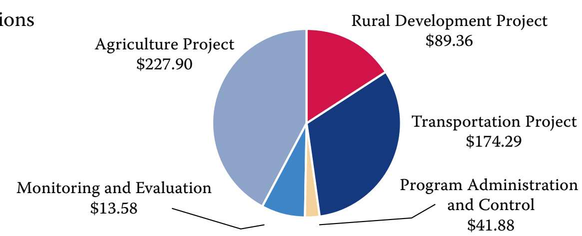
Signed ....8/1 /2006

Entry Into Force..........................2/16/2007

The five-year, $547.0 million compact seeks to increase farmer incomes through private sector-led agribusiness development. The compact aims to spur the production and productivity of both staple and high-value crops to make Ghana's agricultural products more competitive in regional and global markets.

Obligations by Project

in millions



$342,013,452 total contract commitments

$89,866,778 disbursed to date

Country At-A-Glance

Population....................................23,350,930*

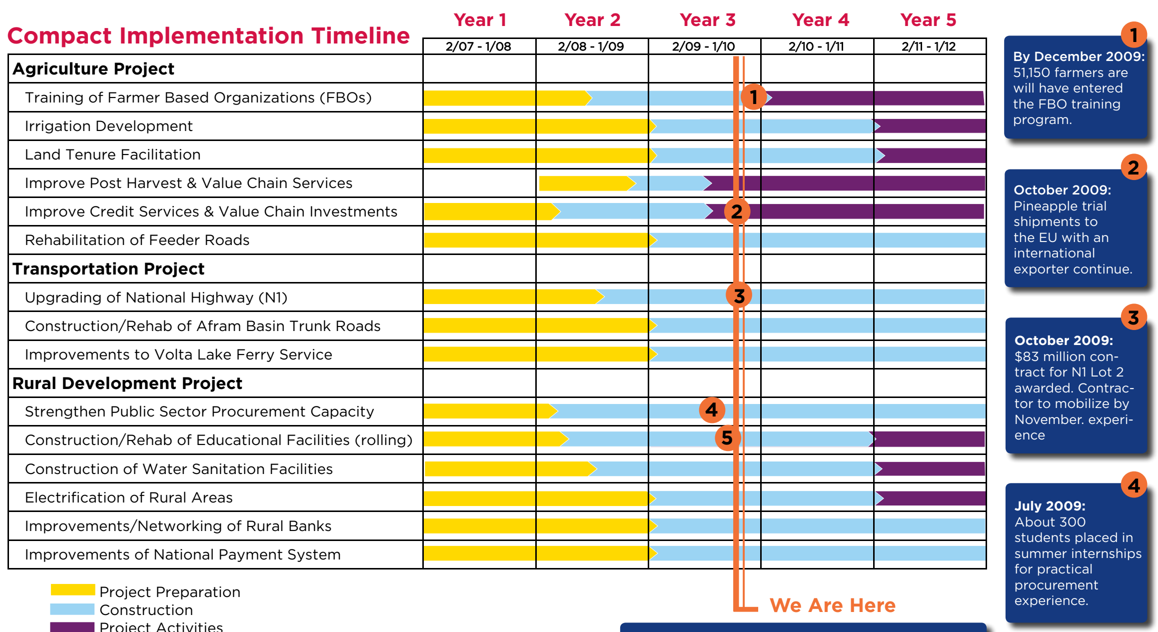
GNI per Capita $670*

On the Web:

www.mcc.gov

MiDA:

www.mida.gov.gh



5 **September 2009:** Tamale Water Sanitation feasibility and design commences.

As of September 30, 2009
Disbursements to Date................ $89,866,778
Total Contract Commitments..... $342,013,452

* For more information on country proposals, due diligence, program set-up, implementation and monitoring, and ongoing impact, please see the diagram entitled *Typical MCC Program Cycle* at www.mcc.gov.

Lesotho Compact Update

Compact At-A-Glance

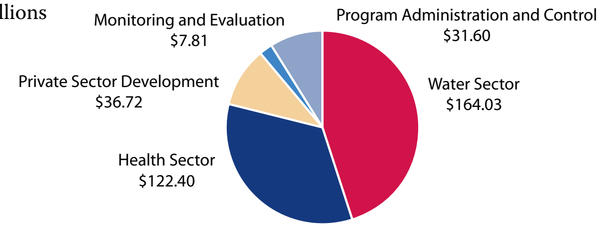
Signed 7/23/2007

Entry Into Force 09/17/08

The approximately $363 million compact with Lesotho seeks to improve health outcomes and productivity through strengthening the health system, removing barriers to foreign and local private sector investment and providing water supply for industrial and domestic use.

Obligations by Project

in millions



$73,775,632 total contract commitments

$17,150,994 disbursed to date

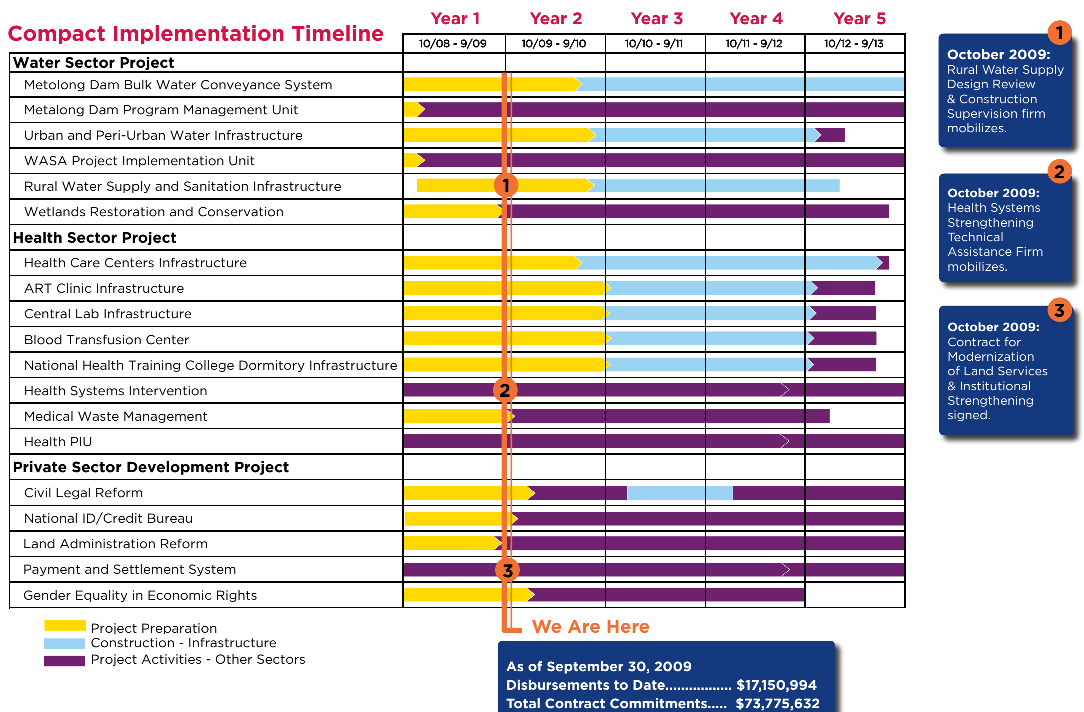
Country At-A-Glance

Population 2,016,823*

GNI per Capita $1,080*

On the Web:

www.mcc.gov



Compact Implementation Status Report Timeline, Lesotho

* For more information on country proposals, due diligence, program set-up, implementation and monitoring, and ongoing impact, please see the diagram entitled *Typical MCC Program Cycle* at www.mcc.gov.

Madagascar Compact Update

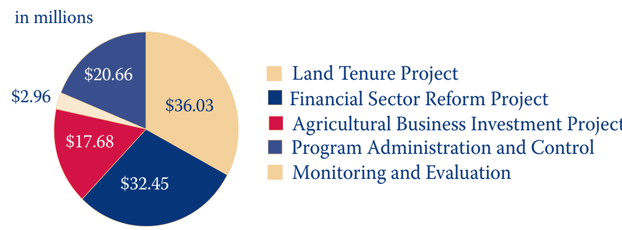
Compact At-A-Glance

Signed 4/18/2005

Entry Into Force............................ 7/27/2005

The five- year, approximately $110 million compact seeks to increase land security, modernize the financial sector, and spur investment in farms and other rural businesses

Obligations by Project



$86,675,319 total contract commitments

$81,544,763 disbursed to date

Country At-A-Glance

Population..................................... 9,110,940*

GNI per Capita $410*

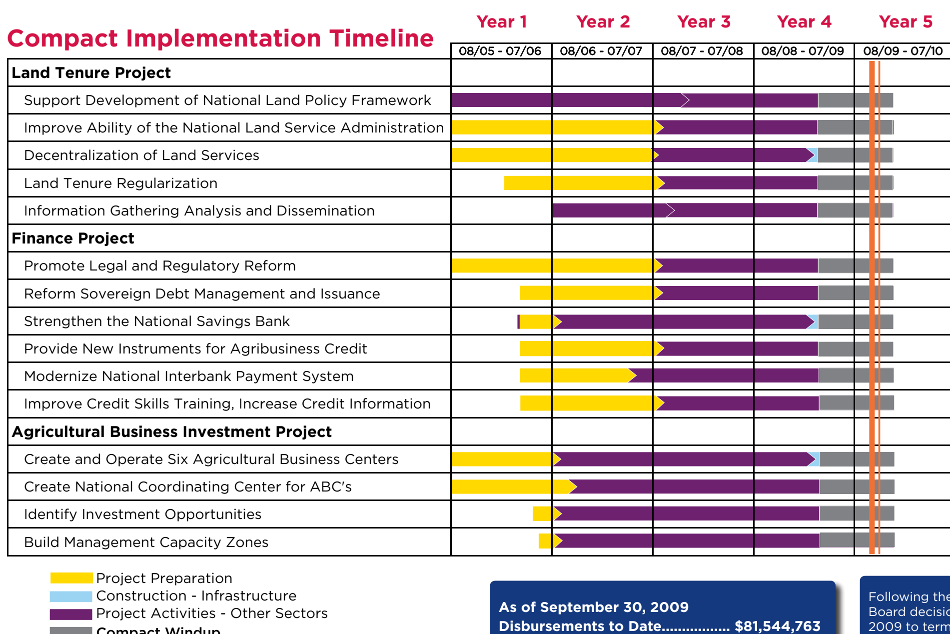
On the Web:

www.mcc.gov

MCA-Madagascar:

www.mcamadagascar.org

Compact Implementation Timeline



As of September 30, 2009
Disbursements to Date................ $81,544,763
Total Contract Commitments..... $86,675,319

Following the MCC Board decision in May 2009 to terminate the MCC Compact in Madagascar, MCC is working with MCA Madagascar to ensure an orderly windup of the program. MCC will issue a final status report after the termination process is complete.

* For more information on country proposals, due diligence, program set-up, implementation and monitoring, and ongoing impact, please see the diagram entitled *Typical MCC Program Cycle* at www.mcc.gov.

Compact Implementation Status Report Timeline, Madagascar

Mali Compact Update

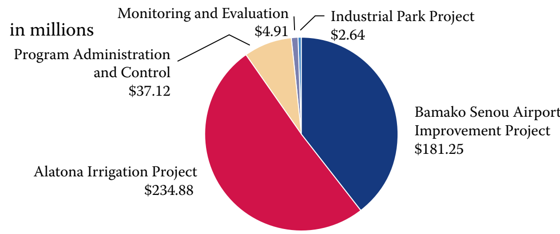
Compact At-A-Glance

Signed 11/13/2006

Entry Into Force.......................... 9/17/2007

The five-year, $460.8 million compact seeks to increase the productivity of agriculture and expand Mali's access to markets and trade through key infrastructure investments that capitalize on the Bamako-Sénou Airport and the Niger River for irrigated agriculture.

Obligations by Project



$168,470,841 total contract commitments

$46,357,275 disbursed to date

Country At-A-Glance

Population.................................. 12,711,140*

GNI per Capita $580*

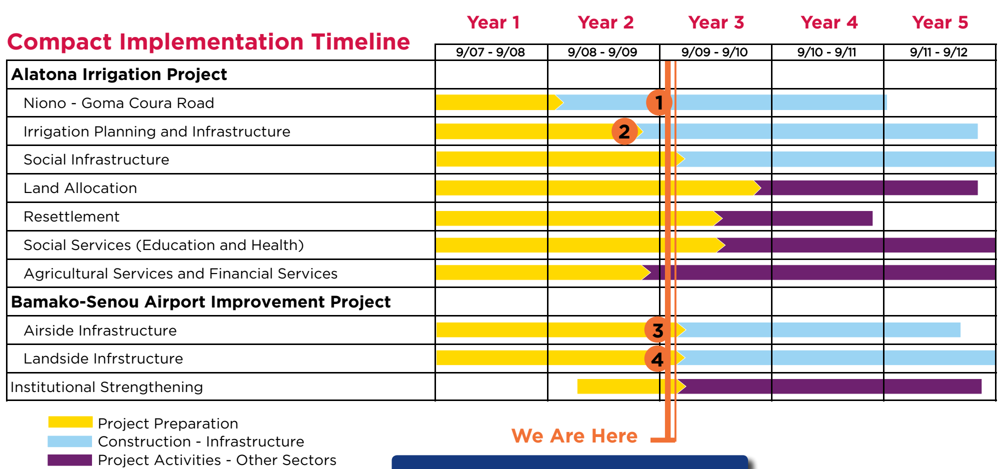
On the Web:

www.mcc.gov

MCA-Mali:

www.mcamali.org

Compact Implementation Timeline



As of September 30, 2009
Disbursements to Date................ $46,357,275
Total Contract Commitments..... $168,470,841

1 **September 2009:** Road construction underway – site cleared and 14km ready for pavement.

2 **June-Aug. 2009:** Contracts for primary irrigation infrastructure, design and supervision, and rehabilitation of the main gates signed.

3 **August 2009:** Agricultural Systems Development Contract signed.

4 **September 2009:** Detailed designs for the airside infrastructure are submitted to MCA-Mali for validation.

5 **September 2009:** Workshop held to discuss results of key institutional strengthening study.

* For more information on country proposals, due diligence, program set-up, implementation and monitoring, and ongoing impact, please see the diagram entitled *Typical MCC Program Cycle* at www.mcc.gov.

Compact Implementation Status Report Timeline, Mali

Morocco Compact Update

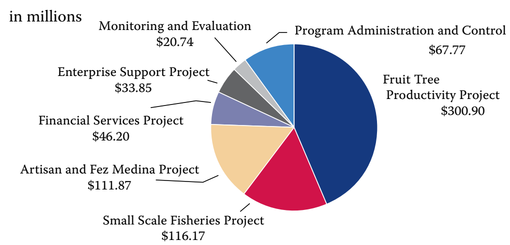
Compact At-A-Glance

Signed ....8/31 /2007

Entry Into Force..........................9/15/2008

The five-year, $698 million compact will increase productivity in high potential sectors, including investments in fruit tree productivity, small-scale fisheries and artisan crafts.ÿ Small business creation and growth will also be supported by investments in financial services and trainings for entrepreneurs.

Obligations by Project



$120,349,758 total contract commitments

$22,199,127 disbursed to date

Country At-A-Glance

Population.................................. 31,228,980*

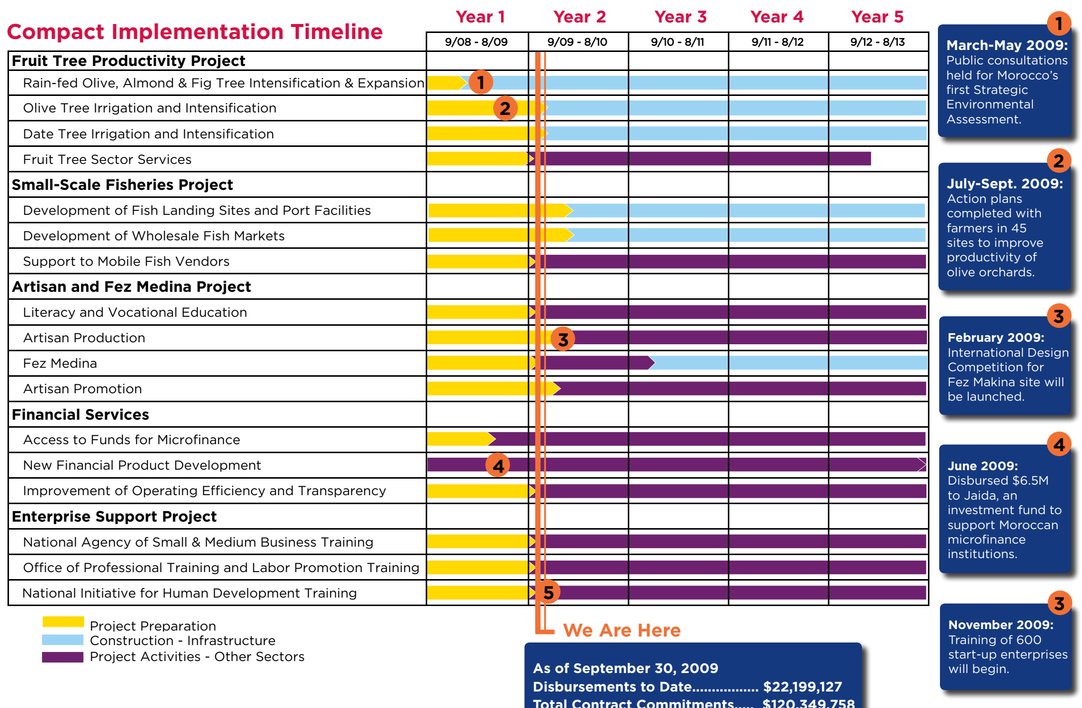
GNI per Capita $2,580*

On the Web:

www.mcc.gov

MCA-Morocco:

www.app.ma



Compact Implementation Status Report Timeline, Morocco

* For more information on country proposals, due diligence, program set-up, implementation and monitoring, and ongoing impact, please see the diagram entitled *Typical MCC Program Cycle* at www.mcc.gov.

Mozambique Compact Update

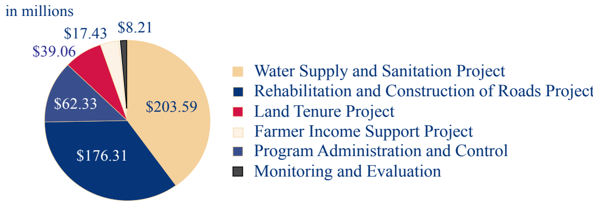
Compact At-A-Glance

Signed 7/13/2007

Entry Into Force.......................... 9/22/2008

The five-year, $506.9 million compact seeks to improve rural and urban water and sanitation, roads, land administration, and agriculture. It also addresses key policy reforms and capacity building initiatives. The program focuses on the economically lagging northern provinces, home to half of the country's population.

Obligations by Project



$73,883,631 total contract commitments

$11,595,507 disbursed to date

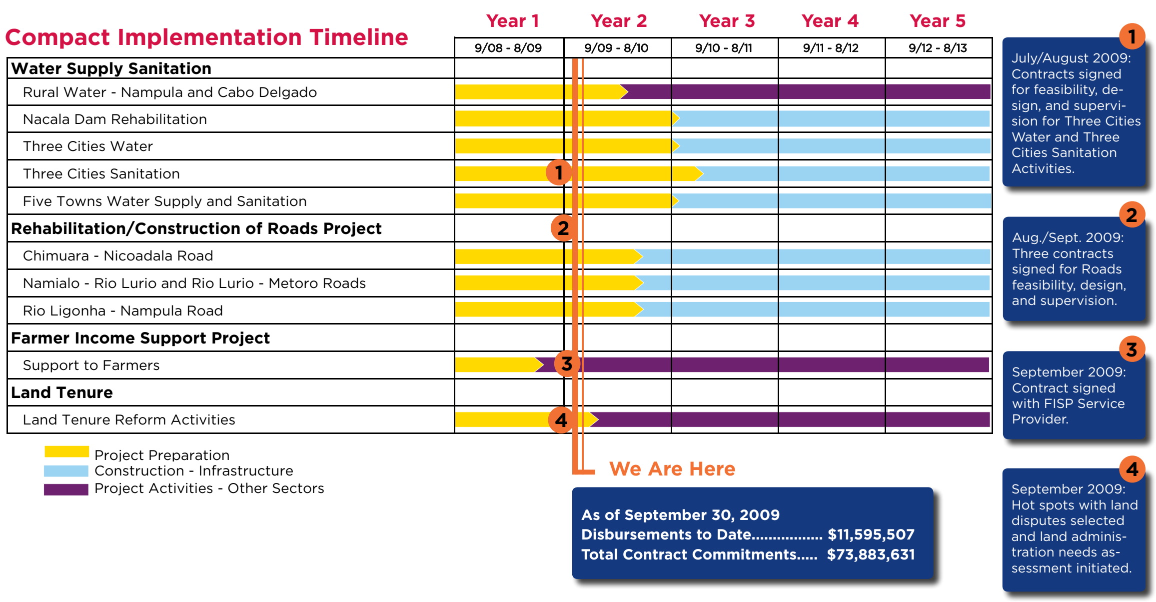
Country At-A-Glance

Population.................................... 21,780,610*

GNI per Capita $370*

On the Web:

www.mcc.gov



* For more information on country proposals, due diligence, program set-up, implementation and monitoring, and ongoing impact, please see the diagram entitled *Typical MCC Program Cycle* at www.mcc.gov.

Namibia Compact Update

Compact At-A-Glance

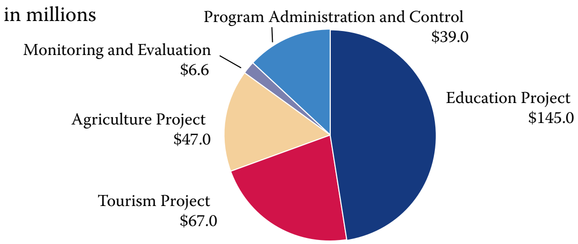
Signed 07/28/2008

Entry Into Force......................... 09/16/2009

Namibia's $304.5 million MCC Compact seeks to reduce poverty and accelerate economic growth by strengthening access to and quality of the education and training sector, increasing productivity of farm enterprises in communal rural areas and promoting growth in Namibia's tourism industry.

Obligations by Project

in millions



$10,605,047 total contract commitments

$2.038.940 disbursed to date

Country At-A-Glance

Population....................................... 2,114,161*

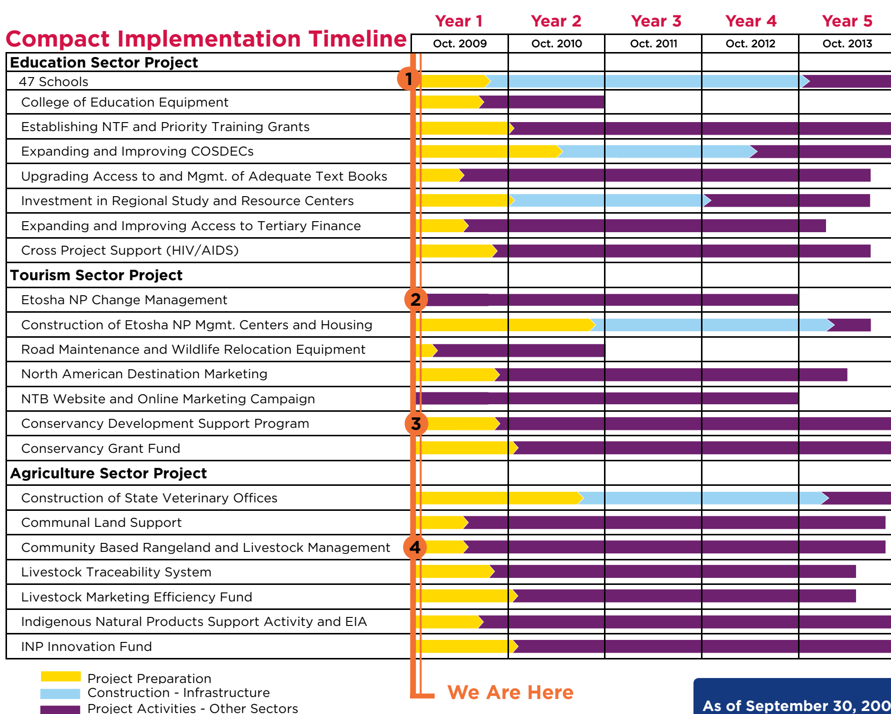
GNI per Capita $4,200*

On the Web:

www.mcc.gov

MCA Namibia:

www.mca.gov.na



1 September 2009: Awarded final design for 47 schools.

2 October 2009: Change Mgmt. Advisor begins reform implementation at Etosha.

3 September 2009: Conservancy Needs Assessment contract awarded.

4 October 2009: MCA -N is finalizing Implementing Partnership Agreements with the Ministry of Agriculture, Water and Forestry and the Ministry of Lands and Resettlement.

As of September 30, 2009
Disbursements to Date................ $2,038,940
Total Contract Commitments..... $10,605,047

* For more information on country proposals, due diligence, program set-up, implementation and monitoring, and ongoing impact, please see the diagram entitled *Typical MCC Program Cycle* at www.mcc.gov.

Compact Implementation Status Report Timeline, Namibia

Senegal Compact Update

Compact At-A-Glance

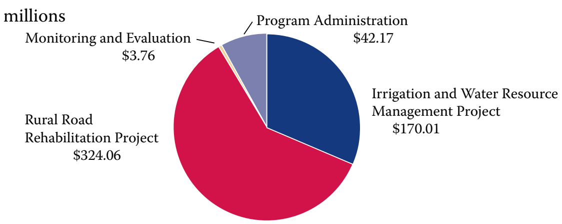
Signed.......................................09/16/2009

Entry Into Force........... To Be Determined

Senegal's $540 million aims to reduce poverty and invest in economic growth by unlocking the country's agricultural productivity and expanding access to markets and services through critical infrastructure investments in major national roads and the irrigation sector.

Obligations by Project

in millions



Country At-A-Glance

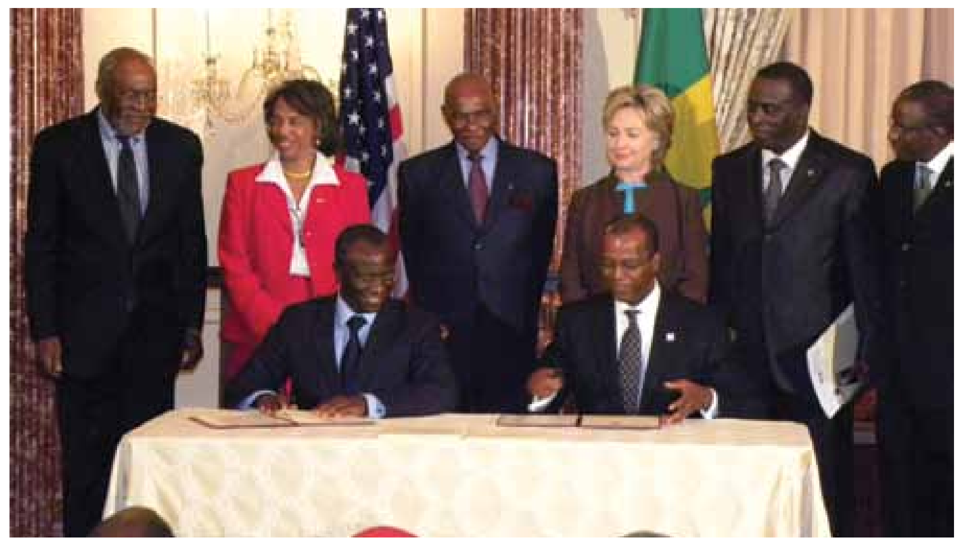
Population....................................12,211,180*

GNI per Capita $970*

On the Web:

www.mcc.gov

On September 16, 2009, MCC Acting Chief Executive Officer Darius Mans joined Senegalese Minister of Finance and Economy Abdoulaye Diop to sign Senegal's five-year, $540 million poverty reduction compact. This marks the first MCC compact to be signed during the Obama Administration, and the only one signed during fiscal year 2009. U.S. Secretary of State Hillary Rodham Clinton and President Abdoulaye Wade of Senegal presided at the signing held at the U.S. State Department. Reflecting Senegalese development priorities, this compact will rehabilitate two major roads and expand a major irrigation and water resources management system. These investments are critical to boosting agricultural productivity, economic growth, trade, and food security.



Pictured: Standing as witnesses from left to right: U.S. Assistant Secretary of State Ambassador Johnnie Carson, U.S. Ambassador to Senegal Marcia Bernicat, President of Senegal Abdoulaye Wade, Secretary of State Hillary Rodham Clinton, Senegal's Minister of Foreign Affairs Cheikh Tidiane Gadio, and Senegal's Ambassador to the United States Amadou Lamine Ba. Seated to sign from left to right: Senegal's Minister of Economy and Finance Abdoulaye Diop and MCC's Acting CEO Darius Mans.

Tanzania Compact Update

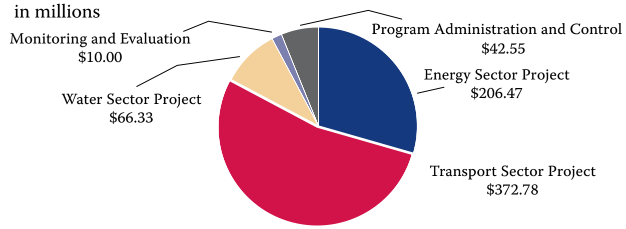
Compact At-A-Glance

Signed 2/17/2008

Entry Into Force 9/17/2008

The five-year, $698 million compact seeks to stimulate economic growth, increase household incomes, and raise the quality of life in program areas through targeted infrastructure investments in transporta?tion, energy and water.

Obligations by Project



$40,863,537 total contract commitments

$7,915,283 disbursed to date

Country At-A-Glance

Population 42,483,920*

GNI per Capita $430*

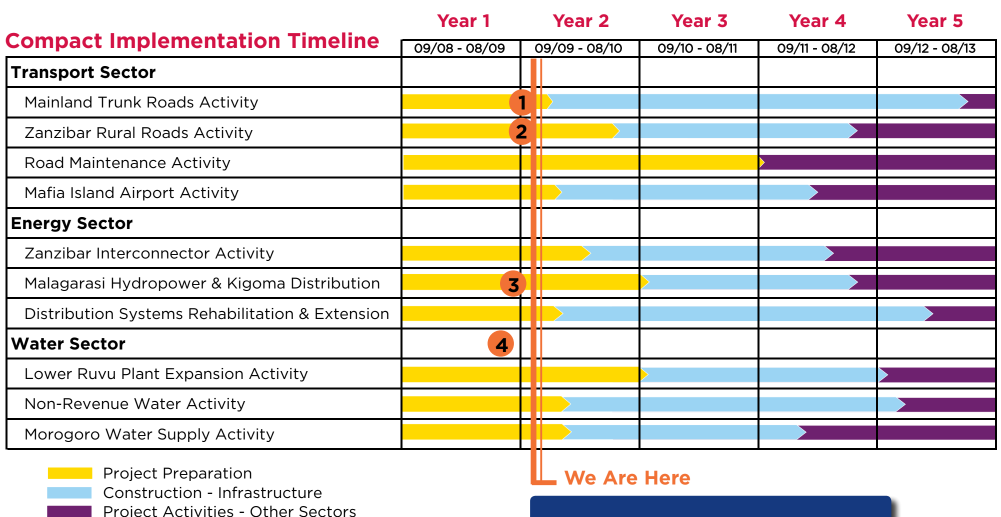
On the Web:

www.mcc.gov

MCA-Tanzania:

www.mca-t.go.tz

Compact Implementation Timeline



As of September 30, 2009
Disbursements to Date................ $7,915,283
Total Contract Commitments..... $40,863,537

1 **September 2009:** Construction supervision contracts signed for all three mainland trunk roads segments.

2 **September 2009:** Contract awarded for Pemba Island rural roads feasibility, updated design, and environmental preparatory work.

3 **August 2009:** Expert team of scientists surveyed ecosystem in and around proposed hydropower plant site.

4 **July 2009:** Water Project coordination and technical assistance contract initiated to produce an improved water tariff study and better inform public water rates in Dar es Salaam.

* For more information on country proposals, due diligence, program set-up, implementation and monitoring, and ongoing impact, please see the diagram entitled *Typical MCC Program Cycle* at www.mcc.gov.

Armenia Compact Update

Compact At-A-Glance

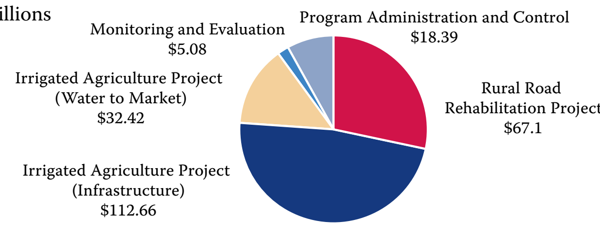
Signed 3/27/2006

Entry Into Force.......................... 9/29/2006

The five year, $236 million compact will reduce rural poverty by increasing the agricultural sector's economic performance. This goal will be achieved through strategic investments in rural roads and irrigation systems.

Obligations by Project

in millions



$107,740,790 total contract commitments

$41,339,513 disbursed to date

Country At-A-Glance

Population.................................... 3,077,087*

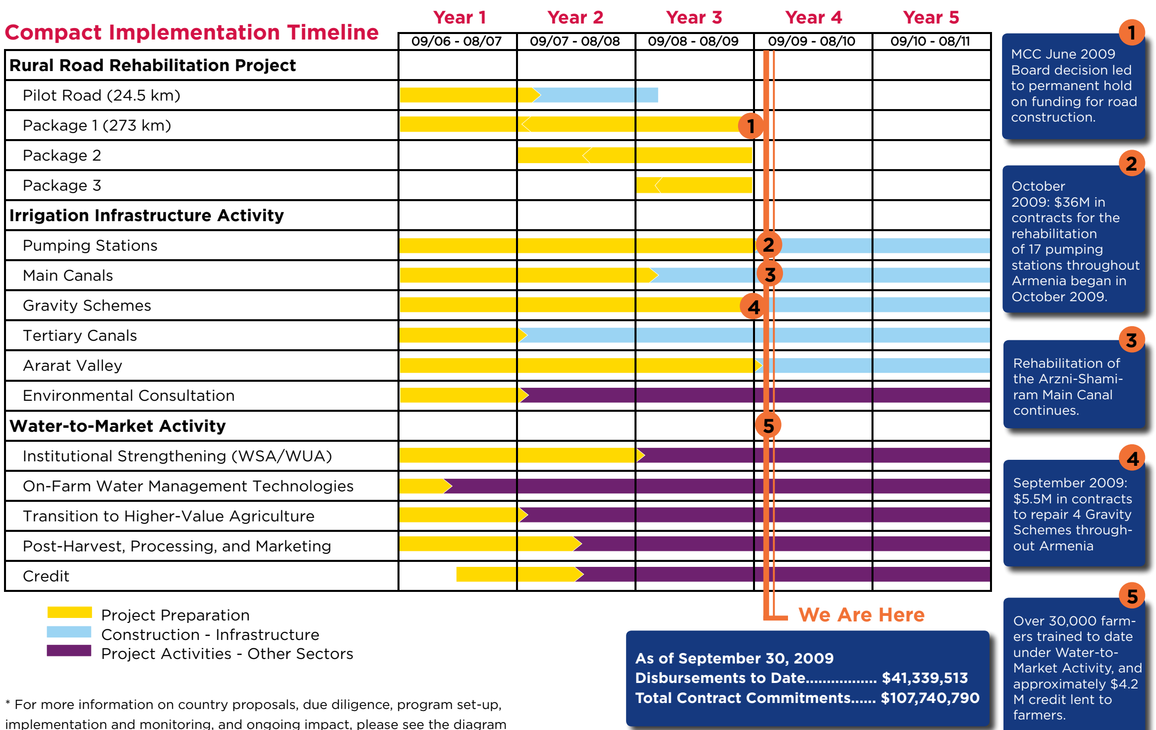
GNI per Capita $3,350*

On the Web:

www.mcc.gov

MCA-Armenia:

www.mca.am



* For more information on country proposals, due diligence, program set-up, implementation and monitoring, and ongoing impact, please see the diagram entitled *Typical MCC Program Cycle* at www.mcc.gov.

Georgia Compact Update

Compact At-A-Glance

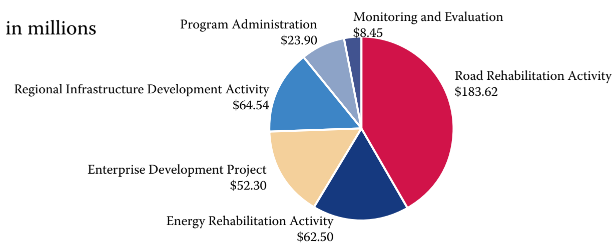
Signed 9/12/2005

Entry Into Force 4/7/2006

The five-year, $395.3 million compact will rehabilitate key regional infrastructure, stimulate regional trade by improving transportation, a reliable energy supply, the delivery of regional and municipal services, and developing regional enterprises by providing investment capital and by increasing productivity in farms.

Obligations by Project

in millions



$331,283,713 total contract commitments

$145,949,040 disbursed to date

Country At-A-Glance

Population 4,364,461*

GNI per Capita $2,470*

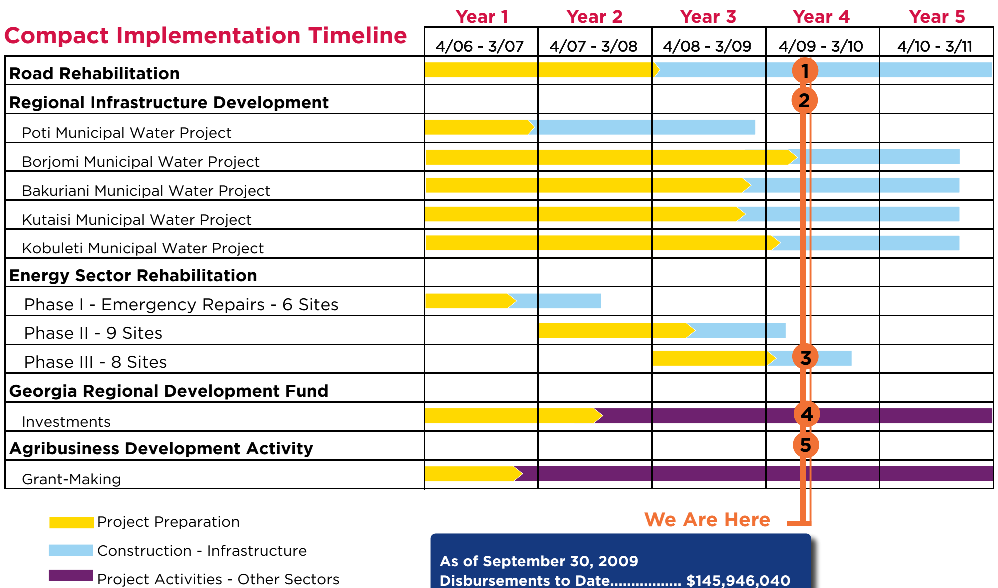
On the Web:

www.mcc.gov

Millennium Challenge Georgia Fund:

www.mcg.ge

Compact Implementation Timeline



As of September 30, 2009
Disbursements to Date................ $145,946,040
Total Contract Commitments..... $331,283,713

1 **October 2009:** The construction of the Samskhte-Javakheti road continues.

2 **October 2009:** Construction is underway at Bakuriani, Borjomi, Kobuleti, and Kutaisi.

3 **October 2009:** Phase II construction is complete. Construction on Phase III continues.

4 **October 2009:** GRDF exceeds $20 million mark in Small and Medium-Sized Enterprise Investments.

5 **October 2009:** 236 grants awarded with a value of approximately $12 million.

* For more information on country proposals, due diligence, program set-up, implementation and monitoring, and ongoing impact, please see the diagram entitled *Typical MCC Program Cycle* at www.mcc.gov.

Mongolia Compact Update

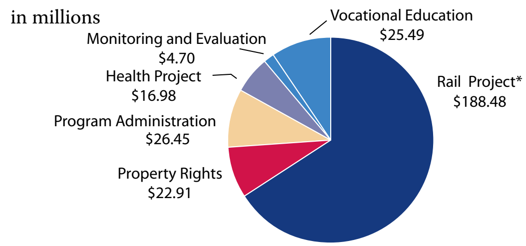
Compact At-A-Glance

Signed.. 10/22/2007

Entry Into Force..........................9/17/2008

The five-year, $285 million compact seeks to better enable the country?s burgeoning urbanized market based economy and help Mongolians increase their incomes by becoming healthier and better trained, by using their land assets more productively and by increasing their capacity to trade with the world.

Obligations by Project



$13,898,315 total contract commitments

$7,893,969 disbursed to date

Country At-A-Glance

Population....................................2,632,387*

GNI per Capita $1680*

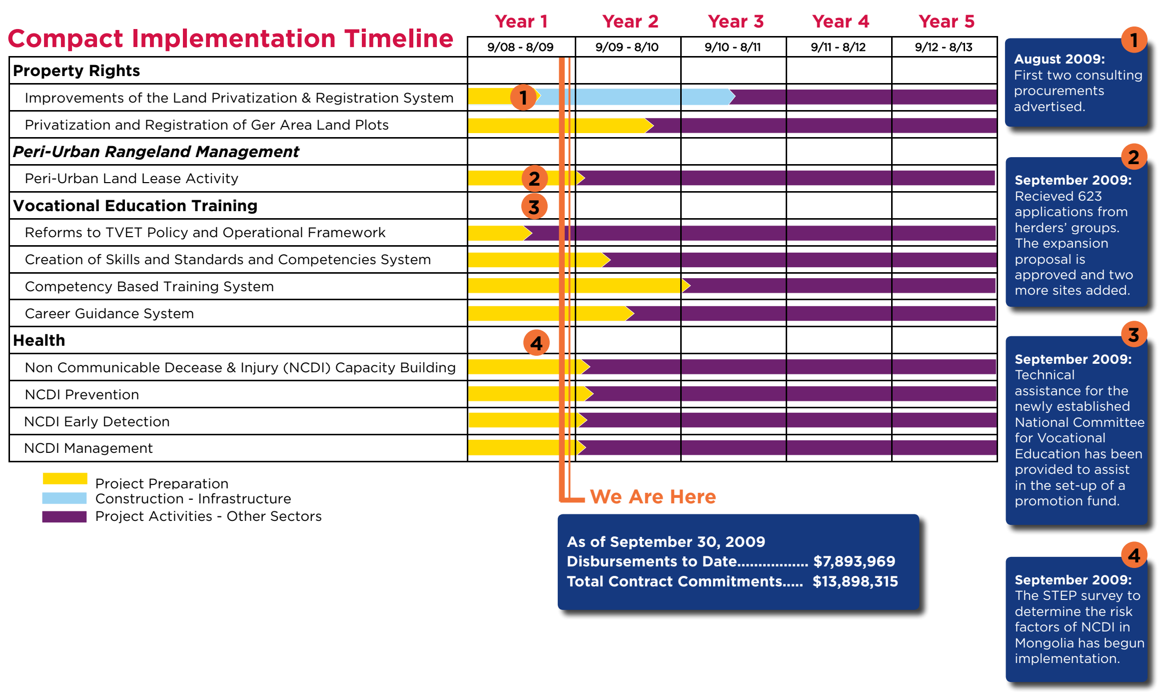
On the Web:

www.mcc.gov

MCA-Mongolia:

www.mca.mn

Compact Implementation Timeline



* For more information on country proposals, due diligence, program set-up, implementation and monitoring, and ongoing impact, please see the diagram entitled *Typical MCC Program Cycle* at www.mcc.gov.

Vanuatu Compact Update

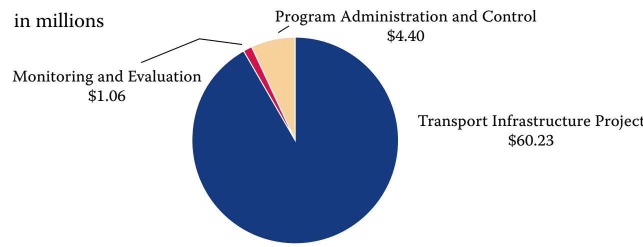
Compact At-A-Glance

Signed 3/2/2006

Entry Into Force.......................... 4/28/2006

The five-year, $66-million compact focuses on improvements to the country's transportation infrastructure. The program will benefit rural agricultural producers and the tourism sector by reducing transportation costs and improving transportation services.

Obligations by Project



$63,508,228 total contract commitments

$38,572,691 disbursed to date

Country At-A-Glance

Population..231,142*

GNI per Capita $2,330*

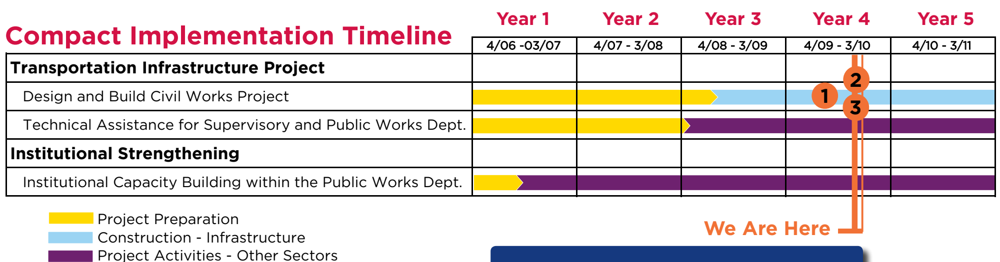
On the Web:

www.mcc.gov

MCA-Vanuatu:

www.governmentofvanuatu.gov.vu/mca-vanuatu

Compact Implementation Timeline



As of September 30, 2009
Disbursements to Date................ $38,572,691
Total Contract Commitments..... $63,508,228

1 **June 2009:** Agreement with NZAID for approximately NZD$14 million of additional funding towards completion of the Transport Infrastructure Project.

2 **October 2009:** Approval of final designs and pricing for Efate Ring Road and Santo East Coast Road.

3 **October 2009:** 30 kilometers of road sealed on Efate.

* For more information on country proposals, due diligence, program set-up, implementation and monitoring, and ongoing impact, please see the diagram entitled *Typical MCC Program Cycle* at www.mcc.gov.

El Salvador Compact Update

Compact At-A-Glance

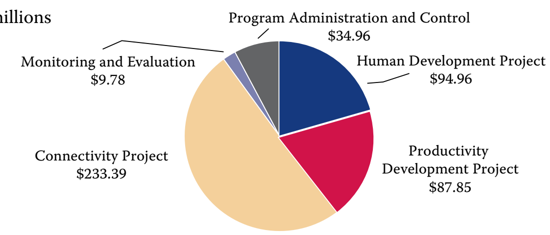
Signed .... 11 /29/2006

Entry Into Force 9/20/2007

The five-year, $461.0 million compact seeks to improve the lives of Salvadorans through strategic investments in education, public services, agricultural production, rural business development and transportation infrastructure.

Obligations by Project

in millions



$177,841,704 total contract commitments

$49,275,801 disbursed to date

Country At-A-Glance

Population 6,133,901*

GNI per Capita $3,480*

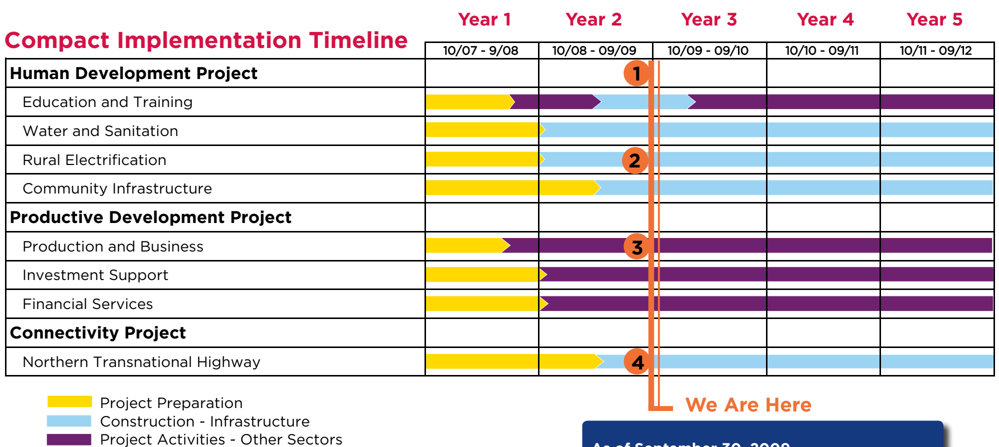
On the Web:

www.mcc.gov

FOMILENIO:

www.fomilenio.gov.sv

Compact Implementation Timeline



As of September 30, 2009
Disbursements to Date................ $49,275,801
Total Contract Commitments..... $177,841,704

1 **September 2009:** Over 1,125 people have received non-formal training.

2 **September 2009:** 450 solar systems installed and 115 km of rural electricity lines built, benefiting over 2,185 homes.

3 **September 2009:** To date, 4,530 beneficiaries have received technical assistance and 1,255 new jobs have been generated by micro, small and medium enterprises.

4 **September 2009:** The construction of segment 2B2 of the NTH will generate 568 jobs and will benefit more than 33,000 habitants in the region.

* For more information on country proposals, due diligence, program set-up, implementation and monitoring, and ongoing impact, please see the diagram entitled *Typical MCC Program Cycle* at www.mcc.gov.

Honduras Compact Update

Compact At-A-Glance

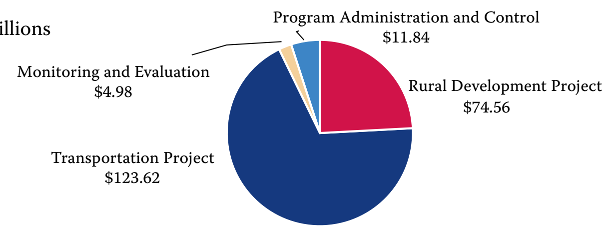
Signed 6/13/2005

Entry Into Force.......................... 9/29/2005

The five-year, $215.0 million compact?s two main objectives are to increase the productivity and business skills of farmers and to reduce transportation costs between targeted production centers and national, regional and global markets.

Obligations by Project

in millions



$193,102,925 total contract commitments

$109,129,818 disbursed to date

Country At-A-Glance

Population...................................... 7,241,504*

GNI per Capita $1,800*

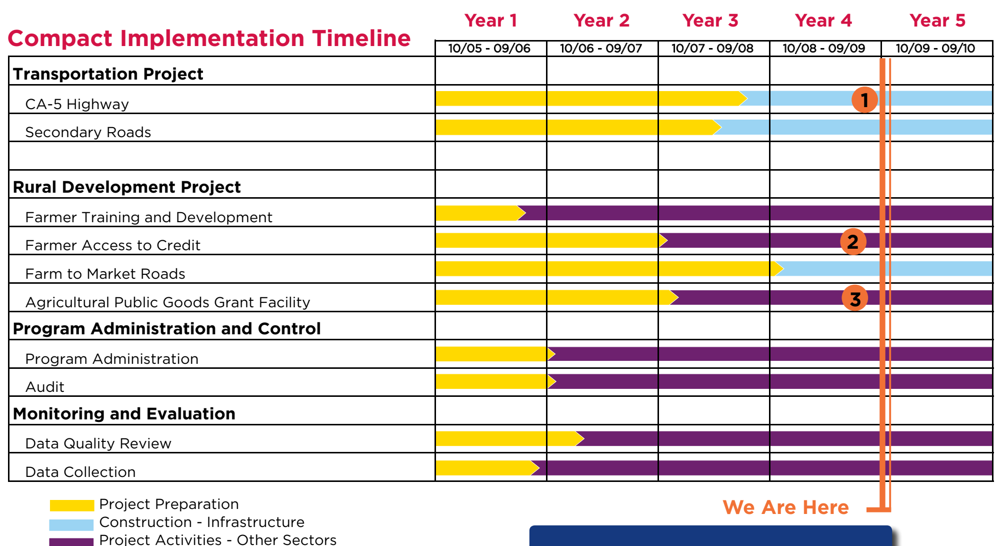
On the Web:

www.mcc.gov

MCA-Honduras:

www.mcahonduras.hn

Compact Implementation Timeline



As of September 30, 2009
Disbursements to Date................ $109,129,818
Total Contract Commitments..... $193,102,925

1
September 2009: Paving operations have begun on the North Segment of the CA-5, and two Secondary Roads are nearing completion.

2
August 2009: More than 7,000 market linkages have been made between program farmers and buyers, including agricultural processors, wholesale markets, exporters and local distributors.

3
August 2009: Secured Transaction Law passed by Honduran Congress on August 19. This Law will provide opportunities for small and medium entrepreneurs nationwide to access credit through formal institutions.

* For more information on country proposals, due diligence, program set-up, implementation and monitoring, and ongoing impact, please see the diagram entitled *Typical MCC Program Cycle* at www.mcc.gov.

Nicaragua Compact Update

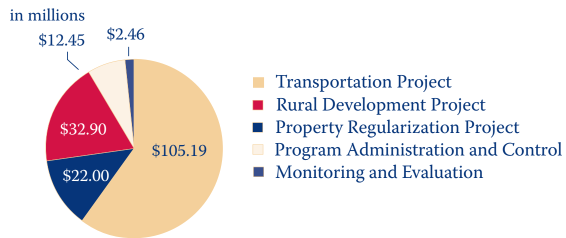
Compact At-A-Glance

Signed 7/14/2005

Entry Into Force 5/26/2006

The five-year, $175 million compact seeks to reduce transportation costs and improve rural communities access to markets, increase wages and profits from farming and related enterprises in the region and increase investments by strengthening property rights.

Obligations by Project



$98,118,646 total contract commitments

$75,728,669 disbursed to date

Country At-A-Glance

Population 5,677,771*

GNI per Capita $1080*

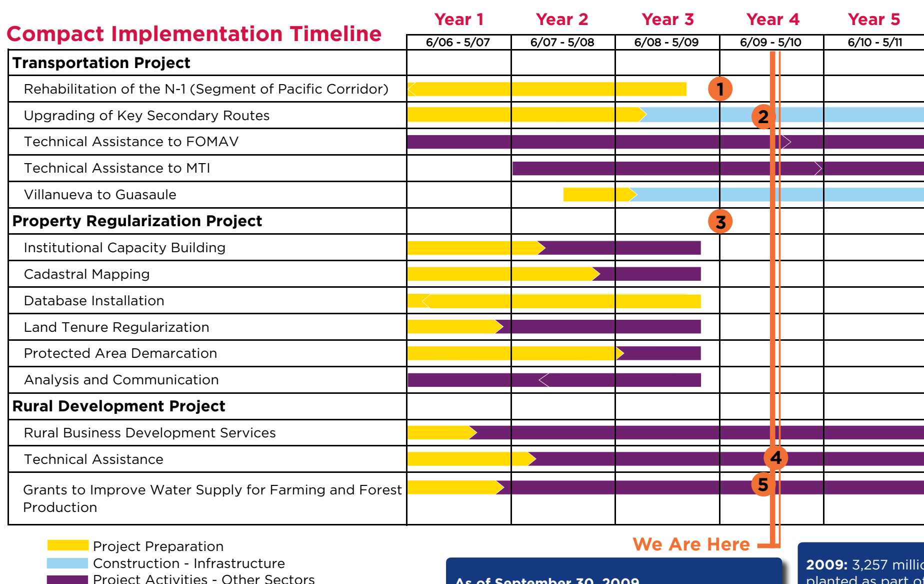
On the Web:

www.mcc.gov

MCA-Nicaragua:

www.cuentamilenio.org.ni

Compact Implementation Timeline



As of September 30, 2009
Disbursements to Date................ $75,728,669
Total Contract Commitments..... $98,118,646

1
June 2009: The N-I road component was terminated by the MCC Board of Directors.

2
September 2009: Upgrading 50 kilometers of two secondary roads and 18 kilometers of highway underway. All major bridges and drainage structures, as well as asphalt paving for all three projects have essentially been completed.

3
June 2009: The Property Project was terminated by the MCC Board of Directors.

4
2009: 3,257 million trees have been planted as part of the Reforestation Campaign. MCA is working with the forestry operator to implement strategies to mitigate the effects of the severe drought.

5
September 2009: The third agricultural cycle has begun with inputs and technical assistance to farmers affected by droughts.

* For more information on country proposals, due diligence, program set-up, implementation and monitoring, and ongoing impact, please see the diagram entitled *Typical MCC Program Cycle* at www.mcc.gov.

Compact Implementation Status Report Timeline, Nicaragua

FINANCIAL STATEMENTS

Financial Statements

I am pleased to report that the Millennium Challenge Corporation received a clean audit opinion on its financial statements from the Office of Inspector General once again this year.

As a small U.S. Government corporation, MCC is not subject to the requirements of the Chief Financial Officers Act. Yet, we choose to follow the professional standards it incorporates along with other good government reforms applicable to the executive branch.

As MCC has matured and evolved in fulfilling our mission as an innovative and results-driven American resource in the fight against global poverty, we have worked effectively to match our administrative and financial capabilities to the task. We developed a new security policy and redesigned all network security controls, bringing MCC's systems into full compliance with federal laws, reducing system-wide risks, and producing a safer, more stable and capable computing platform to support MCC's business goals. In addition, we continued the development of the MCC Integrated Data Analysis System (MIDAS) to improve financial reporting and further integrate programmatic, performance, and financial information. MIDAS has already improved the timeliness and use of financial and performance data to manage program costs and support decision-making. During FY 2010, we will explore options for further integration of our financial management system, and we will establish the policy, framework, and identify the tools for a comprehensive document management program.

The FY 2009 Independent Auditor's Report cites only one material weakness in MCC's controls over mission activities and support. This report also identifies four significant deficiencies. MCC agrees with all the proposed recommendations to address these issues. Six of the FY 2009 audit recommendations, involve financial management issues with MCC's oversight of its compact and threshold programs. MCC plans to work closely with our development partners, in compact countries and at USAID, to develop action plans to address and resolve these findings during the current fiscal year. During FY 2009, MCC also resolved 26 open items from the FY 2008 Federal Information Management Security Act (FISMA) audit, including items that dated back to the FY 2005 FISMA audit. The FY 2008 audit findings necessitated major capital outlays to correct system security issues. By contrast, the FY 2009 FISMA audit included relatively minor compliance items, such as changes to security plans, procedures, and policies. MCC already closed two of the FY 2009 findings and developed a plan and schedule to close the remaining 20 items by April 2010.

MCC's achievements in FY 2009 and the continued progress we plan for FY 2010 will provide the financial, administrative, and technology support essential for successful program development and implementation. This is fundamental to achieving real results toward MCC's goal of sustainable poverty reduction through growth for the benefit of the world's poor.

Michael Casella
Acting Vice President, Administration and Finance

Fund Summary
As of September 30, 2009 (in $)

	FY 2009 Quarter 4 Obligations	Obligations in FY 2009	Cumulative Obligations Through FY 2009 Quarter 4	FY 2009 Quarter 4 Disbursements	Disbursements in FY 2009	Cumulative Program Disbursements Through FY 2009[1]		Cumulative Disbursements Through FY 2009	
FUND Grouping						Actual	Projected	Actual	Projected
609(g)[2]	26,618,112	32,766,768	92,440,551	4,821,499	13,827,885	50,327,055	*56,499,170*	50,327,055	*56,499,170*
ADMINISTRATIVE	25,454,941	88,536,188	371,897,434	25,592,716	88,570,088			344,628,897	*341,058,809*
AUDIT	0	2,743,893	12,871,380	1,551,181	3,792,544			11,739,690	*11,447,146*
COMPACTS[3]	754,753,264	855,042,374	6,423,069,612	229,887,281	535,807,155	889,409,987	*853,602,831*	889,409,987	*853,602,831*
DUE DILIGENCE	15,312,017	40,248,637	157,338,540	10,319,087	28,456,152	97,957,369	*94,501,216*	97,957,369	*94,501,216*
THRESHOLD[4]	101,557	34,574,447	486,292,743	29,860,440	121,713,706	313,418,902	*381,608,794*	313,418,902	*381,608,794*
Total	822,239,891	1,053,912,307	7,543,910,260	302,032,204	792,167,530	1,351,113,313	*1,386,212,011*	1,707,481,900	*1,738,717,966*

[1]Program Disbursements include all fund groupings, except administrative and audit expenses.

[2]The fund grouping "609(g)" includes funds under section 609(g) of the Millennium Challenge Act of 2003, as amended, other than Compact Implementation Funding.

[3]The fund grouping "Compacts" includes Compact Implementation Funding, Compacts, and other grants except those made using threshold program and 609(g) fund groupings.

[4]All data for the threshold program are provided by USAID, except for the Sao Tome and Principe threshold program, which is administered by U.S. Department of Treasury. USAID's data for this report are from its General Ledger by country rather than its Threshold Country Programs report. USAID is working to rectify discrepancies between these two data sources.

Compacts and Compact-Related
As of September 30, 2009 ($, in millions)

		Status	Signing Date	Entry Into Force (EIF)	Obligations in					Projected Obligations in	Disbursements in					Projected Disbursements[1] in				
					FY 2005	FY 2006	FY 2007[2]	FY 2008	FY 2009	FY 2010	FY 2005	FY 2006	FY 2007[2]	FY 2008[3]	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Country	FUND Grouping																			
Armenia	609 (g)					0.5	(0.5)					0.0	(0.0)							
	COMPACTS	EIF	3/27/2006	9/29/2006		235.2	0.5						7.9	16.3	17.1	44.9	91.9			
	DUE DILIGENCE				0.4	0.7	1.1	1.3	1.1		0.1	0.2	0.9	0.6	0.7					
Benin	609 (g)					1.5	(1.5)					0.5	(0.5)							
	COMPACTS	EIF	2/22/2006	10/6/2006			307.3						13.4	11.0	24.6	48.7	210.4			
	DUE DILIGENCE				0.7	1.3	1.3	0.9	1.7		0.0	1.2	0.6	0.4	0.8					
Burkina Faso	609 (g)							9.4						2.2	1.4					
	COMPACTS	Signed	7/14/2008	7/31/2009				16.1	462.8					3.3	28.6	20.4	110.5	123.7	117.1	77.6
	DUE DILIGENCE				0.0	0.3	4.4	1.8	1.8		0.0	0.0	1.0	4.0	0.8					
Cape Verde	609 (g)				0.2						0.2	0.0	0.1							
	COMPACTS	EIF	7/7/2005	10/17/2005		110.1						7.5	6.4	13.1	34.1	29.1	21.0			
	DUE DILIGENCE				1.7	0.2	0.2	1.8	0.6		0.5	0.3	0.6	0.4	0.5					
El Salvador	COMPACTS	EIF	11/29/2006	9/20/2007			460.9	0.0					2.2	10.0	36.8	80.5	212.6	118.9		
	DUE DILIGENCE					2.0	1.7	1.5	1.5			1.2	0.9	1.2	1.3					
Georgia	609 (g)				4.2	1.1	(0.5)	(0.6)			0.0	2.4	1.1	0.3	0.3					
	COMPACTS	EIF	9/12/2005	4/7/2006		294.7		0.6	100.0			10.1	19.9	43.1	72.8	81.2	168.5			
	DUE DILIGENCE				0.8	4.0	2.3	1.6	1.0		0.2	1.9	2.5	1.2	1.1					
Ghana	609 (g)				0.1	13.5	(10.4)				0.1		2.8	0.4						
	COMPACTS	EIF	8/1/2006	2/16/2007			547.0						9.3	16.6	63.9	117.8	226.4	117.2		
	DUE DILIGENCE				0.2	4.6	0.2	2.2	0.2		0.0	1.8	2.0	0.4	1.3					
Guyana	DUE DILIGENCE								0.0						0.0					
Honduras	COMPACTS	EIF	6/13/2005	9/29/2005	215.0							3.0	8.0	24.0	74.2	68.8				
	DUE DILIGENCE				0.7	1.0	0.5	0.7	1.0		0.3	0.6	0.5	0.5	0.6					
Indonesia	COMPACTS	Program Development	To be determined	To be determined																
Jordan	609 (g)								13.3											
	COMPACTS	Program Development	To be determined	To be determined						12.5										
	DUE DILIGENCE							0.0	0.6						0.2					
Lesotho[4]	609 (g)				0.6	0.6	0.1					0.3	0.6	0.1						
	COMPACTS	EIF	7/23/2007	9/17/2008			15.7	346.9	(0.0)					4.0	13.1	26.5	108.2	108.1	102.8	
	DUE DILIGENCE					0.1	3.4	2.8	2.9			0.0	2.8	0.9	1.1					
Madagascar	609 (g)				1.3		(1.3)													
	COMPACTS	EIF	4/18/2005	7/27/2005	109.8						2.5	7.1	13.1	27.3	31.5					
	DUE DILIGENCE				0.3	0.5	2.3	0.3	0.4		1.3	0.4	0.1	0.5	0.0					
Malawi	609 (g)								1.3						0.2					
	COMPACTS	Program Development	To be determined	To be determined						15.0										
	DUE DILIGENCE								0.9						0.1					
Mali	609 (g)					5.1	4.6					0.7	6.2	2.7	0.1					
	COMPACTS	EIF	11/13/2006	9/17/2007			460.7	0.1					2.1	8.2	36.1	63.7	179.9	172.9		
	DUE DILIGENCE				0.2	1.5	0.9	1.6	4.9		0.0	0.7	1.1	0.9	1.1					

Compacts and Compact-Related (continued)
As of September 30, 2009 ($, in millions)

		Status	Signing Date	Entry Into Force (EIF)	Obligations in					Projected Obligations in	Disbursements in					Projected Disbursements[1] in				
					FY 2005	FY 2006	FY 2007[2]	FY 2008	FY 2009	FY 2010	FY 2005	FY 2006	FY 2007[2]	FY 2008[3]	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Country	FUND Grouping																			
Moldova	609 (g)								5.0						2.9					
	COMPACTS	Program Development	To be determined	To be determined					-	275.0							19.1	53.5	89.6	68.6
	DUE DILIGENCE							0.1	0.8					0.0	0.2					
Mongolia	COMPACTS	EIF	10/22/2007	9/17/2008				284.9						1.7	6.2	15.6	50.1	43.4	30.1	
	DUE DILIGENCE					1.4	2.1	1.7	1.2			0.3	1.8	1.1	0.9					
Morocco	COMPACTS	EIF	8/31/2007	9/15/2008			32.4	665.1					-	0.8	21.4	72.6	258.8	212.5	132.1	
	DUE DILIGENCE					0.2	4.7	2.3	2.6			0.0	3.3	0.8	0.9					
Mozambique	609 (g)					13.9	(0.4)					0.9	6.6	1.8	0.1					
	COMPACTS	EIF	7/13/2007	9/22/2008			25.3	481.6						2.8	8.8	26.3	199.1	176.2	94.3	
	DUE DILIGENCE				0.0	1.0	2.8	1.6	2.7			0.1	1.8	1.0	0.7					
Namibia	609 (g)							3.2						0.9	2.0					
	COMPACTS	Signed	7/28/2008	9/16/2009				19.5	284.9						2.0	14.1	78.2	106.1	61.6	43.1
	DUE DILIGENCE					0.0	2.4	0.9	0.5			0.0	0.9	1.9	0.3					
Nicaragua[5]	609 (g)					0.1	(0.1)					0.0	(0.0)							
	COMPACTS	EIF	7/14/2005	5/26/2006		174.9	0.1	(0.3)	0.3			2.2	7.8	24.3	41.5	18.9	18.9			
	DUE DILIGENCE				0.5	0.9	0.8	0.8	0.8		0.2	0.7	0.3	0.4	0.4					
Philippines	COMPACTS	Program Development	To be determined	To be determined						30.0										
	DUE DILIGENCE						0.0		1.3						0.0					
Senegal	609 (g)					6.5		(1.6)	13.1			1.6	3.0	0.1	0.0					
	COMPACTS	Signed	9/16/2009	To be determined					5.0	535.0							130.8	167.7	136.9	78.0
	DUE DILIGENCE							(0.2)	1.3		0.0	0.1	0.1	0.0	0.1					
Tanzania	609 (g)						9.8							1.3	6.8					
	COMPACTS	EIF	2/17/2008	9/15/2008				698.1						0.3	7.6	57.0	203.8	225.4	204.1	
	DUE DILIGENCE					0.2	5.4	3.8	2.1			0.0	3.7	1.6	1.5					
Vanuatu	COMPACTS	EIF	3/2/2006	4/28/2006		65.7						1.6	0.4	22.2	14.4	13.9	13.2			
	DUE DILIGENCE					2.1	1.1	0.6	0.0			0.6	0.9	0.2	0.1					
Zambia	DUE DILIGENCE								0.2						0.0					
Cross-Cutting	DUE DILIGENCE				6.3	7.5	5.7	4.7	7.5		2.8	4.2	6.5	(0.7)	13.8					
Total					343.0	953.0	1,893.1	2,556.1	925.5	867.5	8.3	52.3	142.9	256.0	577.3	800.0	2,301.5	1,625.4	968.5	267.3

Footnotes:

[1]MCC anticipates FY 2010 disbursements to be within 10 percent of the projections. MCC's assessment of risks across the whole portfolio of compacts and is, therefore, lower than the sum of all compact countries' MCA work plan projections. FY 2011 Projections are based on detailed project planning and represent the full year's projection. Projections for FY 2010 and beyond are based on general program plans and are subject to revision as more detailed planning occurs. Program implementation involves uncertainty associated with factors such as procurement process, construction schedules, and capacity of Accountable Entities and Implementing Entities. Projected disbursements will be contingent on contract deliverables meeting expected timelines and quality standards. The projected obligations for Jordan, Moldova, and Timor-Leste are notional and are likely to increase or decrease based on negotiations with the countries and MCC Board approval.

[2]During FY 2007, the Compact Implementation Funding (CIF) was created as a new fund type. CIF, originally classified as 609(g), was then reclassified to CIF (COMPACT). This change caused several of the obligations and disbursements to become negative for 609(g) due to the timing of this accounting event.

[3]Disbursements before FY 2008 were adjusted to be in line with a new accounting policy.

[4]FY 2009 Lesotho obligations were understated by $23,881. This issue will be corrected in FY 2010.

[5]FY 2008 obligations and disbursements for Nicaragua are understated by $289,110. This issue was corrected in FY 2009.

Compacts in Development
Information and Estimates as of September 30, 2009

Country	Expected Signing	Current Status	Estimated Grant Amount (in $ millions)
Indonesia[1]	*FY 2011*	Constraints Analysis	$600-800
Jordan[2]	FY 2010 - Quarter 4	Program Development & Appraisal	$300
Malawi[2]	FY 2010 - Quarter 4	Program Development & Appraisal	$250-350
Moldova	FY 2010 - Quarter 1	Board Approval Pending	$262
Philippines[2]	FY 2010 - Quarter 3	Program Development & Appraisal	$400-500
Senegal	FY 2009 - Quarter 4	Signed	$540
Zambia[1]	*FY 2011*	Constraints Analysis	$250-350

[1]Funding for compacts for Indonesia and Zambia will depend on appropriations provided for in the President's Budget Request for FY 2010.

[2]Estimates for compacts for Jordan, Malawi and Philippines are based on draft or final project concepts.

Major stages in compact development process:

Selected	- Country has been selected as Compact eligible by MCC's Board of Directors
Core Team Established	- Country has established and funded a team to work with MCC
Public Consultations Commenced	- Core team is consulting with public stakeholders on project priorities
Constraints Analysis	- Core team is analyzing constraints to growth and poverty reduction
Concept Paper(s)	- Core team is developing or has submitted detailed project concepts for MCC consideration
Program Development & Appraisal	- MCC and core team further develop concepts through detailed feasibility assessments, and determine viability
Investment Memo	- MCC has prepared Compact proposal for Investment Committee consideration
Negotiations	- MCC and country negotiate legal agreements
Board Approval	- MCC's Board has approved Compact
Signed	- Compact has been signed

Threshold Country Programs
As of September 30, 2009

			Administrative Fees[1]	Program Obligations[2] in (in millions)					Projected[3] Program Obligations in (in millions)	Program Disbursements[2] in (in millions)					Projected[3] Program Disbursements in (in millions)				Total Program Disbursements ($)
				FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	
Country	**Status**	**Signing Date**																	
Albania	Completed	4/3/2006	1.0		14.0						0.1	4.9	7.7	1.1	0.1				13,857,236
Albania II	Signed	9/29/2008	1.1				15.7							3.0	3.8	8.9			2,956,895
Burkina Faso	Completed	7/22/2005	0.9	12.9						0.0	0.3	10.9	1.5	0.1	-				12,904,331
Guyana	Signed	8/23/2007	0.5		0.1	6.7					0.1		1.2	3.8	1.7				5,096,591
Indonesia	Signed	11/17/2006	3.9			55.0						1.8	19.6	20.6	13.1				41,920,197
Jordan	Completed	10/17/2006	1.8			25.0						3.2	9.6	11.4	0.8				24,196,862
Kenya	Signed	3/23/2007	0.9			12.7							0.9	5.5	6.3				6,428,001
Kyrgyz Republic	Signed	3/14/2008	1.1				16.0						0.4	3.4	12.2				3,810,973
Liberia	Eligible		-						15.0					-		4.5	9.0	1.5	-
Malawi	Completed	9/23/2005	1.5		20.9						6.2	6.9	6.3	0.7	0.9				20,104,664
Mauritania	Not Eligible		-				0.1						0.0	-	0.0				41,248
Moldova	Signed	12/15/2006	1.7			24.7						0.5	9.7	11.1	3.5				21,224,268
Niger	Signed	3/17/2008	1.6				23.1							7.3	7.9	7.9			7,298,806
Paraguay	Completed	5/8/2006	2.4	0.1	34.8					0.1	0.1	7.8	15.6	8.7	2.5				32,376,080
Paraguay II	Signed	4/13/2009	2.1					30.3						0.2	15.1	15.1			196,981
Peru	Signed	6/9/2008	2.5			0.0	35.6					0.0		4.9	12.3	18.4			4,911,311
Philippines	Completed	7/26/2006	1.4		20.7							2.1	9.4	9.0	0.2				20,470,565
Rwanda	Signed	9/24/2008	1.7			0.0	24.7							0.1	7.3	14.8	2.5		128,042
Sao Tome & Principe	Signed	11/9/2007	1.3	0.2			7.4			0.0	0.2		0.7	4.2	2.4				5,154,023
Tanzania[4]	Completed	5/3/2006	0.8		11.2			(0.0)			0.1	2.8	6.4	1.6	0.3				10,891,458
Timor-Leste[5]	Eligible		-			0.1		0.1	10.0			0.1		0.1		3.0	6.0	1.0	254,151
Uganda	Signed	3/29/2007	0.7			10.4						0.0	3.3	4.1	3.0				7,424,859
Ukraine	Signed	12/4/2006	3.1			45.0						1.3	14.4	18.0	11.3				33,632,357
Yemen	Not Eligible		-	0.1	0.0						0.0	0.1		-					111,742
Zambia	Completed	5/22/2006	1.6		22.7						0.2	12.4	9.5	0.6	0.0				22,735,000
Total			33.6	13.3	124.4	179.7	122.5	30.4	25.0	0.2	7.4	54.8	116.3	119.4	104.8	72.6	17.5	2.5	
Administrative Fee Obligations				0.3	4.6	3.2	3.4	0.5	1.8										

[1] Administrative fees reflect allocations and transfers to other agencies for the cost of administering the MCC Threshold Program.

[2] "Obligations" and "Disbursements" amounts include funding for technical assistance to develop threshold country plans and for independent monitoring and evaluation as well as program funds.

[3] The projected obligations are notional and are likely to change after negotiations of the threshold program agreements. Projected disbursements are based on USAID and U.S. Department of Treasury estimates.

[4] Funds for Tanzania were deobligated in FY 2009 quarter 4.

[5] Technical assistance was provided to develop a threshold country plan in 2005 when Timor-Leste was previously eligible, but funds were not obligated until FY 2007. Additional technical assistance was provided in 2009 to develop its Threshold Country Plan.

OFFICE OF INSPECTOR GENERAL

For the Millennium Challenge Corporation

AUDIT OF THE MILLENNIUM CHALLENGE CORPORATION'S FINANCIAL STATEMENTS, INTERNAL CONTROLS, AND COMPLIANCE FOR THE PERIOD ENDING SEPTEMBER 30, 2009 AND 2008

AUDIT REPORT NO. M-000-10-001-C
November 16, 2009

WASHINGTON, DC

Office of Inspector General
for the Millennium Challenge Corporation

November 16, 2009

Darius Mans
Acting Chief Executive Officer
Millennium Challenge Corporation
875 15th Street, N.W.
Washington, DC 20005-2221

Subject: Audit of the Millennium Challenge Corporation's Financial Statements, Internal Controls, and Compliance for the Period Ending September 30, 2009 and 2008
Report No. M-000-10-001-C

Dear Mr. Mans,

Enclosed is the final report on the subject audit. The Office of Inspector General (OIG) contracted with the independent certified public accounting firm of Cotton & Company LLP to audit the financial statements of the Millennium Challenge Corporation (MCC) for the period ending September 30, 2009. The contract required that the audit be performed in accordance with United States Generally Accepted Government Auditing Standards, Office of Management and Budget (OMB) Bulletin 07-04 as amended, *Audit Requirements for Federal Financial Statements,* and the GAO/PCIE *Financial Audit Manual.*

In its audit of the MCC's financial statements for the period ending September 30, 2009 the auditors found:

- that the financial statements were fairly presented in conformity with U.S. Generally Accepted Accounting Principles,
- five significant deficiencies, one of which is considered a material weakness, in the internal controls over financial reporting and its operation, and
- no instances of material noncompliance with laws and regulations.

A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. Cotton & Company LLP reported the following internal control significant deficiencies:

1. Control over Mission Activities and Support (material weakness)
2. Quality Control over Financial Reporting
3. Controls over Payroll Processes
4. Proper Reporting Period
5. Fund Balance with Treasury Reconciliation

In carrying out its oversight responsibilities, the OIG reviewed Cotton & Company, LLP's report and related audit documentation. This review, as differentiated from an audit in accordance with U.S. Generally Accepted Government Auditing Standards was not intended to enable the OIG to express, and we do not express, opinions on MCC's financial statements, or internal control; or on MCC's compliance with applicable laws and regulations. Cotton & Company, LLP is responsible for the attached auditor's report, dated November 13, 2009, and the conclusions expressed in the report. However, our review disclosed no instances that Cotton & Company, LLP did not comply, in all material respects, with applicable standards.

To address the internal control deficiencies reported by Cotton & Company, LLP we made the following recommendations to MCC's management on November 09, 2009:

1. Controls over Mission Activities and Support (material weakness)

1.1 Untimely Performance and Lack of Monitoring of MCA Audits

Recommendations: We recommend that the MCC Department of Compact Implementation and Division of Finance:

- Strengthen the monitoring of the MCA audit process, from submission of the audit plan through issuance of the audit report to ensure timely completion and sufficient time for OIG review, prior to issuing the report to MCC for management comment.
- Increase communication between the MCAs, the audit firms, and the OIG to ensure all parties are adequately informed of the progress of all audits in a timely manner. Ensure that the MCAs understand the impact of these audits and how they affect MCC's assessment of overall controls and its financial statement audit.

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1.2. Lack of Adequate Documentation to Support Transactions

Recommendation: We recommend that MCC management, in coordination with the U.S. Agency for International Development (USAID), establish effective and periodic communication with MCA and Threshold mission personnel, to emphasize the need for proper documentation to be maintained in the MCA files, and that these documents are readily available and promptly submitted for inspection when requested.

1.3 Improper Reporting of Re-disbursements

Recommendations: We recommend that MCC Department of Compact Implementation and Division of Finance:

- Develop training for MCA Fiscal Agents to ensure proper reporting of re-disbursements on the QFRs to ensure the MCA is only requesting advances for immediate funding needs.
- Develop a tracking mechanism to monitor prepayments and to ensure that MCC and NBC personnel are properly reviewing the quarterly submitted QFRs for proper reporting of both the projected needs for advancement of funds and actual re-disbursements of previously advanced funds.

2. Quality Control over Financial Reporting

Recommendations: We recommend that the MCC Division of Finance:

- Strengthen its quality control reviews over financial statements, notes, and other information presented, to ensure the information received is accurate, complete, and complies with accounting standards and reporting guidance.
- Increase communication with USAID to ensure information received has been reviewed and is reliable, in order for MCC to prepare complete and accurate financial statements in accordance with accounting standards and reporting guidance.

3. Controls Over Payroll Processes

3.1 Untimely and Incomplete Processing of Separated Employees

Recommendations: We recommend that the MCC Division of HR:

- Ensure all HR personnel are aware of the requirement to document and retain the employee exit form in the OPF. In addition, direct HR personnel to obtain completed employee exit form from the Division of Security in a timely manner and document it properly in the employee's OPF.
- Direct HR personnel to follow up on all missing items when performing the OPF audits and completing the Purged OPF Check List.

4

- Develop and implement a process to monitor and ensure that HR and/or NBC personnel are completing leave audits as required and processing payments for amounts due to, or amounts owed by, separating employees on a timely basis.

3.2 Improper and/or Lack of Certification on the SF-52 and SF-50

Recommendations: We recommend that the MCC Division of HR:

- Review its current policies and procedures to ensure that proper authorization and approval of personnel actions are clearly documented on the required forms prior to processing.
- Direct HR personnel to adhere to the documented policies and procedures when preparing, reviewing, and approving personnel actions, to ensure reviews and approvals are properly documented.
- Provide the necessary training to responsible HR personnel to ensure that they are aware of the need for properly documenting reviews and approvals of personnel transactions.

3.3 Lack of Support for Employee Selected Benefit Deductions

Recommendations: We recommend that the MCC Division of HR:

- Establish a consistent tracking mechanism or other historical file for MCC employees to document all changes in employee benefits that are not documented using standard forms or Employee Express.
- Revise current policies and procedures to ensure that supporting documentation for all transactions processed by HR personnel on behalf of MCC employees are clearly documented either in the OPF or other historical file, and are readily available for examination.

4. Proper Reporting Period

Recommendations: We recommend that MCC Division of Finance:

- Continue to strengthen, and revise as necessary, policies and procedures for yearend accruals to ensure that all countries, types of funding, and programs are considered when recording estimates for future expenses, and that accruals are reasonably sufficient to cover anticipated costs.
- Establish and communicate procedures for the MCAs to require the submission of estimates or payment requests for current period expenses that have not, or will not be recorded until the subsequent year, for each fund type.
- Ensure that the accrual amount is adequately and reasonably calculated, clearly documented and supported, and properly reviewed for completeness and accuracy prior to and subsequently after posting to the GL.

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5. Fund Balance With Treasury (FBWT) Reconciliation

Recommendations: We recommend that the MCC Division of Finance:

- Inquire of USAID's procedures to resolve the issue of incomplete SF 224 reporting.
- Consider revisions to the Memorandum of Agreement (MOA) with USAID to require timely responses upon inquiry by MCC management regarding financial statement audit findings related to Threshold Program transactions.

In finalizing the report, we received and considered MCC's response to the draft audit report and the recommendations included therein. In its comments, MCC concurred with all of the recommendations. We acknowledge that management decisions have occurred for the audit recommendations. Please inform us when final action has been taken.

The OIG appreciates the cooperation and courtesies extended to our staff and to the staff of Cotton & Company, LLP during the audit. Please contact me or Richard J. Taylor, Director, Financial Audits Division, at (202) 216-6963, if you have any questions concerning this report.

Sincerely,

Alvin A. Brown /s/
Assistant Inspector General
Millennium Challenge Corporation

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Board of Directors
Millennium Challenge Corporation

INDEPENDENT AUDITOR'S REPORT

We have audited the Balance Sheets of the Millennium Challenge Corporation (MCC) as of September 30, 2009 and 2008, and the related Statements of Net Cost, Changes in Net Position, and Budgetary Resources for the years then ended. These financial statements are the responsibility of MCC management. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin 07-04, *Audit Requirements for Federal Financial Statements*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting amounts and disclosures in the financial statements. An audit also includes assessing accounting principles used and significant estimates made by management, as well as evaluating overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of MCC as of September 30, 2009, and 2008, and its net costs, changes in net position, and budgetary resources for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis (MD&A) and other accompanying information are not required as part of MCC's basic financial statements. For MD&A, which is required by OMB Circular A-136, *Financial Reporting Requirements*, and the Federal Accounting Standards Advisory Board's Statement of Federal Financial Accounting Standards No. 15, *Management's Discussion and Analysis*, we made certain inquiries of management and compared information for consistency with MCC's audited financial statements and against other knowledge we obtained during our audit. For other accompanying information, we compared information with the financial statements. On the basis of this limited work, we found no material inconsistencies with the financial statements, U.S. generally accepted accounting principles, or OMB guidance. We did not audit the MD&A or other accompanying information and therefore express no opinion on them.

In accordance with *Government Auditing Standards*, we have also issued separate reports dated November 13, 2009, on our consideration of MCC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws and regulations. The purpose of these reports is to describe the scope of our testing of internal control over financial reporting and compliance and results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. These reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing results of our audits.

COTTON & COMPANY LLP

Colette Y. Wilson, CPA
Partner

November 13, 2009
Alexandria, Virginia

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL

We have audited the Balance Sheet of the Millennium Challenge Corporation (MCC), as of September 30, 2009 and 2008, and the related Statements of Net Cost, Changes in Net Position, and Budgetary Resources for the years then ended. We have issued our report thereon dated November 13, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin 07-04, *Audit Requirements for Federal Financial Statements*.

In planning and performing our audits, we considered MCC's internal control over financial reporting as a basis for designing audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the MCC's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of MCC's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements in a timely manner. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably, in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the entity's financial statements, that is more than inconsequential, will not be prevented or detected by the entity's internal control.

We noted five matters involving internal control and its operation that we consider to be significant deficiencies. These matters are listed below and are detailed in the report.

- Controls Over Mission Activities and Support
- Quality Control Over Financial Reporting
- Controls Over Payroll Processes
- Proper Reporting Period
- Fund Balance with Treasury Reconciliation

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A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described above and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, we consider the significant deficiency related to Controls over Mission Activities and Support to be a material weakness as defined above.

CONTROLS OVER MISSION ACTIVITIES AND SUPPORT

The vast majority of activities and expenses occur in the Compact and Threshold programs. As such, controls in the mission countries should be adequately designed and operate effectively. In addition, MCC should be adequately monitoring those controls to gain assurance over the activities taking place and the resulting financial information being reported. During our audit, we noted areas of weakness related to the monitoring of audits, completion of those audits, control activities in the countries, and the ability to provide underlying support for transactions. These areas, which represent a lack of controls over activities and support, are detailed below.

Untimely Performance and Lack of Monitoring of MCA Audits

Audits of controls, transactions, and balances of Millennium Challenge Accountable Entities (MCA) are not completed and submitted to the Office of Inspector General (OIG) in a timely manner. In addition, MCC is not adequately monitoring the start and completion of these audits to ensure a timely submission of audit reports and notification of findings. This increases MCC's risk of not being informed of MCA activities that would affect the financial statements in a timely manner.

As a major component of internal control over the MCAs, MCC requires audits to be conducted on a semiannual basis for the six months ending December and June of each year. The results of the audits give MCC some assurance over the validity and accuracy of payments and advances that are processed for the MCAs and reported in its financial statements. This assurance is needed as invoices and other underlying supporting documentation for transactions are not reviewed or maintained by MCC or the National Business Center (NBC). Instead, MCC relies on approved request documents submitted by MCA personnel.

Based on our inquiries and review of the timing of audit planning documents and audit reports submitted by the MCA auditors, we concluded that MCC is not adequately monitoring the start and completion of the MCA audits. Details of our review for the 16 countries that had entered into force, as of June 30, 2009, follow.

For audits conducted for the six months ending December 31, 2008, in which audit reports were due by March 31, 2009, we noted the following:

- The OIG issued nine audit reports, of which seven were submitted between 28 and 45 days late.
- Four audit reports that have yet to be issued by the OIG, were also submitted after the due date; one in early June 2009, and three in July 2009.
- Audits were not conducted for two MCAs (Morocco and Mozambique) that entered into force in September 2008; the first audits were extended into the next audit period.

- One audit (MCA Honduras) has not started due to failed procurements.

For audits conducted for the six months ending June 30, 2009, in which audit reports were due by September 30, 2009, we noted the following:

- Audit planning documents for eight audits were submitted and approved after June 30, 2009 (one in July, six in August, and one in September), and one has not been received (MCA Honduras is still experiencing procurement delays). Planning documents are required to be approved by the OIG prior to commencement and audit work should begin within the audit period to ensure effective testing of controls.
- Thirteen audit reports are currently past due; only one was submitted to the OIG by the due date and two were submitted in October. Outstanding audit reports include MCAs Morocco and Mozambique, which have now been in operation for one year since entering into force.

Outstanding audit reports for the period ending June 30, 2009, which cover two quarters of fiscal year (FY) 2009 activity, will now be received well after the current fiscal period, and would not be useful in MCC's assessment or assurance of FY 2009 activities. Some audits were delayed due to procurement issues, extended audit periods for MCAs that entered into force during an audit period, and the OIG's delayed issuance of final reports. However, audit reports that are not issued in a timely manner increase the risk that MCC will not be notified of potential inadequate controls and inaccurate financial information, which could have a material impact on MCC's financial statements. In addition, we noted that OIG comments on the audit reports relate to questionable amounts presented, clarification of audit findings, and lack of adherence to audit requirements and formatting of reports. Resolution of these comments is dependent on sufficient and timely responses from the MCA auditors.

Also during testing of internal controls we noted instances of Quarterly Financial Reports (QRF) being submitted after required deadlines and Payment Request Forms (PRF) that were not properly approved prior to requesting disbursement from MCC.

OIG's *Guidelines or Financial Audits Contracted by the Millennium Challenge Corporation's Accountable Entities* (Guidelines; revised August 2007), states:

> *MCC standard audit provisions require that the Accountable Entity (hereafter referred to as MCA) ensures that an audit is contracted by MCA for itself at least annually in accordance with these Guidelines. The MCC may require more frequent audits than annually* (§1.5).
>
> *MCC responsibilities are to: 1) monitor and ensure that the required contracted audits of the MCA and all non-US governmental and nongovernmental covered providers expending more than $300 thousand in their fiscal year are performed in a timely manner; 2) ensure the audits are performed by auditors on the list of approved auditors; and 3) make sure proper action is taken to correct deficiencies identified by the auditors. ... The MCC is also responsible for ensuring that audit contract agreements between MCA and Covered Providers, subject to audit, and their independent auditors contain a standard statement of work that includes all the requirements of these Guidelines* (§1.8).
>
> *All required audits must be completed and the reports issued in accordance with the compact (no later than 90 days after the end of the audit period) or such other periods as Parties may agree in writing. Extensions must be requested by the MCA and the Covered Provider in advance of the*

audit due date. The approval of the extension will be coordinated and approved by the Office of the Inspector General on a case by case basis (§1.15).

The OIG must receive the audit report in accordance with the Compact, no later than 90 days after the first anniversary of the Entry into Force and no later than 90 days after the end of the audited period thereafter, or such other periods as the Parties may otherwise agree (§2.3).

Not closely monitoring the MCA audit process increases MCC's risk that MCAs are incurring costs and requesting advances that are potentially unallowable, incorrect, or not supported by underlying documentation. In addition, there is a risk that the MCAs do not have appropriate internal control structures in place that MCC can rely upon for approval of advance and payment requests.

Recommendations: We recommend that the MCC Department of Compact Implementation and Division of Finance:

- Strengthen the monitoring of the MCA audit process, from submission of the audit plan through issuance of the audit report to ensure timely completion and sufficient time for OIG review, prior to issuing the report to MCC for management comment.

- Increase communication between the MCAs, the audit firms, and the OIG to ensure all parties are adequately informed of the progress of all audits in a timely manner. Ensure that the MCAs understand the impact of these audits and how they affect MCC's assessment of overall controls and its financial statement audit.

Lack of Adequate Documentation to Support Transactions

MCA and Threshold missions did not provide or respond to our requests for supporting documentation in a timely manner for all expense and undelivered order sample items. Prior to yearend testing, we informed MCC that documentation would be requested from the MCA and Threshold missions for substantiation of yearend balances and that due to tight deadlines for the audit, responses would be required within five days. This detailed, written information was communicated to all MCA and Threshold mission points of contact.

Upon submission of the sample items, some countries responded in a timely manner, while others provided either incorrect, insufficient, or no documentation at all. MCC was advised of the lack of responses and in turn sent several emails to the countries and agency points of contact, in efforts to obtain the supporting documentation. Significant amounts remained unsupported at the conclusion of audit fieldwork.

The Government Accountability Office (GAO) *Standards of Internal Control*, states that:

Internal control and all transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination. ... All documentation and records should be properly managed and maintained (page 15).

Documentation was not provided or was insufficient to support the following:

- Expenses for Compacts and Threshold transactions, in the amounts $995,737 and $2,269,864, respectively.

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- Undelivered Orders for Compact and Threshold balances, in the amounts of $620,217 and $5,665,222, respectively.

Lack of response and submission of underlying documentation by the MCA and Threshold missions weakens the oversight and monitoring of mission activities and increases the risk of MCC reporting inaccurate balances in its trial balance and financial reports.

Recommendation: We recommend that MCC management, in coordination with the U.S. Agency for International Development (USAID), establish effective and periodic communication with MCA and Threshold mission personnel, to emphasize the need for proper documentation to be maintained in the MCA files, and that these documents be readily available and promptly submitted for inspection when requested.

Improper Reporting of Re-disbursements

During a review of outstanding advances, we noted that re-disbursements for a compact and 609(g) funding were not applied to earlier, outstanding advances, and/or were not properly reported by the MCA. Details of our review at interim are as follows:

Vanuatu partially liquidated an April 2008 advance in April 2009, and had additional outstanding advances from FY 2008 that also had not been liquidated (one from June 2008, two from August 2008, and one from September 2008). These advances were not reported as disbursements on the MCA's Quarterly Financial Report (QFR) until April 2009; thus, the additional advances received after April 2008 may not have been needed.

Ghana's 609(g) disbursements for advances received in FYs 2008 and 2009 were not reported in a timely manner; they were reported on its June 2009 QFR. Funds were continually advanced on subsequent disbursement packages without discussion with the MCA as to why the amounts were not included on subsequent QFRs for proper re-disbursement recording in the general ledger (GL).

Volume 1, Part 6, *Other Fiscal Matters*, of the Treasury Financial Manual (TFM), states:

Advances to a recipient organization will be limited to the minimum amounts necessary for immediate disbursement needs and will be timed to be in accord only with the actual immediate cash requirements of the recipient organization in carrying out the purpose of an approved program or project. The timing and amount of cash advances will be as close as is administratively feasible to the actual disbursements by the recipient organization for direct program costs and the proportionate share of any allowable indirect costs. (§2025)

Monitoring and review procedures were not sufficient by MCC and NBC to ensure that aged advances were completely liquidated prior to issuing further advances and liquidating subsequent advances. In addition, MCAs that do not properly or timely report their actual re-disbursement amounts cause MCC's Congressional reporting to be inaccurate.

Recommendations: We recommend that MCC Department of Compact Implementation and Division of Finance:

- Develop training for MCA Fiscal Agents to ensure proper reporting of re-disbursements on the QFRs to ensure the MCA is only requesting advances for immediate funding needs.

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- Develop a tracking mechanism to monitor prepayments and to ensure that MCC and NBC personnel are properly reviewing the quarterly submitted QFRs for proper reporting of both the projected needs for advancement of funds and actual re-disbursements of previously advanced funds.

QUALITY CONTROL OVER FINANCIAL REPORTING

MCC addressed the prior year recommendation to effectively coordinate with service providers to ensure timely receipt of yearend trial balance and adjustment information. However, quality control procedures performed on consolidated financial information presented in the Agency Financial Report (AFR) require additional improvement.

Yearend quality control reviews were not performed sufficiently to detect material misstatements and identify questionable and significant variances. Specifically, we noted the following:

- A $7.9 million overstatement in Upward Adjustments of Prior Year Undelivered Orders was reported in the initial yearend financial statements. The overstatement, which was not detected by MCC or USAID, was discovered upon our inquiry of the nearly $8 million increase in GL account 4881 for the Threshold program when the prior yearend balance was only $396,264. In response to our inquiry, USAID personnel noticed a posting error for both the third and fourth quarter amounts. Per their explanation, the deobligation and reobligation adjustments were based on cumulative amounts reported for the entire year, instead of amounts for just the related quarter. In addition, these amounts included adjustments for subobligations, which should not have been included, as these amounts are already recorded at the initial bilateral obligation level.

- USAID personnel also noted that similar errors were made to GL account 4871 for downward adjustments, resulting in a $432 thousand misstatement. These errors were corrected and adjustments were posted to the final trial balance for inclusion in the financial statements.

Additionally, detailed quality control reviews of consolidated financial information were not sufficient to ensure mathematical accuracy and presentation of comparable data between the trial balance, statements, and notes. During our review of the statements, notes, and information in the Management's Discussion and Analysis (MD&A) section, we noted the following:

- The presentation in the notes for Intra-governmental and Public costs, as well as Undelivered Orders, did not tie to amounts by program, as recorded in the trial balance. In addition, the total amount of costs did not tie to the Statement of Net Cost as it did for the prior year.

- The presentation of funding, by program, in the initial MD&A did not tie to amounts recorded in the trial balance.

- Current and prior year amounts were not consistent in terms of classification in line items and presentation of amounts as positive or negative.

- Mathematical errors, including some due to rounding, were noted not only in the initial AFR, but also in the revised version presented for audit.

- Performance information presented in initial and revised versions of the AFR was not clearly defined and amounts cited for targets were incorrect.

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GAO *Standards of Internal Control*, states:

> *Control activities occur at all levels and functions of the entity. They include a wide range of diverse activities such as approvals, authorizations, verifications, reconciliations, performance reviews, maintenance of security, and the creation and maintenance of related records which provide evidence of execution of these activities as well as appropriate documentation (page 11).*

OMB Circular A-136, *Form and Content of Performance and Accountability Report (PAR)*, states:

> *Reporting entities should ensure that information in the financial statements is presented in accordance with GAAP for Federal entities and the requirements of this Circular….*
>
> *Preparation of the annual financial statement is the responsibility of agency management….*

Financial statements presented for audit are the responsibility of MCC. Without conducting or ensuring effective, detailed analyses and quality control reviews over consolidated financial information, MCC is at risk for presenting statements that are not comparative, accurate, or in compliance with applicable requirements and accounting standards.

Recommendations: We recommend that the MCC Division of Finance:

- Strengthen its quality control reviews over financial statements, notes, and other information presented, to ensure that information presented for audit is accurate, complete, and complies with accounting standards and reporting guidance.

- Increase communication with USAID to ensure information received has been reviewed and is reliable, in order for MCC to prepare complete and accurate financial statements in accordance with accounting standards and reporting guidance.

CONTROLS OVER PAYROLL PROCESSES

Untimely and Incomplete Processing of Separated Employees

Human Resource (HR) personnel are not proactive in obtaining the completed employee exit forms from the Division of Security, nor are they including copies of employee exit forms in the Official Personnel File (OPF). During our testing of 10 separated employees, we noted that employee exit forms were not properly documented in the OPF for all 10 employees sampled. MCC conducted OPF audits in which all sampled employees were included. When completing the Purged OPF Check List, it was simply documented that the employee exit form was not included in the OPF prior to being sent to storage or to the transferring employee's new agency.

In addition, we noted that for one separated employee, the lump sum payment for annual leave was not received until the 5th pay period after separation from MCC. MCC provided no explanation for the delay in performing the leave audit and processing the lump sum payment; normal processing time is two pay periods.

MCC's *Policy and Procedures on Employee Exit Procedures*, Section 5.2, states the following:

> *After the entire exit form is complete with signatures, the employee will meet with HR for an exit interview and final checkout…. The HR representative will witness the employee's final signature*

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> *on the MCC Exit Form, noting the return of all MCC property. The HR representative will retain a copy of the exit form, place it in the employee's historical personnel file, and provide the employee a copy…. After the employee has turned in their MCC badge to the Associate Director for Security, the form will be submitted to the HR division for their personnel file.*

The *Purged OPF Check List* lists the documents to be included in the OPF:

> *Copy of Employee Exit Form – filed on left side.*

GAO *Standards of Internal Control*, states:

> *Transactions should be promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. This applies to the entire process or life cycle of a transaction or event from the initiation and authorization through its final classification in summary records. In addition, control activities help to ensure that all transactions are completely and accurately recorded (page 15).*

By not adhering to the process of completing and retaining the employee exit form, the risk increases that MCC employees may not return all required property before separating from the agency. In addition, the untimely processing and payment of amounts owed to its employees increases the agency's risk of retaining excessive liabilities or long-term receivables on its books for excessive periods of time.

Recommendations: We recommend that the MCC Division of HR:

- Ensure all HR personnel are aware of the requirement to document and retain the employee exit form in the OPF. In addition, direct HR personnel to obtain completed employee exit form from the Division of Security in a timely manner and document it properly in the employee's OPF.
- Direct HR personnel to follow up on all missing items when performing the OPF audits and completing the Purged OPF Check List.
- Develop and implement a process to monitor and ensure that HR and/or NBC personnel are completing leave audits as required and processing payments for amounts due to, or amounts owed by, separating employees on a timely basis.

Improper and/or Lack of Certification on the SF-52 and SF-50

During our testing of controls over personnel actions, we noted that HR personnel are not properly preparing and certifying the Standard Form (SF) 52, *Request for Personnel Action*, and the SF 50, *Notification of Personnel Action.* HR specialists are not certifying SF-52s in Part C-2 to show evidence of approval of the personnel action processed. In addition, they are not properly reviewing the SF-52s to ensure all necessary signatures are obtained to ensure the actions were properly requested and authorized prior to processing the action, nor are they signing the SF-52 as the preparing individual.

During testing of controls over 10 newly hired employees, we noted the following:

- Three SF-52s that were not signed or dated for approval
- One instance in which the SF-52 and SF-50 were prepared and certified by the same HR specialist

- Five SF-50s that were approved after the effective date of the personnel action

In addition, during testing controls over the processing of SF-52s for 45 employees, we noted:

- Twelve SF-52s did not have the signature of a Certification Officer in Part C-2
- Two instances in which the SF-52 and SF-50 were prepared and certified by the same HR specialist
- One SF-52 was not signed by the requesting and authorizing officials
- One SF-50 had an approval date that occurred before the requesting and authorizing dates

MCC's documented procedures for processing SF-52s state that the HR specialist should not sign the SF-50, and that SF-52s and SF-50s should not be released until all actions have been reviewed and approved.

U.S. Office of Personnel Management (OPM), *Guide to Processing Personnel Actions*, states:

> *No personnel action can be made effective prior to the date on which the appointing officer approved the action. That approval is documented by the appointing officer's pen and ink signature or by an authentication, approved by the Office of Personnel Management, in block 50 of the Standard Form 50, or in Part C-2 of the Standard Form 52. By approving an action, the appointing officer certifies that the action meets all legal and regulatory requirements and, in the case of appointments and position change actions, that the position to which the employee is being assigned has been established and properly classified* (§4b, *Effective Dates).*
>
> *As explained in paragraph 4b, most personnel actions must be approved by the appointing officer on or before their effective dates. An appointing officer is an individual in whom the power of appointment is vested by law or to whom it has been legally delegated. Only an appointing officer may sign and date the certification in Part C-2 of the Standard Form 52 or blocks 50 and 49 of the Standard Form 50 to approve an action* (§4c, *Approval of Personnel Actions)*

GAO *Standards of Internal Control*, states that:

> *Key duties and responsibilities need to be divided or segregated among different people to reduce the risk of error or fraud. This should include separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets (page 14).*

Not adhering to procedures for preparing and approving personnel actions and establishing proper segregation of duties increases the risk that personnel actions may be processed that are not properly authorized or approved.

Recommendations: We recommend that the MCC Division of HR:

- Review its current policies and procedures to ensure that proper authorization and approval of personnel actions are clearly documented on the required forms prior to processing.

- Direct HR personnel to adhere to the documented policies and procedures when preparing, reviewing, and approving personnel actions, to ensure reviews and approvals are properly documented.

- Provide the necessary training to responsible HR personnel to ensure that they are aware of the need for properly documenting reviews and approvals of personnel transactions.

Lack of Support for Employee Selected Benefit Deductions

During testing of payroll and personnel transactions for 45 employees over two pay periods, we noted 14 instances in which documentation was not readily available or was not provided to support the amount deducted for Thrift Savings Plan (TSP) benefits. Of these 14 instances, we noted nine instances in which the deduction taken did not agree with the amount authorized by the employee.

GAO *Standards of Internal Control*, states:

> *Internal control and all transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination. ... All documentation and records should be properly managed and maintained (page 15).*

OPM's *The Guide to Personnel Recordkeeping*, states in Chapter 3, *Filing Documents in the Personnel Folder*, states:

> *Records are filed in the Official Personnel Folder to document events in an individual's Federal employment history that have long-term consequences for the employee and for the Government. Care should be exercised in filing documents correctly to ensure all documents pertaining to an employee's rights and benefits are available in the personnel folder when needed.*

Instead of using the proper TSP form or accessing Employee Express, employees are emailing the HR specialist with the authorized amount to process for their TSP deduction. HR does not maintain in the OPF or in a centralized location, authorizations that are not documented using the standard form. For differences noted during the audit, the HR specialist could not readily produce the emails and had to search archived emails for the employee's authorization for the change in deduction amount.

Not using proper forms or maintaining a record of changes made to employee deductions increases the risk that incorrect deductions may be made for enrolled benefits.

Recommendations: We recommend that the MCC Division of HR:

- Establish a consistent tracking mechanism or other historical file for MCC employees to document all changes in employee benefits that are not documented using standard forms or Employee Express.

- Revise current policies and procedures to ensure that supporting documentation for all transactions processed by HR personnel on behalf of MCC employees are clearly documented either in the OPF or other historical file, and are readily available for examination.

PROPER REPORTING PERIOD

Expenses for goods and services received and performed were not recorded in the proper period. We noted FY 2008 transactions recorded in the current fiscal year for which accruals had not been posted. In addition, we noted FY 2009 accrual transactions recorded in the beginning of FY 2010 that were not estimated and recorded.

This is a repeat finding from the FY 2008 audit where MCC's accrual processes were not sufficient to identify and compute amounts owed, but not paid, in the appropriate period. MCC did make improvements to their yearend accrual processes by contacting NBC for a listing of FY 2009 invoices and payment requests received but not paid in the first nine days of FY 2010, and ensuring comprehensive coverage of all funds, interagency agreements, and vendor contracts. However, significant amounts still lacked appropriate accruals and were recorded in the wrong period. It was also noted that expenses were reported in the wrong period for Threshold program costs.

Statements of Federal Financial Accounting Standards (SFFAS) No. 5, *Accounting for Liabilities of the Federal Government*, (pp. 22 and 23) requires "a liability is recognized when one party receives goods or services in return for a promise to provide money or other resources in the future… The expense is recognized in the period that the exchange occurs."

OMB Circular A-136, *Form and Content of the Performance and Accountability Report (PAR)*, *Balance Sheet,* Section II.4.3.4 *Liabilities,* states that "liabilities shall be recognized when they are incurred regardless of whether they are covered by available budgetary resources."

Unrecorded accruals for FY 2008 expenses reported in FY 2009 resulted in overstated expenses as follows:

- Compact and Compact Implementation funds in the amount of $1,902,313

- Administrative and Due Diligence funds in the amount of $2,249,188

- Threshold Program funds in the amount of $702,950

Unrecorded accruals for FY 2009 expenses reported in FY 2010 resulted in understated expenses as follows:

- Compact funds in the amount of $2,632,499

- Threshold Program funds in the amount of $22,568

By not accruing for expenses in the proper period, FY 2009 expenses were overstated by $2,199,384.

USAID also recorded an adjustment to the Threshold program accrual amounts, as a result of significant deficiencies noted in the accrual reporting system, which were calculated and posted to the GL.

Recommendations: We recommend that MCC Division of Finance:

- Continue to strengthen, and revise as necessary, policies and procedures for yearend accruals to ensure that all countries, types of funding, and programs are considered when recording estimates for future expenses, and that accruals are reasonably sufficient to cover anticipated costs.

- Establish and communicate procedures for the MCAs to require the submission of estimates or payment requests for current period expenses that have not, or will not be recorded until the subsequent year, for each fund type.

- Ensure that the accrual amount is adequately and reasonably calculated, clearly documented and supported, and properly reviewed for completeness and accuracy prior to and subsequently after posting to the GL.

- Ensure that USAID has procedures to resolve incorrect accruals and to make certain that quarterly and yearend amounts for the Threshold program are complete and accurate.

FUND BALANCE WITH TREASURY (FBWT) RECONCILIATION

USAID administers the Threshold Program for MCC, and Phoenix is the accounting system of record. During the review of internal controls, we noted that the monthly SF 224s, *Statement of Transactions*, which include mission transactions for MCC's Threshold Program, did not include all monthly cash disbursements and cash receipts recorded in Phoenix. Instead, only cash disbursements and cash receipts that are in agreement with those recorded and confirmed in Treasury's system are reported to avoid having differences reported back by Treasury on the SF-6652, *Statement of Differences* (SOD). In addition, quarterly cash adjustments are posted to the GL in order to agree the FBWT account balance to the cash balance reported by Treasury. At yearend, it was noted that the missions followed the same procedures in preparing the September SF 224s.

The Treasury Financial Manual (TFM), *Preparing FMS 224*, §3330 states:

> *Agencies prepare the monthly FMS 224 based on:*
> - *Vouchers paid or accomplished by [Regional Finance Centers (RFC)];*
> - *Intra-governmental Payments and Collections (IPAC) transactions accomplished;*
> - *Cash collections received for deposit on SF 215s [Deposit Ticket]; and*
> - *Electronic payments/deposits such as those processed through the Automated Standard Application for Payments (ASAP) System or the Fedwire Deposit System.*
>
> *Agencies also should report transactions recorded in their [GL] that are not associated with an SF 215, SF 5515 [Debit Voucher], IPAC, or vouchers paid or accomplished by RFCs in Section I of the FMS 224 only.*

§V, Subsection C, *Adjustments*, of Part 2-5100 states:

> *An agency may not arbitrarily adjust its FBWT account. Only after clearly establishing the causes of errors and properly documenting those errors, should an agency adjust its FBWT account balance.*

Improper reporting of FBWT to Treasury via the SF-224s bypasses the mandatory reconciliation and review process by Treasury, which in turn increases the risk of errors and misstatements ultimately being reported in the financial statements.

Recommendations: We recommend that the MCC Division of Finance:

- Inquire of USAID's procedures to resolve the issue of incomplete SF 224 reporting.

- Consider revisions to the Memorandum of Agreement (MOA) with USAID to require timely responses upon inquiry by MCC management regarding financial statement audit findings related to Threshold Program transactions.

We noted certain matters involving internal control and its operation that we will report to MCC management in a separate letter.

This report is intended solely for the information and use of USAID, MCC management, others within MCC, OMB, and Congress. It is not intended to be and should not be used by anyone other than these specified parties.

COTTON & COMPANY LLP

Colette Y. Wilson, CPA
Partner

November 13, 2009
Alexandria, Virginia

Cotton & Company

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Inspector General
United States Agency for International Development
Board of Directors
Millennium Challenge Corporation

INDEPENDENT AUDITOR'S REPORT ON
COMPLIANCE WITH LAWS AND REGULATIONS

We have audited the Balance Sheets of the Millennium Challenge Corporation (MCC) as of September 30, 2009 and 2008, and the related Statements of Net Cost, Changes in Net Position, and Budgetary Resources for the year then ended. We have issued our report thereon dated November 13, 2009. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin 07-04, *Audit Requirements for Federal Financial Statements*.

MCC management is responsible for complying with laws and regulations applicable to the agency. As part of obtaining reasonable assurance about whether MCC's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain other laws and regulations specified in OMB Bulletin 07-04. Providing an opinion on compliance with those provisions was not, however, an objective of our audits, and accordingly, we do not express such an opinion.

The results of our tests of compliance disclosed no instances of noncompliance that we are required to report under *Government Auditing Standards* and OMB Bulletin 07-04.

This report is intended solely for the information and use of United States Agency for International Development (USAID), MCC management, others within MCC and USAID, OMB, and Congress. It is not intended to be and should not be used by anyone other than these specified parties.

COTTON & COMPANY LLP

Colette Y. Wilson, CPA
Partner

Colette Y. Wilson

November 13, 2009
Alexandria, Virginia

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Appendix A

Status of Prior Year Findings

Following is the disposition of prior year (2008) findings, recommendations, and MCC Management's action.

Finding:

1. Absence of quality controls over financial reporting (material weakness)
.

Recommendation No. 1: We recommend that the Millennium Challenge Corporation management:

1.1. Perform detailed quality control reviews to ensure compliance with accounting standards and reporting guidance.

1.2. Review and revise written policies and procedures regarding the preparation of the financial statements and related footnote disclosures to ensure that all financial statement line items are reported accurately and properly supported, and that any adjustments are reviewed and approved before recording in the GL by NBC. Document the above processes to ensure that an audit trail is available for all line items and amounts reported.

1.3. Effectively coordinate with its service providers (USAID and NBC) to ensure timely and accurate receipt of final trial balance information sufficient to prepare complete financial statements in accordance with OMB Circular A-136.

Status:

While improvements were made in the coordination with its service providers MCC still needs to strengthen its detailed quality control reviews and ensure that documented policies are finalized and adhered to.

We consider this FY 2008 condition to be unresolved as of September 30, 2009.

Finding:

2. Authorization for personnel actions inconsistent with stated policies and procedures.

Recommendation No. 2: We recommend that the Millennium Challenge Corporation's management review and revise its process for requesting, authorizing, and certifying its personnel actions to ensure all actions are properly authorized, documented, and retained prior to the action being processed into the personnel database.

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Appendix A

Status:

We consider this FY 2008 condition to be unresolved as of September 30, 2009, as similar findings are still noted by the auditors.

Finding

3. Transactions not recorded in the period they occurred

Recommendation No. 3: We recommend that the Millennium Challenge Corporation management develop and adhere to all policies and procedures related to quarterly and yearend reporting to ensure that all appropriate transactions are reviewed and a determination is made as to the amounts to accrue for the current period; and the accrual amount is properly prepared, clearly documented, and supported and that it is reviewed by both the service provider, NBC, and MCC for completeness and accuracy prior to and subsequently after posting to the GL.

Status:

While improvements were made to the methodology used to accrue for yearend expenses, significant amounts remained in the current year which related to the prior year.

We consider this FY 2008 condition to be unresolved as of September 30, 2009.

Finding

4. Lack of adequate review for accuracy and duplication prior to processing and recording transactions in General Ledger.

Recommendation No. 4: We recommend that the Millennium Challenge Corporation management:

4.1. Ensure that procedures for reviewing accruals and adjustments recorded by NBC are effectively performed to ensure each is valid and has been properly recorded.

4.2. Require documentation to support the entry of a JV to avoid duplication of the transactions. In addition, use of a consistent naming convention when entering JVs should be required to avoid duplication.

4.3. Ensure that PP&E reconciliations are effectively performed each quarter and that amortization schedules are accurate and complete.

Status:

We consider these FY 2008 conditions to be unresolved as of September 30, 2009

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Appendix B

Management Comments and Our Evaluation

We received and evaluated MCC's management comments to the recommendations made in this report. Management comments have been included in its entirety in Appendix C.

Based on MCC's comments, we acknowledge that management decisions have been reached on all of the recommendations. MCC should report to the OIG when final action has been taken on the recommendations. The following is a brief summary of MCC's management comments on the five recommendations included in this report and our evaluation of those comments.

Recommendation No. 1.1

MCC agrees with the recommendations. The MCC's Fiscal Accountability (FA) Directors will work with audit firms, MCAs and the OIG to ensure the timely completion and issuance of audit reports in the future. MCC has established a comprehensive audit tracking table to monitor the status of all MCA audits going forward, following up with MCAs to ensure timely completion, and providing notifications to the OIG on any issues or delays. MCC will stress to the MCAs the importance of timely audits as a part of MCC's overall system of strong internal controls.

Auditor Evaluation:

We conclude that management has adequately addressed this issue, and acknowledge that a management decision has been taken.

Recommendation No. 1.2

MCC agrees with the recommendation. MCC's Fiscal Accountability (FA) Directors will work with the MCAs to ensure that documentation to support transactions is in good order and readily available. With regard to the Threshold missions, MCC plans to meet with USAID management to discuss the lack of response from the missions, and determine what steps both MCC and USAID can take to avoid this issue for future audits.

Auditor Evaluation:

We conclude that management has adequately addressed this issue, and acknowledge that a management decision has been taken.

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Recommendation No. 1.3

MCC agrees with the recommendations. MCC has developed a report to monitor prepayments and will work with the National Business Center (NBC) to ensure that the first in/first-out method is followed when liquidating MCA advances. In addition, the FA Directors will provide training as needed to ensure that the MCAs provide accurate reporting of re-disbursements in their quarterly reporting submissions to MCC. MCC wishes to note that with the implementation of the Common Payment System (CPS), the use of advances is now limited to payment of MCA salaries and small dollar items. CPS makes payments directly to vendors via the US Treasury, eliminating the need for large dollar advances to MCA bank accounts.

Auditor Evaluation:

We conclude that management has adequately addressed this issue, and acknowledge that a management decision has been taken.

Recommendation No. 2

MCC agrees with the recommendations. As noted in the audit report, MCC has made improvements in its quality control over financial report in FY 2009 (this item was a material weakness in FY 2008). In FY 2010, MCC will expand its review process to include quarterly fluctuation analysis of all materials accounts, review its reporting process to ensure that there is adequate time for an effective review process, and continue to coordinate with USAID on the timeliness and accuracy of financial data for the Threshold program.

Auditor Evaluation:

We conclude that management has adequately addressed this issue, and acknowledge that a management decision has been taken.

Recommendation No. 3.1

MCC agrees with the finding and recommendations. MCC's Human Resources division will establish procedures and controls to ensure that employee exit forms leave audits, and other requirements are met and filed in the OPF. MCC's HR division is undergoing a project to document all policies and procedures (develop or update as necessary) to ensure we are compliant with all federal requirements. These policies will include procedures and metrics where necessary to ensure we are complying with the policies. This project is scheduled to be complete by the end of November 2009.

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Auditor Evaluation:

We conclude that management has adequately addressed this issue, and acknowledge that a management decision has been taken.

Recommendation No. 3.2

MCC agrees with recommendations. MCC's Human Resources division will establish procedures and controls to ensure proper personnel actions (SF-52/SF-50) documentation. MCC's HR division is undergoing a project to document all policies and procedures (develop or update as necessary) to ensure we are compliant with all federal requirements. These policies will include procedures and metrics where necessary to ensure we are complying with the policies. This project is scheduled to be complete by the end of November 2009

Auditor Evaluation:

We conclude that management has adequately addressed this issue, and acknowledge that a management decision has been taken.

Recommendation No. 3.3

MCC agrees with the findings and recommendations. MCC's Human Resources Division will establish procedures and controls to ensure proper documentation of employee change requests. MCC will also discontinue the practice of accepting TSP changes via email. Employees will be required to use the appropriate form or Employee Express for changes to their TSP accounts. MCC's HR division is undergoing a project to document all policies and procedures (develop or update as necessary) to ensure we are compliant with all federal requirements. These policies will include procedures and metrics where necessary to ensure we are complying with the policies. Project is scheduled to be complete by the end of November 2009.

Auditor Evaluation:

We conclude that management has adequately addressed this issue, and acknowledge that a management decision has been taken.

Recommendation No. 4

MCC agrees with the recommendations. MCC has implemented new formulation methodologies for its quarterly and year-end accruals that will ensure administrative; due diligence and program funds are accurately recorded. These new methodologies

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will be reflected in the update of MCC's financial management policy and procedures which will be released during the first quarter of FY 2010. MCC will meet with USAID management to discuss their procedures for ensuring that accruals reported as part of the quarterly reporting package to MCC are accurate and complete.

Auditor Evaluation:

We conclude that management has adequately addressed this issue, and acknowledge that a management decision has been taken.

Recommendation No. 5

MCC agrees with the recommendations. MCC plans to meet with USAID management to discuss their plan of action to resolve this finding. MCC will update the MOU with USAID to require a copy of USAIDs consolidated monthly reconciliation for the fund balance with Treasury as part of their oversight Threshold reporting. MCC's ability to implement the recommendation with regard to USAID will be dependent on their agreement to the terms of the MO, and their timely completion of FBWT reconciliations in accordance with established Treasury guidelines.

Auditor Evaluation:

We conclude that management has adequately addressed this issue, and acknowledge that a management decision has been taken.

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Appendix C

MILLENNIUM
CHALLENGE CORPORATION
UNITED STATES OF AMERICA

Memorandum

TO:	Alvin A. Brown Assistant Inspector General
FROM:	Michael Casella /s/ Acting Vice President, Administration and Finance
DATE:	November 10, 2009
SUBJECT:	Management Response to Draft Independent Auditor's Report on MCC's Financial Statements for Fiscal Years Ended September 30, 2009 and 2008, Respectively

We have received the subject draft report and are pleased to note that the independent auditors, Cotton & Company, LLP, are issuing an unqualified opinion on our principal financial statements:

Balance Sheet;
Statement of Net Cost;
Statement of Changes in Net Position; and
Statement of Budgetary Resources

The Millennium Challenge Corporation's (MCC) management recognizes the importance of accountability, effective stewardship and public disclosures related to the resources entrusted to it. Our goal is to achieve and maintain excellence in our financial management, financial reporting and internal control systems. Accordingly, we will implement the recommendations as soon as possible to strengthen our systems of internal control and lend further credibility to our financial statements and overall financial operations.

We wish to recognize and thank you, your team, and Cotton & Company for working closely with us during the audit process. Any questions may be addressed to Mr. Dennis Nolan, Deputy Chief Financial Officer, or to me.

Following are our management decisions and responses to Cotton & Company's audit recommendations.

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Appendix C

Material Weakness: Controls over Mission Activities and Support

Recommendation No. 1: Untimely Performance and Lack of Monitoring of MCA Audits

We recommend that the MCC Department of Compact Implementation and Division of Finance:

- Strengthen the monitoring of the MCA audit process, from submission of the audit plan through issuance of the audit report to ensure timely completion and sufficient time for OIG review, prior to issuing the report to MCC for management comment.

- Increase communication between the MCAs, the audit firms, and the OIG to ensure all parties are adequately informed of the progress of all audits in a timely manner. Ensure that the MCAs understand the impact of these audits and how they affect MCC's assessment of overall controls and its financial statement audit.

Management Response

MCC agrees with the recommendations. The MCC's Fiscal Accountability (FA) Directors will work with audit firms, MCAs and the OIG to ensure the timely completion and issuance of audit reports in the future. MCC has established a comprehensive audit tracking table to monitor the status of all MCA audits going forward, following up with MCAs to ensure timely completion, and providing notifications to the OIG on any issues or delays. MCC will stress to the MCAs the importance of timely audits as a part of MCC's overall system of strong internal controls.

Recommendation No 2

We recommend that MCC management, in coordination with the U.S. Agency for International Development (USAID), establish effective and periodic communication with MCA and Threshold mission personnel, to emphasize the need for proper documentation to be maintained in the MCA files, and that these documents are readily available and promptly submitted for inspection when requested.

Management Response

MCC agrees with the recommendation. MCC's Fiscal Accountability (FA) Directors will work with the MCAs to ensure that documentation to support transactions is in good order and readily available. With regard to the Threshold missions, MCC plans to meet with USAID management to discuss the lack of response from the missions, and determine what steps both MCC and USAID can take to avoid this issue for future audits.

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Recommendation No 3

We recommend that MCC Department of Compact Implementation and Division of Finance:

- Develop training for MCA Fiscal Agents to ensure proper reporting of re-disbursements on the QFRs to ensure the MCA is only requesting advances for immediate funding needs.

- Develop a tracking mechanism to monitor prepayments and to ensure that MCC and NBC personnel are properly reviewing the quarterly submitted QFRs for proper reporting of both the projected needs for advancement of funds and actual re-disbursements of previously advanced funds.

Management Response

MCC agrees with the recommendations. MCC has developed a report to monitor prepayments and will work with the National Business Center (NBC) to ensure that the first in/first-out method is followed when liquidating MCA advances. In addition, the FA Directors will provide training as needed to ensure that the MCAs provide accurate reporting of re-disbursements in their quarterly reporting submissions to MCC. MCC wishes to note that with the implementation of the Common Payment System (CPS), the use of advances is now limited to payment of MCA salaries and small dollar items. CPS makes payments directly to vendors via the US Treasury, eliminating the need for large dollar advances to MCA bank accounts.

Significant Deficiency 1: Quality Control Over Financial Reporting

We recommend that the MCC Division of Finance:

- Strengthen its quality control reviews over financial statements, notes, and other information presented, to ensure the information received is accurate, complete, and complies with accounting standards and reporting guidance.

- Increase communication with USAID to ensure information received has been reviewed and is reliable, in order for MCC to prepare complete and accurate financial statements in accordance with accounting standards and reporting guidance.

Management Response

MCC agrees with the recommendations. As noted in the audit report, MCC has made improvements in its quality control over financial report in FY 2009 (this item was a material weakness in FY 2008). In FY 2010, MCC will expand its review process to include quarterly fluctuation analysis of all materials accounts, review its reporting process to ensure that there is

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adequate time for an effective review process, and continue to coordinate with USAID on the timeliness and accuracy of financial data for the Threshold program.

Significant Deficiency 2: Controls Over Payroll Process

Recommendation No. 1: Untimely and Incomplete Processing of Separated Employees

We recommend that the MCC Division of HR:

- Ensure all HR personnel are aware of the requirement to document and retain the employee exit form in the OPF. In addition, direct HR personnel to obtain completed employee exit form from the Division of Security in a timely manner and document it properly in the employee's OPF.
- Direct HR personnel to follow up on all missing items when performing the OPF audits and completing the Purged OPF Check List.
- Develop and implement a process to monitor and ensure that HR and/or NBC personnel are completing leave audits as required and processing payments for amounts due to, or amounts owed by, separating employees on a timely basis.

Management Response

MCC agrees with the finding and recommendations. MCC's Human Resources division will establish procedures and controls to ensure that employee exit forms leave audits, and other requirements are met and filed in the OPF. MCC's HR division is undergoing a project to document all policies and procedures (develop or update as necessary) to ensure we are compliant with all federal requirements. These policies will include procedures and metrics where necessary to ensure we are complying with the policies. This project is scheduled to be complete by the end of November 2009.

Recommendation No 2: Improper and/or lack of certification on the SF-52/SF-50

We recommend that the MCC Division of HR:

- Review its current policies and procedures to ensure that proper authorization and approval of personnel actions are clearly documented on the required forms prior to processing.
- Direct HR personnel to adhere to the documented policies and procedures when preparing, reviewing, and approving personnel actions, to ensure reviews and approvals are properly documented.

- Provide the necessary training to responsible HR personnel to ensure that they are aware of the need for properly documenting reviews and approvals of personnel transactions.

Management Response

MCC agrees with recommendations. MCC's Human Resources division will establish procedures and controls to ensure proper personnel actions (SF-52/SF-50) documentation. MCC's HR division is undergoing a project to document all policies and procedures (develop or update as necessary) to ensure we are compliant with all federal requirements. These policies will include procedures and metrics where necessary to ensure we are complying with the policies. This project is scheduled to be complete by the end of November 2009.

Recommendation No 3: Lack of support for employee selected benefit deductions

We recommend that the MCC Division of HR:

- Establish a consistent tracking mechanism or other historical file for MCC employees to document all changes in employee benefits that are not documented using standard forms or Employee Express.
- Revise current policies and procedures to ensure that supporting documentation for all transactions processed by HR personnel on behalf of MCC employees are clearly documented either in the OPF or other historical file, and are readily available for examination.

Management Response

MCC agrees with the findings and recommendations. MCC's Human Resources Division will establish procedures and controls to ensure proper documentation of employee change requests. MCC will also discontinue the practice of accepting TSP changes via email. Employees will be required to use the appropriate form or Employee Express for changes to their TSP accounts. MCC's HR division is undergoing a project to document all policies and procedures (develop or update as necessary) to ensure we are compliant with all federal requirements. These policies will include procedures and metrics where necessary to ensure we are complying with the policies. Project is scheduled to be complete by the end of November 2009.

Significant Deficiency 3: Proper Reporting Period

We recommend that MCC Division of Finance:

- Continue to strengthen, and revise as necessary, policies and procedures for yearend accruals to ensure that all countries, types of funding, and programs are considered when recording estimates for future expenses, and that accruals are reasonably sufficient to cover anticipated costs.

Appendix C

- Establish and communicate procedures for the MCAs to require the submission of estimates or payment requests for current period expenses that have not, or will not be recorded until the subsequent year, for each fund type.

- Ensure that the accrual amount is adequately and reasonably calculated, clearly documented and supported, and properly reviewed for completeness and accuracy prior to and subsequently after posting to the GL.

- Ensure that USAID has procedures to resolve incorrect accruals and to make certain that quarterly and yearend amounts for the Threshold program are complete and accurate

Management Response

MCC agrees with the recommendations. MCC has implemented new formulation methodologies for its quarterly and year-end accruals that will ensure administrative; due diligence and program funds are accurately recorded. These new methodologies will be reflected in the update of MCC's financial management policy and procedures which will be released during the first quarter of FY 2010. MCC will meet with USAID management to discuss their procedures for ensuring that accruals reported as part of the quarterly reporting package to MCC are accurate and complete.

Significant Deficiency No 4: Fund Balance with Treasury (FBWT) Reconciliation

We recommend that the MCC Division of Finance:

- Inquire of USAID's procedures to resolve the issue of incomplete SF 224 reporting.

- Consider revisions to the Memorandum of Agreement (MOA) with USAID to require timely responses upon inquiry by MCC management regarding financial statement audit findings related to Threshold Program transactions.

Management Response

MCC agrees with the recommendations. MCC plans to meet with USAID management to discuss their plan of action to resolve this finding. MCC will update the MOU with USAID to require a copy of USAID's consolidated monthly reconciliation for the fund balance with Treasury as part of our oversight Threshold reporting. MCC's ability to implement the recommendation with regard to USAID will be dependent on their agreement to the terms of the MO, and their timely completion of FBWT reconciliations s in accordance with established Treasury guidelines.

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Financial Section

In accordance with the OMB Circular A-136, Financial Reporting Requirements, MCC's financial statements are in the appropriate form and content for FY 2009. The tables below outline the following financial statements:

- Balance Sheets;
- Statements of Budgetary Resources;
- Statements of Net Cost;
- Statements of Changes in Net Position;
- Notes to Financial Statements; and
- Independent Auditor Reports of the MCC's Financial Statements, Internal Controls, and Compliance for the period ending September 30, 2009 and 2008.

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BALANCE SHEETS

	FY 2009	FY 2008
Assets		
Intra-Governmental		
Fund Balance with Treasury *(Note 2)*	**$6,655,511,983**	**$6,546,857,481**
Advances *(Note 5)*	6,474,444	9,485,386
Total Intra-Governmental	**6,661,986,427**	**6,556,342,867**
Accounts Receivable, Net *(Note 3)*	90,363	54,672
General Property, Plant, and Equipment, Net *(Note 4)*	6,953,153	8,127,205
Advances *(Note 5)*	32,422,386	33,093,266
Total Assets	**$6,701,452,329**	**$6,597,618,010**
Liabilities		
Intra-Governmental		
Accounts Payable *(Note 1F)*	229,546	4,973
Contributions and Payroll Taxes Payable	467,304	376,093
Total Intra-Governmental	**696,850**	**381,066**
Federal Employee and Veteran Benefits Payable	35,751	0
Accounts Payable *(Note 1F)*	56,026,101	35,343,643
Accrued Funded Payroll Liabilities	7,196,040	6,444,041
Total Liabilities	**$63,954,742**	**$42,168,750**
Net Position		
Unexpended Appropriations – Other Funds	$6,632,548,466	$6,548,610,190
Cumulative Results of Operations – Other Funds	4,949,121	6,839,070
Total Net Position	**$6,637,497,587**	**$6,555,449,260**
Total Liabilities and Net Position	**$6,701,452,329**	**$6,597,618,010**

The notes are an integral part of these financial statements.

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STATEMENTS OF BUDGETARY RESOURCES

	FY 2009	FY 2008
Budgetary Resources		
Unobligated Balance – Beginning of Period	$962,304,024	$2,256,142,503
Recoveries of Prior Years Obligations	1,029,114	504,898
Budget Authority:		
Appropriations	875,000,000	1,557,000,000
Nonexpenditure Transfers, Net, Anticipated and Actual	(679,000)	(10,810,404)
Permanently Not Available *(Note 8)*	0	(70,611,700)
Total Budgetary Resources	**$1,837,654,138**	**$3,732,225,297**
Status of Budgetary Resources		
Obligations Incurred		
Direct	$1,050,551,545	$2,769,921,274
Unobligated Balance Available	56,176,028	780,796,905
Unobligated Balance Not Available	730,926,565	181,507,118
Total Status of Budgetary Resources	**$1,837,654,138**	**$3,732,225,297**
Change in Obligated Balance		
Obligated Balance, Net – as of October 1, 2008		
Unpaid Obligations, Brought Forward, October 1	$5,583,344,174	$3,287,907,145
Obligations Incurred	1,050,551,545	2,769,921,274
Gross Outlays	(764,670,301)	(473,979,346)
Recoveries of Prior Year Unpaid Obligations, Actual	(1,029,114)	(504,898)
Obligated Balance, Net – End of Period		
Unpaid obligations	$5,868,196,304	$5,583,344,174
Net Outlays		
Gross Outlays	$764,670,301	$473,979,346

The notes are an integral part of these financial statements.

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STATEMENTS OF NET COSTS

Program	FY 2009	FY 2008
Program Costs *(Note 7)*		
Compact		
Gross Costs	$533,740,058	$226,498,265
Less: Earned Revenue	0	0
Net Program Costs	533,740,058	226,498,265
609 (g) Programs		
Gross Costs	15,693,976	9,768,972
Less: Earned Revenue	0	0
Net Program Costs	15,693,976	9,768,972
Threshold Programs		
Gross Costs	120,372,199	118,903,902
Less: Earned Revenue	0	0
Net Program Costs	120,372,199	118,903,902
Due Diligence Programs		
Gross Costs	28,922,102	17,338,771
Less: Earned Revenue	0	0
Net Program Costs	28,922,102	17,338,771
Audit		
Gross Costs	3,792,544	2,304,181
Less: Earned Revenue	0	0
Net Program Costs	3,792,544	2,304,181
Administrative		
Gross Costs	91,746,536	85,782,157
Less: Earned Revenue	0	0
Net Program Costs	91,746,536	85,782,157
Program Costs – Net of All Programs	**$794,267,415**	**$460,596,248**
Net Costs of Operations	**$794,267,415**	**$460,596,248**

The notes are an integral part of these financial statements.

STATEMENTS OF CHANGES IN NET POSITION

	FY 2009	FY 2008
Cumulative Results of Operations		
Beginning Balances	$6,839,070	$7,395,351
Adjustments		(1,671,357)
Beginning Balance, as Adjusted	6,839,070	5,723,994
Budgetary Financing Sources		
Appropriations Used	$790,382,685	$460,060,774
Other Financing Sources		
Donations and Forfeitures of Property *(Note 1P)*	205,266	0
Imputed Financing	1,789,515	1,650,550
Total Financing Sources	792,377,466	461,711,324
Net Cost of Operations	(794,267,415)	(460,596,248)
Net Change	(1,889,949)	1,115,076
Cumulative Results of Operations	**$4,949,121**	**$6,839,070**
Unexpended Appropriations		
Beginning Balance	$6,548,610,190	$5,536,714,361
Adjustments	0	(3,621,292)
Correction of errors	(39)	0
Beginning Balance, as Adjusted	$6,548,610,151	$5,533,093,069
Budgetary Financing Sources		
Appropriations Received	$875,000,000	$1,557,000,000
Appropriations Transferred In/Out	(679,000)	(10,810,404)
Other adjustments *(Note 8)*	0	(70,611,700)
Appropriations Used	(790,382,685)	(460,060,774)
Total Budgetary Financing Sources	83,938,315	1,015,517,122
Total Unexpended Appropriations	**$6,632,548,466**	**$6,548,610,190**
Net Position	**$6,637,497,587**	**$6,555,449,260**

The notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS (AS OF SEPTEMBER 30, 2009)

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF PRESENTATION

The accompanying financial statements have been prepared to report the financial position, results of operations and budgetary resources for MCC as required by OMB Circular A-136, *Financial Reporting Requirements,* for form and content and in accordance with Section 613 of the Millennium Challenge Act of 2003, as amended, and the Government Corporation Control Act (31 U.S.C. §9106). These financial statements have been prepared from MCC's books and records and are presented in accordance with the applicable requirements of OMB, the Secretary of the Treasury, and the Government Management and Reform Act of 1994.

MCC's accounting policies conform to and are consistent with Generally Accepted Accounting Principles for the Federal Government, as promulgated by OMB and prescribed by the Federal Accounting Standards Advisory Board.

MCC's principle financial statements are:

- Balance Sheet;
- Statement of Net Cost;
- Statement of Budgetary Resources; and
- Statement of Changes in Net Position.

Financial statement footnotes are also included and considered an integral part of the financial statements.

B. REPORTING ENTITY

MCC was formed in January 2004 pursuant to the Millennium Challenge Act of 2003, as amended, (Public Law 108-199). MCC's mission is to reduce poverty by supporting sustainable, transformative economic growth in developing countries that create and maintain sound policy environments. Assistance is intended to provide economic growth and alleviate extreme poverty, strengthen good governance, encourage economic freedom, and promote investments in people.

C. BUDGETS AND BUDGETARY ACCOUNTING

MCC's programs and activities are funded through no-year appropriations. Such funds are available for obligation without fiscal year limitation and remain available until expended. MCC has attained total appropriations of $875 million and $1.557 billion in FY 2009 and FY 2008, respectively. OMB apportions MCC administrative funds on an annual basis pursuant to statutory limitations in the appropriations bill. In addition, MCC

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receives from OMB a separate apportionment of funds for administrative and audit oversight, compact programs, due diligence programs, 609(g) programs and threshold programs. MCC does not have any earmarked funds. Because of the no-year status of MCC appropriations, unobligated administrative, audit, and due diligence funds (apportioned on annual bases) are not returned to the Treasury; however, unobligated balances as of September 30 for these three categories of funds are transferred to the program fund category at the beginning of the subsequent fiscal year.

D. BASIS OF ACCOUNTING

Financial transactions are recorded on accrual and budgetary bases in accordance with pertinent federal accounting and financial reporting requirements. Under the accrual method of accounting, financing sources are recognized when used and expenses are recognized when incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates MCC's compliance with legal constraints and controls over the use of Federal funds.

The accompanying Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position are prepared on the accrual basis. The Statement of Budgetary Resources is prepared in accordance with budgetary accounting rules.

E. FUND BALANCE WITH TREASURY

MCC does not maintain cash in commercial bank accounts. Rather, MCC's funds are maintained in Treasury accounts. The Department of the Treasury processes all cash receipts and disbursements for MCC. The fund balances with Treasury represent no-year funds, which are maintained in appropriated funds that are available to pay current and future commitments.

F. ACCOUNTS PAYABLE

MCC records as liabilities all amounts due to others as a direct result of transactions or events that have occurred. Accounts payable represent amounts due to Federal and non-Federal entities for goods and services received by MCC, but not paid at the end of the accounting period. In order to appropriately depict a comparable analysis of FY 2008 activity, MCC reclassified its Federal accounts payable balances separately from its non-Federal balances. Accounts payable reported at the end of FY 2009 were $56 million (non-Federal) and $230K (Federal) and at the end of FY 2008 were $35.3 million (non-Federal) and $5K (Federal).

G. ACTUARIAL FECA LIABILITY

The Federal Employees' Compensation Act (FECA) provides income and medical cost protection to covered Federal civilian employees injured on the job, employees who have incurred a work-related occupational disease, and beneficiaries of employees whose deaths are attributable to a job-related injury or occupational disease.

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Claims incurred for benefits for MCC employees under FECA are administered by the Department of Labor (DOL) and later billed to MCC. MCC's actuarial liability for workers' compensation includes any costs incurred but unbilled as of year-end, as calculated by DOL, and is not funded by current appropriations.

MCC incurred no FECA liabilities during FY 2009 and FY 2008.

H. Accrued Annual Leave

The value of employees' unused annual leave at the end of each fiscal quarter is accrued as a liability. At the end of each fiscal quarter, the balance in the accrued annual leave account is adjusted to reflect current pay rates and leave balances. Annual leave is funded from current appropriations. Sick leave and other types of non-vested leave are expensed when used and, in accordance with Federal requirements, no accruals are recorded for unused leave.

I. Net Position

Net position is composed of unexpended appropriations and cumulative results of operations. Unexpended appropriations are funds appropriated by Congress to MCC that are still available for expenditure at the end of the fiscal year. Cumulative results of operations represent the net differences between financing sources and expenses since MCC's inception. MCC adjusted the FY 2009 beginning balance for unexpended appropriations by $39 to account for an error correction.

J. Financing Sources

Per note 1.C, MCC funds its program and operating expenses through no-year appropriations. Appropriations are recognized as an accrual-based financing source at the time they are used to pay program or administrative expenses, except for expenses to be funded by future appropriations.

K. Retirement Benefits

MCC's employees participate in either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). FERS was established by Public Law 99-335. Pursuant to this law, most U.S. Government employees hired after December 31, 1983, are covered by FERS and Social Security. Federal employees hired prior to January 1, 1984, were allowed to elect whether they desired to participate in FERS (with Social Security coverage) or remain in CSRS. For employees covered by CSRS, MCC contributes seven percent of their gross pay toward their retirement benefits. For those employees covered by FERS, MCC contributes 11 percent of their gross pay toward retirement. Employees are also allowed to participate in the Federal Thrift Savings Plan (TSP). For employees under FERS, MCC contributes an automatic one percent of basic pay to TSP and matches employee contributions up to an additional four percent of pay, for a maximum MCC contribution amounting to five percent of pay.

Employees under CSRS may participate in the TSP, but will not receive either MCC's automatic or matching contributions.

As of the end of FY 2009, MCC made retirement contributions of $116,000 to CSRS, $2.58 million to FERS, and $1.01 million to TSP.

L. Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of financing sources and expenses during the reporting period. Actual results could differ from such estimates.

M. Contingencies

MCC can be a party to various routine administrative proceedings, legal actions, and claims brought by or against it, including threatened or pending litigation involving labor relations claims, some of which may ultimately result in settlements or decisions against MCC. In the opinion of MCC's management and legal counsel, there are no proceedings, actions, or claims outstanding or threatened that would materially impact MCC's financial statements.

N. Judgment Fund

Certain legal matters to which MCC can be named as a party may be administered and, in some instances, litigated and paid by other Federal agencies. In general, amounts paid in excess of $2,500 for Federal Tort Claims Act settlements or awards pertaining to these litigations are funded from a special appropriation administered by the Department of the Treasury, called the Judgment Fund. Although the ultimate disposition of any potential Judgment Fund proceedings cannot be determined, management expects that any liability or expense that might ensue would not be material to MCC's financial statements.

O. Custodial Liabilities

Under current policy and procedures, MCC disburses funds for Compact and pre-Compact projects and activities upon the presentation of a valid invoice. However, under certain conditions, MCC will fund countries by advancing funds on an as-needed basis to cover basic needs. Such funds provided to the countries are required to be deposited in interest-bearing accounts, if legally feasible, until disbursed. The interest earned on these accounts is remitted to MCC by the MCA and is then returned to the Treasury's general funds. MCC received and deposited $213,000 and $1.61 million in interest remittances as of September 30, 2009 and 2008, respectively. This reduction of interest remittances is due to the full implementation of ITS with all MCC partner countries.

P. DONATED SERVICES

MCC may on occasion utilize donated services from other Federal agencies, individuals and private firms in the course of business operations. The approximate fair market value of donated services for September 30, 2009 was $205,266. MCC did not utilize donated services for FY 2008.

Q. TRANSFERS WITH OTHER FEDERAL AGENCIES

MCC is a party to allocation transfers with another Federal agency as a transferring entity. Allocation transfers are legal delegations by one department of its authority to obligate budget authority and outlay funds to another department. A separate fund account (allocation account) is created in the U.S. Treasury as a subset of the parent fund account for tracking and reporting purposes. All allocation transfers of balances are credited to this account, and subsequent obligations and outlays that are incurred by the child entity are charged to this allocation account, as they execute the delegated activity on behalf of the parent entity. Generally, all financial activity related to these allocation transfers (e.g., budget authority, obligations, outlays) is reported in the financial statements of the parent entity, from which the underlying legislative authority, appropriations, apportionments are derived.

MCC allocates funds, as the parent, to USAID. In FY 2009 and FY 2008, MCC transferred budgetary authority of $33 million and $110 million, respectively, to USAID to administer Threshold and Compact programs. USAID receives these allocations as transfers-in and reports quarterly to MCC as the child. MCC also transfers an administrative fee to USAID for the purposes of administering the Threshold and Compact programs. Since FY 2008, these administrative fee transfers are not reported back to MCC.

NOTE 2—FUND BALANCE WITH TREASURY

The U.S. Treasury accounts for all U.S. Government cash on an overall consolidated basis. MCC is appropriated "general" funds only and maintains theses balances in the Fund Balance with Treasury. The general fund line items on the Balance Sheet for September 30, 2009 and 2008 consisted of the amounts presented in **Exhibit 13**. The status of the general fund balances is summarized by obligated, unobligated and Non-Budgetary fund balances in **Exhibit 14**.

Exhibit 13: Fund Balance with Treasury as of September 30

	September 30, 2009 (in thousands)	September 30, 2008 (in thousands)
Fund Balances		
General Funds	$6,655,512	$6,546,857
Total	**$6,655,512**	**$6,546,857**

Exhibit 14: Status of Fund Balance with Treasury as of September 30

	September 30, 2009 (in thousands)	September 30, 2008 (in thousands)
Status of Fund Balance with Treasury		
Unobligated Balance		
Available	$56,176	$782,006
Unavailable	730,927	181,507
Obligated Balance	$5,868,196	$5,583,344
Non-Budgetary FBWT	213	
Total	**$6,655,512**	**$6,546,857**

NOTE 3—ACCOUNTS RECEIVABLE, NET

Accounts receivable reflect overpayments of payroll, travel and other MCC current and former employee expenses. It also reflects substantiated disallowed MCA expenditures. MCC does not record an allowance for doubtful accounts as these expenses are deemed wholly collectible. Total receivables as of the end of FY 2009 and FY 2008 were approximately $90,000 and $55,000, respectively.

NOTE 4—GENERAL PROPERTY, PLANT AND EQUIPMENT (PP&E), NET

MCC's PP&E costs are the associated leasehold improvements made to its leased office space. MCC has made significant leasehold improvements to its office space and amortizes the improvements based on the in-service (invoice) date of the improvement. Amortization on that in-service improvement is calculated on a quarterly basis. The cost of these improvements for both FY 2009 and FY 2008 was $10.9 million. Accumulated depreciation was approximately $4.0 million and $2.8 million, respectively. The current book value is $6.95 million and $8.1 million for the periods ending September 30, 2009 and 2008, respectively. The useful life of the improvements is based on the lease terms: ten years for the Bowen building lease and eight years for the City Center building lease.

MCC's capitalization threshold for all other general property, plant and equipment must have an original cost of $50,000 or more and an estimated useful life of five or more years. MCC's software capitalization threshold defines a capitalized asset that has an original cost of $200,000 or more and an estimated useful life of five years or more and the information technology infrastructure capitalization threshold defines a capitalized asset as having an original cost of $200,000 or more and an estimated useful life of three years or more. These Thresholds reduce MCC's administrative costs associated with accounting for PP&E, and result in increased operational efficiency.

NOTE 5—ADVANCES

Advances reflect amounts provided to Compact countries and other Federal agencies in accordance with formal Compacts or inter-agency agreements. In order to appropriately depict a comparable analysis of 2008 activity, MCC reclassified its Federal advances separately from its non-Federal balances. MCC reported $38.9 million ($6.5 million, Federal and $32.4 million, non-Federal) and $42.6 million ($9.5 million, Federal and $33.1 million, non-Federal) in advances as of September 30, 2009 and 2008, respectively.

NOTE 6—LEASES

MCC leases office space in two adjacent locations in Washington, D.C. These operating leases are on ten year (Bowen Building) and eight year (City Center Building) lease terms that terminate on May 25 and May 26, 2015, respectively. The Bowen building lease increases approximately one percent each year of the lease term. The City Center building lease increases at a fixed level every three years until the termination of the lease.

MCC also has short term leases for one (1) corporate vehicle (through May 31, 2010) and for eighteen (18) office copier machines (through January 31, 2012) utilized in both buildings. The future lease payments due are depicted in the **Exhibit 15** below.

Exhibit 15: Operating Leases

Future Lease Payments Due (in dollars)			
Fiscal Year	**Bowen**	**City Center**	**Total**
FY 2010	5,557,542	1,889,524	7,447,066
FY 2011	5,613,117	1,942,376	7,555,493
FY 2012	5,669,249	1,942,376	7,611,625
FY 2013	5,725,941	1,942,376	7,668,317
FY 2014	5,783,201	1,995,229	7,778,430
FY 2015	5,841,033	1,995,229	7,836,262
Total Future Lease Payments	**$34,190,083**	**$11,707,110**	**$45,897,193**
Future Lease Payments Due (in dollars)			
Fiscal Year	**MCC Vehicle**	**MCC Copiers**	**Total**
FY 2010	5,009	55,821	60,830
FY 2011	0	55,821	55,821
FY 2012	0	55,821	55,821
Total Future Lease Payments	**$5,009**	**$167,463**	**$172,472**

NOTE 7—INTRAGOVERNMENTAL COSTS AND EXCHANGE REVENUE

The Statement of Net Cost reports the MCC's gross cost less earned revenues to arrive at net cost of operations. Costs have been illustrated by MCC funded programs. **Exhibit 16** shows the value of exchange transactions between MCC and other Federal entities, as well as non-Federal entities. Intra-governmental costs relate to transactions between the

MCC and other Federal entities. Public costs relate to transactions between the MCC and non-Federal entities. MCC does not have any exchange revenues.

Exhibit 16: Intra-governmental Costs and Exchange Revenue (in thousands)

	Compact	609(g)	Threshold	Due Diligence	Audit	Administrative	FY 2009 Total (in thousands)	FY 2008 Total (in thousands)
Intra-Governmental	16	-	5,683	6,601	2,022	14,512	28,834	19,089
Public	533,724	15,694	114,689	22,321	1,771	77,234	765,433	441,507
Total - Program	**$533,740**	**$15,694**	**$120,372**	**$28,922**	**$3,793**	**$91,746**	**$794,267**	**$460,596**

NOTE 8—ADJUSTMENTS TO BEGINNING BALANCE OF BUDGETARY RESOURCES

At the beginning of FY 2008, $12.6 million of amounts appropriated under the Foreign Operations, Export Financing and Related Programs Appropriations Act were rescinded. The rescission was part of the across-the-board rescission enacted for FY 2008. MCC was also subject to a mid-fiscal year 2008 rescission of $58 million. MCC was not subject to any rescissions in FY 2009.

NOTE 9—EXPLANATION OF DIFFERENCES BETWEEN THE STATEMENT OF BUDGETARY RESOURCES AND THE BUDGET OF THE U.S. GOVERNMENT

MCC ensures that the information reported in its books is reflected within the Budget of the U.S. Government. Since MCC's financial statements are published before the President's Budget, this reconciliation is based on the Statement of Budgetary Resources for FY 2008 and the FY 2008 actual data reported in the President's 2010 budget submission. Fiscal year 2009 actual data will be published in February 2010 within the 2011 Budget of the United States. No material differences were noted.

NOTE 10—UNDELIVERED ORDERS AT THE END OF THE PERIOD

Exhibit 17 presents Undelivered Orders, paid and unpaid, as of September 30, 2009 and 2008.

Exhibit 17: Undelivered Orders

Undelivered Orders	2009	2008
Administrative	27,268,537	27,302,437
Audit	1,131,689	2,180,340
609(g)	42,422,624	25,349,832
Due Diligence	60,123,947	49,203,177
Program	5,563,885,135	5,242,750,204
Threshold	148,518,787	238,174,754
Total	**$5,843,350,719**	**$5,584,960,744**

NOTE 11—RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET

Exhibit 18 reconciles the resources available to MCC to finance operations with the net cost of operating MCC's programs. Some operating costs, such as depreciation, do not require direct financing sources. This exhibit illustrates the reconciliation of Net Cost of Operations to Budget.

Exhibit 18: Reconciliation of Net Cost of Operations to Budget

Resources Used to Finance Activities		Program Costs	
Budgetary Resources Obligated			
Obligations Incurred	1,050,551,545	**Gross Costs**	794,267,415
Recoveries of prior year unpaid obligations	(1,029,114)		
Other financing resources	1,994,782		
Total resources used to finance activities	1,051,517,213		
Total resources used to finance items not part of the net cost of operations	(258,466,266)	**Less: Earned Revenue**	-
Total components of net cost of operations that will not require or generate resources	1,216,468		
Net Cost of Operations	**$794,267,415**	**Net Cost of Operations**	**$794,267,415**

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Summary of Financial Statement Audit and Management Assurances

In accordance with the requirements of OMB Circular A-136, MCC is required to prepare a summary of its financial statement audit. The FY 2009 Independent Auditor's report cited one material weakness in MCC's controls over mission activities and support. MCC resolved its FY 2008 material weakness. **Exhibit 19** provides a summary of the status of MCC Financial Statement Audit Material Weaknesses.

Exhibit 19: Summary of Financial Statement Audit

Audit Opinion	Unqualified				
Restatement	**No**				
Material Weaknesses	**Beginning Balance**	**New**	**Resolved**	**Consolidated**	**Ending Balance**
Quality Control Over Financial Reporting	1	-	1	-	0
Controls over Mission Activities and Support	0	1	-	-	1
Total Material Weaknesses	**1**	**1**	**1**	**-**	**1**

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Office of Inspector General

Mr. Darius Mans
Acting Chief Executive Officer
Millennium Challenge Corporation
875 15th Street, NW
Washington, DC 20005

November 16, 2009

Dear Mr. Mans:

The enclosed statement summarizes the Office of Inspector General's (OIG) conclusions on the most serious management and performance challenges facing the Millennium Challenge Corporation (MCC). Our decisions on which challenges to report were based primarily on audit, evaluation, or investigative work we have performed and additional analysis of MCC operations. More challenges may exist in areas that we have not yet reviewed, and other significant findings may result from further work.

The Reports Consolidation Act of 2000 (Public Law 106–531) requires that agency performance and accountability reports include a statement prepared by each agency's inspector general, summarizing the most serious management and performance challenges facing the agency and reporting the agency's progress in addressing those challenges. The enclosed statement will be included in MCC's fiscal year 2009 performance and accountability report or agency financial report.

We have discussed the management and performance challenges summarized in this statement with the responsible MCC officials. If you have any questions or wish to discuss the statement further, please contact me or Alvin Brown, the Assistant Inspector General for MCC.

Sincerely,

Donald A. Gambatesa /s/
Inspector General

Enclosure

U.S. Agency for International Development
1300 Pennsylvania Avenue, NW
Washington, DC 20523
www.usaid.gov/oig

Statement by the Office of Inspector General on the Millennium Challenge Corporation's Most Serious Management and Performance Challenges Fiscal Year 2009

The Office of Inspector General (OIG) has determined that the Millennium Challenge Corporation (MCC) faces management and performance challenges in the following areas:

- MCC Suspended, Terminated, and Canceled Planned Compact Activities
- Threshold Programs for Compact Eligibility
- Financial Management
- Information Technology Management

For fiscal year (FY) 2009, the Office of Inspector General (OIG) is reporting "MCC Suspended, Terminated, and Canceled Planned Compact Activities" and "Threshold Programs" as serious management and performance challenges for the first time. OIG initially reported challenges in the "Financial Management" and the "Information Technology Management" areas in FY 2008. While MCC has made some improvements in the areas of financial management and information technology management, both continue to represent serious management challenges for MCC.

We had reported "Implementation of Compacts" as a serious management challenge for MCC in FY 2008. At that time, MCC was experiencing serious management challenges due to the low rate of disbursements and the increasing costs associated with infrastructure projects. MCC has increased its rate of disbursements through the implementation of a new compact development process. As a result of these improvements, we have not included "Implementation of Compacts" as a serious management challenge for FY 2009. OIG will continue to monitor the implementation of compacts.

MCC Suspended, Terminated, and Canceled Planned Compact Activities

In 2009, MCC suspended, terminated, or canceled a total of $340 million in planned activities in 5 of the 19 compact countries because of political unrest in and around those countries. MCC has suspended or terminated activities because of the removal of democratically elected leaders (in two cases) and patterns of undemocratic actions involving the 2008 elections (in two other cases). As a result, activities totaling $152 million were terminated. In another case, a neighboring country would not allow the compact country to meet the compact requirements, which resulted in the cancellation of a $188 million project. During FY 2009, MCC has suspended, terminated, or canceled compact activities in the following countries:

- **Madagascar.** On March 17, 2009, Madagascar removed its democratically elected president from office. MCC's board determined that the nature of the actions taken represented a pattern of actions inconsistent with MCC's eligibility indicator for the

"Ruling Justly" category. As a result, MCC placed an operational hold on activities on March 20, 2009. The compact was terminated on August 31, 2009. As a result, MCC will deobligate $21 million to $23 million.

- **Honduras.** On June 28, 2009, Honduras removed its democratically elected president from office. The Government of Honduras (GOH) failed to address concerns regarding its commitment to democracy. MCC continued to assist the GOH with an agricultural irrigation project to maintain poverty reduction for the rural poor. In September 2009, the MCC board terminated a component of a rural roads rehabilitation project that had not yet begun, which resulted in a reduction of $11 million (approximately 5 percent) of the initial compact.

- **Nicaragua.** Because of a pattern of undemocratic actions involving elections in late 2008, MCC partially terminated its compact with Nicaragua. In February 2009, the MCC board voted to terminate funding for a property regularization project implemented by the Government of Nicaragua and for a major road rehabilitation activity that had not begun. MCC will complete the projects that were underway, including rehabilitation of roads that were already under contract and rural business development projects that have a direct impact on the rural poor. As a result of the termination, the total assistance was reduced by approximately $61 million (approximately 35 percent) of the initial compact of $175 million.

- **Armenia.** Because of a pattern of undemocratic actions involving elections in early 2008, MCC placed an operational hold on a rural roads rehabilitation project. The MCC board confirmed the operational hold in February 2009. MCC will continue the irrigated agriculture project to maintain poverty reduction for the rural poor. At this late stage in the compact, it will be impossible to restart the rural roads rehabilitation project. Accordingly, the initial compact amount of $235 million will be reduced by $59 million (approximately 25 percent).

- **Mongolia.** On April 27, 2009, the Government of Mongolia officially notified MCC of its need to cancel a rail project that had accounted for $188 million of the $285 million compact. The rail project was canceled because the Russian members of UBTZ, the joint Mongolian-Russian rail company, would not allow an audit of the company to proceed. Although MCC is considering alternative projects to fund in Mongolia, it has told the Government of Mongolia that there is no guarantee that all of the funds will remain in the compact.

The actions mentioned above represent very serious management challenges that will persist because of the nature of MCC's mission. MCC has established a set of indicators that a country must meet in order to become eligible for a compact. However, because MCC operates in the dynamic environments of developing countries, the political environment will be an ongoing management challenge as compacts are carried out over a 5-year period.

Threshold Programs for Compact Eligibility

As stated in our audit of the Threshold Program (M-009-003-P, April 29, 2009), MCC had provided about $440 million in funding for threshold programs to assist 12 countries to become compact eligible. However, we found no clear indication that the MCC Threshold Program was assisting countries in becoming compact eligible. For example:

- Eight of the 12 countries that will complete threshold programs as of the end of FY 2009 became compact eligible before completing their threshold programs (for those completed by the end of FY 2009). Three of the eight countries became eligible as early as 1 month before or after their threshold program started.

- Three of the 12 countries did not become compact eligible. Two of the three countries did not become eligible after completing their first threshold programs; instead, MCC approved another threshold agreement (stage II).

- One of the 12 countries received compact assistance about 11 months before its threshold program ended.

Some countries have also become compact eligible and received compacts without participating in the Threshold Program. MCC measured the program results by changes in the countries' "Control of Corruption" indicator scores, but the changes were not clearly attributable to MCC's efforts. MCC is reviewing the Threshold Program to determine whether the existing program can achieve the objective of helping countries become compact eligible.

Financial Management

For FY 2009—the sixth consecutive year—OIG has issued unqualified opinions on MCC's FY financial statements. Notwithstanding these unqualified opinions and the progress that MCC has made in establishing and maintaining financial management processes, MCC's quality control over quarterly and yearend financial reporting is not sufficient to enable it to detect errors and misstatements and to make corrections in a timely manner. MCC does not perform sufficiently detailed quality-control reviews over yearend MCC trial balances and financial statements submitted for review and audit.

The vast majority of MCC's activities and expenses occur in the compact and threshold programs. These programs are implemented by MCC's Millennium Challenge Account (MCA) entities and USAID's overseas missions. MCC did not adequately monitor these organizations' ongoing activities or the financial information being reported on its own financial statements. The MCA entities responsible for implementing the compact programs, as well as the USAID missions responsible for implementing MCC's threshold programs, did not respond adequately to requests for supporting documentation for expenses reported to MCC. During our audit, we noted the following weaknesses:

- **MCA Audits Lack Timely Completion and Monitoring.** Audits performed by independent auditors of the controls, transactions, and balances of MCA entities have not been completed and submitted to OIG in a timely manner. In addition, MCC has not monitored the start and completion of these audits adequately to ensure a timely submission of audit reports and notification of findings. This situation increases MCC's risk of not being informed of MCA entity activities that would affect timely preparation of financial statements.

  To ensure sufficient internal control over the MCA entities, MCC requires semiannual audits to be conducted for the 6-month periods ending in June and December of each year. The audit results assure MCC of the validity and accuracy of payments and advances that are processed for the MCA entities and reported in its financial statements. This assurance is needed because neither MCC nor its accounting service provider, the U.S. Department of Interior's National Business Center, reviews or maintains invoices and other underlying supporting documentation for transactions. Instead, MCC relies on approved request documents submitted by personnel of the MCA entity.

- **Transactions Lack Adequate Documentation.** MCA entities and threshold missions did not provide or respond to requests for supporting documentation in a timely manner for all expenses and undelivered orders. The audit team informed MCC that, prior to yearend testing, documentation would be requested from MCA entities and threshold missions to substantiate yearend balances and that responses would be required within 5 days to meet tight audit deadlines. This detailed written information was communicated to all points of contact for MCA entities and USAID threshold missions.

  Upon submission of the supporting documents, some MCA entities and threshold missions responded in a timely manner, but others provided incorrect or insufficient documentation or none at all. MCC was advised of the lack of responses and in turn sent several emails to MCA entities and threshold missions requesting their cooperation. However, significant numbers of transactions remained unsupported at the conclusion of audit fieldwork. These issues were raised, and recommendations made, in the audit of MCC's FY 2009 Financial Statements (M-000-010-001-C, November 16, 2009).

In conclusion, MCC officials commented that MCC will implement measures to improve quality control in accordance with OIG's recommendations.

Information Technology Management

Although MCC has made improvements to strengthen its information security program, it is still not fully compliant with the key components of the Federal Information Security Management Act of 2002 (FISMA). FISMA requires agencies to (1) develop, document, and implement agencywide information security programs to protect their information and information systems, including those provided or managed by another agency, contractor, or other source; (2) obtain an annual independent evaluation of information security programs and practices; and (3) assess compliance with the requirements of the act. Although MCC is making progress in complying with these requirements, weaknesses remain.

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MCC developed and implemented a comprehensive plan that addressed all but one of the FY 2008 FISMA audit findings. However, the FY 2009 FISMA audit found several areas in which MCC needs to strengthen existing policies and develop procedures to fully comply with requirements of the National Institute of Standards and Technology and the Office of Management and Budget. MCC noted that it has a comprehensive plan to address all of the FY 2009 FISMA audit findings by April 2010.

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Memorandum

TO: Alvin A. Brown
Assistant Inspector General

FROM: Michael Casella /s/
Acting Vice President, Administration and Finance

DATE: November 13, 2009

SUBJECT: Management Response to Statement by the Office of Inspector General (OIG) on the MCC's Most Serious Management and Performance Challenges Fiscal Year 2009

We wish to thank the OIG for their recognition of the progress the MCC has made in its implementation of compacts and our efforts to increase the disbursement rates. In its FY 2009 Statement of MCC's Most Serious Management and Performance Challenges, the OIG notes four items:

- MCC Suspended, Terminated, and Canceled Planned Compact Activities
- Threshold Programs for Compact Eligibility
- Financial Management
- Information Technology Management

We agree with OIG's assessment that the unpredictable political environment in our partner countries will be an ongoing challenge for management and the MCC Board of Directors. One of MCC's founding principles is that aid is most effective when it reinforces good governance. MCC will continue to abide by this principle as we deal with current and future political challenges.

The Threshold program has a portfolio of 21 programs, several of which have recently concluded. Due to the varying breadth of activities, countries and implementers, we are reviewing the program, its intentions, and measures of success. A full report will be presented to the MCC Board in FY 2010.

We also agree with the OIG's FY 2009 audit findings and recommendations related to financial management. While MCC has received unqualified audit opinions since inception and has made great progress in establishing its financial management environment, we acknowledge that further improvement is needed.

In FY 2010, we will focus on increased quality control both internally, and with our implementing partners in compact countries and at USAID.

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This document is produced in accordance with Section 613 of the Millennium Challenge Act of 2003, codified at 22 U.S.C. §§7701, 7707 (a). Every effort has been made to produce this document in a cost-efficient, user- and environmentally-friendly manner based on industry best practices and government printing protocols. The paper used to print this document includes a minimum of between 10 percent (cover paper) and 30 percent (interior paper) postconsumer fiber as mandated by the U.S. Congress Joint Committee on Printing. To reduce costs, waste, and environmental impact, this document is made available on MCC's website at http://www.mcc.gov/annualreport.

Reducing Poverty Through Growth

MILLENNIUM
CHALLENGE CORPORATION
UNITED STATES OF AMERICA

2010-001-0020-07