Millennium Challenge Corporation

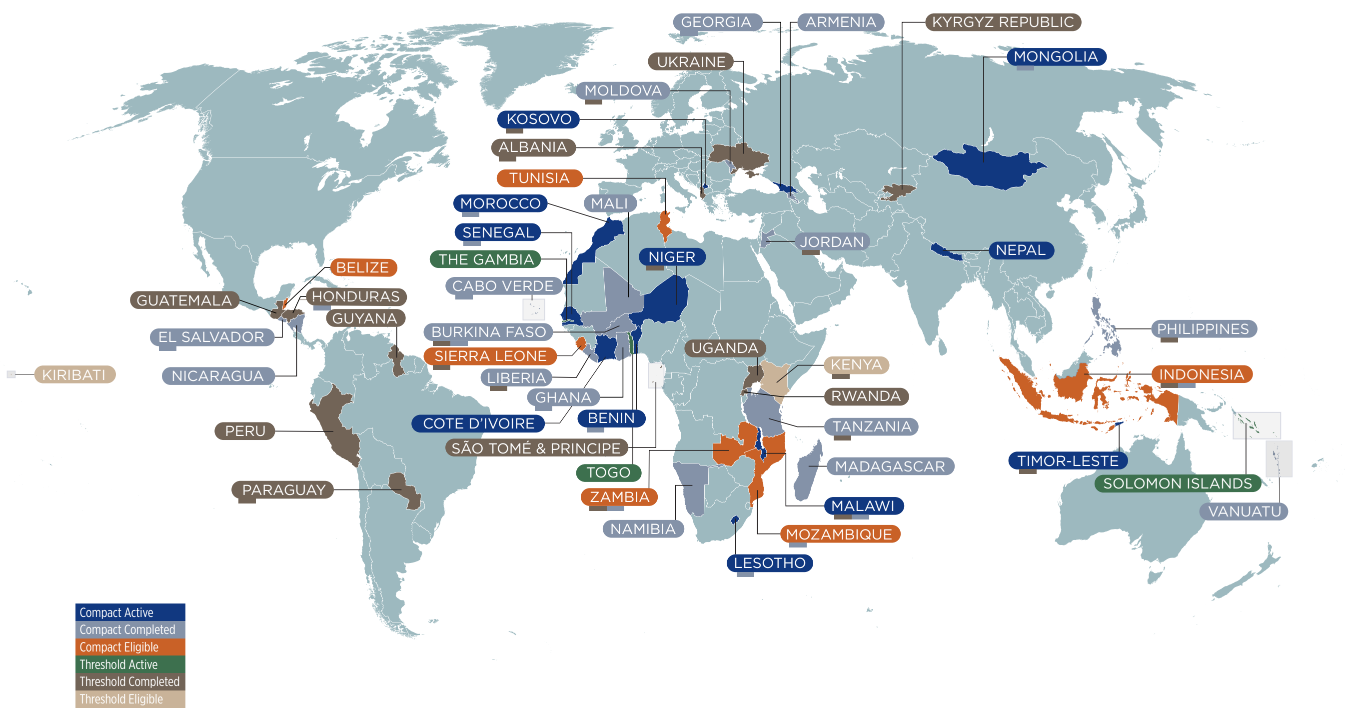
# Annual Management Report

## Fiscal Year 2022

MILLENNIUM
CHALLENGE CORPORATION
UNITED STATES OF AMERICA

MILLENNIUM CHALLENGE CORPORATION
UNITED STATES OF AMERICA

# Compact, Threshold Program and Eligible Countries




Country name badge and map color denote current status (blends indicate multiple, concurrent status), rectangular badges denote previous status.

MILLENNIUM CHALLENGE CORPORATION

UNITED STATES OF AMERICA

# Annual Management Report

## Fiscal Year 2022

October 1, 2021 - September 30, 2022

# Contents

# Introduction

The Annual Management Report (AMR) for the Millennium Challenge Corporation (MCC) for fiscal year (FY) 2022 provides the results that enable the President, Congress, and the American people to assess MCC's performance for the reporting period beginning October 1, 2021 and ending September 30, 2022. In particular, the AMR provides an overview of MCC's programs, accomplishments, and challenges, and its management's accountability over the resources entrusted to MCC. This report was prepared in accordance with the requirements of the Government Corporations Act and supplemented by the requirements of the Office of Management and Budget (OMB) Circular No. A-136, Financial Reporting Requirements.

MCC will prepare an Annual Performance Report (APR) for FY 2022 that will be incorporated into MCC's FY 2024 Congressional Budget Justification (CBJ). The APR, along with the CBJ, is projected to be posted on MCC's website in February 2023. Together, the AMR and APR provide a comprehensive presentation and disclosure of important financial and programmatic information related to MCC's operations and results, including a fair assessment of MCC's leadership and stewardship of the resources entrusted to the agency. Not later than March 31, 2023, MCC will also provide further information related to its activities in an Annual Report to Congress.

All of these reports and related materials will also be made available to the public on MCC's website at www.mcc.gov.

## Organization of This Report

The FY 2022 AMR includes a message from the Chief Executive Officer (CEO), followed by three sections and one appendix:

- **Section I: Management's Discussion and Analysis** integrates performance and financial information with key performance results, financial statements, systems and controls, compliance with laws and regulations, and actions taken or planned to address problems.
- **Section II: Financial Section** contains the financial statements and accompanying notes, and the independent auditor's report.
- **Section III: Other Information** includes MCC's Summary of Financial Statement Audit and Management Assurances, MCC's Payment Integrity Report, and MCC's climate related financial risk.
- **Appendix A** includes a list of acronyms used in this report.

**For more information about MCC, visit its website at http://www.mcc.gov**

# Message from the Millennium Challenge Corporation's Chief Executive Officer

*November 15, 2022*

Fiscal Year 2022 was a record year for Millennium Challenge Corporation.

The agency signed compacts with Lesotho ($300 million), Timor-Leste ($420 million) and Kosovo ($202 million), as well as Malawi ($350 million), which we celebrated on September 28 with Secretary of State Antony Blinken and President Lazarus Chakwera. Beyond the compacts, MCC signed threshold program agreements with the Solomon Islands ($20 million) and The Gambia ($25 million). In sum, the Agency signed more than $1.3 billion in assistance in FY22.

Additionally, MCC's Board of Directors approved the agency's first concurrent regional compacts with Benin and Niger on September 27. Once the two component compacts are signed later this year, the overall level of assistance that the agency will have delivered by the end of December 2022 is expected to reach $1.8 billion, approximately three times the historical level of signings for similar timeframes. The regional compact is the first-of-its-kind and is designed to reduce transportation costs and increase regional integration along the corridor between the Port of Cotonou in Benin and Niamey, Niger.

All told, these investments are expected to benefit more than 13 million people across Africa, the Balkans, and the Indo Pacific in critical sectors such as climate, food security, inclusion and gender.

This year, in anticipation of its twentieth birthday, MCC has adopted a range of strategic and operational targets that will update and refresh the agency as it heads into its next chapter, all captured under "MCC@20." One of the key goals of MCC@20 is to accelerate timelines across the agency's work. As an example, following the Board's selection of Zambia and Belize for compacts in December 2021, the agency has undertaken a compressed approach to compact development for these two countries.

MCC also launched a new Inclusion and Gender Strategy, deepening the Agency's commitment to increase the ability of low income people, women, and other marginalized groups to access and derive benefits from our investments. Coupled with our new Diversity, Equity, Inclusion, and Accessibility (DEIA) five-year strategic plan launched in May, MCC will continue to make strides to create a more equitable society both here at home and abroad.

I am pleased to share MCC's Annual Management Report(AMR) for FY22 and Management's Responsibility for Enterprise Risk Management (ERM) and Internal Control - as per the requirements of the Federal Managers' Financial Integrity Act of 1982 and Office of Management and Budget Circular-A-123. Both reports concluded that there are no material weaknesses and the financial and performance data presented reasonably and fairly represent the results of MCC's operation.

Eight months into my tenure as Chief Executive Officer, I am struck again and again by how powerful the agency's cost-effective and data-driven approach to development is. I could not be more proud of how the staff at MCC has stepped up in FY22 and continues to work on additional ways we deploy this unique model and deliver impact more quickly and in more places. I remain grateful to our staff and stakeholders, who continue to champion our work around the globe as we work to reduce poverty through sustainable and inclusive economic growth.

Sincerely,

**Alice P. Albright**
Chief Executive Officer
Millennium Challenge Corporation

# Management's Discussion and Analysis

(Unaudited)

# Mission, Values and Organizational Structure

## Mission

The Millennium Challenge Act of 2003, 22 United States Code (U.S.C.) §§7701-7718, established MCC as a government corporation, as defined in 5 U.S.C. § 103. MCC's mission is to reduce poverty by supporting sustainable and inclusive economic growth in select developing countries that demonstrate a commitment to ruling justly, economic freedom, and investing in people.  Ruling justly includes democratic rights and the rule of law, respect for human and civil rights, protection of private property rights, transparency and accountability in governance, and a commitment to fighting corruption. Economic freedom covers policies that enable citizens and firms to participate in global capital markets, promote private sector growth, and limit direct government interference in the economy. Investing in people encompasses investments in education and health care for a country's own citizens, with a particular emphasis on women and children.[1]

MCC achieves its mission by providing grant assistance for programs that focus on the binding constraints to economic growth in partner countries, coupled with policy and institutional reform support to deliver sustainable impact. MCC's approach employs development best practices on selection, country ownership, transparency, and accountability; stimulates policy reform with analysis and data-driven decision-making; and leverages partnerships with donors, the private sector, and other federal agencies engaged in foreign assistance.

Specifically, MCC provides assistance through three types of grants:

- ***Compact programs*** are bilateral programs with a country that meets MCC's eligibility criteria and is selected for assistance by MCC's Board of Directors. The compact establishes a five-year implementation plan of partnership between the country and MCC to achieve shared development objectives. The compact establishes an assistance program designed to reduce poverty through sustainable economic growth and is built on the principles of country ownership, transparency, and accountability, with input from the private sector, partner governments, other development partners, and civil society organizations.  The compact defines each party's responsibilities and includes benchmarks, timetables, and performance goals and metrics.

- ***Threshold programs*** are programs for countries that have shown political will and commitment toward improving their policy performance but have not been selected for a compact by MCC's Board of Directors. Thresholds are smaller in size than compacts and support policy and institutional reforms through technical assistance, capacity building, and selected pilot projects. MCC uses a rigorous, structured diagnostic process to develop threshold programs prior to program design and implementation.

- ***Regional compacts*** are programs that facilitate regional integration or cross-border collaborations. Congress provided MCC concurrent compact authority in 2018 which further enables the agency to promote trade and investment, economies of scale, access to larger markets, and more efficient production. MCC is finalizing the development of two regional programs – one is a road and trade program involving Benin and Niger and the second is an energy program involving Côte d'Ivoire and the West African Power Pool.

MCC's grants are "high-quality" in that they are large, predictable, multi-year and do not add to a country's debt burden. MCC's governing statute requires MCC to provide assistance in a manner that promotes economic growth and the elimination of extreme poverty. MCC's programs thus focus on the binding constraints to economic growth in a country through a combination of infrastructure, policy, and institutional reform. Typically, this has included work in the following sectors: energy; transportation; infrastructure (road, water and air); water

1 MCC's statute, § 607(b)(3)(C).

supply and sanitation; agriculture and irrigation; governance and land; financial services; and health, education and community services.

Country ownership is a core MCC principle. MCC's engagement with a partner country often stands as a cornerstone of the U.S. economic relationship in that country – visible proof that U.S. economic assistance leads to tangible results – and helps to create a more attractive environment for private sector led growth. Partner countries generally also make a financial and/or in-kind contribution, a signal of their commitment and ownership of the programs. In an increasingly globalized economy, these investments are a down payment on poverty reduction, increased growth, and stability as well as market opportunities for American businesses.

MCC works closely with the Department of State, the United States Agency for International Development (USAID), United States International Development Finance Corporation (DFC) and other agencies to ensure that MCC programs complement related U.S. Government (USG) efforts and therefore maximize the impact of both MCC and the USG around the world. Strengthening the next generation of emerging markets that will trade and do business with U.S. companies leads to job creation in the United States. As emerging economies prosper in an inclusive manner, they become more stable and secure, a result that promotes U.S. national security interests.

## Values

MCC's values define how we operate on a daily basis, both as individuals and as an institution, in pursuit of MCC's mission. Our values identify who we are and what is important to us. They guide how we make decisions, set priorities, address challenges, manage trade-offs, recruit and develop staff, and work together with our partner countries and stakeholders.

MCC's values are **CLEAR**:

**Embrace Collaboration** — We work together toward clear, common goals with a spirit of creativity and teamwork. We believe that bringing different perspectives to the table leads to the best solutions.

**Always Learn** — We question assumptions and seek to understand what works, what doesn't, and why. We recognize that failing to reach a goal can be an important learning opportunity, and we apply and share those lessons broadly.

**Practice Excellence** — We envision MCC as a leader in global development, and we have high standards for ourselves, our partner countries, and the investments we make. We bring out the best in ourselves and in one another to advance the fight against global poverty.

**Be Accountable** — We own our actions, are honest about our limits and missteps, and hold ourselves and each other responsible for good performance. We are transparent and explain our decisions.

**Respect Individuals and Ideas** — We are inclusive, act with humility, and value diverse ideas. We listen and foster strong working relationships with our colleagues at MCC, in our partner countries, and throughout the development community.

## Organizational Structure

### Board of Directors

MCC is overseen by a nine-member Board of Directors that is chaired by the Secretary of State. The Board of Directors also includes the Secretary of the Treasury, who acts as the Vice Chair, the U.S. Trade Representative, the USAID Administrator, MCC's CEO, and four private sector representatives appointed by the President of the United States with the advice and consent of the U.S. Senate. The Board of Directors generally meets four times each year. Among other responsibilities, the Board provides policy guidance to MCC, makes annual eligibility and selection determinations, and approves compact and threshold programs.

### Executive Offices

MCC accomplishes its mission through the executive offices contained in the following organizational chart as of September 30, 2022:

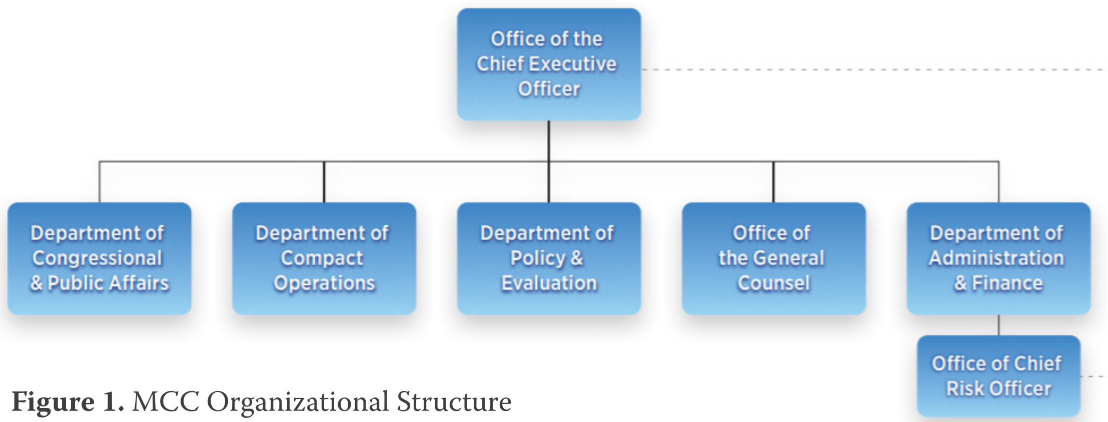



**Figure 1.** MCC Organizational Structure

Additional details regarding responsibilities of the executive offices may be found at https://www.mcc.gov/about/org-chart.

# Performance Goals, Objectives, and Results

MCC's mission is to reduce poverty through economic growth, and the agency utilizes an innovative and tested approach to carry out this mission. MCC's operations are guided by its founding principles that remain as relevant today as at the time of the agency's inception 18 years ago. These principles are centered on a competitive selection process that reflect American values and the conditions for economic growth; a business-like approach with bedrock commitments to data, accountability, cost-benefit analysis and evidence-based decisions, and a laser-focus on creating the right circumstances for private investment.  In short, MCC focuses on "what works."

MCC's competitive selection process, using a "scorecard" with externally available metrics, assesses candidate countries in the three categories of ruling justly, economic freedoms, and investing in people. MCC thus works in countries that are committed to democratic governance and rewards transparency and accountability. Specifically, MCC's rigorous selection process creates an incentive for countries to improve their policy performance, while also targeting MCC's funding to those countries most likely to use it well.

To achieve maximum impact and value for money, MCC holds itself to a high standard of accountability for achieving results. MCC's focus on transparency and accountability for results has been consistently recognized. In July 2022, the Aid Transparency Index ranked MCC as the fifth most transparent donor in the world and as the most transparent bilateral donor. In November 2021, Results for America released the 2021 Invest in What Works Federal Standard of Excellence Report, an annual scorecard for how federal agencies use evidence and data to achieve better results. For the sixth consecutive year, MCC received the highest score of all federal agencies featured in the report for having built the infrastructure necessary to be able to use data, evidence and evaluation in budget, policy and management decisions.

An APR will be provided as part of MCC's FY 2024 CBJ, which is projected to be made available in February 2023. A high-level summary of MCC's strategic direction and performance during FY 2022 follows.

## Strategic Direction

MCC established the following corporate priorities for FY 2022 to guide agency activities:

- ***Design, Deliver, and Evaluate High-Quality Compacts, Threshold, and Regional Programs:*** *Identify, track, and achieve key milestones in a timely manner with country partners to develop, implement, and evaluate compact, threshold and regional programs on schedule. In FY 2022, MCC launched the new MCC Evidence Platform – a one-stop-shop to access the agency's results, data, and learning – to ensure that MCC remains at the forefront of transparency and accountability for results.*
- ***Accelerate Drive to Achieve "Quality" Economic Growth that is Sustainable, Inclusive, and Private sector-led:*** *Identify, design, and implement opportunities to crowd in private investment in and around MCC programs and projects to maximize scale and impact .*
- ***Drive and Enhance MCC's/Accountable Entities' Agility, Responsiveness to Countries' Development Needs, and Operational Efficiencies and Effectiveness in Programs:*** *Enhance, streamline and modernize MCC's operations to increase impact and resilience and better manage risk and strengthen MCAs' ownership of programs and accountability for implementation and results.*
- ***Refine MCC's Human Capital and Resource Capabilities and Foster a Diverse, Equitable, Inclusive Culture:*** *More effectively recruit, deploy, and retain resources to meet MCC's mission and achieve program objectives, including the ability to scale and resource the evolving scope and impact of MCC programs and projects.*
- ***Prepare for MCC@20 to Deliver High Impact:*** *As MCC approaches 20 years since being established, this priority will help lay the foundation for a relevant and high-impact MCC@20 approach, including work to identify where MCC can have the most impact in pursuing our mandate, how to strengthen our positioning and partnerships and any necessary enhancements to our model for the future.*

The FY 2022 corporate priorities are reflected in the work and activities discussed in this AMR.

## Snapshot of MCC Portfolio and Programming

As of September 30, 2022, MCC is engaged in partnerships across 28 programs with 25 countries (including compacts and threshold programs). Table 1 displays the number of programs in the development and implementation phases of compacts and threshold programs.

| Table 1. MCC Portfolio as of September 30, 2022 |
|---|
| 9 Compacts in development, including 2 Regional concurrent compacts |
| 6 Compacts in pre-implementation |
| 7 Compacts in implementation |
| 2 Thresholds in development |
| 4 Threshold in implementation |

In FY 2022, MCC's compact with Ghana entered the closeout period and the threshold program with Guatemala closed.

Table 2 displays grant totals, net of de-obligated amounts, for every MCC compact signed since the agency's inception in 2004 through September 30, 2022.

**Table 2. Value of Compact Grants as of September 30, 2022 (in thousands)**

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Value of Closed Compact Grant Since Agency Inception as of September 30, 2022 (in thousands)** | | | | | | | |
| Total | $ | 9,266,369 | | | | | |
| **Value of Compact Grants in Implementation as of September 30, 2022 (in thousands)** | | | | | | | |
| Total | $ | 3,046,715 | 100.0% | | | | |
| Senegal II | $ | 550,000 | 18.1% | Benin II | $ | 391,000 | 12.8% |
| Côte d'Ivoire | $ | 536,740 | 17.6% | Mongolia II | $ | 350,000 | 11.5% |
| Morocco II | $ | 460,500 | 15.1% | Ghana II | $ | 315,851 | 10.4% |
| Niger | $ | 442,624 | 14.5% | | | | |
| **Value of Compact Grants Signed but yet to Enter-into-Force as of September 30, 2022 (in thousands)** | | | | | | | |
| Total | $ | 2,222,000 | 100.0% | | | | |
| Nepal | $ | 500,000 | 22.5% | Malawi II | $ | 350,000 | 15.8% |
| Burkina Faso II | $ | 450,000 | 20.3% | Lesotho II | $ | 300,000 | 13.5% |
| Timor Leste | $ | 420,000 | 18.9% | Kosovo | $ | 202,000 | 9.1% |

Table 3 displays grant totals, net of de-obligated amounts, for every MCC threshold signed since the agency's inception in 2004 through September 30, 2022.

**Table 3. Value of Threshold Grants as of September 30, 2022 (in thousands)**

| | | | | | |
|---|---|---|---|---|---|
| **Value of Closed Threshold Grants as of September 30, 2022 (in thousands)** | | | | | |
| Total | $ | 551,460 | | | |
| **Value of Threshold Grants in Implementation as of September 30, 2022 (in thousands)** | | | | | |
| Total | $ | 129,000 | | | |
| Kosovo | $ | 49,000 | The Gambia | $ | 25,000 |
| Togo | $ | 35,000 | Solomon Islands | $ | 20,000 |

In total, 31 countries have received funding through 42 compacts and 28 countries have received funding through 30 threshold programs. A full listing of MCC's past and present programs may be found at https://www.mcc.gov/where-we-work.

# MCC's Approach to Defining and Measuring Results

## Overview

MCC is committed to defining, achieving, and measuring results; holding itself accountable for those results; transparently reporting results, data, and evaluation lessons; and learning from the evidence to improve current and future programs. To fulfill this commitment, data-driven decision-making and monitoring and evaluation are integrated into the entire program lifecycle, from country selection to program conceptualization, to implementation and beyond. For additional information, visit https://www.mcc.gov/our-impact.

## Monitoring Program Performance

MCC monitors progress by using performance indicators that measure progress at all levels. Lower-level process and output-level indicators are typically drawn from project and activity work plans, whereas higher-level targets are often linked directly to the economic rate of return analysis. MCC reviews monitoring data quarterly to assess progress toward project objectives and integrate this information into project management decisions. Data for performance monitoring and reporting usually comes from project implementers, and administrative data provided by implementing entities. Monitoring data undergoes regular quality checks to ensure integrity and accuracy.

MCC supports comprehensive, high-quality data collection conducted by local resources. Program funds are frequently used for surveys fielded by both private firms and national statistical agencies and other government entities. All the data collected, whether from surveys or implementers, undergoes regular quality checks that are monitored by MCC to ensure integrity and accuracy.

MCC aggregates results and program outputs in key sectors to measure progress in those areas across its entire investment portfolio. Currently, MCC calculates aggregate program results on a quarterly basis in six sectors: agriculture and irrigation, education, land, power, transportation and water, sanitation, and hygiene.

Table 4 presents MCC's program results across a set of output indicators as of June 30 in 2022, 2021, and 2020, respectively. The table aggregates country-specific and achievement and performance on targets by sector. It represents only a fraction of the performance data that MCC collects and assesses on a quarterly basis. MCC and the accountable entities in its partner countries collaborate to establish targets for all indicators they track. MCC assesses performance data across all programs on a quarterly basis and, where necessary, takes action to address deficiencies, mitigate risks, and ensure that the compacts use U.S. taxpayer funding effectively and responsibly.

Additional data on these sectors may be found on MCC's website under Sector Results and Learning located here: https://www.mcc.gov/our-impact/sector-results.

**Table 4: Program Results by Sector on Select Output Indicators for FYs 2022, 2021, and 2020**

| | | Cumulative | Actual | | | Performance on Targets | | |
|---|---|---|---|---|---|---|---|---|
| | | Target Through FY 2022 | As of June 30, 2022 | As of June 30, 2021 | As of June 30, 2020 | As of June 30, 2022 | As of June 30, 2021 | As of June 30, 2020 |
| **Sector - Agricultural and Irrigation** | | | | | | | | |
| Indicator: | Farmers Trained | 378,128 | 409,443 | 405,482 | 405,482 | 108% | 110% | 110% |
| Indicator: | Enterprises assisted | 3,565 | 4,224 | 4,224 | 4,224 | 118% | 119% | 119% |
| Indicator: | Value of agricultural and rural loans (dollars in millions) | $87 | $87 | $87 | $87 | 100% | 100% | 100% |

| Table 4: Program Results by Sector on Select Output Indicators for FYs 2022, 2021, and 2020 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | Cumulative | Actual | | | Performance on Targets | | |
| | | Target Through FY 2022 | As of June 30, 2022 | As of June 30, 2021 | As of June 30, 2020 | As of June 30, 2022 | As of June 30, 2021 | As of June 30, 2020 |
| Indicator: | Hectares under new or improved irrigation | 295,184 | 203,963 | 203,963 | 203,963 | 69% | 70% | 70% |
| Countries Tracked: | Armenia, Burkina Faso, Cabo Verde, El Salvador, El Salvador II, Georgia, Ghana, Honduras, Indonesia, Madagascar, Mali, Moldova, Morocco, Mozambique, Namibia, Nicaragua, Niger, Senegal | | | | | | | |
| **Sector - Education** | | | | | | | | |
| Indicator: | Educational facilities constructed or rehabilitated | 1,046 | 844 | 844 | 842 | 81% | 93% | 92% |
| Indicator: | Students participating in MCC-supported education activities | 421,225 | 291,185 | 291,144 | 248,266 | 69% | 103% | 88% |
| Countries Tracked: | Burkina Faso, Côte d'Ivoire, El Salvador, El Salvador II, Georgia II, Ghana, Mongolia, Morocco, Morocco II, Namibia | | | | | | | |
| **Sector - Land** | | | | | | | | |
| Indicator: | Stakeholders trained | 28,950 | 78,495 | 78,064 | 78,064 | 271% | 256% | 256% |
| Indicator: | Land administration offices established or upgraded | 272 | 399 | 399 | 399 | 147% | 143% | 143% |
| Countries Tracked: | Benin, Burkina Faso, Cabo Verde II, Ghana, Indonesia, Lesotho, Madagascar, Mali, Mongolia, Morocco II, Mozambique, Namibia, Niger, Senegal | | | | | | | |
| **Sector - Power** | | | | | | | | |
| Indicator: | Kilometers of electricity lines upgraded or built | 6,212 | 5,993 | 5,656 | 4,924 | 96% | 91% | 79% |
| Indicator: | Megawatts of installed Generation Capacity | 6,285 | 6,272 | 6,192 | 6,192 | 100% | 114% | 114% |
| Countries Tracked: | Benin II, El Salvador, Ghana, Ghana II, Indonesia, Liberia, Malawi, Senegal II, Tanzania | | | | | | | |
| **Sector - Transportation** | | | | | | | | |
| Indicator: | Kilometers of roads under works contracts | 4,252 | 4,260 | 4,043 | 3,960 | 100% | 103% | 100% |
| Indicator: | Kilometers of roads completed | 3,745 | 3,563 | 3,035 | 3,035 | 95% | 85% | 85% |
| Countries Tracked: | Armenia, Burkina Faso, Cabo Verde, Côte d'Ivoire, El Salvador, El Salvador II, Georgia, Ghana, Honduras, Mali, Moldova, Mongolia, Mozambique, Nicaragua, Niger, Philippines, Senegal, Tanzania, Vanuatu | | | | | | | |
| **Sector - Water and Sanitation** | | | | | | | | |
| Indicator: | Individuals trained in social and behavior change | 44,009 | 73,116 | 73,116 | 73,116 | 166% | 166% | 166% |
| Indicator: | Water points constructed | 1,239 | 1,191 | 1,191 | 1,191 | 96% | 96% | 96% |
| Countries Tracked: | Cabo Verde II, El Salvador, Ghana, Indonesia, Lesotho, Mozambique, Zambia | | | | | | | |

## Evaluating Program Performance and Results

MCC's programs aim to reduce poverty, while spurring entrepreneurship and economic growth and helping build more stable, accountable, and inclusive societies. With a data-driven, evidence-based approach to decision-making, MCC invests heavily in tracking the outcomes of its programs. Every MCC project is evaluated by independent, third-party entities, to assess the quality of implementation, assess the achievement of the project objective and other intermediate results, and compare measured benefits with project costs. These evaluations continue beyond the program implementation period to assess long-term results. Roughly 36 percent of the evaluation portfolio consists of impact evaluations, whose methodology allows for measured results to be directly attributed to MCC's investment. The remainder are performance evaluations, which assess the contribution of MCC's investment to changes in targeted outcomes. MCC supports comprehensive, high-quality data collection conducted by local resources to inform these evaluations. Program funds are frequently used for surveys fielded by both private firms and national statistical agencies and other government entities. All the data collected, whether from surveys or implementers, undergoes regular quality checks that are monitored by MCC to ensure integrity and accuracy.

## Country Selection Process

The MCC Board of Directors selects countries to be eligible for MCC assistance. For a country to be selected for an MCC assistance program, it must demonstrate commitment to ruling justly, economic freedom and investing in its people. MCC's Board of Directors examines this commitment primarily by consulting annual country "scorecards" of policy performance comprised of 20 independent, third-party, objective indicators, as well as relevant supplemental information. It then considers the overall opportunity to reduce poverty and generate economic growth in a country, as well as the funding available.

MCC's country selection process relies heavily on these public, data-driven country scorecards, which allow Congress, taxpayers, beneficiaries, and other stakeholders to hold the agency accountable for its decisions. Additional information on MCC's selection process and criteria, including country scorecards and selection indicators may be found at https://www.mcc.gov/who-we-select.

## MCC Effect

MCC's approach to country selection encourages all candidate countries—and not just MCC partner countries—to improve their economic and social policies before MCC grants a single dollar, in the hope of qualifying for an MCC program. This clear incentivizing effect is called the "MCC Effect." MCC sees this effect when government and civil society groups contact MCC or indicator institutions to learn about and improve their scorecard performance.

A number of countries have set up teams within their governments dedicated to improving their scorecard performance in the hope of qualifying for an MCC program. An independent global survey of development stakeholders found that they repeatedly identified MCC's eligibility criteria as among the most influential external assessments of government performance. Many countries also regard their MCC scorecard performance as a stamp of approval that signals to their citizens and the private sector that the country is well governed. More information about the MCC Effect can be found at https://www.mcc.gov/who-we-select/mcc-effect.

## Compact Development, Implementation, and Closure

Countries seeking to sign a compact with MCC must first be selected as eligible for compact assistance by MCC's Board of Directors, based on the process described above. Several principles are key to ensuring countries develop successful compact proposals. Eligible countries should demonstrate **country ownership and commitment** by providing leadership, mobilizing resources, and engaging broad groups of stakeholders and potential beneficiaries throughout the compact development process. Countries should directly address constraints to poverty-reducing **economic growth**, even when doing so may involve difficult public policy decisions. Compact programs should be based upon a strong program logic that clearly ties proposed projects to **measurable results** and **high**

**economic returns** to be achieved by increasing incomes and wellbeing for beneficiaries. Well-developed compact programs also have **manageable technical, financial, environmental, and social risks** and allow for timely implementation within a fixed, five-year term, given each country's own oversight and management capacities.

# Looking Forward

MCC remains focused on its strategic direction established for FY 2022 and its core investments in compacts, threshold programs, and concurrent regional compacts. As the agency prepares for MCC@20, to maximize the impact of MCC investments and adapt to challenges facing emerging economies including the adverse impact of the COVID-19 pandemic, MCC has identified three strategic priorities - climate, gender and inclusion, and catalyzing private sector investment.

## New Compacts and Threshold Programs

In December 2021, MCC's Board of Directors selected Belize and Zambia as eligible to develop new compact programs. Zambia is a previous partner country, having completed a threshold program in 2009 and a compact in 2018. The Board also re-selected Indonesia, Lesotho, Malawi, Mozambique, Sierra Leone, and Timor-Leste for compact development; and Kenya and Kiribati for threshold program development. Additionally, the Board re-selected three partner countries – Benin, Côte d'Ivoire, and Niger – for continued concurrent regional compact development. Though Kosovo is not eligible for re-selection due to its status as an upper middle-income country, the Board approved a resolution reaffirming support for continued compact development. However, due to Benin's overall multi-year decline in its commitment to MCC's eligibility criteria and the principles of democratic governance, the Board discussed and endorsed MCC's determination to significantly reduce the portion of the planned regional investment that would be made in Benin through a concurrent compact.

MCC made early progress in the compact development process for Belize and Zambia, the two newly selected countries. In the reporting year, the agency has started an initiative to accelerate the compact development process. As part of the initiative, MCC's country teams for Belize and Zambia completed the analysis to identify constraints to economic growth within the first quarter after their selection. The accelerated constraint analysis timeline allowed for the completion of root causes analysis of the constraints and the development of project concepts within the first year of compact development while maintaining rigor and ensuring country ownership.

During FY 2022 MCC entered into the following arrangements with:

- The Government of Kosovo signing a $202 million compact to improve Kosovo's energy sector. The Kosovo Compact, which includes an additional $34 million contribution from the Government, will build on MCC's initial $49 million Kosovo Threshold Program, which targeted energy policy and institutional reforms to lay the groundwork for large-scale energy infrastructure construction, and pathways to employment for youth and women in the energy sector.

- The Government of Lesotho signing a $300 million compact that seeks to ensure greater access to quality healthcare, create equitable business development opportunities, and invest in high-value crop production by, in part, providing better legal protections in land tenure, skills training and addressing some of the unique challenges faced by women and youth in Lesotho. The compact will build on the success of MCC's prior $362.5 million compact with the Government, which expanded access to clean water and basic healthcare for the people of Lesotho.

- The Government of Malawi signing a $350 million compact, complemented by a $26.25 million Government contribution, that seeks to reduce transportation costs, connect goods to market and improve land administration. This compact builds on the success of MCC's prior $20.9 threshold program that focused on anti-corruption and public financial management and Malawi's previous $350.7 million compact, which supported the country's power sector.

- The Government of Timor-Leste signing a $420 million compact agreement that seeks to improve the health and skills of people in Timor-Leste by reducing the disease burden caused by contaminated water sources and enhancing teaching and learning at the secondary school level. As a part of the compact, the Government has committed an additional $64 million that will support water, sanitation, and drainage infrastructure, including household-level connections for new systems, to ensure these benefits are brought directly into the homes of Dili citizens.
- The Government of Solomon Islands signing a $20 million threshold program that aims to facilitate private investment for increased tourism and generate more reliable and sustainable benefits from the country's forest resources.
- The Government of The Gambia signing a $25 million threshold program that will support the country's electricity sector, including critical policy and institutional reforms to develop more effective, accountable, and transparent governance for the sector, as well as improved operations. Specifically, this program will support The Gambia's efforts to achieve universal energy access by 2025, prioritizing imports and renewable energy sources—especially domestic solar generation— and helping the country meet its Nationally Determined Contributions to curb greenhouse gasses.

Additionally, in FY 2022, MCC completed the development of a threshold program with Kenya that aims to bolster the Nairobi transport authority, connect Nairobi residents to public transportation, counter pervasive sexual harassment on minibuses, modernize land use planning, and catalyze financing for bus rapid transit to promote lower greenhouse gas emissions. Pending the conclusion of negotiations and signing of the threshold program grant agreement, MCC expects implementation to begin in early FY 2023.

In FY 2021, MCC completed the development of a compact with Tunisia that will strengthen the country's transportation, trade, and water sectors. MCC's Board of Directors approved the $498.7 million compact in June 2021. However, MCC paused signing the compact agreement due to ongoing concerns regarding the Government of Tunisia's commitment to the core principles of democratic governance that underpin MCC's statutory eligibility criteria.

In FY 2020, MCC signed a $450.0 million compact with the Government Burkina Faso. In October 2022 MCC notified the Government of Burkina Faso of the termination of MCC's assistance to Burkina Faso and the country's eligibility for a regional compact. This decision was made in response to the January 2022 coup d'état, which is inconsistent with MCC's statutorily mandated eligibility criteria, and the July 2022 announcement by the transition authorities of a prolonged period before elections.

## Concurrent Regional Compact Authority

In FY 2022, MCC has continued working with partner countries to develop two regional compacts: a regional transport program with Benin and Niger, and a regional energy program with Côte d'Ivoire.

The  Benin-Niger Regional Transport Integration Program would involve rehabilitating road segments of the existing transport corridor between Cotonou in Benin and Niamey in Niger, one of the most heavily traveled corridors in West Africa, while addressing institutional and market constraints that raise transportation costs. This investment would have a clear link to the MCC investment at the Port of Cotonou through Benin's first compact, as well as the current MCC compact program in Niger, which is focused on agriculture and roads. The Governments of Benin and Niger have committed staffing resources to work with MCC in further developing this potential investment.

MCC is focused on two road segments—Bohicon-Dassa  in Benin, and Dosso-Niamey in Niger. In addition, MCC is assessing critical institutional reforms. Key design elements under consideration in Benin include improvements to traffic junctions, truck parking/rest areas, and toll stations, as well as improvements to protect pedestrians. In Niger, proposed work includes improvements to existing lanes to meet minimum technical requirements. MCC is also exploring better coordination along the corridor through the institution of a governing highway authority between the two countries. MCC is conducting an analysis on the gender and social inclusion opportunities along the road segments, including expanding economic opportunities for women and youth.

MCC also is currently assessing potential projects for a Côte d'Ivoire Regional Energy Program in collaboration with the West African Power Pool (WAPP), a regional entity of the Economic Community of West African States (ECOWAS), and the World Bank that has provided significant investments in cross border infrastructure, the information and communication center in Cotonou, Benin, and technical assistance to regional energy entities such as WAPP and the ECOWAS Electricity Regulatory Authority. MCC is exploring investments in power sector reform, infrastructure, and capacity building in Côte d'Ivoire to solidify its role as an anchor power exporter to WAPP. As part of the MCC collaboration with WAPP, a feasibility study of a proposed electricity transmission line linking Ferkessédougou in northern Côte d'Ivoire with Bobo-Dioulasso in southern Burkina Faso and continuing to Burkina Faso's capital, Ouagadougou began in FY 2022 and will be completed in the first quarter of FY 2023. MCC aims to make an investment decision by the fall of 2023, followed by compact negotiations, seek MCC Board approval in spring 2024 and sign a regional compact with Côte d'Ivoire shortly thereafter.

## Climate

MCC recognizes climate change as a defining issue of our time, and that the countries most impacted by it are also least able to afford its consequences. MCC has worked to address climate change issues since the agency's inception and has a strong track record of integrating climate change resilience, adaptation, and mitigation considerations throughout its investment cycle. In FY 2021, MCC notably strengthened its ambition around climate change with the release of the first agency-wide climate strategy to support climate-smart development and sustainable infrastructure. Consistent with the Biden-Harris Administration policy that "climate considerations shall be an essential element of United States foreign policy and national security," the climate strategy commits MCC to expand and deepen the emphasis on climate change across its investment portfolio and business operations. As part of the agency's enhanced ambition around climate change, MCC also committed that more than 50 percent of its program funding would be directed to climate-related investments over the next five years.

The majority (two-thirds) of MCC's investments are in infrastructure. Infrastructure investments are not only critical to delivering inclusive, sustainable economic growth but are central to managing the impacts of climate change. New infrastructure is desperately needed in rapidly growing cities in developing countries, where a lack of resilient infrastructure is harming people and economies. Climate change increases the need for infrastructure investment both to ensure the resilience of existing and planned infrastructure against climate impacts and to develop additional infrastructure to support adaptation to climate change. MCC focuses on physical as well as institutional infrastructure, taking an approach that integrates institutional and policy reform and country ownership with large-scale infrastructure investments to ensure the long-term sustainability and impact of the agency's investments.

MCC is well positioned to make a significant impact in advancing sustainable, climate-smart economic growth around the world. For FY 2022, the agency has focused on implementing its climate change strategy and ensuring that its investments support climate related commitments. Aligned with the climate change strategy, the agency's priority actions for FY 2022 include:

- ***Strengthened integration of climate adaptation considerations in analytical tools:*** MCC is refining analytical tools for economic analysis to better reflect climate and environmental considerations. This includes the development of new guidance for environmental externalities (including greenhouse gases) in cost-benefit analysis (CBA). New approaches to CBA were piloted in several different compacts, including for a transportation (roads) analysis in Malawi, an assessment of the health impacts of greenhouse gas emissions in Kosovo, and for ecosystem service valuation in Mozambique.

- ***Fully integrate climate adaptation and related environmental consideration into all stages of program development and implementation:*** MCC's climate risk screening approach is well established. Adaptation risks are identified on an ongoing basis as newly eligible countries are selected and MCC investments are developed. For example, MCC and the Government of Mozambique are forming partnerships for the development, implementation, cost sharing, and long-term sustainability of coastal biodiversity and fisheries habitat management interventions that can increase ecosystem productivity, enhance sustainable livelihoods, mitigate climate change concerns, and continue beyond the Compact implementation period until collapsing ecosystems are restored.
- ***Support policy and institutional reforms in adaptation to strengthen the resilience of MCC investments:*** MCC completed an assessment of its entire development pipeline in FY 2022 to identify opportunities for strengthening climate integration, including supporting policy and institutional reforms (PIR). This includes supporting partner country Nationally Determined Contributions, as well as support for partner country sectoral, master, and investment planning and to improve natural resource management. For example, MCC's proposed $202 million-dollar compact with Kosovo supports the country's long-term energy strategy and energy climate plan, including PIR support related to battery storage and renewables.
- ***Leverage blended finance to catalyze private capital for climate activities:*** MCC is working with partner countries, other U.S. Government entities, finance institutions, civil society, and other organizations to expand private finance for climate adaptation. This includes initiatives being developed for Kosovo and Malawi and under consideration in Indonesia, Zambia, and Mozambique. MCC is also exploring support for the issuance of green bonds to increase finance for investments in climate resilience. To that end, the Agency is analyzing options to support the development of a framework for green bonds, transaction structuring (including project identification), and credit enhancements to attract commercial investment.
- ***Expand and deepen partnerships to further climate objectives:*** MCC has established new interagency and external partnerships on climate adaption. This includes MCC's interagency work related to the President's Emergency Plan for Adaptation and Resilience (PREPARE), MCC's interagency work with DFC, and a new Integrated Environmental-Economic Modeling partnership to support rigorous scenario-based characterization and order-of-magnitude quantification of environmental costs and benefits, especially those climate-related, in select countries.
- ***Integrate adaptation and resilience considerations into MCC's facilities management and internal operations:*** The agency is following the framework outlined in the US Climate Resilience Toolkit to assess risks due to heat, flooding, and vector-borne diseases brought about by climate change and to define solutions to reduce the potential impact to its domestic operations. Since October of 2021, our primary focus has been on the development and implementation of MCC's Future of Work Strategy and on the health and safety of our staff. As such, a risk assessment has not been completed. As we enter FY 2023, we will begin transitioning resources and expect to advance our goals of integrating adaptation and resilience considerations into the agency's facilities management and internal operations.

To learn more about MCC's role in climate-smart development, visit https://www.mcc.gov/about/priority/climate.

## Inclusion and Gender

Promoting inclusion and gender is at the core of MCC's mission to reduce global poverty and promote economic growth. Structural exclusion exists in all countries – there are systemic and institutionalized barriers that prevent certain disadvantaged and traditionally marginalized groups, including women and poor people, from fully benefitting from our investments. To reflect this increased ambition, MCC has developed a new agency-wide

Inclusion and Gender Strategy. Through the implementation of the strategy, MCC aims to significantly deepen its commitment to inclusion and gender equity and equality to increase the ability of poor people, women and other marginalized groups to access, participate in or derive benefits from its investments. For this to happen, MCC must routinely and systematically identify and address exclusion at all phases of program development, starting from early analysis. The ultimate goal is to significantly increase the amount of MCC investments that are designed to be more inclusive.

MCC has already made strides in its approach towards early country analysis. In FY 2022, MCC continued its efforts to refine its approach to early analysis to include a more systematic look at constraints to inclusive growth in FY 2022 new selects, Belize and Zambia. The new process identifies structurally excluded groups and the likelihood that alleviation of specific constraints to economic growth will positively impact those populations. This has allowed for the prioritization of the constraints factoring in inclusion and gender inequalities in these countries.

The Agency has committed to refine methods for cost-benefit analysis and beneficiary analysis to more consistently account for benefit streams that emerge from more inclusion of women, poor people and other disadvantaged groups. In the Lesotho Compact, MCC piloted a modified Economic Rate of Return approach to capture the "gender premia", benefits from including more women in the agricultural sector.

MCC has also promoted inclusion through the addition of the Employment Opportunity indicator on the MCC scorecard. This new indicator will incentivize MCC's candidate countries to strengthen legal protections for people with disabilities, eliminate forced labor, ban workplace discrimination, and support the start-up of civil society organizations. MCC added this indicator in recognition of the importance of allowing all segments of the population to be included in the workforce and broadening opportunities for historically marginalized groups to have equal access to opportunities for career advancement.

## Catalyzing Private Sector Investment

MCC is well positioned to catalyze private investment through the strategic use of public funds to mobilize private resources in ways that support sustainable, long-term, economic development in developing countries. MCC has honed its ability to help its partner countries design, strengthen, and harness private financial markets through a range of tools, including capital structure grants, grant facilities, parallel investments, co-investments, public-private partnerships, and catalytic investment strategies that increase the impact and sustainability of MCC programs. MCC's blended finance tools also improve investor confidence and help overcome some of the impediments to private sector investment in challenging markets in its partner countries. MCC seeks to target its resources where commercial financing is not available for deployment towards development outcomes. The majority of lower income countries and lower middle income countries have below investment grade or no credit rating, making it impossible in many instances to raise commercial capital. MCC strives to catalyze private investment without subsidizing companies or crowding out private finance.

In FY 2022, MCC expanded and deepened its blended finance capacity, portfolio, and leverage by continuing to pursue the following innovative blended finance initiatives:

**American Catalyst Facility for Development, in collaboration with DFC:** The BUILD Act charges the DFC with increased coordination and collaboration among U.S. development agencies, including USAID and MCC. MCC and DFC (previously Overseas Private Investment Corporation) have collaborated in the past, but opportunities were constrained by significant limitations on investment timing and alignment of business models. To overcome these limitations, MCC and DFC developed a new MCC-funded blended finance mechanism, the American Catalyst Facility for Development (ACFD). The ACFD creates a formal platform to optimize MCC-DFC collaboration, leveraging the strengths of both agencies to catalyze and enable DFC investments that would not otherwise be viable, and which are consistent with the objectives and missions of both MCC and DFC. The ACFD enables coordinated catalytic investments by providing strategic grants aimed at crowding-in the private sector and maximizing the overall impact of U.S. Government development efforts. Funds have been included in the compacts for Malawi, Lesotho, and Kosovo to facilitate the use of the ACFD mechanism. MCC and DFC are also exploring the applicability of ACFD in other MCC country programs currently in development such as Belize and Zambia. As MCC and DFC gain experience in the initial countries, the agencies will assess the results and continue to refine the approach and mechanisms to maximize the impact of the ACFD as new countries are added.

**Millennium Impact Infrastructure Accelerator:** The Millennium Impact Infrastructure Accelerator (MIIA) will be an independent project preparation facility that seeks to mobilize much-needed private capital to the most impactful infrastructure projects in the power, water, sanitation, health, education, and transport sectors. MIIA will attract impact capital by supporting tailored project preparation to develop innovative financing and project structures for bankable infrastructure projects, as well as linking impact investors to bankable deals that meet their impact criteria.

MCC signed a Memorandum of Understanding with Africa50 to jointly explore development of a regional MIIA for Africa. Because MIIA is envisioned as an independent entity, MCC chose to initially explore and assess the concept in partnership with Africa50, an infrastructure investment platform that contributes to Africa's growth by developing and investing in bankable projects and leveraging public sector capital to mobilize private sector funding, with differentiated financial returns and impact. Africa50's investor base is currently composed of 28 African countries, the African Development Bank, the Central Bank of West African States, and Bank Al-Maghrib.

Through this work, MCC seeks to contribute to an expanded and enhanced capacity among U.S. Government agencies to create jobs, expand markets and reduce poverty through economic growth, and to support the effective transition of countries in the developing world from aid to trade and private sector-led economic growth.

## Diversity, Equity, Inclusion, and Accessibility

Consistent with E.O. 14035 requirements for advancing Diversity, Equity, Inclusion, and Accessibility (DEIA) in the federal workforce, MCC established a new Office of Equal Opportunity, Diversity, and Inclusion within its Office of the Chief Executive Officer (OCEO), with a Chief Diversity Officer who reports directly to the CEO. Placing the office in the OCEO allowed MCC to further elevate DEIA within the agency, structure reporting, and improve information flow. In May 2022, MCC publicly released its DEIA Strategic Plan. The Plan outlines an integrated approach to advancing DEIA by embedding it into the agency's mission, human capital strategy, corporate goals, and workstreams. The agency also re-launched a DEIA Council, which gathers and empowers employee feedback and input on diversity issues, and implements the strategic priorities outlined in the Strategic Plan.

Moving forward, MCC will continue to deepen its commitment to DEIA with tangible and measurable actions that drive results. With an increasingly diverse workforce, MCC must be intentional about cultivating, nurturing, and sustaining an inclusive workplace culture where differences are leveraged to produce innovative solutions that meet the needs of our employees, global partners, and the international development community. As MCC strives to attract, recruit, develop, advance, and retain diverse talent, we will need to focus efforts towards those efforts across the employee life cycle. This will require implementation of technologies and solutions that enable an evidence-based approach to decision making to which we apply new DEIA frameworks, standards, and performance metrics. We will also develop and implement a DEIA competency framework and performance elements to ensure accountability for advancing DEIA. More information about the MCC's DEIA can be found at https://www.mcc.gov/about/priority/inclusion-and-gender.

# Analysis of MCC's Financial Statements

At the end of FY 2022, MCC prepared four basic financial statements with accompanying notes pursuant to the requirements of 31 U.S.C. § 3515(b). and presented them to the USAID Office of the Inspector General (USAID/OIG) for audit by an independent accounting firm. The principal statements include a Balance Sheet, a Statement of Net Cost, a Statement of Changes in Net Position, and a Combined Statement of Budgetary Resources. The Financial Section of this report contains the financial statements and notes, and the auditor's report. In addition, reports used to monitor and control budgetary resources are prepared from the same records. Users of MCC's financial statements are advised that the statements are for a component of the U.S. Government.

Preparing MCC's financial statements is a vital component of sound financial management, and provides accurate, accountable, and reliable information that is useful for assessing performance, allocating resources, and targeting areas for future programmatic emphasis. MCC's management is responsible for the integrity and objectivity of the financial information presented in the statements. MCC is committed to excellence in financial management and maintains a rigorous system of internal controls to safeguard its widely dispersed assets against loss from unauthorized acquisition, use, or disposition.

A summary of MCC's major financial activities in FY 2022 and FY 2021 appears in the Changes in Financial Position table (Table 5). This table represents the resources available, assets on hand to pay liabilities, and the corresponding net position. The net cost of operations is the cost of operating MCC. Budgetary resources are funds available to the Agency to incur obligations and fund operations. This summary section also includes an explanation of significant fluctuations on each of MCC's financial statements.

Table 5: Changes in Financial Position (in thousands)

| Net Financial Condition | FY 2022 | FY 2021 | Variance (in $) | Change (in %) |
|---|---|---|---|---|
| Fund Balance with Treasury | $ 5,667,600 | $ 5,962,129 | $ (294,529) | - 4.9% |
| Advances | 29,174 | 53,789 | (24,615) | - 45.8% |
| Other Assets | 26 | 3 | 23 | 766.7% |
| Property, Plant, and Equipment (net) | 5,641 | 9,919 | (4,278) | - 43.1% |
| **Total Assets** | $ 5,702,441 | $ 6,025,840 | $ (323,399) | - 5.4% |
| Accounts Payable | $ 14,608 | $ 14,198 | $ 410 | 2.9% |
| Accrual-Grant Liabilities | 106,452 | 115,209 | (8,757) | - 7.6% |
| Other Liabilities | 16,122 | 17,363 | (1,241) | - 7.1% |
| **Total Liabilities** | 137,182 | 146,770 | (9,588) | - 6.5% |
| Unexpended Appropriations | 5,567,836 | 5,878,985 | (311,149) | - 5.3% |
| Cumulative Results of Operations | (2,577) | 85 | (2,662) | - 3131.8% |
| **Total Net Position** | 5,565,259 | 5,879,070 | (313,811) | - 5.3% |
| **Total Liabilities and Net Position** | $ 5,702,441 | $ 6,025,840 | $ (323,399) | - 5.4% |
| **Net Cost of Operation** | $ 713,737 | $ 762,005 | $ (48,268) | - 6.3% |
| **Budgetary Resources** | $ 3,866,117 | $ 4,557,522 | $ (691,405) | - 15.2% |

## Balance Sheet

The balance sheet is a representation of MCC's financial condition at the end of the fiscal year. It shows the resources available to meet its statutory requirements (assets); the amounts it owes that will require payment from available resources (liabilities); and the difference between assets and liabilities (MCC's net position).

## Assets

As of September 30, 2022, MCC held total assets of $5.7 billion compared to $6.0 billion reported in FY 2021. The majority of MCC's assets (99.4 percent) are held in its Fund Balance with Treasury (FBWT), which decreased by $294.5 million primarily due to the rescission of prior year unobligated funds of $515.0 million as enacted in the FY 2022 appropriation. The impact of the rescission was offset by the current year Appropriations Received exceeding Gross Outlays by $220.5 million. Advances decreased by $24.6 million due primarily to advance liquidations for compacts in the countries of Benin II, Morocco II, and Niger. MCC has very few capital assets in relation to total assets because it does not own its facilities or other real property and does not capitalize its leases. There have been no additions to property, plant and equipment during the year and the decrease in the net balance represents the depreciation and amortization charge for the year.

## Liabilities

As of September 30, 2022, MCC had $137.2 million in liabilities, which represents amounts owed to grantees, vendors, contractors, trading partners, and employees. Grant liabilities comprise approximately 77.6 percent of MCC's total liabilities. The net decrease of $8.8 million in the Accrual – Grant Liabilities is primarily the result of a decrease in the grant accrual for the Benin II, Ghana II, and Morocco II compacts. This was offset by an increase in retentions for the Morocco II, Mongolia II, and Niger compacts as these compacts entered the latter stages of the compact work.

## Net Position

MCC's overall net position as of September 30, 2022, was $5.6 billion, a decrease of $313.8 million, 5.3 percent, from FY 2021. The available appropriations reported in MCC's positive net position represent the resources necessary to fund future compacts.

## Statement of Net Cost

During FY 2022, MCC incurred $713.7 million in net program costs, compared to $762.0 million in FY 2021 as reflected below:

Table 6: Condensed Statement of Net Costs (in thousands)

| | FY 2022 | FY 2021 | Variance (in $) | Change (in %) |
|---|---|---|---|---|
| Compact, Threshold and Program Development Activities | $ 586,041 | $ 637,923 | $ (51,882) | - 8.1% |
| Administrative and Other Costs | 127,696 | 124,082 | 3,614 | 2.9% |
| Net Cost of Operations | $ 713,737 | $ 762,005 | $ (48,268) | - 6.3% |

The net decrease of $51.8 million in Compact, Threshold and Program Development activities costs is primarily the result of the closure of the El Salvador and Liberia compacts in FY 2021 and the decrease in costs for the Benin II and Ghana II, entering the later stages of their life-cycle, offset by increases in the Morocco and Niger compacts moving to the latter stages of their life-cycle.

### Statement of Changes in Net Position

This statement shows the change in net position during the reporting period. MCC's net position on September 30, 2022, was $5.6 billion, a decrease of $313.8 million from September 30, 2021. MCC's net position is affected by changes to its two components: Cumulative Results of Operations and Unexpended Appropriations. As of September 30, 2022, Cumulative Results of Operations amounted to a deficit of $2.6 million, a decrease of $2.7 million from September 30, 2021. This balance is the cumulative difference, for all previous FYs, between funds available to MCC from all financing sources and the net costs incurred. The second component of net position, Total Unexpended Appropriations, amounted to $5.6 billion, a decrease of $311.2 million, or approximately -5.3 percent, from FY 2021.

### Statement of Budgetary Resources

This statement and related disclosures provide information about how budgetary resources were made available as well as their status at the end of the period. It is the only financial statement derived predominantly from the entity's budgetary general ledger in accordance with Federal accounting rules. The Statement of Budgetary Resources (SBR) reflects the format prescribed by OMB Circular No. A-136, *Financial Reporting Requirements*. For FY 2022, MCC reported total budgetary resources of $3.9 billion compared to $4.6 billion in FY 2021. Budgetary resources of $397.0 million were provided through FY 2022 appropriations of $912.0 million net of the rescission of prior year unobligated funds of $515.0 million and $3.5 billion were carried forward from appropriations in FY 2021 and prior years.

## Limitations of the Financial Statements

The principal financial statements are prepared to report the financial position and results of operations of the reporting entity, pursuant to the requirements of 31 U.S.C. § 3515(b). The statements are prepared from the books and records of federal entities in accordance with Federal generally accepted accounting principles (GAAP) and the formats prescribed by OMB. Reports used to monitor and control budgetary resources are prepared from the same books and records. The financial statements should be read with the realization that they are for a component of the U.S. Government.

## Analysis of MCC's Systems, Controls, and Legal Compliance

### Systems

MCC's financial management systems strategy employs the use of a shared service provider (SSP) to achieve its financial and budget management goals. MCC has benefited from economies of scale provided by the SSP strategy since its inception in 2004 and plans to continue utilizing the SSP for the foreseeable future. Currently, the Interior Business Center (IBC), operated by the Department of the Interior, is MCC's SSP for financial and payroll management systems. IBC maintains and operates the following systems on MCC's behalf:

- **Oracle Federal Financials (OFF)** — the system of record for MCC's Financial Statements and Notes. The system processes financial and budgetary transactions. OFF is also the main system of record for USAspending.gov reporting compliant with the Digital Accountability and Transparency Act of 2014 (DATA Act) and OMB Memorandum M-15-12, *Increasing Transparency of Federal Spending by Making Federal Spending Data Accessible, Searchable, and Reliable.*

- **Federal Personnel Payroll System (FPPS)** — Provides support for the full lifecycle of personnel and payroll transactions. FPPS is integrated with OFF to account for payroll transactions.

MCC is responsible for overseeing IBC to ensure that the SSP complies with pertinent federal financial management system and internal control requirements applicable to those systems used for MCC's financial transaction processing and reporting and complying with federal requirements for its financial management operations, systems, controls, and reporting. The American Institute of Certified Public Accountants (AICPA) Statements on Standards for Attestation Engagements (SSAE) No. 18 prescribes requirements for assessing SSPs. MCC obtains the SSAE 18 Report for both IBC administered systems and reviews it for observations and risks which may require risk mitigation and compensating controls. Additionally, MCC verifies that complementary end user controls are in place and operating effectively as part of its internal control assessment related to OMB Circular No. A-123, Appendix D, *Compliance with the Federal Financial Management Improvement Act of 1996* (OMB A-123 Appendix D). Based on its OMB A-123 Appendix D Assessment, MCC believes that its financial management systems strategy successfully upholds its responsibilities to comply with the applicable guidance and requirements.

## Controls

On an annual basis, MCC assesses the vulnerability of its programs and systems in alignment with the Federal Managers' Financial Integrity Act of 1982 (FMFIA) and its implementing guidance, OMB Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, as well as the associated guidelines issued by the CFO Council. OMB Circular No. A-123, Appendix A, *Management of Reporting and Data Integrity Risk* (OMB A-123 Appendix A), provides guidance to Federal managers on improving the accountability and effectiveness of Federal programs and operations by establishing, assessing, correcting, and reporting on internal control over reporting. OMB Circular A-123 Appendix A allows for modified implementation to fit the circumstances, conditions, and structure of each entity. MCC continued its efforts to reassess, improve, and enhance its financial, systems, program, and performance information during the current fiscal year

## Legal Compliance

MCC complies with all applicable Federal statutes and regulations. Key legal requirements include:

### Anti-Deficiency Act

MCC maintains compliance with the Anti-Deficiency Act (codified as amended in 31 U.S.C. §§1341, 1342, 1351, 1517) through several tiers of process and system controls to maintain funds control. Apportionments are developed in consultation with OMB and designed to provide MCC with funds consistent with MCC's authorities in appropriations and authorization legislation. MCC's financial management system records apportionments and establishes automated funds controls. All obligations are centralized in the financial management system, and through those processes, MCC maintains control of its funding.

### Debt Collection Improvement Act of 1996

The Debt Collection Improvement Act of 1966 requires all Federal agencies to refer for collection to the Department of the Treasury's Bureau of the Fiscal Service past due, legally enforceable, non-tax debts that are more than 180 days delinquent. During FY 2022, MCC referred no debt to the Department of the Treasury.

### Digital Accountability and Transparency Act of 2014

The DATA Act builds on the Federal Funding Accountability and Transparency Act of 2006 (FFATA) as amended by the Government Funding Transparency Act of 2008. It requires agencies to disclose direct Federal agency expenditures and link Federal contract, loan, and grant spending information to agency programs.

Additionally, it establishes government-wide data definition standards to make spending data consistent and reliable throughout the USG, and improve the data reported by Federal agencies under FFATA. The law aligns with OMB Memorandum M-10-06, issued on December 8, 2009, to increase transparency and create a more data-driven Federal Government. The USAID/OIG audited MCC's DATA Act initiative and reported no recommendations in its report titled, "MCC Took Initial Steps to Implement the Digital Accountability and Transparency Act of 2014." MCC is in compliance with all facets of the DATA Act and will continue to make improvements based on relevant recommendations and new requirements.

### Federal Information Security Modernization Act of 2014

In FY 2022, MCC continued to focus efforts to improve its Cybersecurity program consistent with applicable laws, Executive Orders, CISA guidance, and other best practices. MCC implemented Information Technology modernization through upgrades of its infrastructure including a laptop refresh, updating operating systems, and its intranet. MCC automates management of its hardware, software, and mobile device services, and is 100 percent compliant in obtaining a valid security authorization to operate for its information systems. The FY 2022 Federal Information Security Modernization Act of 2014 (FISMA) Inspector General's audit report concluded that MCC implemented an effective information security program. MCC will continue to improve its program in the future and address recommendations in a timely manner.

### Prompt Payment Act

The Prompt Payment Final Rule (Code of Federal Regulations Title 5, Part 1315) requires Federal agencies to pay commercial obligations within certain periods and to pay interest penalties when payments are late. With certain exceptions, payments to vendors are due within 30 days of the latter of (1) receipt of properly prepared invoices or (2) the receipt of goods or services. For amounts owed and not paid within the specified payment period, agencies are required to pay interest on the amount owed at a rate established by the Department of the Treasury. MCC measures the percentage of all payments made within the specified timeframes for all payments subject to the Prompt Payment Final Rule. In FY 2022, MCC's prompt payment performance registered 99 percent. MCC is taking steps to reduce any likelihood of future unnecessary interest payments.

# Management Assurances

## FY 2022 Chief Executive Officer Statement of Assurance

*November 15, 2022*

The Millennium Challenge Corporation's (MCC) management is responsible for establishing, maintaining, evaluating, and reporting on MCC's internal control and financial systems to meet the objectives of the Federal Managers' Financial Integrity Act of 1982 (FMFIA).

In accordance with Section 2 of FMFIA and the Office of Management and Budget (OMB) Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, MCC conducted an assessment of risk and internal control over reporting, and compliance with applicable laws and regulations. Based on the results of its assessment, MCC can provide unmodified reasonable assurance that internal controls over operations, reporting, and compliance were operating effectively as of September 30, 2022. Accordingly, the assessment did not identify any material weaknesses in the design or operation of the controls.

The Federal Financial Management Improvement Act of 1996 (FFMIA) was designed to advance federal financial management by ensuring that federal financial management systems provide accurate, reliable, and timely financial management information to the government's managers. Compliance with the FFMIA provides the basis for the continuing use of reliable financial management information by program managers, as well as by the President, Congress, and public. The FFMIA requires agencies to have financial management systems that comply substantially with federal financial management system requirements, applicable federal accounting standards, and the application of the U.S. Government Standard General Ledger (USSGL) at the transaction level.

The vulnerability of MCC programs and systems was assessed in accordance with FMFIA and OMB guidance. Based on the results of the OMB Circular A-123 assessment, MCC has determined that its financial management systems comply with financial management system requirements and are in substantial conformance with the Section 4 requirements of FMFIA as of September 30, 2022.

Alice P. Albright

**Alice P. Albright**
Chief Executive Officer
Millennium Challenge Corporation

## Statement of Assurance from Service Provider

*October 4, 2022*

United States Department of the Interior

INTERIOR BUSINESS CENTER
Washington, DC 20240

Dear Valued Customer:

The purpose of this letter is to provide assurance that the Oracle Federal Financial application controls remained unchanged for the period July 1, 2022, through September 30, 2022.

You were previously notified that KPMG LLP examined the description of the Oracle financial application controls at the Department of the Interior (Department), Interior Business Center (IBC). The results of their review and analysis were provided in a System and Organization Control Report (SSAE18) covering the period August 1, 2021, through June 30, 2022. A softcopy version of the report was provided to you in September 2022.

The SSAE 18 review was conducted for the purpose of expressing an opinion as to whether (1) IBC's description of the Oracle Federal Financial application controls presents fairly in all material respects the aspects of the IBC controls that may be relevant to a user organization's internal control; (2) the controls included in the description were suitably designed to achieve the control objectives specified in the description if those controls were complied with satisfactorily; and (3) such controls had been placed in operation as of June 30, 2022. KPMG also performed testing procedures designed to determine the effectiveness of the specified controls in meeting control objectives specified by the IBC.
This letter provides representations and assurances related to Oracle Federal Financial application controls at the IBC for the period July 1, 2022, through September 30, 2022. This time period was not covered by the SSAE 18 examination report previously provided. To the best of my knowledge and belief, there have been no subsequent events that would have a significant effect on user organizations that have not been disclosed to you. The controls that have been placed in operation as of June 30, 2022, did not change for the period of July 1, 2022, through September 30, 2022. The description of controls in the FY 2022 SSAE 18 examination report presents fairly the aspects of IBC controls that were in place as of September 30, 2022.

The IBC also conducted an assessment of the effectiveness of internal control over financial reporting for customers where the IBC processes your financial transactions, which includes safeguarding of assets and compliance with applicable laws and regulations in accordance with the requirements of Appendix A of OMB Circular A-123 and the CFO Council's Implementation Guide dated June 6, 2018, as implemented by the Department. The assessment focused on the specific IBC financial business processes such as financial reporting, revenue management, funds management, and procurement in place as of June 30, 2022. As of that date, the IBC noted no material or significant deficiencies verified through A-123 Appendix A financial transaction testing. Thus, the IBC asserted internal controls over financial reporting were suitably designed and operating effectively. The procedures and management controls for processing financial transactions have not changed since June 30, 2022. As a result, the IBC continues to assert substantial compliance with financial accounting and reporting controls in place from July 1, 2022, through September 30, 2022.

If you have any questions on this assurance statement, please contact Ted Aymami, Audit Liaison Officer, Theodore_A_Aymami@ibc.doi.gov, 720-763-1072.

Sincerely,

Wendell Bazemore
Associate Director
Financial Management Director

# Financial Section

# Financial Statements

The principal financial statements have been prepared to report the financial position and the results of operations of MCC. The financial statements have been prepared from MCC's books and records in accordance with U.S. GAAP and accounting standards issued by the Federal Accounting Standards Advisory Board (FASAB) and formats prescribed in OMB Circular No. A-136, *Financial Reporting Requirements* (revised on June 3, 2022). The financial statements should be read with the understanding that they are for a component of the USG, a sovereign entity. Comparative data for September 30, 2021 has been included. MCC is presenting the following financial statements and notes to the financial statements:

- Balance Sheets
- Statements of Net Cost
- Statements of Changes in Net Position
- Statements of Budgetary Resources
- Notes to the Financial Statements

## BALANCE SHEETS
As of September 30, 2022 and 2021
(in thousands)

| | 2022 | 2021 |
|---|---|---|
| **Assets:** | | |
| Intragovernmental: | | |
| Fund Balance with Treasury *(Note 2)* | $ 5,667,600 | $ 5,962,129 |
| Advances and Prepayments | 3,308 | 6,538 |
| Total Intragovernmental | 5,670,908 | 5,968,667 |
| With the Public: | | |
| Accounts Receivable, net *(Note 3)* | 26 | 3 |
| General Property, Plant, and Equipment, net *(Note 4)* | 5,641 | 9,919 |
| Advances and Prepayments | 25,866 | 47,251 |
| Total with the Public | 31,533 | 57,173 |
| **Total Assets:** | **$ 5,702,441** | **$ 6,025,840** |
| **Liabilities *(Note 5)*:** | | |
| Intragovernmental: | | |
| Accounts Payable | $ 1,606 | $ 698 |
| Advances from Others and Deferred Revenue | 3,530 | 4,000 |
| Other Liabilities *(Note 6)* | 199 | 242 |
| Total Intragovernmental | 5,335 | 4,940 |
| With the Public: | | |
| Accounts Payable | 13,002 | 13,500 |
| Federal Employee [and Veteran] Benefits Payable *(Note 7)* | 5,218 | 5,402 |
| Other Liabilities: | | |
| Accrued Grant Liabilities *(Note 9)* | 106,452 | 115,209 |
| Other *(Note 6)* | 7,175 | 7,719 |
| Total with the Public | 131,847 | 141,830 |
| Total Liabilities | $ 137,182 | $ 146,770 |
| Commitment and Contingencies *(Note 10)* | | |
| **Net Position** | | |
| Unexpected Appropriations-Funds from Other than Dedicated Collections | $ 5,567,836 | $ 5,878,985 |
| Total Unexpended Appropriations | 5,567,836 | 5,878,985 |
| Cumulative Results of Operations-Funds from Other than Dedicated Collections | (2,577) | 85 |
| Total Cumulative Results of Operations | (2,577) | 85 |
| Total Net Position | 5,565,259 | 5,879,070 |
| **Total Liabilities and Net Position** | **$ 5,702,441** | **$ 6,025,840** |

*The accompanying notes are an integral part of these statements.*

## STATEMENTS OF NET COST
For the Years Ended September 30, 2022 and 2021
(in thousands)

| | 2022 | 2021 Reclassified |
|---|---|---|
| Gross Program Costs | $ 586,511 | $ 637,923 |
| Less: Earned Revenue | (470) | - |
| Net Program Costs | 586,041 | 637,923 |
| Costs Not Assigned to Programs | 127,696 | 124,082 |
| **Net Cost of Operations** | **$ 713,737** | **$ 762,005** |

*The accompanying notes are an integral part of these statements.*

## STATEMENTS OF CHANGES IN NET POSITION
For the Years Ended September 30, 2022 and 2021
(in thousands)

| | 2022 | 2021 |
|---|---|---|
| **Unexpended Appropriations** | | |
| Beginning Balance | $ 5,878,985 | $ 5,721,158 |
| Appropriations Received | 912,000 | 912,000 |
| Other Adjustments *(Note 11)* | (515,000) | 11 |
| Appropriations Used | (708,149) | (754,184) |
| Change in Unexpended Appropriations | (311,149) | 157,827 |
| **Total Unexpended Appropriations** | **5,567,836** | **5,878,985** |
| | | |
| **Cumulative Results of Operations** | | |
| Beginning Balance | 85 | 5,406 |
| Appropriations Used | 708,149 | 754,184 |
| Transfers-in/out without Reimbursement | 381 | - |
| Donations and Forfeitures of Property | - | 22 |
| Imputed Financing | 2,545 | 2,478 |
| | | |
| **Net Cost of Operations** | **(713,737)** | **(762,005)** |
| Change in Cumulative Results of Operations | (2,662) | (5,321) |
| **Total Cumulative Results of Operations** | **(2,577)** | **85** |
| **Net Position** | **$ 5,565,259** | **$ 5,879,070** |

*The accompanying notes are an integral part of these statements.*

## STATEMENTS OF BUDGETARY RESOURCES
For the Years Ended September 30, 2022 and 2021
(in thousands)

| | 2022 | 2021 |
|---|---|---|
| **Budgetary Resources** | | |
| Unobligated Balance from Prior Year Budget Authority, Net *(Note 11)* | $ 3,468,736 | $ 3,641,522 |
| Appropriations | 397,000 | 912,000 |
| Spending Authority from Offsetting Collections | 381 | 4,000 |
| **Total Budgetary Resources** | **$ 3,866,117** | **$ 4,557,522** |
| **Status of Budgetary Resources** | | |
| New Obligations and Upward Adjustments (total) | $ 433,999 | $ 1,097,317 |
| Unobligated Balance, end of year | | |
| Apportioned, Unexpired Accounts | 3,428,058 | 3,421,316 |
| Unapportioned, Unexpired Accounts | 4,060 | 38,889 |
| Unexpired Unobligated Balance, end of year | 3,432,118 | 3,460,205 |
| Unobligated Balance, end of year (total) | 3,432,118 | 3,460,205 |
| **Total Budgetary Resources** | **$ 3,866,117** | **$ 4,557,522** |
| **Outlays, Net** | | |
| Outlays, Net (total) | **$ 691,473** | **$ 724,361** |

*The accompanying notes are an integral part of these statements.*

# Notes to the Financial Statements

## Note 1 – Summary of Significant Accounting Policies

### A. Reporting Entity

The Millennium Challenge Act of 2003, 22 U.S.C. 7701-7718, established MCC as a wholly owned Government corporation, as defined by the Government Corporation Control Act of 1945. MCC's mission is to reduce poverty through grants by supporting sustainable, transformative economic growth in developing countries that maintain sound policy environments.

MCC is a component entity of the U.S. Government. For this reason, some of the assets and liabilities reported by MCC may be eliminated for Government-wide reporting because they are offset by assets and liabilities of another U.S. Government entity. These financial statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity.

### B. Reporting by Operational Components

The Statement of Net Cost presents the gross costs of programs, less earned revenue, if any, to arrive at the net cost of operations, for both grant programs and MCC, as a whole for the reporting periods. MCC grant programs may be compacts, compact development funding, or threshold programs awarded to countries that come close to meeting the eligibility criteria for compacts.

Grant program costs consist of those activities directly related to activities attributable to:

- Development of compact and threshold grants between MCC and partner country's meeting MCC's eligibility criteria including the cost of evaluating and appraising projects.
- Implementation of grants including performance oversight and assessment of results during the implementation.
- Assessment of results after implementation.

### C. Basis of Accounting and Presentation

The accompanying financial statements have been prepared in accordance with U.S. GAAP and accounting standards issued by the FASAB and in the format prescribed by the OMB Circular No. A-136, *Financial Reporting Requirements*, as amended. FASAB is recognized by the AICPA as the official accounting standards-setting body for USG entities. The financial statements present the financial position, net cost of operations, changes in net position, and budgetary resources of MCC, as required by the CFO Act of 1990, the Government Management Reform Act of 1994, and the Government Corporation Control Act (31 U.S.C. §9106).

MCC's financial statements reflect both the accrual and budgetary basis of accounting. Under the accrual method of accounting, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Amounts received from other federal agencies under reimbursable agreements are recognized as revenue as related expenditures are incurred. Budgetary accounting recognizes the legal commitment or obligation of funds in advance of the proprietary accruals and facilitates 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 using the accrual method of accounting. Note 14 - Reconciliation of Net Costs to Net Outlays presents information that is similar to a statement of cash flows. The Statement of Budgetary Resources (SBR) is prepared in accordance with budgetary accounting rules.

Intragovernmental transactions are transactions in which only Federal entities are parties to the transaction. MCC has intragovernmental relationships with various Federal entities. Transactions with the public are transactions in which one party to the transaction is a Federal entity and the other is a Non-Federal entity.

While the financial statements have been prepared from the books and records of MCC in accordance with the formats prescribed by OMB, these financial statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records.

### D. Use of Estimates in Preparing Financial Statements

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions, and exercise judgment that affects the reported amounts of assets, liabilities, net position, and disclosure of contingent assets and liabilities as of the date of the financial statements, as well as the reported amounts of financing sources, expenses, and obligations incurred during the reporting period. The assumptions made and estimates used by MCC Management to prepare the financial statements are based upon the facts that exist when the statements are prepared, and on various other assumptions that are believed to be reasonable under the circumstances. Changes in estimates are reflected in the period in which they become known. Actual results may differ from those estimates. The Notes to the Financial Statements include information to assist the reader in understanding the effect of changes in assumptions on the related information.

The most significant estimates are a result of the accrued expenses recorded by MCC for grant liabilities incurred by accountable entities (AE's). The majority of these liabilities are related to large infrastructure projects and estimates made on works performed but not yet invoiced as of the end of the FY. Due to the nature of the infrastructure contracts, the variability in quantities estimated or projected may differ from actual quantities billed through interim or final invoicing.

### E. Accounting for Grants

MCC's partner countries, through their AE's, maintain their accounting records on a modified cash basis. The AEs are allocated a spending authority each quarter or as appropriate. A spending authority for a given period is the portion of the compact or threshold that MCC authorized, approved, and made available to AEs for current and past works, goods, and services incurred/delivered/received and for which AEs can request disbursement in a given quarter.

For certain AEs large infrastructure project contracts are structured to include advances for the mobilization of equipment and other upfront costs as well retentions on invoices. Funding advanced by AEs to contractors or vendors (mobilization advances) is amortized via contractually agreed upon schedules. The contract retentions represent a percentage of invoice amounts retained by the AEs as a guarantee for completion of works contractually agreed upon. The contract retentions are for works completed and are owed to the contractor contingent upon the fulfillment of specific requirements stipulated in the respective contracts. AEs do not release the retentions or request MCC payment for the retentions until the AEs have verified that the contractor has met all the requirements and obligations under the contract.

Where an AE has expenditures under the grant at the end of each quarter that have not been paid, such amounts are recorded as an accrual by MCC as grant expenses at the end of each quarter. Similarly, MCC recognizes AE contract retentions that have not been paid as part of the Grant Accrual Liability.

### F. Fund Balance with Treasury

FBWT represents the aggregate amount of MCC's accounts with the Department of the Treasury available to pay current and future liabilities and finance authorized purchases, except where prohibited by law.

The Department of Treasury processes all cash receipts and disbursements on behalf of MCC. When MCC seeks to use FBWT to liquidate budgetary obligations, Treasury will finance the disbursements in the same way it finances all other disbursements, which is to borrow from the public if there is a budget deficit (and to use current receipts if there is a budget surplus).

### G. Advances and Prepayments

MCC makes funding available to Federal agencies, AEs, and local vendors. Federal agencies are funded through Inter Agency Agreements. AEs are funded either directly through a local bank account called the permitted account, or indirectly through vendor advance payments in accordance with the compact agreement. The provision of such funding is mainly to address cash flow flexibility for operating and administrative cost, to leverage better foreign exchange translation for the AEs, or to meet contractual requirements of AEs such as mobilization of equipment on large infrastructure projects. MCC records advances as assets. The advances are liquidated or amortized as follows: the funding made available to AEs through the local permitted account is tracked and liquidated on a monthly basis via the *Monthly Commitments and Disbursements Reports* provided by the AEs to MCC.

### H. Accounts Receivable, Net

Accounts receivable reflect overpayments of payroll, travel, and other MCC current and former employee expenses. Accounts receivable also reflect disallowed and sustained AE expenditures. Receivables that exist with foreign countries are considered sovereign debt. Public accounts receivables are presented net of an allowance for doubtful accounts, which is based on analyses of debtors' ability to pay, specific identification of probable losses, aging analyses of past-due receivables, or historical collection experience.

### I. General Property, Plant, and Equipment, Net

MCC's general Property Plant and Equipment (PP&E) consists of capitalized general equipment costs. MCC's capitalization threshold is $100,000 for all assets, except for IT equipment, for which the capitalization threshold is $200,000. The basis for recording purchased PP&E is the full cost of the acquired asset, including all costs required to bring the asset to the form and location suitable for its intended use.

MCC controls, values, and reports purchased or developed software as tangible property assets, in accordance with the FASAB Statement of Federal Financial Accounting Standards (SFFAS) No. 10, *Accounting for Internal Use Software*. MCC identifies software investments as capital property for items that, in aggregate, cost $500,000 or more to purchase, develop, enhance or modify a new or existing system. Software projects that are not completed at year end and are expected to exceed the capitalization threshold are recorded as software in development. All internal use software meeting the capitalization threshold is amortized over a five-year period using the straight-line half-year convention.

Leasehold improvements and furniture are depreciated using the straight-line method of depreciation over the estimated useful lives of the improvements (10 years). All other general PP&E is depreciated using the straight-line method over an estimated useful life of five years.

### J. Liabilities

Liabilities represent the probable and measurable future outflow or other use of resources as a result of past transactions or events. Liabilities covered by budgetary resources are those liabilities for which Congress has appropriated funds or for which funding is otherwise available to pay amounts due. Liabilities not covered by budgetary or other resources represent amounts owed in excess of available Congressionally appropriated funds or other amounts, where there is no certainty that the appropriations will be enacted.

## K. Accounts Payable

Accounts payable represent amounts due to Federal and With the Public entities for goods and services received by MCC that have not been paid at the end of the accounting period. Intragovernmental accounts payable represents payable transactions with other Federal Government agencies (e.g., USAID, Department of the Interior, etc.), while Non-Federal accounts payable represents transactions With the Public entities.

## L. Other Liabilities – Intragovernmental

*Accrued Payroll*

Accrued payroll consists of salaries, wages, and other compensation earned by the employees but not disbursed as of September 30, 2022 and 2021, respectively. The liability is estimated for reporting purposes based on historical pay information.

*Employee Retirement Benefits*

MCC's employees participate in either the Federal Employees Retirement System (FERS) or the Civil Service Retirement System (CSRS). FERS was established by Public Law (PL) 99-335. Pursuant to this law, most USG employees hired after December 31, 1983, are covered by FERS and Social Security. FERS consists of Social Security, a gross annuity plan, and a Federal Thrift Savings Plan (TSP). MCC and the employee contribute to Social Security and the gross annuity plan at rates prescribed by law. In addition, each year MCC is required to contribute to the Federal TSP a minimum of one percent of the gross pay of employees covered by this system, match voluntary employee contributions up to three percent of the employees' gross pay, and match one-half of contributions between three and five percent of the employees' gross pay, for a maximum MCC contribution of five percent of pay. For FERS employees, MCC also contributes the employer's share of Medicare.

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. A matching contribution of seven percent is required and is automatically deducted from the employees' gross pay. Employees under CSRS may participate in the TSP but will not receive MCC's automatic or matching contributions.

Federal employee benefit costs paid by the Office of Personnel Management (OPM) and imputed by MCC are reported on the Statement of Net Cost. Contributions for FERS, CSRS, and other retirement benefits are insufficient to fund the programs fully and are subsidized by OPM. MCC imputes its share of the OPM subsidy, using cost factors provided by OPM, and reports the full cost of the programs related to its employees.

## M. Liabilities Not Covered by Budgetary Resources

As of September 30, 2022 and 2021, budgetary resources have not yet been made available to fund certain liabilities reported on the Balance Sheet. Liabilities not covered by budgetary resources represent amounts for which Congressional appropriation is required and funding is generally made available in the year payments are due or anticipated. Liabilities not covered by budgetary resources include the Judgment Fund, unfunded leave, Federal Employees Compensation Act (FECA), unemployment compensation, and unamortized rent abatement liability.

Regardless of when the congressional action occurs, when the liabilities are liquidated, Treasury will finance the liquidation in the same way that it finances all other disbursements, which is to borrow from the public if the Government has a budget deficit (and to use current receipts if the Government has a budget surplus).

*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 for Federal Tort Claims Act settlements or awards pertaining to these litigations are funded from a special appropriation administered by The Department of Treasury called the Judgment Fund. Although the ultimate disposition of any potential Judgment Fund proceedings cannot be determined, MCC Management expects that any liability or expense that might ensue would not be material to MCC's financial statements.

*Unfunded Leave*

A liability for annual and other vested compensatory leave is accrued as earned and reduced when taken. 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. To the extent that current or prior year appropriations are not available to fund annual leave earned but not taken, funding will be obtained from future financing sources. 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 sick leave.

*Unfunded Federal Employees Compensation Act*

FECA (established by PL 103-3) provides income and medical cost protection to covered Federal civilian employees injured on the job, employees who have incurred work-related occupational diseases, and beneficiaries of employees.

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

*Unfunded Unemployment*

DOL's unemployment programs provide unemployment benefits to eligible workers who become unemployed through no fault of their own and meet certain other eligibility requirements. The Unemployment Compensation for Federal Employees program provides benefits for eligible, unemployed, former civilian Federal employees. MCC's liability for unemployment includes any costs incurred but unbilled as of quarter end, as calculated by DOL, and not funded by current appropriations.

*Unamortized Rent Abatement Liability*

The rent abatement represents MCC's period of free rent awarded by the lessor of the Franklin Court building. MCC maintains a 10-year operating lease for office space at Franklin Court, on which lease payments commenced in FY 2017. Per the terms of the contract, MCC was awarded approximately 15 months of rent abatement beginning on December 1, 2015. As a result of this 15-month rent abatement, MCC recorded a liability which is being amortized on a monthly basis utilizing a straight-line approach over the 10-year lease period.

### N. Parent/Child Relationships with Other Federal Agencies

MCC is a party to allocation transfers with other Federal agencies as both a transferring (parent) entity and receiving (child) entity. Allocation transfers are legal delegations by one Agency of its ability to obligate budget authority and outlay funds to another Agency. 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 incurred by the child entity are also charged to this allocation account as they execute the delegated activity on behalf of the parent entity. Generally, 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, and budget apportionments are derived. Per OMB guidance, child transfer activities are to be included and parent transfer activities are to be excluded in trial balances.

MCC was allocated funds from the U.S. President's Emergency Plan for AIDS Relief, Office of the U.S. Global AIDS Coordinator through the Department of State. These activities are reported in Department of States' financial statements based on an exception applicable to funds for which the Executive Office of the President is the parent. As the parent entity, MCC allocated funds to USAID and the relationship under this allocation ended on June 30, 2021. As a result, there are amounts reported for FY 2021 in MCC's Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, and SBR for which the activity was performed by USAID acting as the child in this financial relationship.

### O. Foreign currency transactions

The functional currency of the agency is United States Dollars (USD) and these financial statements are presented in that currency. Each AEs budget amount is fixed and denominated in USD. The financial execution of our grants cannot exceed the total budgeted amount. Disbursements occurring in other currencies are translated into USD and recorded in USD. The AEs bear all currency translation risk, and as such, MCC does not record any foreign translation gain or loss in its financial statements.

### P. Classified activities

Accounting standards require all reporting entities to disclose that accounting standards allow certain presentations and disclosures to be modified, if needed, to prevent the disclosure of classified information.

### Q. Prior Year Reclassifications

The format of the Statement of Net Costs has been changed to report those costs directly attributable to carrying out and evaluating MCC's grant programs. As a result, the appropriation fund categories previously reported in the FY 2021 Statement of Net Costs for Compact Assistance, Compact Development, Threshold and Due Diligence have been combined in the FY 2022 Statement of Net Costs to reflect these program costs. The fund categories of Audit and Administration have been aggregated to reflect Costs not Assigned to Programs for FY 2022.

## Note 2 – Fund Balance with Treasury

As of September 30, 2022 and 2021, respectively, FBWT was comprised as follows:

| *(in thousands)* | 2022 | 2021 |
|---|---|---|
| **Status of Fund Balance with Treasury** | | |
| Unobligated Balance | | |
| Available | $ 3,428,058 | $ 3,421,316 |
| Unavailable | 4,060 | 38,889 |
| Obligated Balance not yet Dispersed | 2,235,482 | 2,501,867 |
| Non-Budgetary FBWT | - | 57 |
| **Total** | **$ 5,667,600** | **$ 5,962,129** |

MCC's FBWT is classified as unobligated balance available and unavailable, obligated balance not yet disbursed, and non-budgetary FBWT. Unobligated available balances represent amounts that are apportioned for obligation in the current fiscal year and unexpired appropriations available for incurring new obligations. Unobligated balances unavailable represent the amount remaining in appropriated funds subject to OMB apportionment. Obligated balances not yet disbursed include undelivered orders or orders received but not yet paid. Non-budgetary FBWT includes unavailable receipt accounts and clearing accounts that do not have budget authority.

## Note 3 – Accounts Receivable, Net

Accounts receivable, net as of September 30, 2022 and 2021 were $26 thousand (net of allowance for doubtful accounts of $0 thousand) and $3 thousand (net of allowance for doubtful accounts of $1 thousand), respectively. An allowance for doubtful accounts is recorded for accounts receivable due from the public, to bring accounts receivable to its net realizable value in accordance with SFFAS No. 1, *Accounting for Selected Assets and Liabilities*.

## Note 4 – General Property, Plant, and Equipment, Net

As of September 30, 2022 and 2021, respectively General Property, Plant and Equipment, net is comprised as follows:

### General Property, Plant, and Equipment, Net as of September 30, 2022

| *(in thousands)* | Estimated Useful Life | Cost | Accumulated Depreciation Amortization | Book Value |
|---|---|---|---|---|
| **General PP&E:** | | | | |
| Leasehold Improvements | 10 Years | $ 8,392 | $ (5,689) | $ 2,703 |
| Furniture | 10 Years | 3,788 | (2,580) | 1,208 |
| Internal Use Software | 5 Years | 15,094 | (13,364) | 1,730 |
| Vehicles | 5 Years | 232 | (232) | - |
| **Total** | | **$ 27,506** | **$ (21,865)** | **$ 5,641** |

### General Property, Plant, and Equipment, Net as of September 30, 2021

| *(in thousands)* | Estimated Useful Life | Cost | Accumulated Depreciation Amortization | Book Value |
|---|---|---|---|---|
| **General PP&E:** | | | | |
| Leasehold Improvements | 10 Years | $ 8,392 | $ (4,835) | $ 3,557 |
| Furniture | 10 Years | 3,788 | (2,199) | 1,589 |
| Internal Use Software | 5 Years | 15,094 | (10,326) | 4,768 |
| Vehicles | 5 Years | 232 | (277) | 5 |
| **Total** | | **$ 27,506** | **$ (17,587)** | **$ 9,919** |

The table below provides a reconciliation of the carrying value of net Property, Plant and Equipment between October 1 and September 30:

| | 2022 | | | 2021 |
|---|---|---|---|---|
| *(in thousands)* | Cost | Accumulated Depreciation Amortization | Book Value | Book Value |
| **General PP&E:** | | | | |
| Balance Beginning of Year | $ 27,506 | $ (17,587) | $ 9,919 | $ 14,237 |
| Depreciation and Amortization | - | (4,278) | (4,278) | (4,318) |
| **Balance at End of Year** | **$ 27,506** | **$ (21,865)** | **$ 5,641** | **$ 9,919** |

## Note 5 – Liabilities Not Covered by Budgetary Resources

As of September 30, 2022 and 2021, liabilities not covered by budgetary resources, respectively, are comprised as follows:

| *(in thousands)* | 2022 | 2021 |
|---|---|---|
| **Intragovernmental** | | |
| Other Unfunded Unemployment Related Benefits | $ 34 | $ 46 |
| **Total Intragovernmental** | **34** | **46** |
| **With the Public** | | |
| Annual Unfunded Leave Liability | 4,933 | 5,258 |
| Rent Abatement Liability | 3,648 | 4,534 |
| Total Liabilities Not Covered by Budgetary Resources | 8,615 | 9,838 |
| Total Liabilities Covered by Budgetary Resources | 125,037 | 132,932 |
| Total Liabilities Not Requiring Budgetary Resources | 3,530 | 4,000 |
| **Total Liabilities** | **$ 137,182** | **$ 146,770** |

## Note 6 – Other Liabilities

MCC's total other liabilities as of September 30, 2022 and 2021, respectively, are comprised as follows:

### Other Liabilities as of September 30, 2022

| *(in thousands)* | Non-Current Liabilities | Current Liabilities | Total |
|---|---|---|---|
| **Intragovernmental** | | | |
| Employer Contributions & Payroll Taxes Payable | $ - | $ 199 | $ 199 |
| **Total Intragovernmental Other Liabilities** | **-** | **199** | **199** |
| **With the Public** | | | |
| Employer Contributions & Payroll Taxes Payable | - | 3,527 | 3,527 |
| Rent Abatement Liability | 2,635 | 1,013 | 3,648 |
| **Total Other Liabilities With the Public** | **2,635** | **4,540** | **7,175** |
| **Total Other Liabilities** | **$ 2,635** | **$ 4,739** | **$ 7,374** |

### Other Liabilities as of September 30, 2021

| *(in thousands)* | Non-Current Liabilities | Current Liabilities | Total |
|---|---|---|---|
| **Intragovernmental** | | | |
| Employer Contributions & Payroll Taxes Payable | $ - | $ 186 | $ 186 |
| Liabilities for Non-Entity Assets | - | 56 | 56 |
| **Total Intragovernmental Other Liabilities** | **-** | **242** | **242** |
| **With the Public** | | | |
| Employer Contributions & Payroll Taxes Payable | - | 3,185 | 3,185 |
| Rent Abatement Liability | 3,724 | 810 | 4,534 |
| **Total Other Liabilities With the Public** | **3,724** | **3,995** | **7,719** |
| **Total Other Liabilities** | **$ 3,724** | **$ 4,237** | **$ 7,961** |

## Note 7 – Federal Employee [and Veteran] Benefits Payable

As of September 30, 2022 and 2021, respectively, Federal Employee [and Veteran] Benefits Payable, are comprised as follows:

| *(in thousands)* | 2022 | 2021 |
|---|---|---|
| Annual Unfunded Leave Liability | $ 4,933 | $ 5,258 |
| Employer Contributions and Payroll Taxes Payable | 285 | 144 |
| **Total Liabilities** | **$ 5,218** | **$ 5,402** |

## Note 8 – Leases

MCC leases office space at the Franklin Court building in Washington, DC. The lease is an operating lease with a 10-year lease term with an effective date of December 1, 2015, and a termination date of November 30, 2025. The total Franklin Court lease is valued at $21,815 thousand with a termination liability as of September 30, 2022 in the amount of $12,217 thousand excluding rent.

MCC also has short-term leases for 19 copier machines (through May 31, 2023).

The future lease payments due for the building, vehicle, and copier machines are depicted below.

### Future Lease Payments Due

| *(in thousands)* | Asset Category | | | | | |
|---|---|---|---|---|---|---|
| Fiscal Year | Vehicle | Copier | Building | Totals | Federal | Non-Federal |
| FY 2023 | $ 11 | $ 37 | $ 6,749 | $ 6,797 | $ 37 | $ 6,760 |
| FY 2024 | 9 | - | 6,880 | 6,889 | - | 6,889 |
| FY 2025 | - | - | 7,013 | 7,013 | - | 7,013 |
| FY 2026 | - | - | 1,173 | 1,173 | - | 1,173 |
| FY 2027 | - | - | - | - | - | - |
| After FY 2027 | - | - | - | - | - | - |
| **Total Future Lease Payments** | **$ 20** | **$ 37** | **$ 21,815** | **$ 21,872** | **$ 37** | **$ 21,835** |

## Note 9 – Accrual - Grant Liabilities

As of September 30, 2022 and 2021, respectively, Accrued Grant Liabilities is comprised as follows:

### Accrued Grant Liabilities

| *(in thousands)* | 2022 | 2021 |
|---|---|---|
| Grant Accrual | $ 76,717 | $ 90,151 |
| Retentions | 29,735 | 25,058 |
| **Total** | **$ 106,452** | **$ 115,209** |

## Note 10 - Commitments and Contingencies

MCC's program execution results in commitments of future obligations with country-specific accountable entities. Upon signing the agreement with the government, MCC obligates a smaller portion of the funding to support the pre-implementation activities and commits the remainder of the funding until Entry into Force (EIF). When the necessary milestones for EIF are met, the committed funds are recorded as an obligation. As of September 30, 2022, MCC had commitments for the Burkina Faso II, Kosovo, Lesotho II, Malawi II, Nepal and Timor-Leste compacts totaling $2,024,412 thousand. Similarly, as of September 30, 2021, MCC had commitments for the Burkina Faso II and Nepal compacts totaling $876,079 thousand.

A loss contingency is an existing condition, situation, or set of circumstances involving uncertainty as to possible loss to MCC. The uncertainty ultimately should be resolved when one or more future events occur or fail to occur. The likelihood that the future event or events will occur confirms the loss; the incurrence of a liability can range from probable to remote. SFFAS No. 5, *Accounting for Liabilities of the Federal Government*, as amended by SFFAS No. 12, *Recognition of Contingent Liabilities from Litigation*, contains the criteria for recognition and disclosure of contingent liabilities.

MCC could be a party to various administrative proceedings, legal actions, and claims brought by or against it. With the exception of pending, threatened, or potential litigation, a contingent liability is recognized when a past transaction or event has occurred, a future outflow or other sacrifice of resources is more likely than not to occur, and the related future outflow or sacrifice of resources is measurable. For pending, threatened, or potential litigation, a contingent liability is recognized when a past transaction or event has occurred, a future outflow or other sacrifice of resources is likely to occur, and the related future outflow or sacrifice of resources is measurable.

Certain contracts entered into by AE's may contain performance guarantees which may or may not result in the AE being reimbursed for nonperformance. These performance guarantees are not recorded until the non-performance event is triggered and result in a receivable to the AE. As of September 30, 2022, six AEs had agreements subject to performance guarantees which in aggregate are not to exceed $45,545 thousand.

## Note 11 – Notes Related to the Statement of Budgetary Resources

### Permanent, Indefinite Appropriations

MCC is funded through permanent, indefinite appropriations to finance its operations. Permanent, indefinite appropriations are appropriations that are available until expended.

### Permanent Reductions to Budgetary Resources

In FY 2022 a permanent reduction of $515.0 million was made to MCC's budgetary resources under Public Law 117-108. The permanent reduction is included in the Statement of Budgetary Resources Budgetary Resources section and is also included in the Statement of Change in Net Position.

### Unobligated Balance from Prior-year's Budget Authority, Net

During the years ended September 30, 2022 and 2021, certain adjustments were made to the balance of unobligated budgetary resources available as of October 1, 2021 and 2020. These adjustments include, among other things downward adjustments to undelivered orders that were obligated in a prior fiscal year.

The adjustments for the years ended September 30, 2022 and 2021, are presented below:

**Net Adjustments to Unobligated Balance, Brought Forward, October 1**

| *(in thousands)* | 2022 | 2021 |
|---|---|---|
| **Unobligated balance bought forward from prior year** | $ 3,460,205 | $ 3,592,770 |
| **Adjustments to budgetary resources made during current year** | | |
| Downward adjustments of prior year orders | 8,531 | 48,752 |
| **Unobligated budgetary resources from prior year budget authorities** | **$ 3,468,736** | **$ 3,641,522** |

## Note 12 – Undelivered Orders at the End of the Period

Undelivered Orders represent the amount of goods and/or services ordered to perform MCC's program activities, which have not been received. MCC's undelivered orders as of September 30, 2022 and 2021, respectively is comprised as follows:

### Undelivered Orders at End of Period

| *(in thousands)* | 2022 | 2021 |
|---|---|---|
| **Intragovernmental** | | |
| Paid | $ 3,308 | $ 6,538 |
| Unpaid | 8,000 | 12,043 |
| Total Intragovernmental | 11,308 | 18,581 |
| **With the Public** | | |
| Paid | 25,866 | 47,251 |
| Unpaid | 2,102,428 | 2,356,931 |
| Total With the Public | 2,128,294 | 2,404,182 |
| **Total** | **$ 2,139,602** | **$ 2,422,763** |

## Note 13 – Explanation of Differences between the Combined Statement of Budgetary Resources and the Budget of the U.S. Government

The table below documents there are no differences between the FY 2021 Statement of Budgetary Resources and the actual amounts reported for FY 2021 in the Budget of the U.S. Government released in 2022. Since the FY 2022 financial statements will be reported prior to the release of the Budget of the U.S. Government, MCC is reporting for FY 2021 only. Typically, the Budget of the U.S. Government with the current year actual data is published in February of the subsequent year. Once published, the FY 2022 actual data will be available on https://www.whitehouse.gov/omb/budget/.

### Explanation of Differences between the Combined Statement of Budgetary Resources and the Budget of the U.S. Government

| *(in millions)* | Budgetary Resource | New Obligations & Upward Adjustments (Total) | New Outlays |
|---|---|---|---|
| Statement of Budgetary Resources | $ 4,558 | $ 1,097 | $ (724) |
| Budget of the U.S. Government | **$ 4,558** | **$ 1,097** | **$ (724)** |

## Note 14 – Reconciliation of Net Cost to Net Outlays

SFFAS 53, *Budget and Accrual Reconciliation*, requires a reconciliation of the entity's net outlays on a budgetary basis and the net cost of operations during the reporting period. The reconciliation of net outlays (reported on the Statement of Budgetary Resources) and net cost (reported on the Statement of Net Cost) clarifies the relationship between budgetary and financial accounting information. The reconciliation of net outlays, presented on a budgetary basis, and the net cost, presented on an accrual basis, provides an explanation of the relationship between budgetary and financial accounting information. The reconciliation serves not only to identify costs paid for in the past and those that will be paid in the future, but also to assure integrity between budgetary and financial accounting. The analysis below illustrates this reconciliation by listing the key differences between net cost and net outlays.

### Reconciliation of Net Cost to Net Outlays for the Year Ended September 30, 2022

| *(in thousands)* | Intragovernmental | With the Public | Total |
|---|---|---|---|
| **Net Cost** | **$ 42,365** | **$ 671,372** | **$ 713,737** |
| **Components of Net Cost Not Part of the Budgetary Outlays** | | | |
| Property, Plant, and Equipment Depreciation Expense | - | (4,278) | (4,278) |
| **Increase/(Decrease) in Assets:** | | | |
| Accounts receivable, net | - | 23 | 23 |
| Other assets | (3,230) | (21,385) | (24,615) |
| **Increase/(Decrease) in Liabilities:** | | | |
| Accounts Payable | (908) | 498 | (410) |
| Federal Employee and Veteran Benefits Payable | - | 184 | 184 |
| Other Liabilities | 457 | 544 | 1,001 |
| Grant Accrual Liabilities | - | 8,757 | 8,757 |
| **Financing Sources:** | | | |
| Imputed Cost | (2,545) | - | (2,545) |
| **Total Components of the Net Operating Cost Not Part of the Budgetary Outlays** | **(6,226)** | **(15,657)** | **(21,883)** |
| **Components of the Budget Outlays that are Not Part of the Net Operating Cost** | | | |
| **Financing Sources:** | | | |
| Transfers in (out) without reimbursement | (381) | - | (381) |
| **Total Components of the Budgetary Outlays That Are Not Part of Net Operating Cost** | **(381)** | **-** | **(381)** |
| **Total Net Outlays** | **$ 35,758** | **$ 655,715** | **$ 691,473** |
| | | | |
| **Budgetary Agency Outlays, Net** | | | **$ 691,473** |

## Reconciliation of Net Cost to Net Outlays for the Year Ended September 30, 2021

| *(in thousands)* | Intragovernmental | With the Public | Total |
|---|---|---|---|
| **Net Cost** | **$ 36,502** | **$ 725,503** | **$ 762,005** |
| **Components of Net Cost Not Part of the Budgetary Outlays** | | | |
| Property, Plant, and Equipment Depreciation Expense | - | (4,318) | (4,318) |
| **Increase/(Decrease) in Assets:** | | | |
| Other assets | (1,722) | (1,947) | (3,669) |
| **Increase/(Decrease) in Liabilities:** | | | |
| Accounts Payable | (47) | (5,518) | (5,565) |
| Federal Employee and Veteran Benefits Payable | - | 158 | 158 |
| Other Liabilities | (4,023) | (84) | (4,107) |
| Grant Accrual Liabilities | - | (17,633) | (17,633) |
| **Financing Sources:** | | | |
| Imputed Cost | (2,478) | - | (2,478) |
| **Total Components of the Net Operating Cost Not Part of the Budgetary Outlays** | **(8,270)** | **(29,342)** | **(37,612)** |
| **Components of the Budget Outlays that are Not Part of the Net Operating Cost** | | | |
| **Financing Sources:** | | | |
| Donated Services | - | (22) | (22) |
| **Total Components of the Budgetary Outlays That Are Not Part of Net Operating Cost** | **-** | **(22)** | **(22)** |
| **Misc. Items:** | | | |
| Other Temporary Timing Differences | (10) | - | (10) |
| **Total Other Reconciling Items** | **(10)** | **-** | **(10)** |
| **Total Net Outlays** | **$ 28,222** | **$ 696,139** | **$ 724,361** |
| | | | |
| **Budgetary Agency Outlays, Net** | | | **$ 724,361** |

## Note 15 - COVID-19 Activity

In FY 2022 and FY2021, MCC did not receive any supplemental appropriations to respond to COVID-19 under the Families First Act; P.L. 116-127 or the CARES Act; P.L. 116-136.

The Consolidated Appropriations Act, 2021 authorized MCC, subject to the availability of funds, to extend any compact in effect as of January 29, 2020, for up to one additional year, to account for delays related to COVID-19. MCC used budgetary resources from prior year appropriations for COVID-19 related activities obligating in FY 2022 $12.0 million, $10.5 million and $5.6 million in support of the extension of the Cote d' Ivoire, Morocco II and Niger compacts, respectively, to mitigate implementation delays due to the COVID-19 pandemic and to complete infrastructure projects as originally contemplated. In FY 2021 $23.7 million was obligated in support of the extension of the Ghana II and Benin II compacts. As of September 30, 2022 costs associated with COVID-19 under these extensions has amounted to $10.6 million, and there are no liabilities directly attributable to these extensions and no impact on the Net Position of MCC.

## Note 16 - Subsequent Event

On November 2, 2022 MCC notified the Government of Burkina Faso of its decision to terminate MCC's assistance to Burkina Faso under the Compact Agreement signed on August 13, 2020. The decision was made in response to the January 2022 coup d'état, which is inconsistent with MCC's statutorily mandated eligibility criteria, and the July 2022 announcement by the transition authorities of a prolonged period before elections. As a result of this termination $30.8 million previously granted and obligated will be de-obligated in FY 2023. Subsequent events have been evaluated through the auditors' report date, which is the date the financial statements were available to be issued, and management determined that there are no other items to disclose or that the appropriate disclosures were made.

## Note 17 - Reclassification of Financial Statement Line Items for Financial Report Compilation Process

To prepare the Financial Report (FR) of the U.S. Government, the Department of the Treasury requires agencies to submit an adjusted trial balance, which is a listing of amounts by USSGL account that appear in the financial statements. Treasury uses the trial balance information reported in the Governmentwide Treasury Account Symbol Adjusted Trial Balance System (GTAS) to develop a Reclassified Balance Sheet, Reclassified Statement of Net Cost, and a Reclassified Statement of Changes in Net Position for each agency, which are accessed using GTAS. Treasury eliminates all intragovernmental balances from the reclassified statements and aggregates lines with the same title to develop the FR statements. This note shows the MCC's financial statements (specifically the Statement of Net Cost and the Statement of Changes in Net Position) and the MCC reclassified statements prior to elimination of intragovernmental balances and prior to aggregation of repeated FR line items. A copy of the 2021 FR can be found here: https://www.fiscal.treasury.gov/reports-statements/ and a copy of the 2022 FR will be posted to this site as soon as it is released.

The term "intragovernmental" is used in this note to refer to amounts that result from other components of the Federal Government.

The term "non-Federal" is used in this note to refer to Federal Government amounts that result from transactions with non-Federal entities. These include transactions with individuals, businesses, non-profit entities, and state, local, and foreign governments.

| Reclassification of Statement of Net Cost to Line Items Used for the Government-wide Statement of Net Cost for the Year Ending September 30, 2022 | | | |
|---|---|---|---|
| FY 2022 MCC Statement of Net Cost | | Line Items Used to Prepare FY 2022 Government-wide Statement of Net Cost | |
| Financial Statement Line | Amounts | Amounts | Reclassified Financial Statement |
| *(in thousands)* | | | |
| **Gross Costs** | $ 714,207 | | |
| | | | **Non-Federal Costs** |
| | | $ 671,372 | Non-Federal Gross Cost |
| | | 671,372 | **Total Non-Federal Costs** |
| | | | **Intragovernmental Costs** |
| | | 11,550 | Benefit Program Costs |
| | | 2,545 | Imputed Costs |
| | | 25,455 | Buy/Sell Costs |
| | | 3,285 | Other Expenses (w/o Reciprocal) |
| | | 42,835 | **Total Intragovernmental Costs** |
| Total Gross Costs | 714,207 | 714,207 | |
| **Earned Revenue** | (470) | | **Earned Revenue** |
| Total Earned Revenue | (470) | (470) | Federal Earned Revenue |
| **Net Cost** | **$ 713,737** | **$ 713,737** | **Net Cost** |

| Reclassification of Statement of Changes in Net Position to Line Items Used for the Government-wide Statement of Changes in Net Position for the Year Ending September 30, 2022 | | | |
|---|---|---|---|
| FY 2022 MCC Statement of Changes in Net Position | | Line Items Used to Prepare FY 2022 Government-wide Statement of Changes in Net Position | |
| Financial Statement Line | Amounts | Amounts | Reclassified Financial Statement Line |
| *(in thousands)* | | | |
| Unexpended Appropriations | | | |
| Unexpended Appropriations, Beginning Balance | $ 5,878,985 | $ 5,878,985 | Unexpended Appropriations, Beginning Balance |
| Appropriations Received | 912,000 | 397,000 | Appropriations Received |
| Other Adjustments | (515,000) | - | Other Adjustments |
| Appropriations Used | (708,149) | (708,149) | Appropriations Used |
| **Total Unexpended Appropriations** | $ 5,567,836 | $ 5,567,836 | **Total Unexpended Appropriations** |
| **Cumulative Results of Operations** | | | |
| Cumulative Results, Beginning Balance | $ 85 | $ 85 | Cumulative Results, Beginning Balance as adjusted |
| | - | 73 | Other Adjustments |
| | 381 | 308 | Expenditure transfers-in of financing sources |
| Imputed Financing | 2,545 | 2,545 | Imputed Financing Sources |
| **Total Donations, Transfers, & Imputed Financing** | 2,926 | 2,926 | **Total Donations, Transfers, & Imputed Financing** |
| **Net Cost of Operations** | 713,737 | 713,737 | **Net Cost of Operations** |
| **Ending Balance - Cumulative Results of Operations** | (2,577) | (2,577) | **Cumulative Results of Operations** |
| **Total Net Position** | **$ 5,565,259** | **$ 5,565,259** | **Net Position** |

**OFFICE OF INSPECTOR GENERAL**
U.S. Agency for International Development

# Audit of MCC's Financial Statements for Fiscal Years 2022 and 2021

Audit Report 0-MCC-23-002-C
November 15, 2022

Financial Audits Division

**OFFICE OF INSPECTOR GENERAL**
U.S. Agency for International Development

# MEMORANDUM

**DATE:** November 15, 2022

**TO:** Millennium Challenge Corporation/Department of Administration and Finance, Vice President and Chief Financial Officer, Fouad Saad

**FROM:** Deputy Assistant Inspector General for Audit, Alvin Brown /s/

**SUBJECT:** Audit of MCC's Financial Statements for Fiscal Years 2022 and 2021 (0-MCC-23-002-C)

Enclosed is the final audit report on the Millennium Challenge Corporation's (MCC's) financial statements for fiscal years 2022 and 2021. The Office of Inspector General (OIG) contracted with the independent certified public accounting firm of RMA Associates LLC (RMA) to conduct the audit. The contract required the audit firm to perform the audit in accordance with generally accepted government auditing standards and Office of Management and Budget Bulletin No. 22-01, Audit Requirements for Federal Financial Statements.

In carrying out its oversight responsibilities, OIG reviewed the audit firm's report and related audit documentation and inquired of its representatives. Our review, which was different from an audit performed in accordance with generally accepted government auditing standards, was not intended to enable us to express, and we do not express, an opinion on MCC's financial statements. The audit firm is responsible for the enclosed auditor's report and the conclusions expressed in it. We found no instances in which RMA did not comply, in all material respects, with applicable standards.

The audit objectives were to: (1) express an opinion on whether the financial statements as of September 30, 2022 and 2021, were presented fairly, in all material respects; (2) evaluate MCC's internal controls over financial reporting; and (3) determine whether MCC complied with applicable laws, regulations, contracts and agreements. To answer the audit objectives, the audit firm assessed risk, considered internal controls, and designed audit procedures relevant to MCC's fair presentation of its 2022 and 2021 financial statements.

The audit firm concluded that MCC's financial statements for the fiscal years ending September 30, 2022 and 2021, are presented fairly, in all material respects, and in accordance with U.S. generally accepted accounting principles. The audit firm found no reportable noncompliance for fiscal year 2022 with provisions of applicable laws, regulations, contracts, and grant agreements. The audit firm also found no material weaknesses but reported one significant deficiency in internal control over financial reporting related to MCC oversight during Millennium Challenge Accounts' (MCA) closure activities that needs improvement.

USAID Office of Inspector General
Washington, DC
oig.usaid.gov

To address the deficiency identified in the report, we recommend that MCC's Department of Administration and Finance and the Chief Financial Officer:

**Recommendation 1.** Develop and document MCC's oversight procedures for verification of Millennium Challenge Accounts' physical verification of all fixed assets acquired with MCC funds annually as required by the Millennium Challenge Accounts' Fiscal Accountability Plan.

**Recommendation 2.** Obtain the Accountable Entity's report summarizing the results of the annual physical count, inspection, and reconciliation, including explanations for any discrepancies noted and follow up on any delays.

**Recommendation 3.** Require the Accountable Entity Chief Financial Officer to review the annual report and approve any adjustments necessary to reconcile Fixed Assets Register with the accounting records.

**Recommendation 4.** Develop and document MCC's oversight procedures to ensure the Accountable Entity's physical count of all Program Fixed Assets is conducted within the required 90 days before the Compact closeout.

**Recommendation 5.** Update MCC's Accountable Entity Audit process to include additional internal controls and monitoring procedures to ensure that any Covered Providers are identified clearly in each Millennium Challenge Accounts Audit Plan and ensure the Millennium Challenge Accounts Audit Plan provides a detailed schedule for completing the required audits of the identified Covered Providers.

**Recommendation 6.** Update MCC's updated monitoring procedures to ensure that Covered Provider audits are completed prior to program closure, as well as formalizing the evaluation and documentation of approvals of any deviations or extensions arising with respect to Covered Provider audits.

In finalizing the report, the audit firm evaluated MCC's response to the recommendations. After reviewing that evaluation, we consider recommendations 1, 2, 3, 4, 5, and 6 resolved but open pending completion of planned activities. For recommendations 1, 2, 3, 4, 5, and 6. Please provide evidence of final actions to OIGAuditTracking@usaid.gov.

We appreciate the assistance provided to our staff and the audit firm's employees during the engagement.

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# Independent Auditor's Report

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

## Report on the Audit of the Financial Statements

### Opinion

We have audited the accompanying financial statements of the Millennium Challenge Corporation (MCC), which comprise the balance sheets as of September 30, 2022, and 2021, and the related statements of net cost and changes in net position, and statements of budgetary resources for the years then ended, and the related notes to the financial statements (hereinafter referred to as "financial statements").

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the MCC as of September 30, 2022, and 2021, and its net cost, changes in net position, and budgetary resources for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

### Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the Office of Management and Budget (OMB) Bulletin No. 22-01, *Audit Requirements for the Federal Financial Statements*. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the MCC and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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**Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the MCC's internal control. Accordingly, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

**Required Supplementary Information**

Accounting principles generally accepted in the United States of America require management's discussion and analysis be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Federal Accounting Standards Advisory Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of

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preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**Other Information**

Management is responsible for the other information included in the Annual Management Report. The Other Information comprises the Summary of Financial Statement Audit and Management Assurances, Payment Integrity, Grant Programs, and Climate Related Risk but does not include the basic financial statements and our auditor's report thereon. Our opinion on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

**Other Reporting Required by *Government Auditing Standards***

**Report on Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the MCC's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the MCC's internal control.

A *deficiency in internal control* 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 and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a 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. 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.

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Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified one deficiency in internal control, summarized below and described in the accompanying exhibit 1 that we consider to be a significant deficiency. The status of prior year findings can be found in exhibit 3.

- MCC oversight during Millennium Challenge Accounts' (MCA) closure activities needs improvement

**Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the MCC's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 22-01.

***Management's Response to Audit Findings and Recommendations***

MCC's comments can be found in Exhibit 2. MCC's response was not subject to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on it.

**Purpose of the Other Reporting Required by *Government Auditing Standards***

The purpose of the communication described in the Other Reporting Required by *Government Auditing Standards* section of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the MCC's internal control or compliance. This section is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the MCC's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

RMA Associates

RMA Associates

Arlington, VA
November 15, 2022

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**Exhibit 1 – Significant Deficiency in Internal Control**

**MCC oversight during Millennium Challenge Accounts' (MCA) closure activities needs improvement**

*Compact Closure – Physical Inspection and Count of Fixed Assets* - The Millennium Challenge Accounts (MCAs) are required to perform physical inspection and count of fixed assets at least once a year, or more frequently as required especially towards the end of the Compact closeout. Per the approved Fiscal Accountability Plan and Compact Closure Plan, the physical inspection and count should be performed by the Internal Audit Director and non-MCA Finance staff. The Internal Audit Director is also required to compile a Final Asset Inventory of all Program Assets not later than ninety-days prior to Compact End Date. One Accountable Entity (AE) could not provide the report, however management indicated they performed some type of physical verification of assets. In one instance, the Internal Audit Director was not allowed by the implementing entity to perform a full inventory count of all fixed assets as required by the Fiscal Accountability Plan. Additionally, there was no evidence the Internal Audit Director had performed a physical count of all fixed assets within the required 90 days before the Compact closeout. The lack of an asset inventory was due to:

- The Internal Audit Director and management was not given adequate access by the principal implementing entity to perform an adequate inventory count of all assets including Program Fixed Assets.
- Management noted they were not able to do a full count of program fixed assets within 90 days prior to Compact End Date due to extension of the Compact.

*MCA Grant Monitoring* - During our testing of internal controls over grant disbursement, we identified three Millennium Challenge Account (MCA) grant recipients requiring an audit due to annual expenditures over $750,000. The MCA grant recipients' annual expenditure is approximately $5.3 million as shown in the table below. We found that the MCA did not conduct the audits timely for the grants awarded.

| # | Grantees (Covered Providers) | Grant Award | MCA Annual Expenditure | Funds Remaining[1] | Draft Audit Report Due Date | Audit Report Issuance Date |
|---|---|---|---|---|---|---|
| 1 | Grantee 1 | $2,386,087 | $1,247,000 | $1,139,087 | July 29, 2021 | July 8, 2022[2] |
| 2 | Grantee 2 | $1,851,487 | $1,281,570 | $569,917 | July 29, 2021 | July 22, 2022[2] |
| 3 | Grantee 3 | $5,252,131 | $2,813,523 | $2,438,608 | July 29, 2022 | In Progress[2] |
| | **Total** | **$9,489,705** | **$5,342,093** | **$4,147,612** | | |

[1] Funds Remaining as of August 5, 2022.

[2] *The MCA was late to procure audits for the 3 covered providers for the period April 1, 2021, through March 31, 2022. The audit contract that was signed late on July 30, 2022, to conduct the audit and provide a draft audit report by July 29, 2022.

The cause of the delay was due to MCC not documenting its consideration and approval of the extended timeline in response to this delay. The contract amendment process was not conducted in a timely manner to begin the audits with sufficient time to complete by the deadline specified in the Audit Guidelines.

We recommend that MCC's Department of Administration and Finance and the Chief Financial Officer:

**Recommendation 1** – Develop and document MCC's oversight procedures for verification of MCA's physical verification of all fixed assets acquired with MCC funds annually as required by the MCA's Fiscal Accountability Plan

**Recommendation 2** – Obtain the Accountable Entity's report summarizing the results of the annual physical count, inspection, and reconciliation, including explanations for any discrepancies noted and follow up on any delays.

**Recommendation 3** – Require the Accountable Entity (AE) CFO review the annual report and approve any adjustments necessary to reconcile Fixed Assets Register with the accounting records.

**Recommendation 4** – Develop and document MCC's oversight procedures to ensure the AE's physical count of all Program Fixed Assets is conducted within the required 90 days before the Compact closeout.

**Recommendation 5** - Update the MCC's Accountable Entity Audit process to include additional internal controls and monitoring procedures to ensure that any Covered Providers are identified clearly in each Millennium Challenge Accounts Audit Plan and ensure the Millennium Challenge Accounts Audit Plan provides a detailed schedule for completing the required audits of the identified Covered Providers.

**Recommendation 6** - Update MCC's updated monitoring procedures to ensure that Covered Provider audits are completed prior to program closure, as well as formalizing the evaluation and documentation of approvals of any deviations or extensions arising with respect to Covered Provider audits.

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## Exhibit 2 – Management's Response to the Audit Findings

MILLENNIUM CHALLENGE CORPORATION
UNITED STATES OF AMERICA

| | |
|---|---|
| DATE: | November 10, 2022 |
| TO: | Alvin Brown<br>Deputy Assistant Inspector General for Audit<br>Office of Inspector General<br>United States Agency for International Development<br>Millennium Challenge Corporation |
| FROM: | Fouad P. Saad /s/<br>Vice President and Chief Financial Officer<br>Department of Administration and Finance<br>Millennium Challenge Corporation |
| SUBJECT: | MCC's Management Response to the Draft Audit Report, "Audit of MCC's Financial Statements for Fiscal Years 2022 and 2021," dated November 7, 2022 |

The Millennium Challenge Corporation (MCC) appreciates the opportunity to respond to the draft report on the Office of Inspector General (OIG)'s audit, "Audit of MCC's Financial Statements for Fiscal Years 2022 and 2021," dated November 7, 2022. MCC concurs with the conclusions of the report and provides a management response, which includes the management decision, to each recommendation below.

*OIG Recommendation 1 – Develop and document MCC's oversight procedures for verification of MCA's physical verification of all fixed assets acquired with MCC funds annually as required by the MCA's Fiscal Accountability Plan.*

MCC Response – MCC concurs with the recommendation. MCC will develop and document MCC's oversight procedures for verification of MCA's physical verification of all fixed assets acquired with MCC funds annually as required by the respective Fiscal Accountability Plans. This final action will be completed no later than June 30, 2023.

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*OIG Recommendation 2 – Obtain the Accountable Entity's report summarizing the results of the annual physical count, inspection, and reconciliation, including explanations for any discrepancies noted and follow up on any delays.*

MCC Response – MCC concurs with the recommendation and will obtain Accountable Entity reports summarizing the results for inventories occurring going forward from January 1, 2023. This final action will be included in the verification procedures to be developed and completed no later than June 30, 2023.

*OIG Recommendation 3 – Require the Accountable Entity (AE) CFO review the annual report and approve any adjustments necessary to reconcile Fixed Assets Register with the accounting records.*

MCC Response – MCC concurs with the recommendation and will require that Accountable Entity CFO's or equivalent positions review and approve annual reports as specified in the Fiscal Accountability Plan. This final action will be completed no later than June 30, 2023.

*OIG Recommendation 4 – Develop and document MCC's oversight procedures to ensure the AE's physical count of all Program Fixed Assets is conducted within the required 90 days before the Compact closeout.*

MCC Response – MCC concurs with the recommendation and will include a requirement in its oversight procedures to ensure physical counts are conducted within the number of days specified in the Compact closure plan as agreed between the parties. This final action will be completed no later than June 30, 2023.

*OIG Recommendation 5 – Update the MCC's Accountable Entity Audit process to include additional internal controls and monitoring procedures to ensure that any Covered Providers are identified clearly in each Millennium Challenge Accounts Audit Plan and ensure the Millennium Challenge Accounts Audit Plan provides a detailed schedule for completing the required audits of the identified Covered Providers.*

MCC Response – MCC concurs with the recommendation. MCC will update its Accountable Entity Audit Process to include additional internal controls and monitoring procedures to ensure that any Covered Providers are identified clearly in each Millennium Challenge Accounts Audit Plan and ensure the Millennium Challenge Accounts Audit Plan provides a detailed schedule for completing the required audits of the identified Covered Providers. This final action will be completed no later than June 30, 2023.

*OIG Recommendation 6 – Update MCC's updated monitoring procedures to ensure that Covered Provider audits are completed prior to program closure, as well as formalizing the evaluation and documentation of approvals of any deviations or extensions arising with respect to Covered Provider audits.*

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MCC Response – MCC concurs with the recommendation. MCC will update its monitoring procedures to ensure Covered Provider Audits are completed prior to program closure, as well as formalizing the evaluation and documentation of approvals of any deviations or extensions related to the audits. This final action will be completed no later than June 30, 2023.

If you have any questions or require additional information, please contact Michael Wright at 202-521-3648 or by email at wrightm@mcc.gov. Additionally, you can also contact Jude Koval, Senior Director of Internal Controls and Audit Compliance (ICAC) at 202-521-7280 or by email at kovaljg@mcc.gov.

CC: Damian Wilson, Principal Director, OIG, USAID

Davida Wilhelm, Assistant Audit Director, OIG, USAID

Anna Elias, Assistant Audit Director, Financial Audits Division, OIG, USAID

Adam Bethon, Deputy Chief Financial Officer, FMD, A&F, MCC

Lori Giblin, Chief Risk Officer, A&F, MCC

Michael Wright, Controller, FMD, A&F, MCC

Jude Koval, Senior Director, ICAC, A&F, MCC

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**Exhibit 3 – Status of Prior Year Recommendations**

| Fiscal Year | # | Recommendation | Type | FY 2022 Status |
|---|---|---|---|---|
| FY20 | 2 | Request the MCAs to establish a documented control mechanism to verify that the grant accrual estimates reported to MCC agrees with the support document used by the MCAs to complete grant accrual estimates data call template. | Significant Deficiency | Closed |
| FY20 | 5 | MCC's Chief Financial Officer Require the MCA Director of Administration and Finance and relevant Program Directors to (1) determine the root cause for delayed payments and report that information to MCC, and (2) timely provide all relevant and applicable payment support and approval documentation (including but not limited to purchase order, contract, acceptance note, delivery note, delivery confirmation receipt, etc.) to the MCA Fiscal Agent for required payment verification procedures and timely process the invoice for payment. | Significant Deficiency | Closed |
| FY20 | 7,8 | Revise The Accountable Entities Guidelines for Contracted Financial Audits to:<br>a. Address the timing of the audit review process to ensure that independent public accountant firms are able to meet the 90-day delivery deadline for issuing the audit report.<br>b. Establish a requirement after the initial compact or threshold audit to determine if the 90-day audit report deadline is still appropriate for the next audit given the circumstances (i.e., prior audit delays). If not, then issue an Implementation Letter to establish the new audit report deadline. | Significant Deficiency | Closed |
| FY21 | 1 | Ensure that Millennium Challenge Account project directors receive additional training on the documentation requirements they are responsible for to ensure timely processing of payments in accordance with the Fiscal Accountability Plan. | Significant Deficiency | Closed |

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| Fiscal Year | # | Recommendation | Type | FY 2022 Status |
|---|---|---|---|---|
| FY21 | 2 | Institute controls such as automated system reminders (i.e., Outlook Calendar Reminders) with the appropriate personnel within the MCAs to help mitigate the risk of MCAs not meeting the MCDR reporting time requirement. | Significant Deficiency | Closed |
| FY21 | 3 | Provide additional training to the MCAs regarding revisions to be made to MCC's Grant Accrual Guidance. Specifically, emphasize the responsibility of the MCA to identify all open contracts and require the project director/engineer over those contracts to provide an accrual estimate or a written explanation for why one is not needed to obtain full coverage. | Significant Deficiency | Closed |
| FY21 | 4 | Revise MCC's Grant Accrual Guidance to incorporate current data call requirements for the MCAs to identify open contracts | Significant Deficiency | Closed |
| FY21 | 5 | Provide additional training to the MCAs to ensure the MCAs have a clear understanding of the grant accrual validation requirements. | Significant Deficiency | Closed |
| FY21 | 6 | Include the instructions provided to the accountable entities regarding the validation process within the Grant Accrual Guidance. | Significant Deficiency | Closed |

# Other Information

(Unaudited)

# Summaries of Financial Statements Audit and Management Assurances

**Table 7: Summary of Financial Statement Audit**

| | |
|---|---|
| Audit Opinion | Unmodified Opinion |
| Restatement | No |

| Material Weaknesses | Beginning Balance | New | Resolved | Consolidated | Ending Balance |
|---|---|---|---|---|---|
| | 0 | | | | 0 |
| Total Material Weaknesses | 0 | | | | 0 |

**Table 8: Summary of Management Assurances**

**Effectiveness of Internal Control over Financial Reporting (FMFIA §2)**

| | |
|---|---|
| Statement of Assurances | Unmodified |

| Material Weaknesses | Beginning Balance | New | Resolved | Consolidated | Reassessed | Ending Balance |
|---|---|---|---|---|---|---|
| | 0 | | | | | 0 |
| Total Material Weaknesses | 0 | | | | | 0 |

**Effectiveness of Internal Control over Operations (FMFIA §2)**

| | |
|---|---|
| Statement of Assurances | Unmodified |

| Material Weaknesses | Beginning Balance | New | Resolved | Consolidated | Reassessed | Ending Balance |
|---|---|---|---|---|---|---|
| | 0 | | | | | 0 |
| Total Material Weaknesses | 0 | | | | | 0 |

**Conformance with Federal Financial Management System Requirements (FMFIA §2)**

| | |
|---|---|
| Statement of Assurances | System conforms |

| Non-Conformances | Beginning Balance | New | Resolved | Consolidated | Reassessed | Ending Balance |
|---|---|---|---|---|---|---|
| | 0 | | | | | 0 |
| Total Non-Conformances | 0 | | | | | 0 |

**Compliance with Section 803(a) of the Federal Financial Management Improvement Act (FMFIA)**

| | Agency Auditor | Auditor |
|---|---|---|
| 1. System Requirements | *No lack of compliance noted* | *No lack of compliance noted* |
| 2. Accounting Standards | *No lack of compliance noted* | *No lack of compliance noted* |
| 3. USSGL at Transaction Level | *No lack of compliance noted* | *No lack of compliance noted* |

# Payment Integrity

The Payment Integrity Information Act of 2019 (PIIA) updated government-wide improper payment reporting requirements by repealing and replacing the Improper Payments Information Act of 2002, the Improper Payments Elimination and Recovery Act of 2010, the Improper Payments Elimination and Recovery Act of 2012, and the Fraud Reduction and Data Analytics Act of 2015.

PIIA requires agencies to review all programs and activities they administer to identify those that may be susceptible to significant erroneous payments. For all programs and activities in which the risk of erroneous payments is significant, agencies are to estimate the annual amount of erroneous payments made in those programs.

Guidance provided by the OMB in Circular A-136, *Financial Reporting Requirements*, and Appendix C of Circular A-123, *Requirements for Payment Integrity Improvement*, requires agencies to report specific details about MCC's Improper Payments Elimination Program, which are below. Additionally, the following link further explains improper payments and the information reported in previous Agency Financial Reports that is not included in the FY 2022 AMR: https://paymentaccuracy.gov/.

PIIA guidelines state that if an agency deems a program to be low risk for improper payments, the agency will re-assess that program's risk at least every three years. An agency is only required to conduct a formal risk assessment earlier than three years if the program experiences a significant change in legislation, a significant increase in funding level or a determination of possible significant improper payments in the following year. Based on this guidance, the MCC did not conduct a risk assessment for FY 2022 and is not required to conduct another risk assessment until FY 2023. MCC's determination that all of its programs are low risk is based upon the results of the FY 2019 risk assessment, in which none of its programs and activities were deemed susceptible to significant improper payments at or above the threshold levels set by OMB. These programs have historically had low volumes and risks of improper payments given the controls and processes in place. The MCC recognizes the importance of maintaining adequate internal controls to ensure the accuracy and integrity of payments made by the agency, and the MCC maintains a strong commitment to continuous improvement in the overall disbursement management process.

MCC determined that implementing a payment recapture audit is not cost-effective and notified OMB of this determination in September 2015. The benefits or recaptured amounts associated with implementing and overseeing the program do not exceed the costs, including staff time and payments to contractors, of a payment recapture audit program. In making this determination, the MCC considered its low improper payment rate based on testing conducted over several years. The MCC also considered whether sophisticated software and other cost-efficient techniques could be used to identify significant overpayments at a low cost per overpayment, or if labor intensive manual reviews of paper documentation would be required.

In addition, the MCC considered the availability of tools to efficiently perform the payment recapture audit and minimize payment recapture audit costs. The MCC will continue to monitor its improper payments across all programs and activities it administers and assess whether implementing payment recapture audits for each program is cost-effective.

# Grant Programs

Below is a summary (Table 9) of the total number of awards and balances for which closeout has not yet occurred, but for which the period of performance has elapsed by two years or more prior to September 30, 2022 (i.e., on or before September 30, 2020).

Table 9: Summary of Expired, but not Closed, Federal grants and cooperative agreements (awards) as of September 30, 2022

| Category | 2-3 Years | > 3-5 Years | > 5 Years |
|---|---|---|---|
| Number of Grants/Cooperative Agreements with Zero Dollar Balances | - | - | - |
| Number of Grants/Cooperative Agreements with Undispersed Balances | 1 | - | - |
| Total Amount of Undispersed Balances (in thousands) | $ 6 | $ - | $ - |

# Climate Related Risk

To assess the climate related financial risk exposure to MCC's headquarters, MCC is following the framework outlined in the US Climate Resilience Toolkit to assess risks due to heat, flooding, and vector-borne diseases brought about by climate change and to define solutions to reduce the potential impact to its domestic operations. As MCC enters FY 2023, it will begin transitioning resources and expects to advance the goals of integrating adaptation and resilience considerations into the agency's facilities management and internal operations. For additional information visit https://www.sustainability.gov/contributing-agencies.html#mcc

MCC has made a commitment to expand and deepen our efforts to address climate change challenges across our investment portfolio and business operations, integrating climate considerations into all stages of program development and implementation. For additional information visit https://www.mcc.gov/resources/doc/climate-action-plan.

# Appendix A: Acronyms

| Acronym | Definition |
|---|---|
| **A** | |
| ACFD | American Catalyst Facility for Development |
| AE | Accountable Entity |
| AICPA | American Institute of Certified Public Accountants |
| AMR | Annual Management Report |
| APR | Annual Performance Report |
| **C** | |
| CBA | Cost-Benefit Analysis |
| CBJ | Congressional Budget Justification |
| CEO | Chief Executive Officer |
| CFO | Chief Financial Officer |
| CSRS | Civil Service Retirement System |
| **D** | |
| DATA Act | Digital Accountability and Transparency Act of 2014 |
| DEIA | Diversity, Equity, Inclusion and Accessibility |
| DFC | United States International Development Finance Corporation |
| DOL | Department of Labor |
| **E** | |
| ECOWAS | Economic Community of West Africa States |
| **F** | |
| FASAB | Federal Accounting Standards Advisory Board |
| FASB | Financial Accounting Standards Board |
| FBWT | Fund Balance with Treasury |
| FECA | Federal Employees Compensation Act |
| FERS | Federal Employees Retirement System |
| FFATA | Federal Funding Accountability and Transparency Act of 2006 |
| FFMIA | Federal Financial Management Improvement Act of 1982 |
| FMFIA | Federal Managers Financial Integrity Act of 1996 |
| FPPS | Federal Personnel Payroll System |
| FY | Fiscal Year |
| **G** | |
| GAAP | Generally Accepted Accounting Principles |

| Acronym | Definition |
|---|---|
| **I** | |
| IBC | Interior Business Center |
| IT | Information Technology |
| **M** | |
| MCC | Millennium Challenge Corporation |
| MIIA | Millennium Impact Infrastructure Accelerator |
| **O** | |
| OCEO | Office of the Chief Executive Office |
| OFF | Oracle Federal Financial System |
| OMB | Office of Management and Budget |
| OPM | Office of Personnel Management |
| **P** | |
| PL | Public Law |
| PIIA | Payment Integrity Information Act of 2019 |
| PIR | Policy and Institutional Reforms |
| PP&E | Property, Plant, and Equipment |
| **S** | |
| SBR | Statement of Budgetary Resources |
| SFFAS | Statement of Federal Financial Accounting Standards |
| SSAE | Statement on Standards for Attestation Engagements |
| SSP | Shared Service Provider |
| **T** | |
| TSP | Thrift Savings Plan |
| **U** | |
| USAID | United States Agency for International Development |
| USAID/OIG | United States Agency for International Development Office of the Inspector General |
| U.S. | United States |
| U.S.C. | United States Code |
| USD | United States Dollars |
| USG | United States Government |
| USSGL | U.S. Standard General Ledger |
| **W** | |
| WAPP | West African Power Pool |

## MCC Welcomes Your Comments

MCC welcomes comments and suggestions regarding this report.


Please contact MCC at:

https://www.mcc.gov/contact-us

or write to:

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(202) 521-3600


The Millennium Challenge Corporation is an innovative and independent foreign aid agency that is helping lead the fight against global poverty.


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