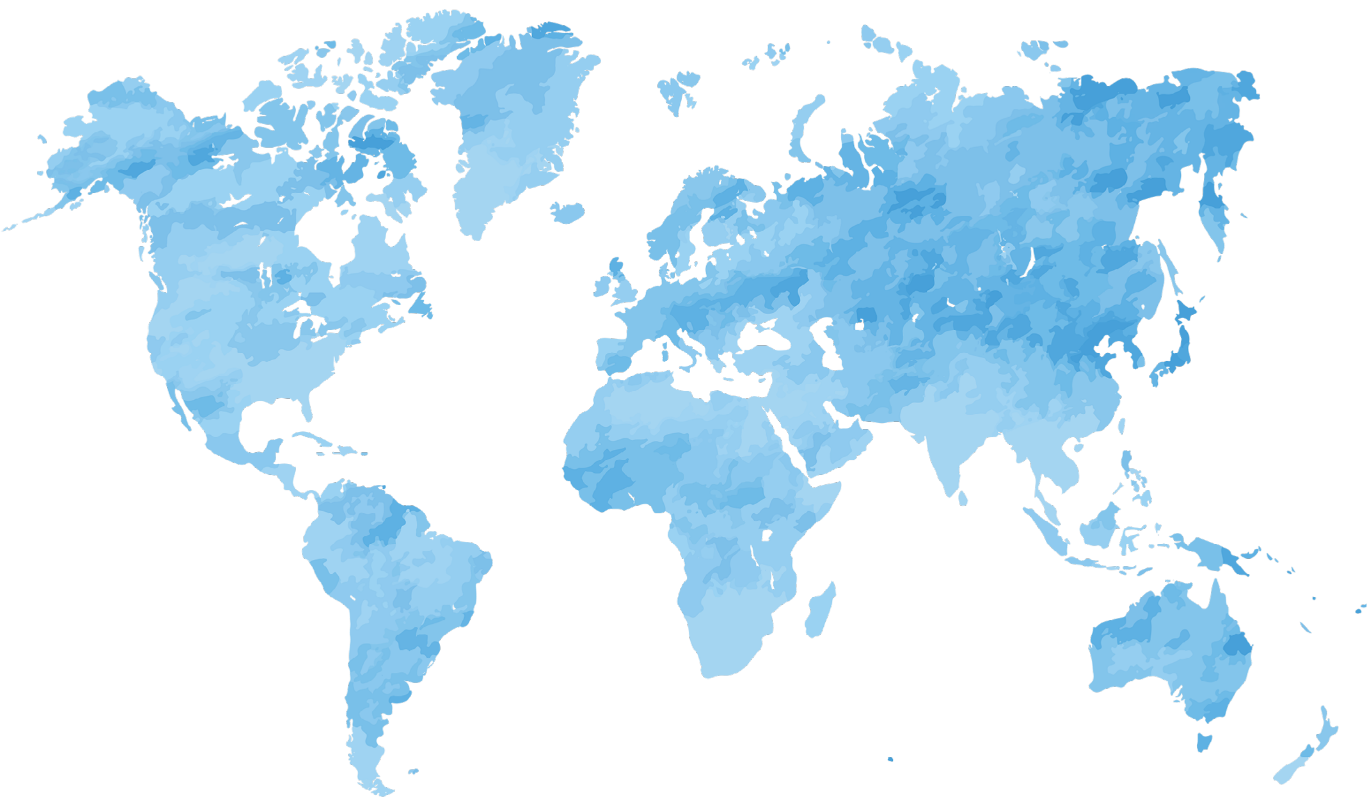
Millennium Challenge Corporation

Agency Financial Report

Fiscal Year 2019



October 1, 2018 – September 30, 2019

MILLENNIUM
CHALLENGE CORPORATION
UNITED STATES OF AMERICA

MCC Partner Countries — Compacts and Threshold Programs

MCC has worked with partners in the countries shown on the map below to help reduce poverty through economic growth.

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

2010-002-0097-33

MILLENNIUM
CHALLENGE CORPORATION
UNITED STATES OF AMERICA

Agency Financial Report

Fiscal Year 2019

October 1, 2018 – September 30, 2019

Contents

Introduction

The Agency Financial Report (AFR) for the Millennium Challenge Corporation (MCC) for fiscal year (FY) 2019 provides the results that enable the President, Congress, and the American people to assess MCC's performance for the reporting period beginning October 1, 2018, and ending September 30, 2019. In particular, the AFR 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 Office of Management and Budget (OMB) Circular No. A-136, *Financial Reporting Requirements.*

MCC will prepare an Annual Performance Report (APR) for FY 2019 that will also be included in MCC's FY 2021 Congressional Budget Justification (CBJ). The APR, along with the CBJ, is projected to be posted on MCC's website in February 2020. Together, the AFR 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, 2020, MCC will also provide further information related to its activities in an Annual Report to the Congress.

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

Organization of This Report

The FY 2019 AFR 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 a message from the Vice President, Department of Administration and Finance and Chief Financial Officer (CFO), the financial statements and accompanying notes, and the independent auditor's report.
- **Section III: Other Information** includes the United States Agency for International Development Office of Inspector General's (USAID/OIG's) Top Management Challenges, MCC management's response to the USAID/OIG's Top Management Challenges, MCC's Summary of Financial Statement Audit and Management Assurances, MCC's Payment Integrity Report, and Fraud Reduction Report.
- **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 19, 2019

I am pleased to submit the Millennium Challenge Corporation's Agency Financial Report for FY 2019. This report reflects MCC's continuing commitment to its founding principles of transparency and accountability. These principles remain fundamental to our model and are further evidenced through our partnership with countries that demonstrate a commitment to consolidating democratic reforms through economic freedom, ruling justly, and investing in people. As we carry out our mission to reduce poverty through economic growth, we strive to ensure that our investments are data-driven, and that our results are evaluated, monitored, and publicly shared.

FY 2019 was an active year for MCC—we celebrated our fifteenth year as an agency, and once again ranked highest among our U.S. Government counterparts in the Results for America's Invest in What Works Federal Standard of Excellence Index. We also signed new programs with Senegal and Togo, and successfully closed out programs in Honduras, Georgia, and Zambia. We launched the development of new bilateral compacts with Indonesia, Malawi, and Kosovo, as well as new threshold programs with Ethiopia and the Solomon Islands. Within our existing portfolio, we continued to work alongside our country partners to deliver on key milestones and objectives addressing the most binding constraints to economic growth for some of world's poorest populations. Additionally, we began development of our first concurrent regional compact, focused in West Africa, and remain committed ensuring this new investment successfully promotes and increases cross-border trade and large-scale reductions in poverty through enhanced regional economic integration.

As we look forward to the continued success of our programs around the world, we are seeking new and creative approaches to expand our external engagement, increase our work alongside U.S. businesses, and prioritize the inclusion of private investment throughout the life cycle of our compacts. We are also working in collaboration with other U.S. Government agencies to increase the impact of women's economic empowerment throughout our programs, keeping in close alignment with President Trump's Women's Global Development and Prosperity Initiative.

Our data-driven model is built on lessons of development experience and is unique in its exclusive focus on reducing poverty through sustainable economic growth. MCC enjoys a leading role in U.S. foreign development, and we will continue to pursue innovative ways to improve efficiency, enhance data, and increase accountability to deliver quality results and cost-effective investments for the American people in alignment with our values and national security interests.

Finally, I would like to thank our supporters and stakeholders who not only hold us accountable, but also work with us to ensure that we maximize each dollar spent in our fight to reduce poverty through economic growth around the globe. I look forward to continuing our productive relationship, and I welcome your feedback on this report.

Sincerely,

Sean Cairncross
Chief Executive Officer
Millennium Challenge Corporation

Management's Discussion and Analysis

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 economic growth in select developing countries that demonstrate a commitment to sound policies in the areas of democratic governance, economic freedom, and investment in their people. Good governance 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 requires policies that enable citizens and firms to participate in global product and capital markets, promote private sector growth, and limit direct government interference in the economy. Investment 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 unlock economic growth in partner countries and help people lift themselves out of poverty. MCC's approach employs development best practices on selection, country ownership, 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 two types of grants:

- A ***compact*** provides up to five years of assistance to a country that meets MCC's eligibility criteria and is selected for assistance by MCC's Board of Directors. The compact establishes a multiyear 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.
- A ***threshold program*** grant aims to assist a country to become eligible for an MCC compact by supporting policy and institutional reforms that target binding constraints to economic growth. MCC uses a rigorous, structured diagnostic process to develop threshold programs, followed by program design and implementation.

MCC's grant programs are focused on various sectors, including agricultural development, education, enterprise and private sector development, governance, health, water and sanitation, irrigation, transportation, electricity, and trade and investment capacity-building. MCC's governing statute requires MCC to provide assistance in a manner that promotes economic growth and the elimination of extreme poverty.

As just one member of the U.S. Government (USG) international development community, MCC works closely with the Department of State, the United States Agency for International Development (USAID), Overseas Private Investment Corporation (OPIC) and other agencies to ensure that MCC programs complement related USG efforts and therefore maximize both MCC's and the USG's impact 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

[1] *MCC's statute, § 607(b)(3)(C).*

States. As emerging economies prosper, 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 compacts and threshold programs.

Executive Offices

MCC accomplishes its mission through the following executive offices:

Office of the Chief Executive Officer is led by the Senate-confirmed CEO and provides executive leadership and strategic direction for the agency; coordinates activities and communications across departments; manages the agency's Investment Management Committee; oversees corporate information technology (IT) investments; and oversees overall agency performance and day-to-day operations.

Department of Congressional and Public Affairs manages MCC's relationship with Congress, USG agencies, the media, universities, nongovernmental organizations, think tanks, the private sector, and other key groups interested in MCC's mission. The department also handles all media inquiries and interview requests, coordinates all public events, serves as a liaison (with the Office of the General Counsel) to the staff of MCC's Board of Directors, maintains MCC's public website, and disseminates information to the public via statements, press releases, and speeches, among other means.

Department of Compact Operations manages the operational relationships with MCC compact partner countries, leads MCC's work in developing and implementing high-impact, sustainable economic development projects around the world, provides technical and regional expertise and rigorous oversight of USG resources to address constraints to economic growth and reduce poverty, and works with other intergovernmental agencies and the private sector to coordinate efforts within MCC partner countries. The department divides the management of the MCC compact portfolio into two regional divisions, (1) Africa and (2) Europe, Asia, the Pacific and Latin America, and two technical divisions, (1) Sector Operations and (2) Infrastructure, Environment and the Private Sector. Department staff have a wide array of expertise, including education, fiscal accountability, infrastructure, agriculture, land policy, procurement, environmental and social performance, gender integration, private sector engagement, and human and community development.

Department of Policy and Evaluation provides evidence and data-driven analysis to inform decision-making that guides MCC's investments, both as to where to invest and how. The department employs data and analysis at each stage of the MCC process—from country eligibility and selection to project decisions to evaluation—and has four divisions and a front office. Across its divisions, the department administers MCC's annual country selection and eligibility process; manages economic analysis and monitoring and evaluation (M&E) activities; and oversees the development and implementation of policy and institutional reform threshold programs. Cross-cutting priorities are typically handled by the front office.

Office of the General Counsel advises MCC's Board of Directors and staff on all legal issues affecting MCC, its programs, policies, and procedures; provides counsel on all legal aspects of country eligibility and selection, threshold programs, and other policy initiatives; addresses and resolves legal issues associated with compact and threshold programs; conducts and evaluates due diligence on country proposals; leads compact negotiations; provides advice on all issues affecting the internal operations of MCC; advises on matters of statutory interpretation, U.S. federal procurement, interagency agreements and communications, and other public initiatives; leads MCC's Anti-Fraud and Corruption (AFC) Program; serves as Corporate Secretary to the MCC Board of Directors; and manages MCC's ethics program, providing related training and guidance to staff.

Department of Administration and Finance plans and directs all activities related to financial management and budgeting, manages MCC's human resources; enters into and manages all MCC contracts, acquisitions, grants and cooperative agreements; ensures personnel and physical security, travel management responsibilities, coordinates and manages MCC's facilities; provides administrative services; maintains official corporate records; coordinates audit interactions with the USAID/OIG and the Government Accountability Office (GAO); coordinates and ensures timely and relevant reporting of performance data on compact programs; administratively supports IT infrastructure and services; and oversees and administers MCC's Enterprise Risk Management (ERM) program. There is a dotted reporting line between the Office of the CEO and the Office of the Chief Risk Officer.

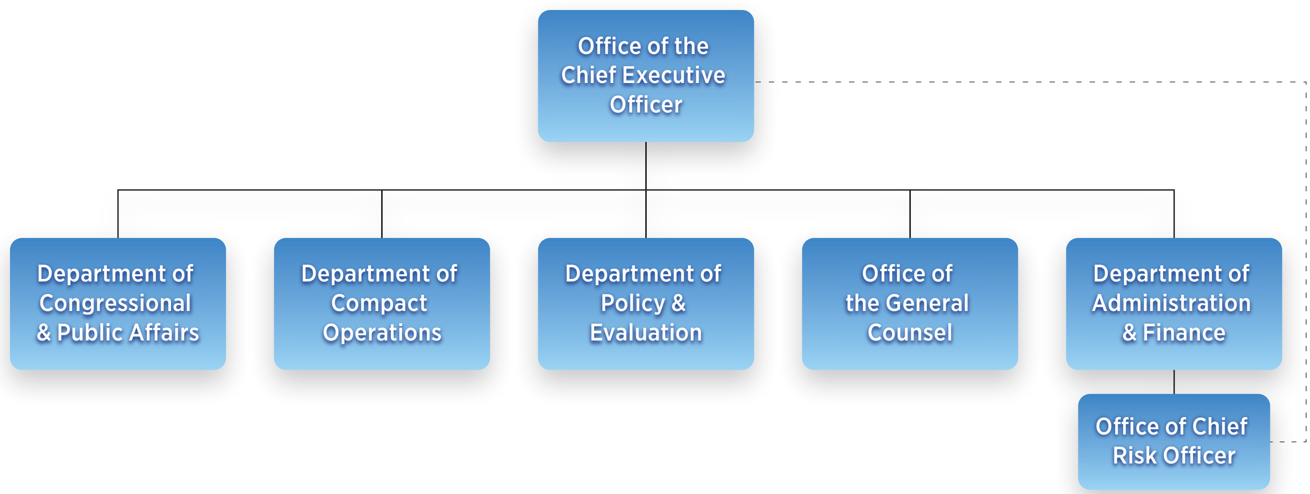


Figure 1. MCC Organizational Structure

Staffing

MCC is a small government agency headquartered in Washington, D.C. Table 1 shows Federal full time equivalent staffing levels from FY 2017 through FY 2019.

Table 1. MCC Staffing Full Time Equivalent (FTE)*

	FY 2019	FY 2018	FY 2017
Headquarters	275	285	286
Overseas	28	31	26
Total	**303**	**316**	**312**

**Staffing report based on Standard Form (SF)-113A reporting of FTE calculations based on the fourth quarter of each FY.*

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 model is defined by core principles, including selectivity, country ownership, transparency, and a focus on results. These core principles ensure MCC invests in countries that are committed to good governance, economic freedom, and investing in their people. MCC achieves this mission by providing grant program funding to unlock economic growth in partner countries and help people lift themselves out of poverty. MCC's approach employs best practices with regards to country-selectivity when deciding which countries to partner with, country ownership with regards to program development and implementation, and accountability; drives policy reform with analysis and data-driven decision-making; and leverages partnerships with donors and the private sector. MCC programs include a wide variety of sectors—including power, agriculture, education, clean water, and roads—based on an analysis of which sectors or issues are holding back economic growth in partner countries. An APR will be provided as part of MCC's FY 2021 CBJ, which is projected to be made available in February 2020. A high-level summary of MCC's strategic direction and performance during FY 2019 follows.

Strategic Direction

MCC established the following corporate priorities for FY 2019 to guide agency activities:

- ***Strengthen MCC as a Leader in Development:*** Intensify focus on results driven by data and evidence to invest in what works to reduce poverty through economic growth; Participate actively in the development and implementation of Foreign Assistance Review, as well as evolving National Security Strategy to maximize impact; Actively engage in the stand-up of and seek synergies with the new International Development Finance Corporation; Promote and influence the Global Women's Economic Empowerment Initiative with MCC's distinctive contributions to maximize results.
- ***Develop, Implement, Monitor and Evaluate High Quality and Innovative Programs:*** Select and Develop initial concurrent regional compact(s) with analytic selection methodology, adapted development guidance and distinctive implementation approaches.
- ***Enhance Organizational Health, Operational Effectiveness and Agility:*** Advance knowledge management to increase efficiency and effectiveness; Invest in MCC's human capital, including through enhanced professional development opportunities for optimal performance, retention and recruitment; Conduct 2nd Millennium Efficiency Challenge focused on compact implementation efficiencies; Strengthen practice groups in developing, refining and using learnings to increase consistency and quality of operations; Increase opportunity for U.S. businesses to participate in MCC operations, and to invest and leverage in parallel.

The FY 2019 corporate goals are reflected in the work and activities discussed in this AFR.

Snapshot of MCC Portfolio and Programming

As of September 30, 2019, MCC is currently engaged in partnerships with 24 countries (including compacts and threshold programs). Table 2 displays the number of countries in the development and implementation phases of compacts and threshold programs.

Table 2. MCC Portfolio as of September 30, 2019
12 Countries in Compact/Concurrent Compact Development
10 Countries in Compact Implementation
3 Countries in Threshold Program Development
4 Countries in Threshold Program Implementation

Table 3 displays grant totals, net of deobligated amounts, for every MCC compact signed since the agency's inception in 2004 through September 30, 2019.

Table 3. Value of Compact Grants as of September 30, 2019 (in thousands)

TOTAL	$	$12,979,817	100%				
Tanzania	$	694,546	5.3%	Mongolia II	$	350,000	2.7%
Morocco	$	650,053	5.0%	Malawi	$	346,705	2.7%
Senegal II	$	550,000	4.2%	Zambia	$	332,140	2.6%
Ghana	$	536,289	4.1%	Benin	$	301,810	2.3%
Côte d'Ivoire	$	524,740	4.0%	Namibia	$	295,719	2.3%
Nepal	$	500,000	3.9%	El Salvador II	$	277,000	2.1%
Ghana II	$	498,200	3.8%	Jordan	$	272,935	2.1%
Burkina Faso	$	474,744	3.6%	Mongolia	$	268,994	2.1%
Indonesia	$	474,027	3.6%	Moldova	$	259,372	2.0%
Morocco II	$	450,000	3.5%	Liberia	$	256,726	2.0%
El Salvador	$	449,567	3.5%	Honduras	$	204,015	1.6%
Mozambique	$	447,905	3.4%	Armenia	$	176,550	1.4%
Niger	$	437,024	3.4%	Georgia II	$	140,000	1.1%
Mali	$	434,287	3.3%	Nicaragua	$	112,703	0.9%
Senegal	$	433,318	3.3%	Cabo Verde	$	108,512	0.8%
Georgia	$	387,179	3.0%	Madagascar	$	85,594	0.7%
Philippines	$	385,072	3.0%	Cabo Verde II	$	65,641	0.5%
Benin II	$	375,000	2.9%	Vanuatu	$	65,404	0.5%
Lesotho	$	358,046	2.8%				

In total, 29 countries have received funding through 37 compacts (Benin, Cabo Verde, El Salvador, Georgia, Ghana, Mongolia, Morocco, and Senegal have signed two compacts each), and 26 countries have received funding through 28 threshold programs (Albania and Paraguay each signed two). Burkina Faso, Honduras, Indonesia, Jordan, Liberia, Malawi, Moldova, Niger, Philippines, Tanzania, and Zambia have signed both compacts and threshold program agreements.

In FY 2019, MCC signed one new compact (Senegal) and one new threshold program (Togo), and closed two compacts (Zambia and Georgia) and one threshold program (Honduras).

MCC's Approach to Results and Performance Measurement

Overview

MCC is committed to achieving and measuring results; holding itself accountable for those results; transparently reporting results, data, and evaluations; and learning from the evidence to improve current and future programs. To fulfill this commitment, data-driven decision-making and M&E are integrated into the entire program lifecycle, from country selection, to program conceptualization, to implementation and beyond.

First, MCC selects country partners based heavily on 20 publicly available indicators that demonstrate a commitment to just and democratic governance, investments in its people and economic freedom.

During program development, MCC and its partner countries identify projects to alleviate binding constraints to growth through a rigorous, data-driven methodology. In addition, a clear program logic, indicators, baselines, milestones, targets, and benchmarks are typically identified to measure progress over the life of the program. After a compact or threshold program grant is signed, the partner country's accountable entity (typically also referred to as a Millennium Challenge Account [MCA]) and MCC finalize an M&E plan for the program that provides the framework for monitoring and evaluating program activities.

The monitoring component of the M&E plan lays out the methodology and process for assessing progress toward the program goal. It identifies indicators, establishes performance milestones and targets, and details the plan for data collection and reporting that will allow the MCA and MCC to track progress against targets on a regular basis.

The evaluation component identifies and describes the evaluations that will be conducted, the key evaluation questions and methodologies, and the data collection strategies that will be employed. M&E plans are revised as needed during the life of the program to adjust to changes in the program's design and to incorporate lessons learned for improved performance monitoring and measurement.

Figure 2 illustrates how results for the various phases are tracked and become part of a feedback loop to improve performance during a compact or threshold program, and to apply lessons learned to future investments.

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 conducts this analysis to estimate the impacts of a compact, drawing from benefit streams. MCC reviews data quarterly to assess whether results are being achieved and subsequently integrates this information into project management decisions. Data for performance monitoring and reporting comes from baseline and follow-up surveys, project implementers, and other entities.

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 even other government entities. All the data collected, whether from surveys or implementers, undergo regular quality checks that are monitored by MCC to ensure integrity and accuracy.

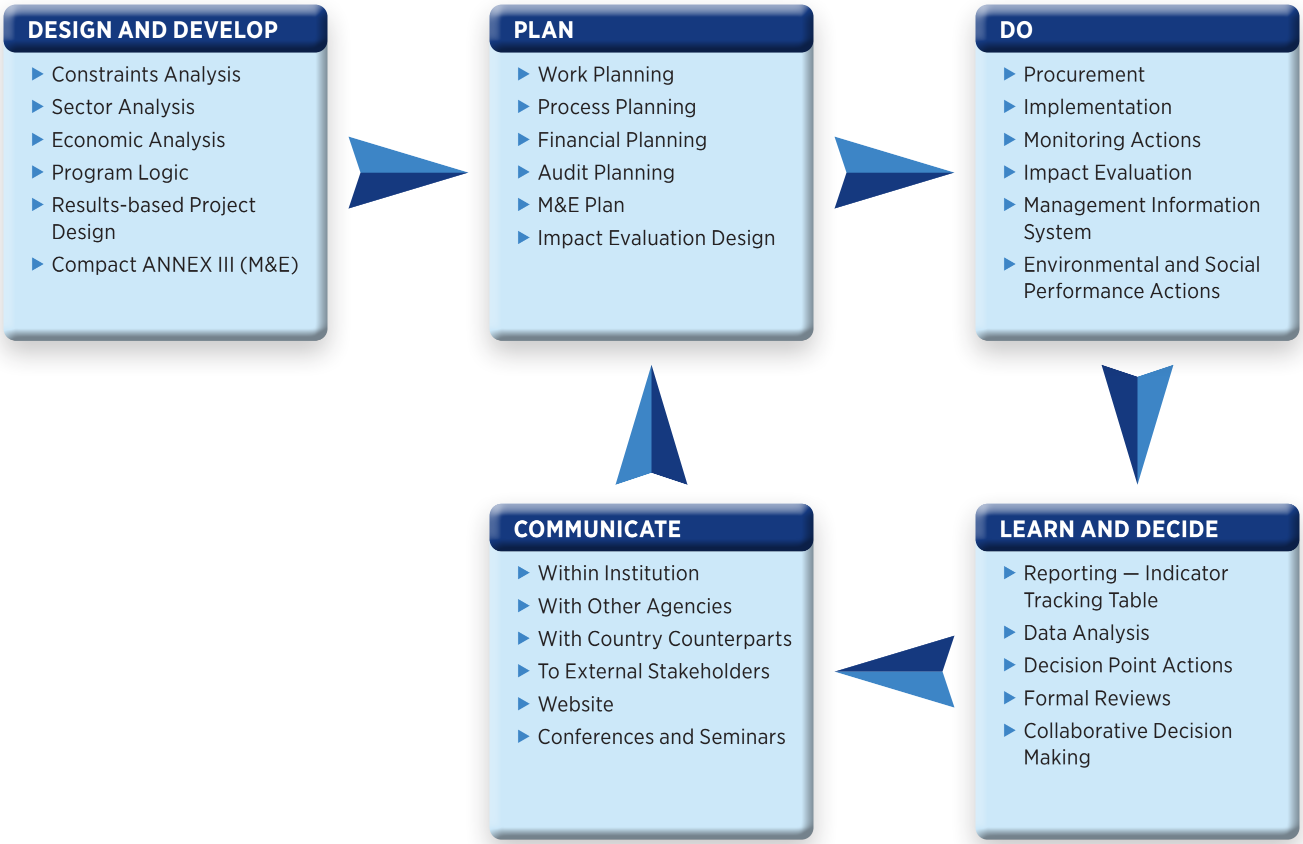


Figure 2. Integrating M&E in Compact Operations

Evaluating Program Performance and Results

MCC's development initiatives 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 impact and outcomes of its programs. Every MCC project is evaluated, with nearly 40 percent of independent evaluations consisting of rigorous impact evaluations led by third-party entities. In terms of beneficiaries, MCC's programs in areas like water and sanitation, agriculture, education, and energy are expected to benefit more than 188 million people around the world. MCC is also committed to assessing the cost-effectiveness of its programs to ensure that U.S. taxpayer dollars achieve a significant economic rate of return. An internal review of 137 closed projects found that, based on final costs and expected benefits, these projects had an average estimated economic rate of return of 13 percent.

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

MCC works with the development community to reassess its indicators periodically. MCC may complete early process-level indicators, such as contract dollars disbursed, more quickly than other indicators. The actual construction of a road, for example, will take more time and will be a more relevant indicator as time passes.

Table 4 presents MCC's program results across a representative set of select output indicators as of June 30 in 2019, 2018, and 2017, respectively. The table aggregates country-specific output targets and performance data 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 these targets. MCC assesses performance data across all compact 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.

MCC posts additional data on these six sectors on the results pages on its website (www.mcc.gov).

Table 4. Program Results by Sector on Select Output Indicators for FYs 2019, 2018, and 2017

	Cumulative Target Through FY 2019	Actual			Performance on Targets[1]		
		As of June 30, 2019	As of June 30, 2018	As of June 30, 2017	As of June 30, 2019	As of June 30, 2018	As of June 30, 2017
Sector — Roads							
Indicator: Value of signed contracts for road work *(dollars in millions)*	$ 2,302	$ 2,405*	$ 2,409	$ 2,345	105%	105%	105%
Indicator: Kilometers of roads under works contracts	3,930	3,969	3,944	3,918	100%	100%	100%
Indicator: Kilometers of roads completed	3,550	3,035	3,035	3,035	85%	85%	85%
Countries Tracked: Armenia, Burkina Faso, Cabo Verde, El Salvador I, El Salvador II, Georgia, Ghana, Honduras, Mali, Moldova, Mongolia, Mozambique, Nicaragua, Philippines, Senegal, Tanzania, Vanuatu							
Sector — Agriculture and Irrigation							
Indicator: Hectares under new or improved irrigation	292,362	273,074	203,963	203,963	93%	70%	70%
Indicator: Value of agricultural and rural loans *(dollars in millions)*	$ 87	$ 88	$ 87	$ 87	101%	100%	100%
Indicator: Farmers trained	368,644	404,477	354,179	321,708	110%	114%	114%
Indicator: Enterprises assisted	3,564	4,223	4,223	4,223	118%	118%	118%
Countries Tracked: Armenia, Burkina Faso, Cabo Verde, El Salvador, Georgia, Ghana, Honduras, Indonesia, Madagascar, Mali, Moldova, Morocco, Mozambique, Namibia, Nicaragua, Senegal							
Sector — Water and Sanitation							
Indicator: Value of signed contracts for water and sanitation works *(dollars in millions)*	$ 776	$ 817**	$ 818	$ 795	105%	105%	102%
Countries Tracked: Cabo Verde II, El Salvador, Georgia, Ghana, Jordan, Lesotho, Mozambique, Tanzania, Zambia							
Sector — Education							
Indicator: Students participating	281,527	232,799	216,101	215,398	83%	81%	81%
Indicator: Facilities completed	911	833	791	776	91%	97%	96%
Indicator: Value of signed contracts for construction and/or equipping of educational facilities *(dollars in millions)*	$ 229	$ 238	$ 218	$ 207	104%	105%	103%
Countries Tracked: Burkina Faso, El Salvador I, El Salvador II, Georgia II, Ghana, Mongolia, Morocco I, Morocco II, Namibia							

Table 4. Program Results by Sector on Select Output Indicators for FYs 2019, 2018, and 2017							
	Cumulative Target Through FY 2019	Actual			Performance on Targets[1]		
		As of June 30, 2019	As of June 30, 2018	As of June 30, 2017	As of June 30, 2019	As of June 30, 2018	As of June 30, 2017
Sector — Land							
Indicator: Stakeholders trained	30,440	78,160	77,690	75,986	257%	256%	253%
Indicator: Land administration offices established	280	399	399	384	143%	143%***	137%
Countries Tracked: Benin, Burkina Faso, Cabo Verde II, Ghana, Indonesia, Lesotho, Madagascar, Mali, Mongolia, Morocco, Mozambique, Namibia, Nicaragua, Niger, Senegal							
Sector — Power							
Indicator: Value of signed power infrastructure construction contracts *(dollars in millions)*	$ 551	$ 535	$ 507	$ 447	97%	97%	87%
Indicator: Installed Generation Capacity	5,401	5,387	5,198	4,274	100%	100%	100%
Countries Tracked: Ghana II, Liberia, Malawi, Tanzania							

[1] Based on the cumulative target for that year.

**The cumulative value of contracts for the El Salvador II Compact decreased due to a contract modification.*

***Indicator value decreased slightly due to the termination of one contract and the signing of a contract at a slightly lower value.*

****Correction made to a calculation error reported last year.*

Post-Program Evaluations

MCC commissions independent **performance** and **impact** evaluations to help evaluate the longer-term results of its investments.

- **Performance evaluations** estimate the contribution of MCC programs to changes in trends on outcomes, including household income. Performance evaluations serve an accountability purpose by comparing changes between the situation both before and after the MCC program implementation.
- **Impact evaluations** are the most rigorous form of evaluations because they estimate the causal impact of the MCC program on key outcome indicators. They make it possible to know whether the observed impacts were caused specifically by an MCC program or were the result of external factors. Impact evaluations compare what happened with the program to what would have happened without it through use of a counterfactual.

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 just and democratic governance, investing in its people, and economic freedom. MCC's Board of Directors examines this commitment primarily by consulting annual country "scorecards" of policy performance comprised of 21 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 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. Table 5 lists the selection indicators included in MCC's annual country scorecards.

Table 5: Selection Indicators

Indicator	Category	Source
Access to Credit Indicator	Economic Freedom	▶ International Finance Corporation
Business Start-Up Indicator	Economic Freedom	▶ International Finance Corporation
Child Health Indicator	Investing in People	▶ Columbia/Yale
Civil Liberties Indicator	Ruling Justly	▶ Freedom House
Control of Corruption Indicator	Ruling Justly	▶ World Bank/Brookings Institution
Fiscal Policy Indicator	Economic Freedom	▶ International Monetary Fund
Freedom of Information Indicator	Ruling Justly	▶ Freedom House ▶ Centre for Law and Democracy ▶ Freedom House
Gender in the Economy Indicator	Economic Freedom	▶ World Bank
Girls' Primary Education Completion Rate Indicator	Investing in People	▶ United Nations Educational, Scientific and Cultural Organization (UNESCO)
Girls' Secondary Education Enrollment Ratio Indicator	Investing in People	▶ UNESCO
Government Effectiveness Indicator	Ruling Justly	▶ World Bank/Brookings Institution
Health Expenditures Indicator	Investing in People	▶ World Health Organization (WHO)
Immunization Rates Indicator	Investing in People	▶ WHO/United Nations International Children's Emergency Fund (UNICEF)
Inflation Indicator	Economic Freedom	▶ International Monetary Fund
Land Rights and Access Indicator	Economic Freedom	▶ International Fund for Agricultural Development ▶ International Finance Corporation
Natural Resource Protection	Investing in People	▶ Columbia/Yale
Political Rights Indicator	Ruling Justly	▶ Freedom House
Primary Education Expenditures Indicator	Investing in People	▶ UNESCO
Regulatory Quality Indicator	Economic Freedom	▶ World Bank/Brookings Institution
Rule of Law Indicator	Ruling Justly	▶ World Bank/Brookings Institution
Trade Policy Indicator	Economic Freedom	▶ The Heritage Foundation

MCC Effect

MCC's approach to 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.

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 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.

To develop a compact program, countries typically follow a process that includes five phases. During Phase One, the country works closely with MCC on a preliminary analysis of the constraints to its economic growth and poverty reduction. During Phase Two, the country identifies the root causes behind the most binding constraints, establishes clear program objectives, and begins to develop a program logic. In Phase Three, the country proposes specific projects to address one or more of the binding constraints and achieve program objectives. The most promising projects are further developed and evaluated during Phase Four. MCC and the country agree on the terms of the proposed program and sign the compact in Phase Five. The country then prepares the compact to enter into force. Once a compact enters into force, the five-year implementation period begins.

Compact implementation is governed by the terms and conditions of each compact and the related program implementation agreement, as well as MCC's policies and guidelines. The compact and program implementation agreement generally include a description of the program, including all projects, activities, and their associated objectives; the overall grant amount, project allocations, and a multiyear financial plan for the program; the obligations and responsibilities of the partner country, including any conditions precedent to the disbursement of compact funding; the implementation and oversight structure and responsibilities, including designation of the partner country's accountable entity as responsible for program administration and oversight; a description of the M&E approach, including a summary of indicators and related targets; and required MCC approvals and associated fiscal and procurement controls.

MCC also maintains guidance to ensure the orderly and efficient closure of compacts at the end of their five-year term. The closure process starts with the development of a concise program closure plan by the partner country's accountable entity, which describes the closure strategy for each project and activity, the wind-up or continuation of the accountable entity, and other important aspects required to close out program activities. While the content of such closure plans varies by country, project, and activity, all plans must include the components outlined in MCC's *Program Closure Guidelines,* and must be approved by MCC. All compact programs formally close within 120 days following the final day of the compact's five-year term.

Looking Forward

New Compacts and Threshold Programs

In FY 2019, MCC signed one new compact with Senegal and one new threshold program with Togo, and progressed toward the signature of a new compact program in Sri Lanka. In addition, MCC's compact with Côte d'Ivoire entered into force, marking the start of its five-year implementation timeline. In December 2018, MCC's Board of Directors also selected two countries to develop new threshold programs and three countries to develop new compact programs, while it also instructed MCC to explore the potential for concurrent compacts that support regional integration among a number of current partner countries in West Africa. During FY 2019, MCC continued work with four other countries that were selected in previous years to develop compact programs.

On December 10, 2018, MCC and the Government of Senegal signed a $550.0 million compact to strengthen and modernize critical portions of the country's electricity transmission network and to increase access to electricity in peri-urban and rural areas. At an earlier stage in the compact development process, MCC and the Government identified the high cost of energy and low access to electricity as binding constraints to the country's economic growth. Together, the Government and MCC designed the compact program to address these constraints by improving the reliability of the high-voltage electricity transmission network in and around the capital city, Dakar; improving the delivery of electricity service throughout the country; extending the electrical grid in selected areas in Senegal's south and center regions; and reinforcing the foundations for the provision of a less costly and more reliable supply of electricity nationwide. The Government is expected to contribute an additional $50.0 million to support the compact program. MCC currently projects that the compact will enter into force by the end of FY 2020.

The $35.0 million Togo Threshold Program, signed in February 2019 and slated to enter into force during FY 2020, presents the Government of Togo with a unique opportunity to undertake major reforms in challenging and politically sensitive areas. To address the constraint of poor information and communications technology (ICT) services, the program seeks to improve access to high quality and affordable ICT services to Togolese citizens by encouraging private sector investments in the ICT sector and developing an independent regulatory regime. In the land sector, the program aims to expand access to formalized land through the recognition and protection of legitimate land rights in order to accelerate agricultural productivity. Promoting competition, encouraging private sector investment, and expanding access in the ICT sector would be a positive step towards Togo becoming a more open and democratic society and fostering a market-oriented economy. Both the ICT and land projects will also challenge deeply rooted sources of corruption. Demonstrated progress on the threshold program would be an important signal of whether Togo would be a good partner for a potential compact in the future.

MCC also completed the development of a compact with Sri Lanka that will address two binding constraints to economic growth, namely (i) poor transportation infrastructure that impedes the movement of goods and people from lagging interior regions and contributes to congestion in the capital city, Colombo, and (ii) inadequate access to land for commercial investment. Although the projects have been fully prepared and the terms of a compact have been largely agreed, political and security issues following terrorist attacks in the late spring have delayed final approval. MCC expects to sign the compact in FY 2020 and to begin implementation as soon as possible thereafter.

In December 2017, the MCC Board of Directors selected The Gambia to begin developing a threshold program, in recognition of the 2016 elections that resulted in a democratic transfer of power for the first time in over two decades. Since that time, MCC has worked closely with Gambian counterparts to determine binding constraints to growth and to conduct a root cause analysis and assessment of investment opportunities, resulting in the development of a power sector policy and institutional reform program. Through both governance and operational reforms in the sector, the program aims to deliver reliable and adequate electricity to citizens, essential for economic growth of the country. The proposed program is in the final stages of development and offers unique opportunities for innovation related to country ownership and sustainability of results, However, Board consideration of The Gambia threshold program will be based upon developments related to the U.S. Department of State's recent determination that the country does not meet minimum standards to combat trafficking in persons and is not making significant efforts to do so (i.e., Tier III status). This Tier III status prohibits MCC from entering into a threshold program grant agreement with the Gambia in FY2020.

In addition to the preceding updates to developing compacts and threshold programs, MCC will continue working on the development of threshold programs with the other two previously selected countries (Ethiopia and Solomon Islands), the development of compact programs with four previously selected countries (Burkina Faso, Lesotho, Timor-Leste, and Tunisia) and the development of concurrent compacts for regional integration, in addition to any new selections to be made by MCC's Board of Directors in December 2019.

Regional Partnerships

The African Growth and Opportunity Act (AGOA) and Millennium Challenge Act Modernization Act amended the Millennium Challenge Act of 2003 to give MCC the authority to enter into additional, concurrent compacts with partner countries to support cross-border collaboration, increase regional trade, or enhance regional integration. Acting on this new authority, MCC's Board of Directors in FY 2019 encouraged the agency to explore opportunities to support such regional collaboration among five partner countries in West Africa, including Benin, Burkina Faso, Côte d'Ivoire, Ghana and Niger.

That decision enabled MCC to begin working with each country to identify potential projects, gather information, conduct preliminary appraisals, and to assess the capacity of each partner country for complex, regional investments. Throughout the spring and summer, MCC staff made multiple visits to the region, during which they engaged the governments of the partner countries, as well as the local and international private sector, other development partners, and regional and multilateral organizations. As a result of the information it gained, MCC identified one cross-border power transmission project and two cross-border road transport projects with particular promise.

MCC initially prioritized the power transmission project, which involves the construction of a 389 kilometer, high-voltage transmission line between connection points in Burkina Faso and Ghana, together with the provision of technical assistance to utilities in each country to increase the trade in electric power and strengthen governance in the power sector. However, project development has since ceased until further decision is taken by MCC's Board of Directors after the Government of Ghana's recent termination of the concession agreement between the Electric Company of Ghana to a private operator. The regional team will now focus efforts on the remaining two proposals with the Benin and Niger Regional Integration Transport Program and the Burkina Faso and Côte d'Ivoire Regional Integration Transport Program.

As it moves forward with further assessment of potential regional projects, MCC will remain committed to its principles, including maintaining competitive country selections, ensuring country ownership, continuing its commitment to strong policy performance, sustaining MCC's high investment criteria, preserving evidence-based decision-making, focusing on results including setting, monitoring, and evaluating throughout the program life-cycle, and ensuring program implementation within the strict five year limit after entry into force.

The BUILD Act

Since the enactment of the Better Utilization of Investments Leading to Development (BUILD) Act in October 2018, a number of agencies have been working to reform, modernize, and consolidate the U.S. Government's international development finance tools under the United States International Development Finance Corporation (DFC). MCC expects to work closely with the DFC when it is formally established and, throughout FY 2019, has been an active participant in planning for collaboration between the agencies.

MCC expects to collaborate with the DFC in three distinct ways. First, MCC intends to share its analytical tools and other resources to help the DFC identify approaches that best fit its focus on supporting private investment. Already, DFC has decided to adopt certain core principles of MCC's investment model, including use of a constraints analysis to identify impediments to economic growth and emphasis on reforms that "crowd in" private sector funding in partner countries. Other areas of learning and collaboration are also under consideration. Second, MCC aims to provide relevant data and information on social and economic conditions, the business environment, key growth sectors, and opportunities for private investment and public private partnerships in partner countries where the DFC also aims to support specific investments. And third, MCC expects to support blended finance approaches that bring together its ability to make grants with sources of private financing to achieve developmental impacts on a large scale.

MCC plans to work closely as a strategic development partner to the DFC and to leverage development finance capabilities that match or even surpass those now employed by other donors. MCC expects to be part of 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.

Managing Risk — Enterprise Risk Management

MCC is entering the third year of implementation of its ERM program. Through this program, MCC identifies, assesses and evaluates risks that it faces in its programs and operations, and has put in place mechanisms for ongoing monitoring of those risks, and assessment of the effectiveness of risk responses. In addition, MCC has an ERM governance structure that provides for input and discussion of risk issues by staff at all levels across the agency, with oversight and direction provided by senior management. MCC's ERM program helps in internal communications about key risk areas, highlights potential future pitfalls, and leads to more effective decision-making. As MCC continues to mature its ERM program, it will work toward fuller integration of ERM with its strategic planning, performance assessment, and resource allocation activities.

Risks identified through the ERM program as the most challenging currently facing the agency, include risks related to MCC's new concurrent regional compact authority, strategic planning, country selection, human capital strategy, health, safety and security in complex country environments, achieving desired program outcomes, and adequately communicating with stakeholders about program results. MCC management is actively identifying and pursuing actions to address these risks.

Blended Finance

Starting with its earliest compact programs, MCC has worked to improve the environment for private business activity and private investment in its partner countries. MCC has designed many of its projects to promote private sector activity, worked to mobilize private investment, and supported public-private partnerships in a variety of forms. As a result of its experiences, MCC is uniquely positioned to catalyze blended finance, the strategic use of public funds to mobilize private resources in ways that support sustainable, long-term, economic developmental in developing countries. Over the course of its 15 years, MCC has honed its ability to help its partner countries design, strengthen, and harness private financial markets through a wide 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 programs. MCC's tools improve business confidence and help private investors overcome some of the impediments to investing in the challenging markets in its partner countries.

Throughout FY 2019, MCC has worked to strengthen its leadership in blended finance. MCC staff participated in the Blended Finance Roundtable, an invitation-only discussion of blended finance opportunities in the Middle East and North Africa. MCC staff also made featured presentations at a forum on business and investment in Africa that was sponsored by one of the world's largest law firms.

At the same time, MCC continues to expand its deployment of blended finance tools to maximize the impact of its programs. MCC is now exploring possibilities for blended finance in each of its compact programs in development, as well as a number of its compact programs that are already in implementation. Examples include the use of grant facilities in Indonesia, Morocco, and Benin; public-private partnerships in Côte d'Ivoire and Benin; and catalytic investment strategies in Kosovo and El Salvador.

Women's Economic Empowerment

MCC has been a pioneer in incorporating gender into economic development. Gender analysis informs all aspects of MCC's work, from the selection of its partner countries to the design of its projects to the identification of institutional, regulatory, legal, and policy reforms. For each project in implementation, MCC requires its partner countries to develop a Social and Gender Integration Plan that identifies ways to improve social inclusion and gender integration and thereby expand impacts. In this way, MCC projects maximize opportunities to support women entrepreneurs, expand income-generating activities and employment opportunities for women, and increase women's access to land, education, and skills development.

Throughout FY 2019, MCC worked closely with nine other U.S. Government agencies under the direction of the White House to design the Women's Global Development and Prosperity (W-GDP) initiative. The W-GDP initiative is built around three objectives: (i) women prospering in the workforce, (ii) women succeeding as entrepreneurs, and (iii) women enabled in the economy. MCC directly supports these objectives in the compacts and threshold programs it funds around the world. These include the successful "women in science" program in MCC's education-focused compact in Georgia, internships for women to work in electric utilities in Kosovo, and lines of credit in Ghana for businesses owned by women that will take advantage of the expanded supply of electricity in rural areas. Under the W-GDP initiative, MCC has committed to do even more to improve economic opportunities for women in its partner countries. In so doing, MCC expects to contribute to the U.S. Government's goal, through the W-GDP initiative, to reach 50 million women in the developing world by 2025.

Engaging U.S. Businesses

MCC actively encourages U.S. firms to participate in the procurements it funds, whether through MCC's headquarters in Washington, D.C., or through the accountable entities that implement its compact and threshold programs in its partner countries overseas. In partner countries, MCC oversees procurement processes closely to ensure that contracts are open, transparent, free of corruption, and provide best value to U.S. taxpayers. On that basis, MCC has found that U.S. companies win nearly two-thirds of the procurements in which they compete, although their participation is limited by an incomplete awareness of the available opportunities.

MCC engages U.S. firms through trade associations and such business organizations as U.S. Chamber of Commerce. In FY 2019, MCC adopted an improved market outreach plan that includes a rolling, one-year forecast of all available procurement opportunities and supports even closer collaboration between MCC and market enablers, including business and industry associations and the U.S. Department of Commerce. MCC's website includes a single page with information on all forecasted and ongoing MCC-funded opportunities at www.mcc.gov/work-with-us. In addition, MCC is currently working with the U.S. Department of Commerce to develop a series of webinars that will give U.S. firms a "virtual boot camp" on how to bid on procurement opportunities managed by MCC's partner countries.

Analysis of MCC's Financial Statements and Stewardship Information

Financial Discussion and Analysis

At the end of FY 2019, MCC prepared four basic financial statements with accompanying notes and presented them to the USAID/OIG for audit by an independent accounting firm. The Financial Section of this report contains the financial statements and notes, and the auditor's report. The following analysis provides a high-level summary of MCC's Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, and Statement of Budgetary Resources (SBR).

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, 2019, MCC held total assets of $5.5 billion compared to $5.2 billion reported in FY 2018. The majority of MCC's assets (99 percent) are held in its Fund Balance with Treasury (FBWT), which increased by $272.9 million due to differences in Appropriations Received and Gross Outlays.

Other assets, which reflect only 1 percent of MCC's total assets, include Advances, Property, Plant and Equipment (PP&E), and Accounts Receivable. Public Advances increased by $22.6 million due primarily to advances for compacts in the countries of El Salvador II and Ghana II. 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. In FY 2018, MCC capitalized development costs of $4.5 million associated with the development of internal software.

Liabilities

As of September 30, 2019, MCC had $67.3 million in liabilities, which represents amounts owed to grantees, vendors, contractors, trading partners, and employees. Grant liabilities comprise $44.9 million, or approximately 67 percent of MCC's total liabilities. Grant liabilities and retentions decreased by $11.6 million and $52.1 million, respectively, primarily due to decreases in the grant accrual for the Zambia compact and retentions for the Malawi compact.

Net Position

MCC's overall net position as of September 30, 2019, was $5.5 billion, an increase of $362.5 million, over 7 percent, from FY 2018. The available appropriations reported in MCC's positive net position represent the resources necessary to fund future compacts.

Statement of Net Cost

This statement shows MCC's net cost of operations by major program or appropriation fund categories. Table 6 describes each fund category.

Table 6. MCC Fund Categories

Fund	Source and Purpose
Compact	Funds appropriated by Congress, apportioned by OMB, and obligated by MCC to cover compacts between MCC and partner countries. Note: Under authority contained in section 609(g) of the MCC Act, MCC provides funds to facilitate compact implementation when it signs a compact to speed compact implementation by the partner country.
609(g)	Funds appropriated by Congress and apportioned by OMB to fund contracts or grants for facilitating the development and/or implementation of a compact between MCC and a partner country.
614(g)	Funds appropriated by Congress that the CEO may use to contract with any nongovernmental organization (including a university, independent foundation, or other organization) in the United States or in a candidate MCC country and, where appropriate, directly with a governmental agency of any such country that is undertaking research aimed at improving data related to eligibility criteria under this title with respect to the country.
Threshold Program	Funds appropriated by Congress, apportioned by OMB, and used by MCC to help countries become eligible for MCC compact assistance.
Due Diligence	Funds appropriated by Congress, apportioned by OMB, and used by MCC to cover costs associated with assessing compact proposals developed by eligible countries and providing compact implementation oversight.
Audit	Funds appropriated by Congress and apportioned by OMB for audits of MCC operations and programs. The USAID/OIG is responsible for conducting MCC audits.
Administrative	Funds appropriated by Congress and apportioned by OMB for operating expenses.

During FY 2019, MCC incurred $545.5 million in net program costs, allocated among MCC's six active fund category. Table 7 shows the percentage change of net costs by program for FY 2019 as compared to FY 2018. Net program costs decreased by $209.9 million, or 28 percent, from FY 2018 due to a net decrease in compact program costs as a result of the closure of the compacts for Indonesia and Malawi in FY 2018 and Zambia in 2019, net of the increase in non-compact program costs.

Table 7. MCC Net Program Costs (in thousands)				
Program	**FY 2019**	**FY 2018**	**% Change**	**Reason for Change**
Compact	$ 305,183	$ 536,327	−43%	The net decrease of $231.1 million in Compact program costs is primarily the result of decreased expenditures for the Indonesia, Malawi, and Zambia compacts. The Indonesia and Malawi compacts closed in FY 2018, Quarter 4 and the Zambia Compact closed in FY 2019, Quarter 1.
609(g)	20,407	21,805	−6%	The net decrease of costs of $1.4 million is primarily the result of decreased expenditures in Burkina Faso II and Tunisia offset by increases in expenditures for the Mongolia II and Nepal programs.
Threshold Program	22,543	12,473	81%	The net increase of $10.1 million in Threshold program costs is primarily the result of increased expenditures for the Guatemala and Sierra Leone threshold programs.
Due Diligence	70,797	65,943	7%	The $4.8 million increase was primarily due to an increase in the costs associated with programs in Benin II, Burkina Faso II, Lesotho II, Nepal, Niger and Tunisia.
Audit	4,149	3,839	8%	The $0.3 million increase was due primarily to an increase in external expenses incurred by USAID.
Administrative	122,437	115,098	6%	The $7.3 million increase was primarily due to an increase in contracted services and depreciation and amortization charges.
TOTAL	**$ 545,516**	**$ 755,485**		

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, 2019, was $5.5 billion, an increase of $362.5 million from September 30, 2018. Net position is affected by changes to its two components: Cumulative Results of Operations and Unexpended Appropriations. As of September 30, 2019, Cumulative Results of Operations amounted to $10.0 million, a decrease of $1.4 million from September 30, 2018. 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 $5.5 billion, an increase of $363.9 million, or approximately 7 percent, from FY 2018.

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 SBR reflects the format prescribed by OMB Circular No. A-136, *Financial Reporting Requirements.* For FY 2019, MCC reported total budgetary resources of $3.5 billion compared to $3.2 billion in FY 2018. Budgetary resources of $905.0 million were provided through FY 2019 appropriations and $2.6 billion were carried forward from appropriations in FY 2018 and prior years.

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. If MCC elected to change this strategy, system changes and implementation require approval from MCC IT Investment Review Board (IT-IRB). The IT-IRB provides executive decision-making on, and oversight of, MCC IT investment planning and management to ensure compliance with statutory and regulatory direction from Congress, OMB, and other applicable Federal oversight entities. 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,* 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. During FY 2019, MCC continued its efforts to reassess, improve, and enhance its financial, systems, program, and performance information.

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

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 2019, MCC's prompt payment performance registered 99 percent. MCC is taking steps to reduce any likelihood of future unnecessary interest payments.

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 2019, MCC referred no debt to the Department of the Treasury.

Federal Information Security Modernization Act (FISMA) of 2014

In FY 2019, MCC continued to focus efforts to meet the Cross-Agency Priority Goals for Cybersecurity by leveraging IT modernization through upgrades of its security information and event management and IT log monitoring capabilities to protect the agency's data and information systems. MCC fully automates management of its hardware, software, and mobile device services, and is 100% compliant in obtaining a valid security authorization to operate for its information systems. Furthermore, MCC continued to capitalize upgrades to its intranet through cloud enhancements; thereby, modernizing internal web security requirements defined by the Department of Homeland Security Binding Operational Directive 18-01. Lastly, the FY 2019 FISMA Inspector General's audit report closed all prior year audit recommendations and opened four new recommendations. The audit concluded with a determination that MCC implemented an effective information security program.

Digital Accountability and Transparency Act of 2014 (DATA Act)

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.

Management Assurances

FY 2019 Chief Executive Officer Assurance Statement

Millennium Challenge Corporation
United States of America

November 12, 2019

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. Additionally, as set forth in the updated OMB Circular No. A-123, Appendix A, *Management of Reporting and Data Integrity Risk,* MCC developed a Data Quality Plan to achieve the objectives set forth in the Digital Accountability and Transparency Act of 2014 (DATA Act). MCC's Data Quality Plan addresses the incremental risks to data quality in Federal spending data and identifies the necessary controls needed to manage those risks in accordance with OMB Circular No. A-123. 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, 2019. 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, 2019.

Sean Cairncross
Chief Executive Officer
Millennium Challenge Corporation

Statement of Assurance from Service Provider

United States Department of the Interior

INTERIOR BUSINESS CENTER
Washington, DC 20240

October 3, 2019

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, 2019, through September 30, 2019.

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 Service Organization Control Report (SSAE18) covering the period July 1, 2018, through June 30, 2019. A softcopy version of the report provided to you in July, 2019.

The SSAE 18 review was conducted for the purpose of expressing an opinion as to whether (1) IBC's description of the Oracle Federal 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, 2019. 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, 2019, through September 30, 2019. 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, 2019, did not change for the period of July 1, 2019, through September 30, 2019. The description of controls in the FY 2019 SSAE 18 examination report presents fairly the aspects of IBC controls that were in place as of September 30, 2019.

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 July 31, 2005, 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, 2019. 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, 2019. As a result, the IBC continues to assert substantial compliance with financial accounting and reporting controls in place from July 1, 2019, through September 30, 2019.

If you have any questions on this assurance statement, please contact Ted Aymami, Audit Liaison Officer, Theodore_A_Aymami@ibc.doi.gov, 303-969-5187.

Sincerely,

LC Williams
Associate Director (Acting)
Financial Management Directorate

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.

Financial Section

Message from the Vice President and Chief Financial Officer, Department of Administration and Finance

November 19, 2019

As the Millennium Challenge Corporation (MCC) continues to successfully fight poverty around the world by promoting sustainable economic growth, it is our responsibility to effectively measure, monitor, and improve performance of the funds that we and our partners manage. We are strongly committed to rigorous management and responsible oversight of our investments, and we continue to work with our partner countries to raise the standards of accountability and to adopt practices that maximize the value of American tax dollars.

This year underscored the positive impact that MCC's programs can have on our partner countries. I am pleased that in Fiscal Year (FY) 2019, MCC successfully closed compacts in Georgia and Zambia and a threshold in Honduras. In addition, I am equally excited that MCC signed a new Senegal Compact program as well as the Togo Threshold program this past fiscal year.

MCC's FY 2019 Agency Financial Report reflects our efficient and transparent use of the funds entrusted to us by the President and U.S. Congress to deliver meaningful programs with sustainable results. As a testament to our evidence-based and results-driven approach, MCC scored the highest among Federal agencies analyzed by Results for America in the 2019 Federal Invest in What Works Standard of Excellence. Transparency and accountability are our guiding principles and our FY 2019 financial results are documented in this report.

During this past fiscal year, MCC continued its focus on a year-round process of evaluation and continuous improvement supported by dedicated personnel at both MCC headquarters and in our field missions. This effort has greatly improved MCC planning, program management and operational processes.

I am pleased that MCC received an unmodified opinion on its financial statements for the ninth consecutive year and I am especially proud to report that this is the fifth year that we received no material weakness findings in our internal controls. While I am humbled to note this accomplishment, we remain committed to ongoing improvements, particularly as we look to the next fiscal year. We will use the recommendations provided by our independent auditors and the Office of the Inspector General as an opportunity to further our quest for excellence in financial management.

Ken Jackson
Vice President and Chief Financial Officer
Department of Administration and Finance
Millennium Challenge Corporation

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 formats prescribed in OMB Circular No. A-136, *Financial Reporting Requirements* (revised on June 28, 2019). 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, 2019 and September 30, 2018 has been included. MCC is presenting the following financial statements and notes to the financial statements:

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

Note that totals may vary slightly due to rounding.

Balance Sheets

As of September 30, 2019 and September 30, 2018 (in thousands)		
Assets	**FY 2019**	**FY 2018**
Intragovernmental:		
Fund Balance with Treasury *(Note 2)*	$ 5,476,864	$ 5,203,999
Advances *(Note 3)*	9,735	3,548
Total Intragovernmental	**5,486,599**	**5,207,547**
Accounts Receivable, Net *(Note 4)*	2,024	60
General Property, Plant, and Equipment, Net *(Note 5)*	18,561	22,550
Advances *(Note 3)*	29,241	6,623
Total Assets	**$ 5,536,425**	**$ 5,236,780**
Liabilities		
Intragovernmental:		
Accounts Payable	$ 821	$ 148
Other Liabilities *(Note 7)*	624	569
Total Intragovernmental	**1,445**	**717**
Accounts Payable	8,493	7,727
Accrual — Grant Liabilities *(Note 8)*	44,859	108,546
Other Liabilities *(Note 7)*	12,524	13,164
Total Liabilities	**67,321**	**130,154**
Net Position		
Unexpended Appropriations — All Other Funds	5,459,097	5,095,176
Cumulative Results of Operations — All Other Funds	10,007	11,450
Total Net Position	**5,469,104**	**5,106,626**
Total Liabilities and Net Position	**$ 5,536,425**	**$ 5,236,780**

The accompanying notes are an integral part of these statements.

Statements of Net Cost

For the Years Ended September 30, 2019 and September 30, 2018 (in thousands)		
Program Costs	**FY 2019**	**FY 2018**
Compact Program Costs	$ 305,183	$ 536,327
609 (g) Program Costs	20,407	21,805
Threshold Program Costs	22,543	12,473
Due Diligence Program Costs	70,797	65,943
Audit Costs	4,149	3,839
Administrative Costs	122,437	115,098
Net Cost of Operations	**$ 545,516**	**$ 755,485**

The accompanying notes are an integral part of these statements.

Statements of Changes in Net Position

For the Years Ended September 30, 2019 and September 30, 2018 (in thousands)	FY 2019	FY 2018
Unexpended Appropriations	**$ 5,095,176**	**$ 4,944,802**
Budgetary Financing Sources:		
Appropriations Received	905,000	905,000
Appropriations Used	(541,079)	(754,626)
Total Budgetary Financing Sources	**363,921**	**150,374**
Total Unexpended Appropriations	**5,459,097**	**5,095,176**
Cumulative Results of Operations:		
Beginning Balances, as adjusted	11,450	9,557
Budgetary Financing Sources:		
Appropriations Used	541,079	754,626
Other Financing Sources:		
Donations and Forfeitures of Property *(Note 11)*	66	185
Imputed Financing	2,928	2,567
Total Financing Sources	**544,073**	**757,378**
Net Cost of Operations	**(545,516)**	**(755,485)**
Net Change	(1,443)	1,893
Cumulative Results of Operations	**10,007**	**11,450**
Net Position	**$ 5,469,104**	**$ 5,106,626**

The accompanying notes are an integral part of these statements.

Statements of Budgetary Resources

For the Years Ended September 30, 2019 and September 30, 2018 (in thousands)	FY 2019	FY 2018
Budgetary Resources:		
Unobligated Balance from Prior Year Budget Authority, Net	$ 2,553,718	$ 2,258,779
Appropriations (discretionary and mandatory) *(Note 1E)*	905,000	905,000
Total Budgetary Resources	**$ 3,458,718**	**$ 3,163,779**
Status of Budgetary Resources:		
New Obligations and Upward Adjustments (Total)	$ 737,660	$ 704,347
Apportioned, unexpired accounts	2,678,747	2,367,822
Unapportioned, unexpired accounts	42,311	91,610
Unexpired unobligated balance, end of year	2,721,058	2,459,432
Unobligated Balance, End of Year (Total)	2,721,058	2,459,432
Total Budgetary Resources	**$ 3,458,718**	**$ 3,163,779**
Outlays, Net (Total) (discretionary and mandatory)	**$ 632,147**	**$ 674,784**

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.

B. Reporting by Operational Components

MCC reports the results of its operations, as a whole, by its major programs or appropriation fund categories, which consist of the following:

- **Compact** — Compact funds comprise large, five-year grants for countries meeting MCC's eligibility criteria.
- **609(g) of the Millennium Challenge Act of 2003** — 609(g) funds cover contracts or grants that facilitate the development of a compact between MCC and a partner country.
- **614(g) of the Millennium Challenge Act of 2003** — 614(g) funds comprise research contracts to improve data related to eligibility criteria. The contracts may be with a university, independent foundation, government entity, or other organization in the U.S. or a candidate country where such entity or country is undertaking research to improve data related to eligibility criteria under this title.
- **Threshold** — Threshold programs are smaller grants awarded to countries that come close to meeting the eligibility criteria for compacts.
- **Due Diligence** — Due Diligence funds support the cost of assessing compact proposals and providing compact implementation oversight.
- **Audit** — Audit funds cover audits of MCC operations and programs. The USAID/OIG performs and manages MCC programmatic and financial audits.
- **Administrative** — Administrative funds cover MCC's operating expenses.

C. Basis of Accounting and Presentation

The accompanying financial statements have been prepared in accordance with GAAP in the U.S. and accounting standards issued by the Federal Accounting Standards Advisory Board (FASAB) 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).

The accounting structure of Federal activities is designed to 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. The accompanying Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position are prepared using the accrual method of accounting. The Statement of Net Cost reports MCC's gross and net cost of operations. MCC has no earned revenue. Budgetary accounting facilitates compliance with legal constraints and controls over the use of Federal funds. Budgetary accounting principles are designed to recognize the obligation of funds according to legal requirements, which may be prior to the occurrence of an accrual-based transaction. The Statement of Budgetary Resources (SBR) is prepared in accordance with budgetary accounting rules.

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. Intradepartmental transactions and balances have been eliminated from the Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position.

MCC's financial statements should be read with the realization that they are for a component of the Federal Government, a sovereign entity, whose liabilities not covered by budgetary resources cannot be liquidated without the enactment of an appropriation, and that the payment of all liabilities other than for contracts can be abrogated by the Federal Government acting in its capacity as a sovereign entity.

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 MCAs. The majority of those 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. Budgetary Basis of Accounting

MCC's programs and activities are funded through no-year appropriations. Appropriations are recognized as an accrual-based financing source at the time they are used to pay program or administrative expenses, except for expenses to be funded by future appropriations. These funds are available for obligation without FY limitation and remain available until expended. OMB apportions MCC program and administrative funds on an annual basis pursuant to statutory limitations in the annual appropriations bill.

F. Accrual — Grant Liabilities

MCC's partner countries, through their respective accountable entities, maintain their accounting records on a modified cash basis. The MCA's 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 MCAs for current and past works, goods, and services incurred/delivered/received and for which MCAs can request disbursement in a given quarter.

For MCAs with large infrastructure projects are structured to include retentions on invoices. The contract retentions represent a percentage of invoice amounts retained by the MCAs 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. MCAs do not release the retentions or request MCC payment for the retentions until the MCAs have verified that the contractor has met all the requirements and obligations under the contract.

Where an MCA 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 MCA contract retentions that have not been paid as part of the Grant Accrual Liability.

G. Fund Balance with Treasury

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. MCC's FBWT represent no-year funds maintained in appropriated accounts. MCC's records are reconciled with those of The Department of Treasury on a monthly basis.

H. Advances

MCC makes funding available to Federal agencies, MCAs, and local vendors. Federal agencies are funded through Inter Agency Agreements. MCAs 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 MCAs, or to meet contractual requirements of MCAs 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 MCAs through the local permitted account is tracked and liquidated on a monthly basis via the *Monthly Commitments and Disbursements Reports* provided by the MCAs to MCC. The funding advanced to contractors or vendors (mobilization advances) is amortized via contractually agreed upon schedules.

I. 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 MCA expenditures. Receivables that exist with foreign countries are considered sovereign debt. Public accounts receivable 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.

J. 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.

K. 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.

L. Accounts Payable

Accounts payable represent amounts due to Federal and Non-Federal 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 Non-Federal entities.

M. 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, 2019 and 2018, 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.

N. Liabilities Not Covered by Budgetary Resources

As of September 30, 2019 and 2018, 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.

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, and in accordance with the Financial Accounting Standards Board Accounting Standards Codification No. 842, *Leases,* MCC recorded a liability which will be amortized on a monthly basis utilizing a straight-line approach over the 10 year lease period.

O. Net Position

Net position is composed of unexpended appropriations and cumulative results of operations. Unexpended appropriations are funds appropriated by Congress to MCC that are still available for expenditure. Cumulative results of operations represent the net differences between financing sources and expenses since MCC's inception.

P. 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 department of its ability to obligate budget authority and outlay funds to another department. A separate fund account (allocation account) is created in the U.S. Treasury as a subset of the parent fund account for tracking and reporting purposes. All allocation transfers of balances are credited to this account, and subsequent obligations and outlays 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. In accordance with OMB guidance, child transfer activities are to be included in and parent transfer activities are to be excluded from the trial balances.

As the parent entity, MCC allocated funds to USAID. As a result, there are amounts reported in MCC's Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, and SBR for which the activity is performed by USAID acting as the child in this financial relationship. 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.

Q. Intragovernmental Transactions and Relationships

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.

If a Federal entity purchases goods or services from another Federal entity and sells them to the public, the exchange revenue is classified as with the public, but the related costs are classified as intragovernmental. The purpose of the classification is to enable the Federal Government to prepare consolidated financial statements which eliminate intragovernmental transactions.

R. Foreign currency transactions

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

S. 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.

Note 2 — Fund Balance with Treasury

MCC's FBWT balance is comprised of only General Funds, which primarily consist of no-year appropriated funds.

Status of Fund Balance with Treasury as of September 30, 2019 and September 30, 2018 (in thousands)

Status of Fund Balance with Treasury	2019	2018
Unobligated Balance		
Available	$ 2,678,747	$ 2,367,822
Unavailable	42,311	91,610
Obligated Balance not yet Disbursed	2,755,751	2,744,524
Non-Budgetary FBWT	55	43
Total	**$ 5,476,864**	**$ 5,203,999**

MCC's fund balance with Treasury is classified as unobligated balance available and unavailable, obligated balance not yet disbursed, and non-budgetary fund balance with Treasury. 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 fund balance with Treasury includes unavailable receipt accounts, and clearing accounts that do not have budget authority.

Note 3 — Advances

As of September 30, 2019, MCC reported intragovernmental advances totaling $9,735 thousand and public advances totaling $29,241 thousand. As of September 30, 2018, the amounts reported were $3,548 thousand and $6,623 thousand respectively. Intragovernmental advances increased primarily due to an advance made in support of the Niger compact. Public advances increased primarily due to new advances for the El Salvador II and Ghana II compacts.

Note 4 — Accounts Receivable, Net

Total receivables at September 30, 2019 and 2018 were $2,024 thousand (net of allowance for doubtful accounts of $4 thousand) and $60 thousand (net of allowance for doubtful accounts of $4 thousand), respectively. The accounts receivable balance represents net valid claims by MCC to cash or other assets of other entities. A periodic evaluation of public accounts receivable is performed to estimate any uncollectible amounts based on current status. 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 5 — General Property, Plant, and Equipment, Net

MCC reports depreciation expense using the straight-line method over an asset's estimated useful life, beginning with the month the asset is placed in service. General PP&E is presented net of accumulated depreciation.

Status of General Property, Plant, and Equipment, Net as of September 30, 2019 (in thousands)

	Estimated Useful Life	Cost	Accumulated Depreciation	Book Value
General PP&E				
Leasehold Improvements	10 years	$ 8,392	$ (3,129)	$ 5,263
Furniture	10 years	3,788	(1,436)	2,352
Internal Use Software	5 years	15,095	(4,263)	10,832
Vehicles	5 years	316	(202)	114
Total		**$ 27,591**	**$ (9,030)**	**$ 18,561**

Status of General Property, Plant, and Equipment, Net as of September 30, 2018 (in thousands)

	Estimated Useful Life	Cost	Accumulated Depreciation	Book Value
General PP&E				
Leasehold Improvements	10 years	$ 8,392	$ (2,275)	$ 6,117
Furniture	10 years	3,788	(1,053)	2,735
Internal Use Software	5 years	14,820	(1,299)	13,521
Vehicles	5 years	316	(139)	177
Total		**$ 27,316**	**$ (4,766)**	**$ 22,550**

Note 6 — 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 $41,313 thousand with a termination liability in the amount of $17,156 thousand.

MCC also has short-term leases for one corporate vehicle (through January 31, 2021) and 19 copier machines (through October 31, 2022). The future lease payments due for the building, vehicle, and copier machines are depicted below.

Future Lease Payments Due — Buildings, Franklin Court (in thousands)				
	Asset Category			
Fiscal Year	Vehicle	Copiers	Building	Totals
FY 2020	$ 6	$ 55	$ 6,378	$ 6,439
FY 2021	2	55	6,499	6,556
FY 2022	—	55	6,622	6,677
FY 2023	—	5	6,749	6,754
FY 2024	—	—	6,880	6,880
After FY 2024	—	—	8,185	8,185
Total Future Lease Payments	**$ 8**	**$ 170**	**$ 41,313**	**$ 41,491**

Note 7 — Other Liabilities

MCC's total other liabilities as of September 30, 2019 and 2018, respectively is comprised as follows:

Other Liabilities as of September 30, 2019 (in thousands)			
	Non-Current Liabilities	Current Liabilities	Total
Intragovernmental			
Employer Contributions & Payroll Taxes Payable	$ —	$ 490	$ 490
FECA	—	74	74
Unemployment	—	5	5
Liabilities for Non-Entity Assets	—	55	55
Total Intragovernmental Other Liabilities	**$ —**	**$ 624**	**$ 624**
With the Public			
Employer Contributions & Payroll Taxes Payable	$ —	$ 87	$ 87
Accrued Funded Payroll Benefits	—	1,937	1,937
Accrued Unfunded Annual Leave	—	4,563	4,563
Rent Abatement Liability	5,296	641	5,937
Total Other Liabilities with the Public	**$ 5,296**	**$ 7,228**	**$ 12,524**

Other Liabilities as of September 30, 2018 (in thousands)	Non-Current Liabilities	Current Liabilities	Total
Intragovernmental			
Employer Contributions & Payroll Taxes Payable	$ —	$ 428	$ 428
FECA	—	74	74
Unemployment	—	24	24
Liabilities for Non-Entity Assets	—	43	43
Total Intragovernmental Other Liabilities	**$ —**	**$ 569**	**$ 569**
With the Public			
Employer Contributions & Payroll Taxes Payable	$ —	$ 92	$ 92
Accrued Funded Payroll Benefits	—	2,010	2,010
Accrued Unfunded Annual Leave	—	4,602	4,602
Rent Abatement Liability	5,937	523	6,490
Total Other Liabilities with the Public	**$ 5,937**	**$ 7,227**	**$ 13,164**

Note 8 — Accrual – Grant Liabilities

As of September 30, 2019, MCC reported grant accrual liabilities of $44,859 thousand, comprised of grant accruals of $41,437 thousand and retentions of $3,422 thousand. As of September 30, 2018 the grant accrual liabilities reported were $108,546 thousand, comprised of grant accruals of $53,035 thousand and retentions of $55,511 thousand. Grant accruals and retentions declined primarily following the closing of the compacts of Malawi on September 20, 2018 and Zambia on November 15, 2018.

Note 9 — Commitments and Contingencies

MCC's program execution results in commitments of future obligations with country-specific accountable entities. MCC and the accountable entity agree on the terms of the proposed program (compact/threshold), sign an agreement, and prepare for the agreement to enter into force. Once a compact/threshold enters into force, the obligation is recorded by MCC; until such time, MCC recognizes commitments for these accountable entities. As of September 30, 2019, MCC had commitments for the compacts of Mongolia, Nepal and Senegal totaling $1,293,640 thousand and the threshold of Togo of $34,407 thousand. Similarly, as of September 30, 2018, MCC had commitments for the compacts of Cote D'Ivoire, Mongolia, and Nepal totaling $1,261,890 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 MCA's may contain performance guarantees which may or may not result in the MCA being reimbursed for nonperformance. These performance guarantees are not recorded until the non-performance event is triggered and result in a receivable to the MCA. As of September 30, 2019 five MCAs had agreements subject to performance guarantees which in aggregate are not to exceed $22,073 thousand: none of the agreements were exercised for non-performance prior to the conclusion of the performance period end date of March 29, 2019.

Note 10 — Liabilities Not Covered by Budgetary Resources

Liabilities of Federal agencies are classified as liabilities covered or not covered by budgetary resources. MCC's liabilities not covered by budgetary resources primarily consist of accrued unfunded annual leave and unamortized rent abatement. As of September 30, 2019 and September 30, 2018, liabilities not covered by budgetary resources were as follows:

Liabilities Not Covered by Budgetary Resources (in thousands)	2019	2018
Intragovernmental		
FECA	$ 74	$ 74
Unemployment	5	24
Total Intragovernmental	79	98
Annual Leave Liability	4,563	4,602
Franklin Court Unamortized Rent Abatement	5,937	6,460
Total Liabilities Not Covered by Budgetary Resources	10,579	11,160
Total Liabilities Covered by Budgetary Resources	56,742	118,994
Total Liabilities	**$ 67,321**	**$ 130,154**

Note 11 — Donated Services

On occasion, MCC may utilize donated services from other Federal agencies, individuals, and private firms in the course of its normal business operations. The approximate fair market value of donated services was $66 thousand for FY 2019 and $185 thousand for FY 2018.

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, 2019 and 2018, respectively is comprised as follows:

Undelivered Orders at September 30, 2019 and September 30, 2018 (in thousands)	2019	2018
Intragovernmental		
Paid	$ 9,735	$ 4,022
Unpaid	14,267	20,796
Total Intragovernmental	24,002	24,818
Public		
Paid	$ 29,241	$ 6,149
Unpaid	2,684,780	2,604,765
Total Public	2,714,021	2,610,914
Total	**$ 2,738,023**	**$ 2,635,732**

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

The table below documents the differences between the FY 2018 Statement of Budgetary Resources and the actual amounts reported for FY 2018 in the Budget of the U.S. Government released in 2018. Since the FY 2019 financial statements will be reported prior to the release of the Budget of the U.S. Government, MCC is reporting for FY 2018 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 2019 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 Resources	New Obligations & Upward Adjustments (Total)	Net Outlays
Statement of Budgetary Resources	$ 3,164	$ 704	$ (675)
Deductions	—	—	—
Budget of the U.S. Government	**$ 3,164**	**$ 704**	**$ (675)**

Note 14 — Reconciliation of Net Cost of Operations to Budget

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 of Operations to Budget for the Year Ending September 30, 2019 (in thousands)

	Intragovernmental	With the Public	Total
Net Operating Cost	**$ 33,283**	**$ 512,233**	**$ 545,516**
Components of Net Operating Cost Not Part of the Budget Outlays			
Property, Plant and Equipment Depreciation	—	(4,263)	(4,263)
Increase/(Decrease) in Assets:			
Accounts Receivable	—	1,964	1,964
Advances	6,187	22,618	28,805
(Increase)/Decrease in Liabilities Not Affecting Budget Outlays:			
Accounts Payable	(673)	(766)	(1,439)
Salaries and Benfits	(63)	77	14
Other Liabilities (Rent Abatement, Unfunded Leave, Unfunded FECA)	7	564	571
Grant Accrual Liability	—	63,687	63,687
Other Financing Sources:			
Federal Employee Retirement Benefit Costs Paid by OPM and Imputed to the Agency	(2,928)	—	(2,928)
Donated Services	—	(66)	(66)
Total Components of Net Operating Cost Not Part of the Budget Outlays	**2,530**	**83,815**	**86,345**
Components of the Budget Outlays That Are Not Part of Net Operating Cost			
Acquisition of Capital Assets	—	274	274
Other	—	12	12
Total Components of the Budget Outlays That Are Not Part of Net Operating Cost	**—**	**286**	**286**
Net Outlays	**$ 35,813**	**$ 596,334**	**$ 632,147**

Note 15 — Reclassification of Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position for FR Compilation Process

To prepare the Financial Report of the U.S. Government (FR), the Department of the Treasury requires agencies to submit an adjusted trial balance, which is a listing of amounts by U.S. Standard General Ledger 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 and the MCC reclassified statements prior to elimination of intragovernmental balances and prior to aggregation of repeated FR line items. A copy of the 2018 FR can be found here: https://www.fiscal.treasury.gov/reports-statements/ and a copy of the 2019 FR will be posted to this site as soon as it is released.

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 Balance Sheet to Line Items Used for the Government-wide Balance Sheet as of September 30, 2019 (in thousands)

FY 2019 MCC Balance Sheet		Line Items Used to Prepare FY 2019 Government-wide Balance Sheet	
Financial Statement Line	**Amounts**	**Amounts**	**Reclassified Financial Statement Line**
Assets			**Assets**
Fund Balance with Treasury	$ 5,476,864	$ 5,476,864	Fund Balance with Treasury
Advances	9,735	9,735	Advances to Others and Prepayments
Total Advances	9,735	9,735	Total Reclassified Other
Total Intra-Governmental Assets	5,486,599	5,486,599	**Total Intra-Governmental Assets**
Accounts Receivable, Net	2,024	2,024	Accounts and Taxes Receivable, Net
General Property Plant & Equipment, Net	18,561	18,561	Property Plant & Equipment, Net
Advances	29,241	29,241	Other Assets
Total Assets	**$ 5,536,425**	**$ 5,536,425**	**Total Assets**
Liabilities			**Liabilities**
Accounts Payable	$ 821	$ 821	Accounts Payable
Total Accounts Payable	821	821	Total Reclassified Accounts Payable
Other Liabilities		492	Benefit program contributions payable
		55	Liability to the General Fund of the U.S. Government for Custodial and Other Non-Entity Assets
		77	Other Liabilities (without reciprocals)
Total Other Liabilities	624	624	Total Reclassified Other — Miscellaneous Liabilities
Total Intra-Governmental Liabilities	**1,445**	**1,445**	**Total Intra-Governmental Liabilities**
Accounts Payable	8,493	8,493	Accounts Payable
		87	Federal Employee and Veteran Benefits Payable
Grant Accrual	44,859		
Other Liabilities	12,524	57,296	Other Liabilities
Total Liabilities	**67,321**	**67,321**	**Total Liabilities**
Net Position			**Net Position**
Unexpended Appropriations — Funds from All Other Funds	5,459,097	5,469,104	Net Position — Funds Other than Those from Dedicated Collections
Cumulative Results of Operations — All Other Funds	10,007	—	
Total Net Position	5,469,104	5,469,104	Total Net Position
Total Liabilities & Net Position	**$ 5,536,425**	**$ 5,536,425**	**Total Liabilities & Net Position**

Reclassification of Statement of Net Cost to Line Items Used for the Government-wide Statement of Net Cost for the Year Ending September 30, 2019 (in thousands)

FY 2019 MCC Statement of Net Cost		Line Items Used to Prepare FY 2019 Government-wide Statement of Net Cost	
Financial Statement Line	**Amounts**	**Amounts**	**Reclassified Financial Statement Line**
Gross Costs	$ 545,516		**Non-Federal Costs**
		$ 512,234	Non-Federal Gross Cost
		512,234	**Total Non-Federal Gross Cost**
			Intragovernmental Costs
		8,712	Benefit Program Costs
		2,928	Imputed Costs
		18,582	Buy/Sell Costs
		3,060	Other Expenses (w/o Reciprocals)
		33,282	**Total Intragovernmental Costs**
Total Gross Costs	**545,516**	**545,516**	**Total Reclassified Gross Costs**
Net Cost of Operations	**$ 545,516**	**$ 545,516**	**Net Cost of Operations**

Reclassification of Statement of Changes in Net Position to Line Items Used for Government-wide Statement of Changes in Net Position for the Year Ending September 30, 2019 (in thousands)			
FY 2019 MCC Statement of Change in Net Position		Line Items Used to Prepare FY 2019 Government-wide Statement of Change in Net Position	
Financial Statement Line	Amounts	Amounts	Reclassified Financial Statement Line
Unexpended Appropriations			
Unexpended Appropriations, Beginning Balance	$ 5,095,176	$ 5,106,626	Net Position, Beginning of Period
Cumulative Results of Operations, Beginning balance, as adjusted	11,450		
Appropriations Received	905,000	905,000	Appropriations Received as Adjusted
Appropriations Used	541,079	541,079	Appropriations Used (Federal)
	$ 5,470,547	**$ 5,470,547**	
Cumulative Results of Operations			
Cumulative Results, Beginning Balance	$ 5,095,176	$ 5,106,626	Net Position, Beginning of Period
Cumulative Results of Operations, Beginning balance, as adjusted	11,450		
			Non-Federal Non-Exchange Revenues
Donations and Forfeitures of Cash and Cash Equivalents	66	66	Other Taxes and Receipts
		66	**Total Non-Federal Non-Exchange Revenues**
Imputed Financing	2,928	2,928	Imputed Financing Sources (Federal)
Total Financing Sources	544,073		
Net Cost of Operations	545,516	545,516	Net Cost of Operations
Ending Balance — Cumulative Results of Operations	10.007		
		5,469,104	**Net Position — Ending Balance**
Total Net Position	**$ 5,469,104**	**$ 5,469,104**	**Total Net Position**

Note 16 — Subsequent Event

On October 19, 2019 the Government of Ghana informed MCC of its decision to terminate the concession agreement between the Electric Company of Ghana (ECG) to private operator Power Distribution Services Ghana (PDS)—an action that was a necessary condition of the Ghana Power Compact. In response, an amount of $190 million funds granted to Ghana for the 20-year concession from ECG to PDS will no longer be available. 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.

Independent Auditors' Report

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

Audit of MCC's Fiscal Years 2019 and 2018 Financial Statements

AUDIT REPORT 0-MCC-20-004-C
NOVEMBER 18, 2019

1300 Pennsylvania Avenue NW • Washington, DC 20523
https://oig.usaid.gov • 202-712-1150

Office of Inspector General, U.S. Agency for International Development

The Office of Inspector General provides independent oversight that promotes the efficiency, effectiveness, and integrity of foreign assistance provided through the entities under OIG's jurisdiction: the U.S. Agency for International Development, Millennium Challenge Corporation, U.S. African Development Foundation, Inter-American Foundation, and Overseas Private Investment Corporation.

Report waste, fraud, and abuse

USAID OIG Hotline
Email: ig.hotline@usaid.gov
Complaint form: https://oig.usaid.gov/complainant-select
Phone: 202-712-1023 or 800-230-6539
Mail: USAID OIG Hotline, P.O. Box 657, Washington, DC 20044-0657

Office of Inspector General, U.S. Agency for International Development

MEMORANDUM

DATE: November 18, 2019

TO: Millennium Challenge Corporation, Vice President, Department of Administration and Finance, Chief Financial Officer, Ken Jackson

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

SUBJECT: Audit of MCC's Fiscal Years 2019 and 2018 Financial Statements (0-MCC-20-004-C)

Enclosed is the final audit report on Millennium Challenge Corporation's (MCC) financial statements as of September 30, 2019, and 2018. The Office of Inspector General (OIG) contracted with the independent certified public accounting firm of CliftonLarsonAllen LLP (CLA) 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. 19-03, "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 CLA 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, 2019, and 2018, were presented fairly, in all material respects; (2) evaluate MCC's internal controls; and (3) determine whether MCC complied with applicable laws and regulations. The purpose was not to provide an opinion on the effectiveness of the entity's internal control or compliance with provisions of applicable laws, regulations, contracts, and grant agreements.

To answer the audit objectives, the audit firm reviewed MCC's financial statements, including the balance sheets as of September 30, 2019, and 2018, and the related statements of net cost, changes in net position, the combined statements of budgetary resources for the years then ended, and the related notes to the financial statements. The net operating costs for this period were $545,516,000.

Office of Inspector General, Millennium Challenge Corporation
Washington, DC
https://oig.usaid.gov

The audit firm concluded that MCC's financial statements for the fiscal years ending September 30, 2019, and 2018, are presented fairly, in all material respects, in accordance with U.S. generally accepted accounting principles. The audit firm also found no instances of noncompliance with provisions of laws, regulations, contracts, and grant agreements.

The auditors reported two significant deficiencies in internal controls related to:

- Grant accrual estimates and validation (modified repeat finding)
- Millennium Challenge Accounts' (MCA) financial reporting (modified repeat finding)

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

Recommendation 1. Update the "Grant Accrual Financial Management Division Desktop Procedures" to document and determine what MCC should do with validated costs identified that were not part of the accrued costs, and what was the root cause of the initial omission by MCA. Based on that outcome, MCC should revise MCA guidance as appropriate or provide additional training to prevent recurrence.

Recommendation 2. Update the "Grant Accrual Financial Management Division Desktop Procedures" to require MCC to review the adequacy of the MCAs' procedure manual that addresses the MCA internal process with its project directors and engineers for capturing work completed but not yet billed or paid. MCC should provide recommendations for improvement where warranted.

Recommendation 3. Update the "Grant Accrual Financial Management Division Desktop Procedures" to address and document what additional steps should be taken to ensure the reliability of the grant accrual estimate and the validation process when the compact is entering into its final year and or closure period (i.e., 120 days after the compact end date).

Recommendation 4. Develop, document, and implement an internal procedure that requires the Department of Compact Operations to disclose unique financial aspects of the compact, or additional financial agreements impacting the compact, to the Financial Management Division for review to determine if the MCA needs additional guidance to properly accrue for those costs.

Recommendation 5. Update the "Retentions Data Call: Millennium Challenge Account Guidance" to provide additional requirements for MCAs to reconcile retention balances reported in the quarterly data calls with the relevant balances recorded in the MCAs' financial system, investigate any variances noted, and submit this reconciliation with the quarterly data call to MCC for review.

Recommendation 6. Coordinate with the Vice President of Department of Compact Operations the updating of the "Fiscal Accountability Plans" to require MCAs to develop an internal process with project directors and engineers on how to capture work completed but not yet billed or paid, and document in a desktop procedure manual.

Recommendation 7. Coordinate with the Vice President of Department of Compact Operations the updating of the "Fiscal Accountability Plans" to require MCAs to ensure that the Fiscal Agent is integrated within the grant accrual process to verify when grant accruals have been paid and should no longer be reported as an accrual in the data call.

Recommendation 8. Provide MCAs with additional training concerning the reporting of advance liquidations in the grant accrual process for in-house invoices and works completed but not invoiced as of quarter end.

Recommendation 9. Develop, implement, and document procedures for how MCC will assist the MCAs to enable them to meet the compact/threshold audit requirements.

In finalizing the report, the audit firm evaluated MCC's responses to the recommendations. After reviewing that evaluation, we consider all recommendations open and unresolved. We ask that you provide written notification of actions planned or taken to reach management decisions on recommendations 1 through 9.

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

MILLENNIUM CHALLENGE CORPORATION

Independent Auditors' Report
of Millennium Challenge Corporation's Financial Statements
for the Periods Ending September 30, 2019 and 2018

Table of Contents

CliftonLarsonAllen LLP
CLAconnect.com

To the Inspector General
United States Agency for International Development

To the Board of Directors
Millennium Challenge Corporation

INDEPENDENT AUDITORS' REPORT

In our audits of the fiscal years 2019 and 2018 financial statements of the Millennium Challenge Corporation (MCC), we found

- MCC's financial statements as of and for the fiscal years ended September 30, 2019, and 2018, are presented fairly, in all material respects, in accordance with U.S. generally accepted accounting principles;
- No material weaknesses, but two significant deficiencies in internal control over financial reporting for fiscal year 2019 based on the limited procedures we performed; and
- No reportable noncompliance for fiscal year 2019 with provisions of applicable laws, regulations, contracts, and grant agreements we tested.

The following sections discuss in more detail (1) our report on the financial statements, which includes required supplementary information (RSI) such as Management's Discussion and Analysis (MD&A) and other information included with the financial statements; (2) our report on internal control over financial reporting; (3) our report on compliance with laws, regulations, contracts, and grant agreements; and (4) management's response.

A member of Nexia International

Report on the Financial Statements

We have audited MCC's financial statements. MCC's financial statements comprise the balance sheets as of September 30, 2019, and 2018; the related statements of net cost, changes in net position, and combined statements of budgetary resources for the fiscal years then ended; and the related notes to the financial statements (financial statements).

We conducted our audit in accordance with auditing standards generally accepted in the U.S.; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and Office of Management and Budget Bulletin No. 19-03, *Audit Requirements for Federal Financial Statements* (OMB Bulletin 19-03). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Management's Responsibility for the Financial Statements

MCC management is responsible for (1) the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America (U.S.); (2) preparing, measuring, and presenting the RSI in accordance with accounting principles generally accepted in the U.S.; (3) preparing and presenting other information included in documents containing the audited financial statements and auditors' report, and ensuring the consistency of that information with the audited financial statements and the RSI; and (4) maintaining effective internal control over financial reporting, including 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. Relevant standards referred to above require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. We are also responsible for applying certain limited procedures to RSI and other information included with the financial statements.

An audit of financial statements involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the auditors' assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to MCC's preparation and fair presentation of the financial statements 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 MCC's internal control. Accordingly, we express no such opinion. An audit of financial statements also involves evaluating the appropriateness of the accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Opinion on the Financial Statements

In our opinion, MCC's financial statements referred to above present fairly, in all material respects, MCC's financial position as of September 30, 2019, and 2018, and its net costs, changes in net position, and budgetary resources for the fiscal years then ended, in accordance with accounting principles generally accepted in the U.S.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the U.S. issued the Federal Accounting Standards Advisory Board (FASAB) require that the information in MCC's RSI section be presented to supplement the financial statements. Such information, although not a part of the financial statements, FASAB considers this information to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the RSI in accordance with auditing standards generally accepted in the U.S., which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to the auditors' inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements, in order to report omissions or material departures from FASAB guidelines, if any, identified by these limited procedures. We did not audit and we do not express an opinion or provide any assurance on this information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

MCC's other information contains a wide range of information, some of which is not directly related to the financial statements. This information as listed in the table of contents of MCC's Agency Financial Report is presented for purposes of additional analysis and is not a required part of the financial statements and the RSI. In addition, MCC management has included references to information on websites or other data outside of MCC's Agency Financial Report. We read the other information included with the financial statements in order to identify material inconsistencies, if any, with the audited financial statements. Our audit was conducted for the purpose of forming an opinion on MCC's financial statements as a whole. We did not audit and do not express an opinion or provide any assurance on all other information.

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Report on Internal Control over Financial Reporting

In connection with our audit of the MCC's financial statements, we considered MCC's internal control over financial reporting (internal control), consistent with our auditors' responsibility discussed below. We performed our procedures related to MCC's internal control over financial reporting in accordance with auditing standards generally accepted in the U.S.

Management's Responsibility for Internal Control over Financial Reporting

MCC management is responsible for (1) maintaining effective internal control over financial reporting, including the design, implementation, maintenance, and evaluation of the effectiveness of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error, and (2) providing a statement of assurance on the overall effectiveness of internal control over financial reporting.

Auditors' Responsibility

In planning and performing our audit of MCC's financial statements as of and for the year ended September 30, 2019, in accordance with auditing standards generally accepted in the U.S., we considered MCC's internal control over financial reporting 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 MCC's internal control over financial reporting. Accordingly, we do not express an opinion on MCC's internal control over financial reporting. We are required to report all deficiencies that are considered to be significant deficiencies or material weaknesses. We did not consider all internal controls relevant to operating objectives, such as those controls relevant to preparing performance information, statistical reports, and ensuring efficient operations. We limited our internal control testing to testing controls over financial reporting. We caution that our internal control testing may not be sufficient for other purposes. We also caution that projecting our audit results to future periods is subject to risk that controls may become inadequate because of changes in conditions.

Definition and Inherent Limitations of Internal Control over Financial Reporting

An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, the objectives of which are to provide reasonable assurance that (1) transactions are properly recorded, processed, and summarized to permit the preparation of financial statements in accordance with accounting principles generally accepted in the U.S., and assets are safeguarded against loss from unauthorized acquisition, use, or disposition, and (2) transactions are executed in accordance with provisions of applicable laws, including those governing the use of budget authority, regulations, contracts, and grant agreements, noncompliance with which could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements due to fraud or error.

Results of Our Consideration of Internal Control over Financial Reporting

Our consideration of internal control was for the limited purpose described in section above, and was not designed to identify all deficiencies in internal control that might be material weaknesses and significant deficiencies or to express an opinion on the effectiveness of MCC's internal control over financial reporting. Given these limitations, material weaknesses or significant deficiencies may exist that have not been identified.

During our fiscal year 2019 audit, we identified two deficiencies in MCC's internal control over financial reporting that we considered as significant deficiencies. They are summarized below and detailed in Exhibit 1.

Although the significant deficiency in internal control did not affect our opinion of MCC's fiscal year 2019 financial statements, misstatements may occur in unaudited financial information reported internally and externally by MCC because of these significant deficiencies.

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 over financial reporting, such that there is a reasonable possibility that a material misstatement of MCC'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 over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

1. MCC's internal controls over grant accrual estimates and validation need to be strengthened (Modified Repeat Finding)

2. MCC's oversight and internal controls over Millennium Challenge Accounts' (MCAs') financial reporting needs to be strengthened (Modified Repeat Finding)

Intended Purpose of the Report on Internal Control over Financial Reporting

The purpose of the Report on Internal Control over Financial Reporting is solely to describe the scope of our consideration of MCC's internal control over financial reporting and the results of our procedures, and not to provide an opinion on the effectiveness of MCC's internal control over financial reporting. The Report on Internal Control over Financial Reporting is an integral part of an audit performed in accordance with auditing standards generally accepted in the U.S. in considering internal control over financial reporting. Accordingly, the report on internal control over financial reporting is not suitable for any other purpose.

Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements

In connection with our audit of MCC's financial statements, we tested compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements consistent with our auditors' responsibility. We caution that noncompliance may occur and not be detected by these tests and that such testing may not be sufficient for other purposes. We performed our tests of compliance in accordance with auditing standards generally accepted in the U.S. 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 noncompliance that are required to be reported in accordance with *Government Auditing Standards* or OMB Bulletin 19-03.

Management's Responsibility for Compliance

MCC management is responsible for complying with laws, regulations, contracts, and grant agreements applicable to MCC.

Auditors' Responsibilities

Our responsibility is to test compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements applicable to MCC that have a direct effect on the determination of material amounts and disclosures in MCC's financial statements, and perform certain other limited procedures. Accordingly, we did not test compliance with all laws, regulations, contracts, and grant agreements applicable to MCC. We also caution that projecting our audit results to future periods is subject to risk that the degree of compliance with controls may deteriorate.

Results of Our Tests for Compliance with Laws, Regulations, Contracts, and Grant Agreements

Our tests for compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements disclosed no instances of noncompliance for fiscal year 2019 that would be reportable under auditing standards generally accepted in the U.S. However, the objective of our tests was not to provide an opinion on compliance with laws, regulations, contracts, and grant agreements applicable to MCC. Accordingly, we do not express such an opinion.

Intended Purpose of the Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements

The purpose of the Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements is solely to describe the scope of our testing of compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements, and the results of that testing, and not to provide an opinion on compliance. This report is an integral part of an audit performed in accordance with auditing standards generally accepted in the U.S. in considering compliance. Accordingly, the report on compliance with laws, regulations, contracts, and grant agreements is not suitable for any other purpose.

Management's Response to Audit Findings

Management's response to the findings identified in our report is presented in Exhibit 2. MCC concurred with all recommendations and these are considered open-unresolved. We did not audit MCC's response and, accordingly, we express no opinion on it.

Status of Prior Year's Control Deficiencies

We have reviewed the status of MCC's corrective actions with respect to the findings included in the prior year's Independent Auditors' Report, dated November 8, 2018. The status of prior year findings is presented in Exhibit 3.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Arlington, Virginia
November 15, 2019

EXHIBIT I
Significant Deficiencies in Internal Controls

1. Controls over grant accrual estimates need to be strengthened (Modified Repeat Finding)

MCC's grant accrual liability is based on its Compact Accountable Entities' (also known as Millennium Challenge Accounts or MCAs) reporting grant accrual estimates to MCC via data calls. MCAs are also responsible for assisting MCC in validating the estimated liability. In FY 2019, MCC has performed additional oversight on the grant accrual estimates received from the MCAs on a monthly basis by: (1) identifying additional validation payments against MCAs' accrual estimates; (2) confirming that MCAs identified cost incurred in the prior quarter and associated payments were not re-accrued by the MCAs; and (3) verify that individual accrual items greater than $100 thousand and were not paid by the MCAs will be re-accrued in the following quarter and if not, MCC will obtain the basis as to why the MCA made the initial accrual.

MCC reported approximately $305 million in compact grant related expenses and an accrued grant liability of $45 million comprising retentions payable and expenses incurred but not yet reported by MCAs as of September 30, 2019. The compact grant activities are the core of MCC's financial and program operations.

We audited the grant accruals and validation for reasonableness and compliance with MCC's *Expense Accruals Financial Management Division Procedure Manual* (Manual) that went into effect on February 15, 2019. MCC also issued accrual and validation guidance to the MCAs in December, 2018. MCC further revised its MCA validation guidance in June 2019 to provide additional clarification and guidance to the MCAs. In third quarter of FY 2019, MCC started requesting in their data call for the MCAs to provide source documentation used to determine accrual amount for any vendor over $250,000. During FY 2019, MCC continued to refine its accrual methodology by collecting additional data from the MCAs to help validate their methodology. However, we identified the following data deficiencies during our testing that impacted the reasonableness of the quarterly grant accrual estimates. These issues increase the risk for the grant accrual estimate to be misstated and incorrectly reported in MCC's financial statements.

Issues with the Grant Accrual Estimates Versus Actual Validated Amounts — During our audit of the quarterly grant accrual, we noted significant errors in the grant accrual estimates that raise concerns about MCC's control process to ensure that its grant accrual methodology is valid and reliable. After accounting for valid accruals that were carried forward into the next quarter as well as accounting for MCC's and MCAs' cost validation conducted, we noted significant accrual variances in the fourth quarter of FY 2018 and first quarter of FY 2019 totaling $3.8 million and $12.6 million, respectively.

EXHIBIT I
Significant Deficiencies in Internal Controls

Period	Accrual	Valid Accrual Carried Over	Adjusted Accrual	Validation (MCA & MCC)	Variance Amount Over or (under) the Accrual
Qtr. 4 FY18	$47,823,473	$2,210,000	$ 45,613,473	$49,452,481	$3,839,008
Qtr. 1 FY19	$43,588,443	$2,974,826	$ 40,613,617	$53,204,237	$12,590,620
Qtr. 2 FY19	$27,622,069	$5,069,978	$ 22,552,091	$24,056,555	$1,504,464
Qtr. 3 FY19	$28,004,223	$4,544,919	$ 23,459,304	$21,768,084	$(1,691,220

A significant portion of the identified accrual variances were related to two compacts that were in the process of closing. MCC indicated that the government shutdown had an impact on its financial reporting. For one compact, MCC could not provide any support or explanation for the accrual variance of $5.6 million in the fourth quarter of FY 2018 and $3.6 million in first quarter of FY 2019. Another MCA did not accrue for government reimbursement payment of $2.9 million in fourth quarter of FY 2018 and $7.5 million in first quarter of FY 2019.

MCC's internal desktop procedures do not address what additional steps MCC should take to ensure the reliability of the grant accrual estimate and related validation process when the compact is entering into its final year of operation or in the closure period (120 days after the compact end date). In addition, MCC does not have any internal procedures that require the Department of Compact Operations to disclose to Financial Management Division unique financial aspects or additional financial agreements that may impact a compact (i.e. a government reimbursable agreement) and affect the accrual estimates.

MCC also identified additional costs incurred that the MCAs did not accrue as well as accrual errors reported by the MCAs. The total costs incurred that should have been accrued and the related accrual errors identified in our testing are shown below.

Period	Costs Identified That Should Have Been Accrued and Accrual Errors
Qtr. 4 FY18	$2,594,490
Qtr. 1 FY19	$12,399,725
Qtr. 2 FY19	$2,370,099
Qtr. 3 FY19	$4,031,257

EXHIBIT I
Significant Deficiencies in Internal Controls

These costs represent a clear under estimation of the accrual costs for each quarter. In FY 2019, MCC has shown improvement in validating the accrual costs and identifying problems pertaining to the grant accrual estimation process. However, MCC needs to continue implementing corrective actions to address accrual errors and control deficiencies in the grant accrual estimation process in order to produce a reliable and reasonable grant accrual estimate.

Furthermore, MCC's internal desktop procedures do not address what MCC should do with the validated costs that should have been accrued but were not. Specifically, MCC procedures do not require a determination and documentation of the cause for why the MCA did not initially identified those costs in the grant accrual estimation process, so that MCC can revise its guidance to the MCAs to prevent such accrual errors in the future.

The MCC's grant accrual guidance to the MCAs indicates the MCAs should have a desktop procedure manual to address the accrual process with Project Directors and Engineers for capturing work completed but not yet billed or paid as of the end of the accrual reporting period. However, MCC's desktop procedures do not require MCC to review the adequacy of the MCAs' procedures.

There is a high risk of material misstatement in MCC's reporting of grant accrual liability and a potential for errors to occur if MCC does not clearly identify and address the root cause for the accrual variance errors and take appropriate corrective action in the form of additional guidance and training to MCAs to resolve them.

GAO Standards for Internal Control in the Federal Government, Section 3 — Evaluation of an Effective Internal Control System, Evaluation of Internal Control, Design and Implementation OV3.05 states that when evaluating implementation, management determines if the control exists and if the entity has placed the control into operation. A deficiency in implementation exists when a properly designed control is not implemented correctly in the internal control system. 12.03 states that management documents in policies for each unit its responsibility for an operational process's objectives and related risk, and control activity design, implementation, and operating effectiveness.

Federal Financial Accounting and Auditing Technical Release 12, *Accrual Estimates for Grant Programs, Federal Financial Accounting* (August 4, 2010), Paragraph 31, *Training and Monitoring of Grantees* states, "Since preparation of accrual estimates is dependent upon relevant and reliable data, accurate and timely reporting by grant recipients serves as the basis for historical data used in preparing future estimates and provides reliable actual data to which accrual estimates can be compared."

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

Recommendation 1. Update the "Grant Accrual Financial Management Division Desktop Procedures" to:

a. Document and determine what MCC should do with validated costs identified that were not part of the accrued costs and what was the root cause of the initial omission by MCA. Base on that outcome, MCC should revise MCA guidance as appropriate or provide additional training to prevent reoccurrence in the future.

EXHIBIT I
Significant Deficiencies in Internal Controls

b. Require MCC to review the adequacy of the MCAs' procedure manual that addresses the MCA internal process with its Project Directors and Engineers for capturing work completed but not yet billed or paid. MCC should provide recommendations for improvement where it is warranted.

c. Address and document what additional steps should be taken to ensure that the reliability of the grant accrual estimate and the validation process when the compact is entering into its final year and or closure period (i.e., 120 days after the compact end date).

Recommendation 2. Develop, document and implement an internal procedure that requires the Department of Compact Operations to disclose unique financial aspects of the compact, or additional financial agreements impacting the compact, to Financial Management Division for review to determine if the MCA needs additional guidance to properly accrue for those costs.

2. MCC's oversight and internal controls over MCAs' financial reporting needs to be strengthened (Modified Repeat Finding)

The Department of Compact Operations, through collaboration with the Department of Administration and Finance, establishes operational oversight and financial reporting controls and procedures to govern the conduct and administration of MCC's Compact/Threshold portfolio by the MCA entities. The MCAs' financial operations, including their compliance with applicable laws, regulations, contracts, and grant agreements are crucial to MCC's financial statements as their financial activities are material and significant. During our site visits to four selected MCAs, we evaluated the MCAs' design and effectiveness of internal controls. As a result of procedures performed, we identified the following control deficiencies that collectively we considered a significant deficiency in controls over financial reporting. Some of the control deficiencies we identified this year were repeat deficiencies reported in prior years.

Oversight over MCA's Financial Reporting — Every quarter, MCC obtained financial data through the data calls from MCAs for its financial statement reporting. As in the past years, our audit disclosed that MCC continues to have challenges in ensuring that MCAs accurately, completely, and properly report financial activities and balances that are significant and relevant to MCC's financial statements. For example:

Contract Retentions reporting errors — For the first and second quarters of FY 2019, we found that an MCA had understated the amount reported for contract retentions by $460,000 in quarter one and $30,918 in quarter two. MCC did not identify the retention reporting errors and without written procedures to perform quality control verifications and hold MCAs accountable, MCC cannot gain assurance that the data reported is accurate.

I-4

EXHIBIT I
Significant Deficiencies in Internal Controls

Grant accrual liability reporting errors — Grant accrual estimates prepared by MCAs include estimated works completed by vendors but not yet invoiced for payments by MCAs. For the first and second quarters of FY 2019, we found one MCA did not properly exclude the advances liquidation amounts for several contracts from the reported grant accrual amounts for $115,759 in quarter one and $50,513 in quarter two, resulting in an overstatement of grant accrual liability. For another MCA, we identified the reported grant accrual amounts for quarter two was overstated by $367,266. The reporting errors were due to the MCA not having effective controls in place to identify and exclude vendor invoices already paid from the reported grant accrual amounts and inadequate MCC guidance to the MCAs that does not fully incorporate the MCA Fiscal Agent in the grant accrual estimate process.

In-House invoices reporting errors — Grant accrual estimates prepared by MCAs also include vendor invoices received by the MCAs (called in-house invoices) for goods and services received from vendors but not yet paid. For the first and second quarters of FY 2019, we found that selected MCAs disclosed reporting errors and incomplete data. For example, for the first quarter, an MCA did not exclude the advances liquidation amounts from an in-house invoice. For another MCA, we found that an in-house invoice should not have been included in the data call. In another instance, for the second quarter, two MCAs understated their in-house invoices by incorrectly omitting the invoices in the data call. Collectively, the reporting errors identified were due to MCAs not having sufficient internal controls for ensuring accuracy and completeness of the data reported, which resulted in misstatement of the expenses and accrued liabilities and deficiency in MCC's control to detect the reporting error as part of its review process.

Annual audit delays — The Accountable Entity (AE or MCA), under the terms of the compact or threshold agreement, is required to undergo annual and in some cases semi-annual financial audits of all MCC funding disbursements. Audit reports are due no later than 90 days after the applicable audit periods, or such other period as MCC and the MCA may otherwise agree to in writing. For compact closure audits, the audit reports are due no later than 150 days after compact end date (CED). Our audit identified five compacts and one threshold where annual audits were not timely conducted. For four of the five compacts, MCAs with concurrence of MCC increased the audit periods from six months or a year to one year and six months and as long as three years and ten months. Even after expanding the audit periods, the audit reports continue to be late in issuance ranging from 107 to 343 days late. Below illustrate the extent of the late audit reports.

I-5

EXHIBIT I
Significant Deficiencies in Internal Controls

Accountable Entity	Audit Period	Audit Report Due Date	Report Issued	Days Late
Compact #1[1]	Oct. 1, 2016 – March 31, 2018	June 29, 2018	June 7, 2019	343
Compact #2	Feb. 4, 2015 – Sept. 30, 2018	Dec. 29, 2018	June 20, 2019	173
Threshold #1	Oct. 1, 2017 – Sept. 30, 2018	Dec. 29, 2018	April 15, 2019	107
Compact #3	Compact End Date Sept. 20, 2018	Feb. 17, 2019	Oct. 9, 2019	233

Accountable Entity[2]	Audit Period	Time Lapsed Without an Audit
Compact #4	Nov. 30, 2015 – Sept. 30, 2019	3 year, 10 months
Compact #5	Sept. 14, 2017 – Sept. 30, 2019	2 years, 17 days

MCC was unable or provided no explanation as to why the audits were deferred for compacts #1 and #5. For compacts #2 and #4, the causes indicated were a decision by the MCAs to defer the audit due to low rate of compact disbursements, a failed audit procurement, procedural delays in signing the audit contract, and delays in getting the MCA Procurement Agent in place. Financial audit is a key control for MCC to obtain assurance that the MCAs' funds are being used appropriately and implemented financial recording and reporting controls over the compact or threshold funds are working as intended. Delays in the required audits increase the risk that potential fraud, waste, and abuse may not be detected. In addition, it will delay appropriate corrective actions and timely recovery of questioned costs. Furthermore, for compact #3 that closed out at end of 2018, the audit delay hindered other key closure processes required to de-obligate $2.7 million in compact funds remaining. MCC is responsible for monitoring and ensuring that the required MCA audits are performed in a timely manner and that all required audits are completed with audit reports issued no later than 90 days after the end period except for close out audits, which are due no later than 150 days after CED.

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

Recommendation 3. Update the "Retentions Data Call: Millennium Challenge Account Guidance" to provide additional requirements for MCAs to reconcile retention balances reported in the quarterly data calls with the relevant balances recorded in the MCAs' financial system and investigate any variances noted, and submit this reconciliation along with the quarterly data call to MCC for review.

[1] No audit reports were provided to us concerning funding disbursement period from April 1, 2018 to March 31, 2019.

[2] The scheduled audit represents the first audit for these compacts.

EXHIBIT I
Significant Deficiencies in Internal Controls

Recommendation 4. We recommend that the Vice President of Administration and Finance/CFO coordinate with the Vice President of Department of Compact Operations the updating of the "Fiscal Accountability Plans" to:

- Require MCAs to develop an internal process with Project Directors and Engineers on how to capture work completed but not yet billed or paid and document in a desktop procedure manual.
- Require MCAs to ensure that the Fiscal Agent is integrated within the grant accrual process to verify when grant accruals have been paid and should no longer be reported as an accrual in the data call.

Recommendation 5. Provide MCAs with additional training concerning the reporting of advance liquidations in the grant accrual process for in-house invoices and works completed but not invoiced as of quarter end.

Recommendation 6. Develop, implement, and document procedures for how MCC will assist the MCAs to enable them to meet the compact/threshold audit requirements.

EXHIBIT 2
Management's Response to Audit Findings

MILLENNIUM
CHALLENGE CORPORATION
UNITED STATES OF AMERICA

November 15, 2019

Ms. Mia Leswing, Principal
CliftonLarsonAllen, LLP
450 N. Fairfax Drive, Suite 1020
Arlington, VA 22203

Mr. Alvin Brown
Deputy Assistant Inspector General for Audit
Office of Inspector General
United States Agency for International Development
1300 Pennsylvania Avenue NW
Washington, DC 20005

Dear Ms. Leswing and Mr. Brown,

In response to the audit findings and recommendations cited in the "Audit of MCC's Financial Statements, Internal Controls, and Compliance for the Fiscal Years Ending September 30, 2019 and 2018" report, MCC provides the following comments:

Significant Deficiencies: MCC's internal controls over grant accrual estimates and validation need to be strengthened (Modified Repeat Finding)

Recommendation 1: Update the "Grant Accrual Financial Management Division Desktop Procedures" to document and determine what MCC should do with validated costs identified that were not part of the accrued costs, and what was the root cause of the initial omission by MCA. Based on that outcome, MCC should revise MCA guidance as appropriate or provide additional training to prevent recurrence.

Recommendation 2: Update the "Grant Accrual Financial Management Division Desktop Procedures" to require MCC to review the adequacy of the MCAs' procedure manual that addresses the MCA internal process with its project directors and engineers for capturing work completed but not yet billed or paid. MCC should provide recommendations for improvement where warranted.

EXHIBIT 2
Management's Response to Audit Findings

Recommendation 3: Update the "Grant Accrual Financial Management Division Desktop Procedures" to address and document what additional steps should be taken to ensure the reliability of the grant accrual estimate and the validation process when the compact is entering into its final year and or closure period (i.e., 120 days after the compact end date).

Recommendation 4: Develop, document, and implement an internal procedure that requires the Department of Compact Operations to disclose unique financial aspects of the compact, or additional financial agreements impacting the compact, to the Financial Management Division for review to determine if the MCA needs additional guidance to properly accrue for those costs.

> **MCC Response:** MCC concurs with recommendations 1, 2, 3 and 4. A comprehensive corrective action plan will be developed to address the deficiency noted.

Significant Deficiencies: MCC's oversight and internal controls over Millennium Challenge Accounts' (MCAs') financial reporting needs to be strengthened (Modified Repeat Finding)

Recommendation 5: Update the "Retentions Data Call: Millennium Challenge Account Guidance" to provide additional requirements for MCAs to reconcile retention balances reported in the quarterly data calls with the relevant balances recorded in the MCAs' financial system, investigate any variances noted, and submit this reconciliation with the quarterly data call to MCC for review.

Recommendation 6: Coordinate with the Vice President of Department of Compact Operations the updating the "Fiscal Accountability Plans" to require MCAs to develop an internal process with project directors and engineers on how to capture work completed but not yet billed or paid, and document in a desktop procedure manual.

Recommendation 7: Coordinate with the Vice President of Department of Compact Operations the updating the "Fiscal Accountability Plans" to require MCAs to ensure that the Fiscal Agent is integrated within the grant accrual process to verify when grant accruals have been paid and should no longer be reported as an accrual in the data call.

Recommendation 8: Provide MCAs with additional training concerning the reporting of advance liquidations in the grant accrual process for in-house invoices and works completed but not invoiced as of quarter end.

EXHIBIT 2
Management's Response to Audit Findings

Recommendation 9: Develop, implement, and document procedures for how MCC will assist the MCAs to enable them to meet the compact/threshold audit requirements.

> **MCC Response:** MCC concurs with the recommendations 5, 6, 7, 8 and 9. A comprehensive corrective action plan will be developed to address the deficiency noted.

Sincerely,

Ken Jackson
Vice President and Chief Financial Officer
Department of Administration and Finance

2-3

EXHIBIT 3
Status of Prior Year Recommendations

Our assessment of the current status of the recommendations related to findings identified in the prior year audit is presented below:

FY 2018 Recommendations	***Type***	***Fiscal Year 2019 Status***
1. Update the "Expense Accruals Financial Management Division Procedure Manual" to reflect the current grant accrual methodology.	Significant Deficiency (SD)	Closed
2. Provide Millennium Challenge Accounts with written guidance on developing grant accrual estimates to ensure validity of the grant accruals estimate. The guidance should include, but not be limited to, the following: • Take into consideration the impact of contract advances and retentions for large works contracts in the accrual estimate. • Ensure that accrual estimates do not include costs that will not be paid with compact funds. • Consider historical questioned costs for contracts and grants that are significant in developing the accrual estimate.	SD	Closed
3. Update the "Compact Grant Accrual Validation Data Call Desktop Manual" to include a time requirement for MCC to perform follow up with Millennium Challenge Accounts so that errors in accrual estimates or validations are promptly identified and addressed.	SD	Open
4. Provide Millennium Challenge Accounts with written guidance to ensure that the Millennium Challenge Accounts perform grant accrual validation correctly to include, but not be limited to, validation of consultant contract costs.	SD	Closed

3-1

EXHIBIT 3
Status of Prior Year Recommendations

5. Develop clear and complete written guidance for the Millennium Challenge Accounts' internal control over the data call process, provide effective training, and monitor the effectiveness of the internal control.	SD	Open
6. Develop, document, and implement a process to oversee and verify that the accountable Government entities conduct pre-Millennium Challenge Accounts compact procurements in accordance with the compact agreement and the Program Procurement Guidelines.	SD	Closed
7. Update MCC's Program Procurement Guidelines to require the Millennium Challenge Accounts to document alternative procurement procedures so that all parties are aware of what is required, who is accountable for what, and how the procurement will be documented.	SD	Open
8. Develop, document, and implement policies and procedures for MCC's management oversight of transfer and retention of pre-Millennium Challenge Accounts compact procurement and related documents to the Millennium Challenge Accounts.	SD	Closed
9. Inform the Millennium Challenge Accounts that the U.S. State Department's Terrorist Exclusion List should be documented separately, for all currently active awards and future awards, and update MCC's vendor eligibility verification guidance provided to the Millennium Challenge Accounts for completeness and accuracy.	SD	Open
10. Identify the Millennium Challenge Accounts who are late with the vendor invoice payments, determine the reasons/causes for late payments, implement corrective actions, and monitor effectiveness of the corrective actions.	SD	Open

Other Information

Ann Calvaresi Barr
Inspector General

Fiscal Year 2020 Top Management Challenges Identified by the Inspector General

USAID's foreign assistance programs provide humanitarian aid to people in countries recovering from natural disaster and periods of armed conflict, as well as assistance in combatting the spread of disease and addressing food insecurity, child and maternal mortality, illiteracy, and gender inequality.[1] USAID manages approximately $31 billion in budgetary resources annually to advance economic growth, create markets and trade partners for the United States, and promote stable and free societies. In addition to promoting good will abroad, these investments can help strengthen U.S. national security interests.

To help ensure the U.S. Government achieves maximum return on these investments, OIG provides independent oversight of USAID. As part of our far reaching oversight role, the Reports Consolidation Act of 2000 (Public Law 106–531) requires USAID to include in its performance and accountability report a statement by the Inspector General summarizing the most daunting challenges and the progress made in managing them.

We identified four top management challenges for USAID for fiscal year 2020. These challenges are based on our recent audits, investigations, and other oversight work:

- **Managing Risks Inherent to Providing Humanitarian and Stabilization Assistance.** The flow of billions in assistance dollars in crisis environments creates prime opportunities for fraud and diversions of U.S.-funded goods to the black market or, in some cases, to terrorist groups. USAID continues to adapt its approach to managing these risks and address the complexities when short-term humanitarian responses evolve into a protracted presence. Notably, USAID has taken action to better ensure that implementer-, criminal-, and terrorist-related risks are identified, evaluated, and addressed in Agency response plans. USAID has also taken action to close gaps in responding to emerging health crises and protecting beneficiaries from exploitation and abuse. However, continued diligence, training, and monitoring will be critical to implementing a risk management culture—especially as USAID responds to emerging crises such as the economic and political turmoil in Venezuela and the latest Ebola outbreak in parts of Africa. Any operational deficiencies will continue to expose USAID programs to significant risk from those who seek to exploit USAID's vulnerabilities—particularly in the nonpermissive environments the Agency often works in.[2]

[1] *OIG provides oversight of the U.S. Agency for International Development, Millennium Challenge Corporation, the U.S. African Development Foundation, the Inter-American Foundation, the Overseas Private Investment Corporation, and overseas contingency operations as part of lead inspector general initiatives (described in section 8L of the Inspector General Act, as amended).*

[2] *USAID describes a nonpermissive environment as a context, at the national or subnational level, in which certainty, instability, inaccessibility or insecurity constrain USAID's ability to operate safely and effectively.*

- **Strengthening Local Capacity and Improving Planning and Monitoring to Promote Sustainability of U.S.-Funded Development.** The long-term success of U.S. foreign development depends on host country commitment to growth. However, countries often lack the capacity to build local skills and ensure public- or private-sector participation and backing to continue development activities and services after U.S. involvement ends. This has been the case with USAID's $9.5 billion Global Health Supply Chain-Procurement and Supply Management project. Since 2016, our investigations and joint operations with local authorities have revealed that host governments have been unable or unwilling to strengthen warehousing, security, and commodity distribution systems—allowing bad actors to steal life-saving medicines and medical supplies. Weaknesses with planning and monitoring have also undermined the outcomes of Power Africa, Haiti reconstruction, and other USAID development projects. While USAID continues to take action to assess and mitigate risk and build accountability, significant sustainability risks remain.
- **Reconciling Interagency Priorities and Functions to Efficiently and Effectively Advance U.S. Foreign Assistance.** U.S. foreign assistance frequently involves multiple Government agencies, donors, and host governments, each having its own authorities, priorities, and strategies for advancing shared interests. We have seen how operating without clearly defined policies and procedures at the start has impeded multi-agency efforts like Power Africa and the U.S. Ebola response. While USAID actions have the potential to improve interagency coordination, the Agency will continue to be challenged to plan for and adapt to agencies' shifting priorities, budgets, and staffing to further U.S. foreign policy and national security objectives.
- **Addressing Vulnerabilities and Implementing Needed Controls in Agency Core Management Functions.** USAID's ability to carry out its mission and safeguard Federal funds depends on the integrity and reliability of its core business practices and systems. Without them, other safeguards—no matter how well they are designed and implemented—will not work effectively. Despite noteworthy actions to strengthen its controls over core management functions and bring its financial and information systems into compliance with strict Federal requirements, USAID continues to work to instill rigor in its awards, financial, information, and human capital management.

In addition to meeting the requirements of the Reports Consolidation Act, this document informs our work and frames our dialogues with Congress and the Administration to pursue stakeholder priorities for effective stewardship of U.S. funds dedicated to foreign aid and development.

My office remains committed to conducting thorough and timely audits and investigations of USAID programs and management and, when appropriate, recommending actions to help address the challenges we identify.

If you would like to discuss or have any questions about USAID's top management challenges for fiscal year 2020, please contact me at 202-712-1150.

USAID OFFICE OF INSPECTOR GENERAL

MEMORANDUM

DATE: October 30, 2019

TO: Millennium Challenge Corporation (MCC), Chief Executive Officer, Sean Cairncross

FROM: Principal Deputy Assistant Inspector General for Audit, Christine Byrne /s/

SUBJECT: Fiscal Year 2020 Management Challenges for MCC

The USAID Office of Inspector General (OIG), which provides independent oversight of MCC to help ensure maximum return on its investments in compact countries, annually identifies the agency's top management challenges and the progress it has made in managing those challenges. In keeping with the Reports Consolidation Act of 2000 (Public Law 106-531), we submit this summary for inclusion in MCC's performance and accountability report. The summary captures the examples in OIG's Top Management Challenges report for fiscal year 2020.

Although our full report did not include a separate chapter for MCC, we highlighted a challenge related to strengthening local capacity and increasing sustainability in activities MCC funds. Specifically, our audit of selected past road infrastructure compacts that were initiated between 2006 and 2010 found that MCC identified risks to the sustainability of its road projects, but its efforts to mitigate or track the risks were inadequate in some cases.[1] At the time of MCC's design and development of these compacts, it did not have comprehensive guidance for staff on how to develop, implement, and track risk mitigation measures to ensure sustainability of road projects, and post-compact visual inspections of roads revealed that some sections were in poor condition.

In addition, MCC needs to fully develop a standard set of guidelines for economic analysis of transportation sector projects—a lesson learned from its review of prior projects. MCC updated its guidance and tools to address risks to sustainability and requires validating and tracking of data, but the guidance is still in draft, and MCC has not completed economic analysis guidelines for the transportation sector. As a result, MCC staff will continue to face challenges in collecting quality information across all road projects or promoting the sustainability of road investments, project goals, and economic growth.

[1] *"MCC Has Opportunities To Enhance Guidance and Tools For Sustaining Results of Road Infrastructure Compacts" (M-MCC-19-001-P), draft report issued July 18, 2019; final report to be issued by October 31, 2019.*

Office of Inspector General, Millennium Challenge Corporation
Washington, DC
oig.usaid.gov

This year we also highlighted a new challenge related to ensuring that MCC does not issue awards to organizations with current or past ties to terrorist organizations. As MCC engages with partner countries and public and private sectors to advance its development mandate, MCC has a responsibility to ensure that support is not provided to entities that commit, advocate, or facilitate terrorist acts. One safeguard is requiring applicants for, or recipients of, MCC-funded awards to certify that they have not provided support to such entities before or during an award. OIG advised MCC leadership that MCC does not have such a certification in its contracts. MCC acknowledged the importance of the issue and committed to incorporating such certification into its award requirements but has not yet completed planned actions.

We will continue to monitor how MCC implemented recommended changes in its compacts and consider such risks in our future work. Our oversight plan includes discretionary audits that will look at the effectiveness of MCC's Threshold Program and the reliability of MCC's economic and beneficiary data analyses. Our oversight plan also includes mandatory audits and assessments of the systems that facilitate MCC's core management functions. Our investigative efforts will continue to focus on detecting, deterring, and neutralizing fraud and corruption in infrastructure projects.

If you have any questions or would like to discuss this document further, please contact me at 202-712-5607 or Gary Middleton, the Audit Director for MCC, at 202-216-3170.

Office of Inspector General, Millennium Challenge Corporation
Washington, DC
oig.usaid.gov

MCC Management's Response to the Inspector General

MILLENNIUM
CHALLENGE CORPORATION
UNITED STATES OF AMERICA

November 12, 2019

Ms. Ann Calvaresi Barr
Inspector General
U.S. Agency for International Development
1300 Pennsylvania Avenue, NW
Washington, DC 20523

Dear Ms. Barr:

I am writing in response to the U .S. Agency for International Development (USAID) Office of Inspector General's (OIG's) Fiscal Year (FY) 2020 Top Management Challenges, which reiterated a Millennium Challenge Corporation (MCC) ongoing management challenge related to "Strengthening Local Capacity and Increasing Sustainability in the Activities it [MCC] Funds" and "Vulnerability to Issuance of Awards to Organizations with Current or Past Ties to Terrorist Organizations".

Attached to this transmittal is an update for the OIG and our stakeholders that highlights MCC's continued progress in this critical area. Per our collaboration with the USAID OIG, it is the intent of MCC to continue to work together with the OIG to enhance our ability to perform MCC's mission both effectively and efficiently.

Sincerely,

Sean Cairncross
Chief Executive Officer
Millennium Challenge Corporation

MCC's Response to OIG FY 2020 Top Management Challenges Letter

The Millennium Challenge Corporation's ("MCC") response to the U.S. Agency for International Development ("USAID") Office of Inspector General's ("OIG") Fiscal Year 2020 Top Management Challenges (the "OIG 2020 Statement") is presented below. The OIG 2020 Statement identified the following management challenge for MCC: Strengthening local capacity and increasing sustainability in activities MCC funds.

MCC is committed to enhancing the effectiveness of its operations both domestically and abroad. MCC would like to note some initiatives to enhance sustainability since the four earliest road infrastructure projects on which OIG completed an audit in 2019, and shares its plans for continuing to address the challenges mentioned above in 2020.

Strengthening Local Capacity and Increasing Sustainability in Activities MCC Funds

As MCC gained experience in road construction through its early compact programs, it introduced a variety of approaches to mitigate risks to sustainability. Among these approaches, MCC regularly provides technical assistance to partner countries to improve their road maintenance practices and incentivizes partner countries to increase their contributions to road maintenance funds. In its recent compact programs in Liberia, Côte d'Ivoire and Nepal, MCC supports the implementation of cost-effective road maintenance techniques rather than new construction. Similar approaches to build long-term capacity in road maintenance practices and promote sustainability are being adopted in other compact programs. In addition, MCC continues the practice adopted during its initial projects of linking conditions precedent to the disbursement of funding to mitigate risks to sustainability.

As a learning organization, MCC regularly updates its internal guidance documents to incorporate lessons learned from recent projects as well as advances in technical fields. For example, a 2017 "Principles into Practice" review of 16 roads investment projects identified seven key lessons. OIG's recent audit found that six of those lessons had been fully addressed through updated guidance and practices, while the remaining lesson was partially addressed. MCC and its partner countries are dedicated to delivering high quality and sustainable results on behalf of project beneficiaries. This commitment is MCC's best assurance that sound technical advances and practices will be implemented.

During FY 2020, MCC will complete the development of additional guidelines for the application of economic analysis tools across transportation projects, as referenced in the "Principles into Practice" review, and will incorporate the guidelines into MCC's "Transportation Consistent Design Pattern", which will be shared with MCC staff. MCC will also complete updates to the "Roads Development and Implementation Guidelines" and issue these guidelines to MCC staff as well.

Vulnerability to Issuance of Awards to Organizations with Current or Past Ties to Terrorist Organizations

MCA Entities' Procurement Agents conduct initial verifications prior to contract award to confirm that contractors are not listed on the U.S. Government's list of individuals and entities subject to counter-terrorism sanctions. MCA Entities' Fiscal Agents conduct similar verifications periodically during contract performance. New Standard Bidding documents for procurements by MCA Entities were added to the MCC-approved library (on MCC's external website) between November 2018 and January 2019, and all previously-approved Standard Bidding Documents were revised between July 2018 and August 2019. These new documents and revisions added a requirement for the party being contracted by the MCA to complete a "Compliance with Sanctions Certification Form" upon contract award and each calendar quarter during contract performance. This certification documents the eligibility verifications required by the "Compliance with Terrorist Financing Statutes and Other Restrictions" provision that is part of every Standard Bidding Document form of contract, including verifying that the contractor's staff, consultants, sub-contractors, vendors, suppliers, and grantees are not on the U.S. Government's list of counter-terrorism sanctions. After conducting a proactive inquiry, OIG noted that the documents were limited to certifying that no MCC funds have been provided to an individual or entity on the U.S. Government's list of counter-terrorism sanctions. OIG recommended that MCC expand the language of the "Compliance with Sanctions Certification Form" to require contractors to report any support provided in the past ten years, including non-MCC funds, to any individual, corporation, or entity on the list of counter-terrorism sanctions. MCC intends to include such revised language in the next set of revisions of Standard Bidding Documents in Fiscal Year 2020.

MCC appreciates the OIG's commitment to continually improving its process and products, and MCC shares the OIG's interest in the prudent use of the resources of both organizations. As OIG initiates and conducts audits of MCC programs we look forward to working more closely with the auditors with a goal of timely reports offering original solutions that enhance the benefits of MCC's investments for the beneficiaries in our partner countries.

Summaries of Financial Statement Audit and Management Assurances

Table 8. 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 9. Summary of Management Assurances						
Effectiveness of Internal Control over Financial Reporting (FMFIA §2)						
Statement of Assurance	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 Assurance	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 §4)						
Statement of Assurance	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 (FFMIA)		
	Agency	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

To improve the integrity of the Federal government's payments and the efficiency of its programs and activities, OMB issued Memorandum M-18-20, Appendix C to OMB Circular No. A-123, *Requirements for Payment Integrity Improvement,* which modified or replaced previous guidance related to improper payments and payment integrity beginning with the Improper Payment Information Act of 2002. OMB Circular A-123 Appendix C contains requirements in the areas of improper payment identification and reporting. It requires agencies to review all programs and activities, identify those that may be susceptible to significant improper payments, estimate annual improper payments in susceptible programs and activities, and report the results of their improper payment activities. Additionally, it defines significant improper payments as annual improper payments in a program that exceed both 1.5 percent of program annual payments and $10.0 million, or that exceed $100.0 million, regardless of the error rate. Once those highly susceptible programs and activities are identified, agencies are required to estimate and report the annual amount of improper payments. Generally, an improper payment is any payment that should not have been made or that was made in an incorrect amount under a statutory, contractual, and administrative or other legally applicable requirement. MCC is dedicated to reducing fraud, waste, and abuse by adequately reviewing and reporting programs susceptible to improper payments. The information presented in this section complies with the guidance provided in IPIA, OMB Circular A-123 Appendix C, and OMB Circular A-136. The section provides information to demonstrate MCC's actions as it relates to improper payments.

MCC defines its programs in alignment with its major fund categories. MCC conducts risk assessments over all programs at least one time in a three year period. MCC will perform risk assessments on a more frequent basis if funds experience any significant legislative changes and/or significant increase in funding. In order to identify improper payments and assess MCC's compliance with OMB Circular No. A-123, Appendix C, MCC conducted a quantitative and qualitative risk assessment of all MCC funds with payment activity within the last three years. As a result of the risk assessment process, MCC assessed no funds as susceptible to significant improper payments.[2] MCC will perform a risk assessment over all funds in FY 2020.

Recapture of Improper Payment Reporting

OMB Circular No. A-123, Appendix C requires agencies to have a cost-effective program of internal control to prevent, detect, and recover overpayments. For agencies that have programs and activities that expend more than $1.0 million in a fiscal year, a payment recapture audit program is a required element of their internal controls over payments if conducting such audits is cost-effective. MCC conducted an analysis and determined that the recapture audits would not be cost-effective. During previous assessment periods, MCC did not identify any funds susceptible to significant improper payments based on the risk assessment methodology. Although MCC self-identified improper payments, the improper payments did not exceed the OMB thresholds, and were identified as isolated incidents. These improper payments have been recovered or will be recovered during the upcoming fiscal year. Based on previous testing history and isolated nature of self-identified improper payments, MCC concluded that a payment recapture audit would not be cost effective and add benefit to the MCC internal control structure for all MCC funds. OMB concurred with this analysis in September 2017. MCC reevaluated the Recapture Audit Requirement during FY 2019 and did not identify significant program changes which would necessitate the

[2] *Fund 614(g) did not have payment activity. Therefore, MCC did not perform a risk assessment of this fund in FY 2019 although the previous risk assessment occurred in FY 2016.*

completion of a recapture audit. MCC will continue to reevaluate in future fiscal years as part of its OMB Circular No. A-123 Assessment Program.

To complement its extensive pre-payment controls, MCC has implemented a series of post-payment activities to satisfy audit requirements for recapturing payments. Although MCC does not consider these efforts a formal payment-recapture audit, the activities supplement testing for improper payments by focusing further scrutiny on grants and contracts, which make up a significant portion of MCC's expenditures.

MCC leverages the results of USAID/OIG audits, audits conducted at the MCA, and contract and grant closeouts to identify payment anomalies, and to target areas for improvement. Further in FY 2019, MCC conducted periodic data calls, in which key financial and acquisition personnel were asked to identify known, self-identified Improper Payments that have occurred and include details as to the transaction date, vendor, amount, explanation, and recovery date (if applicable).

MCC promptly initiates collection actions for unallowable or sustained questioned costs upon notification of the questioned cost. In the case of sustained questioned costs owed to MCC by MCA's, MCC records a receivable, and then sends a bill of collection to the MCA. If MCC is unable to collect funds owed from an implementing partner, contractor, or grantee, MCC will refer the collection to the U.S. Department of the Treasury (Treasury). Barring any debt compromise, suspension, termination of collection, closeout or write-off, the recovery process makes full use of all collection tools available, including installment-payment plans, cross-servicing with Treasury, and the claims-litigation process at the U.S. Department of Justice.

MCC credits recaptured overpayments from unexpired funds to the account from which it made the overpayments.

Below is a summary and outcome of self-identified improper payments and recovery efforts:

Table 10. Overpayments Recaptured Outside of Payment Recapture Audits

Fund	Improper Payments Not Yet Recovered from Prior Years	Improper Payments Identified for Recapture in FY 2019	Cumulative Improper Payments Identified for Recapture	Improper Payments Recaptured in FY 2019	Remaining Improper Payment Balance as of 9/30/2019	Recapture Rate
Administrative	$ 64,150.27	$ 431,826.25	$ 495,976.52	$ 454,626.58	$ 41,349.94	91.66%
Compact & CIF	1,110.00	3,382,996.73	3,384,106.73	1,403,348.77	1,980,757.96	41.47%
609g	—	12,851.49	12,851.49	12,833.49	18.00	99.86%
Due Diligence	—	111,745.08	111,745.08	111,745.08	—	—
Threshold	—	5,906.12	5,906.12	5,906.12	—	100.00%
Total	**$ 65,260.27**	**$ 3,945,325.67**	**$ 4,010,585.94**	**$1,988,460.04**	**$ 2,022,125.90**	**49.58%**

The cumulative improper payments identified for recapture related to the Administrative Fund consist mainly of payments on some MCC contracts and the remaining unpaid balances of overpayments to MCC employees stationed overseas. The overpayments to overseas employees were first disclosed in FY 2016 and have been recaptured according to repayment plans over the previous three fiscal years. The cumulative improper payments identified for recapture associated with the Compact Fund mainly represents questioned costs noted in OIG Audit Reports and independent compliance audit work performed on behalf of MCAs. Additionally, in July 2019 MCC requested $3.2 Million, from the Government of Malawi, as refund of Compact fund that was used in violation of the Compact agreement. MCC has recovered so far $1.9 Million of this refund and will continue the efforts to recapture the remaining balance in FY2020.

Agency Improvement of Payment Accuracy with the Do Not Pay Initiative

Accurate and timely processing of payments is a high priority for MCC. The Improper Payment Elimination and Recovery Improvement Act of 2012 requires agencies to review pre-payment and pre-award information, determine program or award eligibility, and prevent improper payments before the release of any Federal funds.

MCC and its SSP work diligently to oversee the MCC payment process in order to identify and/or prevent improper payments. MCC adjudicates potential improper payments each month on the U.S. Department of Treasury's Do Not Pay (DNP) portal by researching all payments that are either matched or flagged as probable or possible improper payments. During FY 2019, MCC issued no stop payment orders and the U.S. Department of Treasury DNP portal did not report any payments with matches or flags either through the Death Master File or the System for Award Management systems of the USG.

Fraud Reduction Report

In accordance with the Fraud Reduction and Data Analytics Act of 2015, MCC is required to report on its fraud reduction efforts and progress in regard to the following topics:

- Establishment of strategies to curb fraud.
- Identification of fraud risks and vulnerabilities.
- Execution of the fraud risk principle in the GAO's *Standards for Internal Control in the Federal Government.*
- Application of OMB Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control,* with respect to leading practices for managing fraud and managing risk.
- Implementation of financial and administrative controls.

MCC utilized the GAO's *Standards for Internal Control in the Federal Government* and OMB Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control,* to establish MCC's Anti-Fraud and Corruption Program to ensure compliance with the Act, along with GAO's *A Framework for Managing Fraud Risks in Federal Programs* as a best practice. MCC's anti-fraud and corruption program is managed by the Anti-Fraud and Corruption Team (AFC Team), led by the Office of the General Counsel. The AFC Team provides direction and oversight to the agency as it relates to preventing and detecting fraud in MCC-funded operations under its compact and threshold programs. Compact and threshold programs are carried out by Accountable Entities (the local units, sometimes also referred to as MCAs established by each partner government, which implement each country's MCC compact or threshold program with MCC oversight.

The AFC Team developed a Five Pillar Strategy to prevent, detect, and remediate fraud and corruption across MCC:

- **AFC Policy** — The document covers the roles, responsibilities, and principles that govern activities of MCC and entities funded by the MCC with respect to preventing, detecting, and remediating risks of fraud and corruption in MCC compact and threshold programs.

- **Mandatory Training** — In-depth Fraud Awareness Training is required for all MCC staff in operations related to an MCC compact or threshold program and encouraged for all non-operational staff. The AFC Team conducts in-country trainings with MCA staff early during the compact or threshold implementation. All AFC training includes real-world examples from, among other sources, allegations of fraud and corruption from past and current MCC-funded operations, as well as historical trends and lessons learned from AFC allegations and findings.
- **Mitigants** — MCC relies on existing policies, procedures, and internal controls throughout the budgeting, procurement, and disbursement process to mitigate the risks of fraud and corruption.
- **Assessments and Action Plans** — MCC and the MCA jointly prepare program-specific AFC Risk Assessments early during the compact or threshold program implementation process, after the MCA staff have participated in their in-country AFC trainings. The Risk Assessment process focuses specifically on the fraud risks at the MCAs and includes a field study to gain perspectives, broaden discussion, and complete the risk matrix and corresponding action plans. Risks assessed at a high level are incorporated into a publicly released AFC Action Plan to implement additional safeguards. The MCAs are responsible for publicly reporting on the implementation of the AFC Action Plan on an annual basis.
- **AFC Team** — MCC has staff who are designated to receive, screen, and manage allegations in consultation with the USAID/OIG Investigation Team (OIG/I). All MCC and MCA staff are aware of the USAID/OIG hotline to report allegations of potential fraud or corruption.

Throughout FY 2019, MCC has continued to improve and mature its ERM Program under the direction of the Chief Risk Officer, with oversight from the Risk Committee and the Senior Management Council. The Risk Committee is a multi-disciplinary group with membership drawn from all six MCC departments. The Risk Committee meets on a periodic basis and focuses on program risk and ERM topics, including formalization of MCC's ERM Program and continued monitoring of the agency-wide Risk Profile. The Senior Management Council provides general oversight of MCC's ERM program. MCC utilizes a consulting firm to assist in its ERM process.

Additionally, as part of the OMB A-123 Assessment Program, MCC also considers fraud risk affecting all cycles and processes in conjunction with its Three-Year Assessment Plan. These cycles include:

- Accountable Entity Management
- Disbursements
- Accountable Entity managed procurements and grants
- Accounts Payable and Disbursement Management
- Payables, including setup, matching, and approval
- Travel authorizations and vouchers
- Travel card management
- Grants and Cooperative Agreement Management (MCC Managed)
- Human Resources and Payroll Management
- New Hires and separations
- Pay related disbursements, including those MCC employees stationed at foreign posts

- Time and attendance
- Awards
- Procurement Management
- MCC Managed contracts
- Purchase card management

The fraud risk category is based on Principle 8, Assess Fraud Risk, in GAO's *Standards for Internal Control in the Federal Government.* MCC reassesses fraud risk affecting all cycles on an annual basis during the OMB A-123 planning phase and documents the results in the Three-Year Assessment Plan.

Based on MCC's anti-fraud and corruption strategy, the agency has a heavy focus on controls to prevent fraud. MCC has also established detective controls to identify potential fraud. The table below provides a brief summary of preventive and detective controls related to MCC's anti-fraud and corruption activities. These controls can be categorized as financial and administrative, but MCC identified the controls as preventive and detective to better illustrate the control environment mitigating fraud risk at the agency.

Table 11. Fraud Controls

Preventive Controls	Detective Controls
▸ MCC implemented an AFC team to oversee the prevention and detection of potential fraud at MCC and its MCAs. ▸ The AFC team implemented a policy to direct and govern activities with the agency, MCAs, and OIG/I. ▸ MCC operational staff and MCA employees are required to attend AFC trainings. ▸ MCC employees are required to attend an Ethics Training on an annual basis. ▸ The OIG/I holds Fraud Awareness Briefings for MCC and MCA staff. ▸ Compacts and threshold programs have implemented policies and procedures related to procurements and disbursements. ▸ The AFC Team and OIG/I have open communication regards fraud referrals and investigations. All potential fraud is referred to the OIG/I immediately. ▸ MCC and MCA employees are aware of the USAID/OIG Fraud Hotline to report potential fraud and corruption. ▸ Administrative interventions and sanctions are available as forms of remediation based on potential fraud and corruption cases and investigations.	▸ The annual Accountable Entity audit program contain steps to address and report fraud. ▸ Independent auditors review policies and procedures as part of required annual audits and test the overall design and operating effectiveness of internal controls. The auditors are required to report to the OIG if testing identifies potentially fraudulent transactions. ▸ The annual OMB A-123 assessment performs process and transaction-level testing to verify controls are designed and operating effectively. ▸ MCC conducts testing in accordance with OMB A-123 guidance. ▸ MCC and MCA officials conduct random site visits to operating field locations. ▸ MCC requires independent oversight of programs including monitoring and evaluation.

MCC has made progress in implementing and developing its fraud risk program and will continue to strengthen it in FY 2020.

Appendix

Appendix A: Acronyms

Acronym	Definition
AFC	Anti-Fraud and Corruption
AFR	Agency Financial Report
AGOA	African Growth and Opportunity Act
AICPA	American Institute of Certified Public Accountants
APR	Annual Performance Report
CBJ	Congressional Budget Justification
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CSRS	Civil Service Retirement System
DATA Act	Digital Accountability and Transparency Act of 2014
DFC	United States International Development Finance Corporation
DMF	Death Master File
DNP	Do Not Pay
DOL	Department of Labor
ECG	Electric Company of Ghana
ERM	Enterprise Risk Management
FAR	Federal Acquisition Regulation
FASAB	Federal Accounting Standards Advisory 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
FISMA	Federal Information Security Modernization Act of 2014
FMFIA	Federal Managers Financial Integrity Act
FPPS	Federal Personnel Payroll System
FR	Financial Report
FTE	Full-time Equivalent
FY	Fiscal Year
GAAP	Generally Accepted Accounting Principles
GAO	Government Accountability Office
GTAS	Governmentwide Treasury Account System
IBC	Interior Business Center
ICT	Information and Communications Technology
IFC	International Finance Corporation
IG	Inspector General
IPIA	Improper Payments Information Act of 2002

Acronym	Definition
IT	Information Technology
IT-IRB	Information Technology Investment Review Board
M&E	Monitoring and Evaluation
MCA	Millennium Challenge Account
MCC	Millennium Challenge Corporation
MD&A	Management's Discussion and Analysis
OFF	Oracle Federal Financial System
OIG	Office of Inspector General
OIG/I	Office of Inspector General Investigation Team
OMB	Office of Management and Budget
OPIC	Overseas Private Investment Corporation
OPM	Office of Personnel Management
PDS	Power Distribution Services
PL	Public Law
PP&E	Property, Plant, and Equipment
RSI	Required Supplementary Information
SBR	Statement of Budgetary Resources
SF	Standard Form
SFFAS	Statement of Federal Financial Accounting Standards
SSAE	Statement on Standards for Attestation Engagements
SSP	Shared Service Provider
TSP	Thrift Savings Plan
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNICEF	United Nations Children's Fund
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
USTDA	United States Trade and Development Agency
W-GDP	Women's Global Development and Prosperity
WHO	World Health Organization

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:

1099 14th Street, NW
Suite 700
Washington, DC 20005-3550
(202) 521-3600

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

Reducing Poverty Through Growth

MILLENNIUM
CHALLENGE CORPORATION
UNITED STATES OF AMERICA

1099 14th Street, NW • Suite 700
Washington, DC 20005-3550
www.mcc.gov

2019-01-2316-01