Millennium Challenge Corporation

Agency Financial Report

Fiscal Year 2020

October 1, 2019 – September 30, 2020

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.

2010-002-0097-36

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Contents

Introduction

The Agency Financial Report (AFR) for the Millennium Challenge Corporation (MCC) for fiscal year (FY) 2020 provides the results that enable the President, Congress, and the American people to assess MCC's performance for the reporting period beginning October 1, 2019, and ending September 30, 2020. 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 2020 that will also be included in MCC's FY 2022 Congressional Budget Justification (CBJ). The APR, along with the CBJ, is projected to be posted on MCC's website in February 2021. 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, 2021, 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 2020 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 14, 2020

I am pleased to submit the Millennium Challenge Corporation's Agency Financial Report for FY 2020. The COVID-19 pandemic has created unprecedented challenges this year here at home and around the world. The strong commitment, however, of our workforce—and country partners—has enabled the agency to remain focused on our mission of reducing poverty through economic growth. MCC implemented a robust response to COVID-19 both at headquarters and overseas, and our senior leadership team continues to actively address the broad range of issues resulting from the pandemic to ensure the appropriate short- and long-term planning is in place for the agency. MCC continues to be a key player in U.S. foreign development by implementing data-driven programs which adhere to our foundational principles of transparency and accountability. These principles remain the cornerstone of our unique model and have consistently shaped our compact and threshold programs in over two dozen countries around the world.

MCC commemorated a number of important milestones and accomplishments across our portfolio this year. We signed a second compact with Burkina Faso and completed a second compact in El Salvador—marking a 14-year partnership with the country. We began development on both a new compact with Mozambique and a new threshold program with Kenya, and continued development of our first concurrent regional compact, focused in Benin and Niger. This initial regional investment remains a top priority as we work to ensure it successfully increases cross-border trade and large-scale poverty reduction through regional economic integration. We have also continued to work closely alongside our current country partners to deliver on program objectives addressing the most binding constraints to economic growth for some of world's poorest populations.

I am thrilled to report that MCC ranked number one among federal government agencies and as the top bilateral donor in the world for transparency in the Publish What You Fund 2020 Aid Transparency Index—a well-deserved recognition for our dedicated staff. As part of the agency's FY 2020 priorities, we launched a new blended finance strategy initiating three new mechanisms aimed at leveraging private investment alongside our programs, including an opportunity for enhanced collaboration with the Development Finance Corporation in accordance with the Better Utilization of Investments Leading to Development Act (BUILD Act). We also formally adopted two new institutional investment criteria—a first for the agency—to better incorporate blended finance elements and women's economic participation into program design. MCC has continued to be a proud partner of the Trump Administration's Women's Global Development and Prosperity Initiative (W-GDP) in the whole-of-goverment effort to reach 50 million women in the developing world by 2025. In June, MCC was selected for a $4 million grant from the W-GDP Interagency Fund to create a women's business data lab in Cote d'Ivoire supporting women entrepreneurs with technology, training, and assistance in growing their companies.

I am also pleased to report that management's annual assessment of risks and review of controls as required by the Federal Managers' Financial Integrity Act of 1982 (FMFIA) and Office of Management and Budget (OMB) Circular 123, *Management's Responsibility for Enterprise Risk Management and Internal Control,* disclosed no material weaknesses and the financial and performance data presented here are reliable and complete.

Looking ahead, MCC remains committed to effectively delivering on our mission while prioritizing the health and safety of our staff and country counterparts. We remain grateful to our supporters and stakeholders, who continue to champion our work around the globe as a we work to produce cost-effective, data-driven investments on behalf of the American people.

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*** 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), United States International Development Finance Corporation (DFC) and other agencies to ensure that MCC programs complement related USG efforts and therefore maximize the impact of both MCC and the USG around the world.

[1] *MCC's statute, § 607(b)(3)(C).*

Strengthening the next generation of emerging markets that will trade and do business with U.S. companies leads to job creation in the United States. As emerging economies prosper, they become more stable and secure, a result that promotes U.S. national security interests.

Values

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

MCC's values are CLEAR:

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

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

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

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

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

Organizational Structure

Board of Directors

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

Executive Offices

MCC accomplishes its mission through the 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 investment 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 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; implements the agency's OMB A-123 internal control framework; oversees and monitors the audit program for MCC accountable entities; 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.

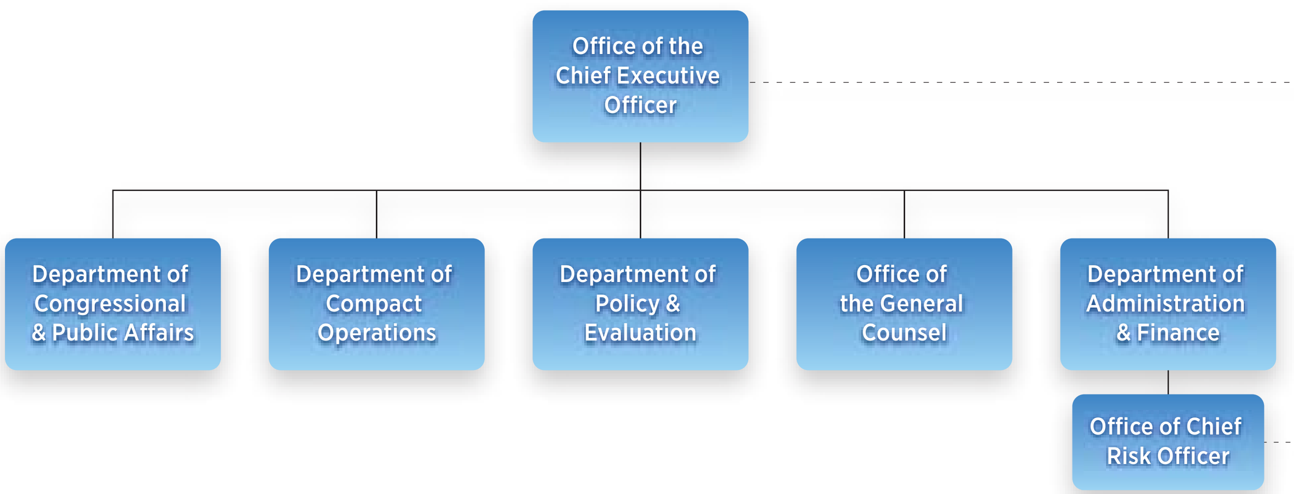

Figure 1. MCC Organizational Structure

Staffing

MCC is a small government agency headquartered in Washington, D.C. Table 1 shows Federal full-time equivalent staffing levels from FY 2018 through FY 2020.

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

	FY 2020	FY 2019	FY 2018
Headquarters	291	275	285
Overseas	25	28	31
Total	**316**	**303**	**316**

**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 2022 CBJ, which is projected to be made available in February 2021. A high-level summary of MCC's strategic direction and performance during FY 2020 follows.

Strategic Direction

MCC established the following corporate priorities for FY 2020 to guide agency activities:

- ***Human Capital: empower our people for optimal performance:*** MCC developed a Human Capital Strategy to better align MCC's hiring practices, existing resources, and learning tools with the agency's mission to ensure MCC is appropriately staffed to achieve its strategic priorities and implement programs.
- ***Innovation: establish a culture of creativity that encourages smart risk:*** MCC made further progress on operationalizing the concurrent compact authority. Markets do not stop at borders, and neither do MCC's investments.
- ***Private Investment: crowd-in and enable private investment:*** MCC developed a strategy to expand and deepen MCC's blended finance capacity, portfolio, and leverage, and a partnerships strategy to increase MCC impact, innovation, scale, and sustainability of assistance programs through partnerships.
- ***Accountability: hold ourselves and partners accountable for results:*** MCC continues to intensify its focus on data and evidence-driven results. In FY 2020, MCC issued two Star Reports, public-facing narratives of MCC's assistance for a country from selection through project evaluation, and 56 Evaluation Briefs, summaries of the key results and learning from MCC's independent evaluations in a user-friendly, four-page packet.

The FY 2020 corporate priorities are reflected in the work and activities discussed in this AFR.

Snapshot of MCC Portfolio and Programming

As of September 30, 2020, MCC is currently engaged in partnerships with 29 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, 2020
14 Countries in Compact/Concurrent Compact Development*
7 Countries in Compact Implementation**
5 Countries in Threshold Program Development*
3 Countries in Threshold Program Implementation

** Count includes signed Compact and Threshold Programs that have not yet entered into force.*

***Count includes El Salvador II Compact in closeout as of September 30, 2020.*

Table 3 displays grant totals, net of de-obligated amounts, for every MCC compact signed since the agency's inception in 2004 through September 30, 2020.

Table 3. Value of Compact Grants as of September 30, 2020 (in thousands)

Value of Closed Compact Grants as of September 30, 2020 (in thousands)							
TOTAL	**$**	**8,757,843**	**100%**				
Tanzania	$	694,546	7.9%	Benin	$	301,810	3.5%
Morocco	$	650,053	7.4%	Namibia	$	295,719	3.4%
Ghana	$	536,289	6.1%	Jordan	$	272,935	3.1%
Burkina Faso	$	474,744	5.4%	Mongolia	$	268,994	3.1%
Indonesia	$	474,027	5.4%	Moldova	$	259,372	3.0%
El Salvador	$	449,567	5.1%	Honduras	$	204,015	2.3%
Mozambique	$	447,905	5.1%	Armenia	$	176,550	2.0%
Mali	$	434,287	5.0%	Georgia II	$	138,646	1.6%
Senegal	$	433,318	5.0%	Nicaragua	$	112,703	1.3%
Georgia	$	387,179	4.4%	Cabo Verde	$	108,512	1.2%
Philippines	$	385,072	4.4%	Madagascar	$	85,594	1.0%
Lesotho	$	358,046	4.1%	Cabo Verde II	$	65,641	0.8%
Malawi	$	344,775	3.9%	Vanuatu	$	65,404	0.7%
Zambia	$	332,140	3.8%				
Value of Compact Grants in Implementation as of September 30, 2020 (in thousands)							
TOTAL	**$**	**2,628,690**	**100%**				
Côte d'Ivoire	$	524,740	20.0%	Ghana II	$	308,200	11.7%
Morocco II	$	450,000	17.1%	El Salvador II*	$	277,000	10.5%
Niger	$	437,024	16.6%	Liberia	$	256,726	9.8%
Benin II	$	375,000	14.3%				
**Compact is in closeout and updated figures will be available at a later date.*							
Value of Compact Grants Signed but yet to Enter-into-Force as of September 30, 2020 (in thousands)							
TOTAL	**$**	**1,850,000**	**100%**				
Senegal II	$	550,000	29.8%	Burkina Faso II	$	450,000	24.3%
Nepal	$	500,000	27.0%	Mongolia II	$	350,000	18.9%

Table 4 displays grant totals, net of de-obligated amounts, for every MCC threshold signed since the agency's inception in 2004 through September 30, 2020.

Table 4. Value of Threshold Grants as of September 30, 2020 (in thousands)

TOTAL	**$ 639,945**			
Closed Programs	$ 483,545		Togo	$ 35,000
Kosovo	$ 49,000		Guatemala	$ 28,000
Sierra Leone	$ 44,400			

In total, 29 countries have received funding through 38 compacts (Benin, Burkina Faso, 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 2020, MCC signed one new compact (Burkina Faso), and closed one compact (El Salvador).

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 monitoring and evaluation (M&E) are integrated into the entire program lifecycle, from country selection, to program conceptualization, to implementation and beyond.

MCC selects country partners based heavily on 20 publicly available indicators that demonstrate a country's 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.

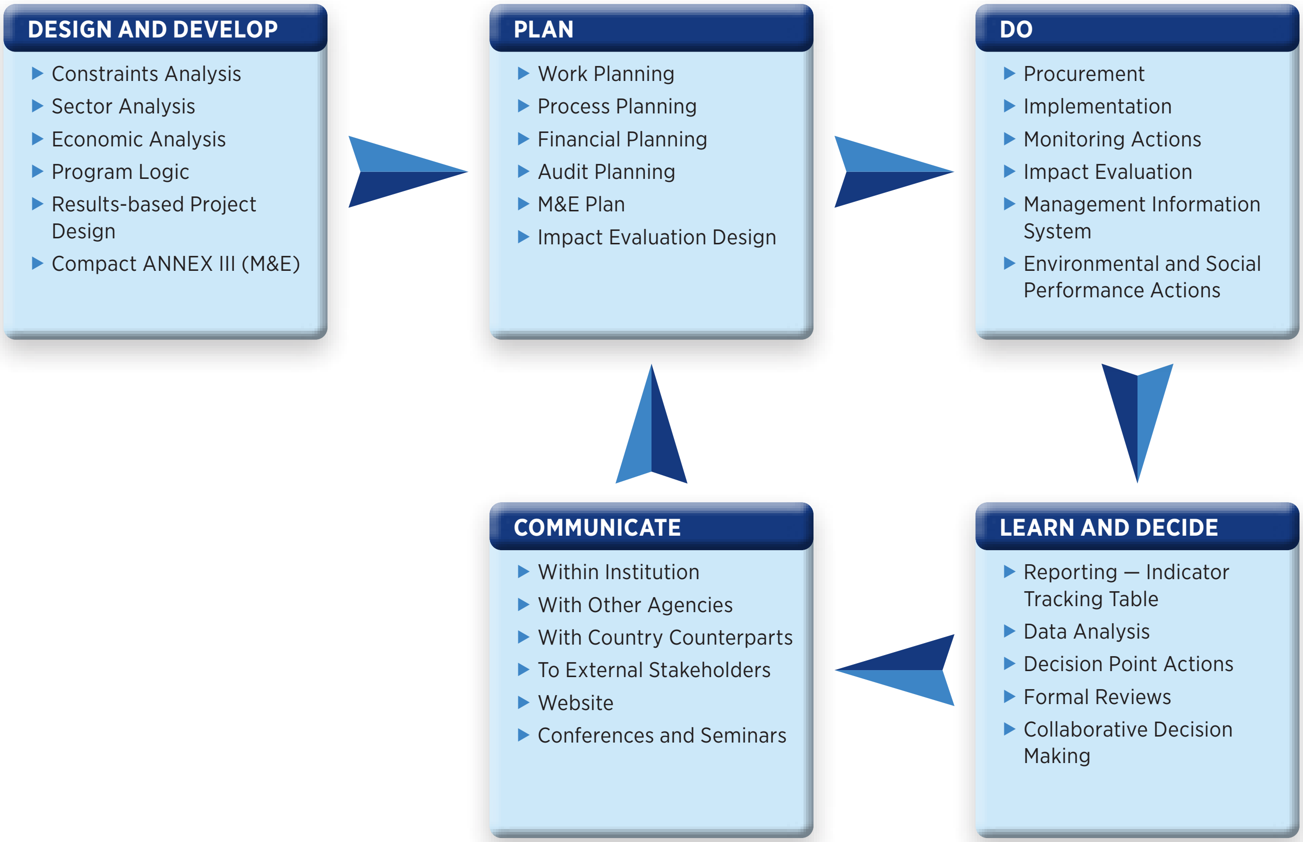

Figure 2. Integrating M&E in Compact Operations

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

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.

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 5 presents MCC's program results across a representative set of select output indicators as of June 30 in 2020, 2019, and 2018, 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 5. Program Results by Sector on Select Output Indicators for FYs 2020, 2019, and 2018

	Cumulative Target Through FY 2020	Actual			Performance on Targets[1]		
		As of June 30, 2020	As of June 30, 2019	As of June 30, 2018	As of June 30, 2020	As of June 30, 2019	As of June 30, 2018
Sector — Roads							
Indicator: Value of signed contracts for road work *(dollars in millions)*	$ 2,302	$ 2,445	$ 2,405[1]	$ 2,409	106%	105%	105%
Indicator: Kilometers of roads under works contracts	3,930	3,960[2]	3,969	3,944	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	203,963[3]	273,074	203,963	70%	93%	70%
Indicator: Value of agricultural and rural loans *(dollars in millions)*	$ 87	$ 87[4]	$ 88	$ 87	100%	101%	100%
Indicator: Farmers trained	368,644	405,482	404,477	354,179	110%	110%	112%
Indicator: Enterprises assisted	3,564	4,224	4,223	4,223	119%	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	$ 817[5]	$ 818	105%	105%	105%
Countries Tracked: Cabo Verde II, El Salvador, Georgia, Ghana, Jordan, Lesotho, Mozambique, Tanzania, Zambia							
Sector — Education							
Indicator: Students participating	281,527	248,266	232,799	216,101	88%	83%	81%
Indicator: Facilities completed	911	842	833	791	92%	91%	97%
Indicator: Value of signed contracts for construction and/or equipping of educational facilities *(dollars in millions)*	$ 229	$ 290	$ 238	$ 218	127%	104%	105%
Countries Tracked: Burkina Faso, El Salvador I, El Salvador II, Georgia II, Ghana, Mongolia, Morocco I, Morocco II, Namibia							
Sector — Land							
Indicator: Stakeholders trained	30,440	78,064[6]	78,160	77,690	256%	257%	256%
Indicator: Land administration offices established	280	399	399	399	143%	143%[7]	142%
Countries Tracked: Benin, Burkina Faso, Cabo Verde II, Ghana, Indonesia, Lesotho, Madagascar, Mali, Mongolia, Morocco, Mozambique, Namibia, Nicaragua, Niger, Senegal							

Table 5. Program Results by Sector on Select Output Indicators for FYs 2020, 2019, and 2018							
	Cumulative Target Through FY 2020	Actual			Performance on Targets[1]		
		As of June 30, 2020	As of June 30, 2019	As of June 30, 2018	As of June 30, 2020	As of June 30, 2019	As of June 30, 2018
Sector — Power							
Indicator: Value of signed power infrastructure construction contracts *(dollars in millions)*	$ 551	$ 648	$ 535	$ 507	118%	97%	97%
Indicator: Installed Generation Capacity	5,401	7,141	5,387	5,198	132%	100%	100%
Countries Tracked: Ghana II, Liberia, Malawi, Tanzania							

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

[2] *Decrease in value due to correction made to reporting error last year.*

[3] *Decrease in value due to correction made to reporting error last year.*

[4] *Decrease in value due to correction made to rounding error last year.*

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

[6] *Decrease in value due to a correction made to erroneously reported data in Niger.*

[7] *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 to the situation before and after MCC program implementation.
- **Impact evaluations** are the most rigorous form of evaluation because they estimate the causal impact of MCC programs 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 20 independent, third-party, objective indicators, as well as relevant supplemental information. It then considers the overall opportunity to reduce poverty and generate economic growth in a country, as well as the funding available.

MCC's country selection process relies heavily on these public, data-driven country scorecards, which allow Congress, taxpayers, beneficiaries and other stakeholders to hold the agency accountable for its decisions. Table 6 lists the selection indicators included in MCC's annual country scorecards.

MCC Effect

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

A number of countries have set up teams within their governments dedicated to improving their scorecard performance in the hope of qualifying for an MCC program. An independent global survey of development stakeholders found that they repeatedly identified MCC's eligibility criteria as among the most influential external assessments of government performance. Many countries also regard their MCC scorecard performance as a stamp of approval that signals to their citizens and the private sector that the country is well governed.

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.

Table 6: 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

Looking Forward

New Compacts and Threshold Programs

In December 2019, MCC's Board of Directors selected Mozambique to develop a new compact and selected Kenya for an MCC threshold program. Mozambique successfully completed its first MCC compact in September 2013 and has recently demonstrated encouraging policy improvement on the MCC scorecard, passing 13 of 20 indicators with clear improvement on its Control of Corruption score. A new compact will build on both the country's continued commitment to sector reform and on MCC's strong relationship with the country developed under the first compact partnership. The selection of Kenya for a threshold program will give MCC the opportunity to engage with the country on its path toward policy and institutional reform. Kenya is an important partner to the United States in East Africa, where MCC's presence is growing. The Board also re-selected nine other countries that were selected in previous years to continue their work developing compact programs. Indonesia, Lesotho, Malawi, Timor-Leste, and Tunisia were selected to continue developing bilateral compacts. Benin, Burkina Faso, Côte d'Ivoire, and Niger were selected to continue developing concurrent regional compacts for the purpose of regional integration. The Board also reselected Ethiopia and Solomon Islands to continue developing threshold programs. The Board also reaffirmed its commitment to developing a compact with Kosovo.

During FY 2020, MCC also completed the development of a compact with Burkina Faso that will support substantial development of the country's power sector. Following successful negotiations between MCC and the Government of Burkina Faso by videoconference, MCC's Board of Directors approved the $450 million compact. The Government of Burkina Faso will contribute up to $50.11 million toward the compact. MCC signed the compact on August 13, 2020.

In June 2019, The Gambia was downgraded to Tier 3 in the U.S. Department of State's annual Trafficking in Persons (TIP) Report and as a result MCC was not legally permitted to enter into a threshold program agreement with the country. In the 2020 TIP Report, however, The Gambia was upgraded to Tier 2 and MCC is in the process of restarting program development. MCC expects to finalize an agreement in FY 2021.

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 three previously selected countries (Ethiopia, Solomon Islands, and Kenya), the development of compact programs with three previously selected countries (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 2020.

Concurrent Regional Compact Authority

The African Growth and Opportunity Act (AGOA) and Millennium Challenge Act Modernization Act signed by President Donald J. Trump in April 2018 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. MCC staff made multiple visits to the region, to engage with the governments of the partner countries, as well as with the local and international private sectors, other development partners, and regional and multilateral organizations. As a result of the information gathered, MCC identified one cross-border power transmission project and two cross-border road transport projects.

Initially, MCC prioritized a power transmission project, between Burkina Faso and Ghana. The MCC Board of Directors, however, did not re-select Ghana as eligible to continue concurrent regional compact development after the Government of Ghana failed to adhere to its responsibilities under its bilateral compact, specifically after the termination of the concession agreement between the Electric Company of Ghana and a private operator.

As a result, the regional team shifted its focus and efforts toward the two other potential regional projects, the Benin-Niger Regional Integration Transport Program and the Burkina Faso-Côte d'Ivoire Regional Integration Transport Program. Additionally, the regional team is exploring a proposed transmission line linking Ferkessédougou in northern Côte d'Ivoire with Bobo-Dioulasso in southern Burkina Faso and continuing to Burkina Faso's capital, Ouagadougou. MCC has included a design feasibility study in the recently approved Burkina Faso II compact program. The results of this study would give MCC enough information to determine its suitability for further development into a potential 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.

Blended Finance

MCC is uniquely positioned to catalyze private investment through blended finance, the strategic use of public funds to mobilize private resources in ways that support sustainable, long-term, economic development in developing countries. Over the course of its 16 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 MCC programs. MCC's blended finance tools also improve investor confidence and help overcome some of the impediments to private investment in the challenging markets in its partner countries.

MCC is expanding its deployment of blended finance tools across its portfolio in an effort to maximize the impact of its programs. MCC is now exploring possibilities for blended finance within every compact being developed and continues to pursue blended finance opportunities in programs that are already in the implementation phase. Examples include the use of grant facilities in Morocco, and Benin; public-private partnerships in Côte d'Ivoire, El Salvador II, and Benin; and guarantees in the Kosovo Threshold Program for renewables.

Throughout FY 2020, MCC has worked to strengthen its leadership in blended finance. MCC staff participated in the Development Finance Institutions (DFI) fragility forum, which brings together DFIs for an action-oriented discussion on how to improve the effectiveness of job-creating private investment in fragile and conflict-affected environments. MCC also increased its presence in the impact space via participation in the Aspen Network of Development Entrepreneurs and Global Impact Investing Network annual events. MCC had to curtail or delay several other global blended finance engagements due to the pandemic.

MCC and the DFC

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 is working closely with the DFC to find ways to increase collaboration between the agencies.

As a strategic development partner to the DFC, MCC is exploring new ways to expand its work with the DFC in order to increase the scale and impact of private sector investment in MCC's partner countries through blended finance. Through this work, MCC aims 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.

MCC and DFC are working to develop a new blended finance mechanism, the American Catalyst Facility for Development (ACFD), a formal platform to optimize collaboration between MCC and DFC in support of coordinated, strategic investments. In July 2020, a joint MCC-DFC task force successfully developed a preliminary operational plan for the ACFD designed to function within the existing authorities and country portfolios for both DFC and MCC. This plan leverages the strengths of both agencies to enable investments aimed at (1) crowding-in the private sector, (2) maximizing the overall impact of the U.S. government development efforts, and (3) furthering America's strategic interests abroad. All investments implemented through the ACFD will be consistent with both MCC's mission of "poverty reduction through economic growth" and DFC's mission of "investing with private sector partners to advance the interests of the American people through development in emerging markets."

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. 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 and mature its risk mitigation strategies.

Women's Economic Empowerment

MCC has been a pioneer in incorporating gender into economic development. As required by MCC's Gender Policy, gender analysis informs all aspects of MCC's work, from the selection of its partner countries, identification of key sectors for investment, as well as the design and evaluation of its projects. MCC requires each of 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 to beneficiaries.

MCC continues to be a proud partner of President Trump's Women's Global Development and Prosperity (W-GDP) initiative by investing in activities that address one or more of the initiative's three pillars: (1) women prospering in the workforce, (2) women succeeding as entrepreneurs, and (3) women enabled in the economy. In FY20, W-GDP and MCC worked with the Government of Morocco to codify and implement legal changes securing land rights for women across Morocco. MCC has a unique ability to leverage policy and institutional reform to increase opportunities for women's economic participation through the creation of opportunities for women's employment and entrepreneurship. With the adoption of the new investment criteria for women's economic empowerment, MCC has committed to further integrate economic opportunities for women throughout its programs around the world.

New Investment Criteria

MCC's Investment Criteria establish the principal requirements that its investments must meet to identify and realize economic opportunity within its partner countries. These criteria are designed to guide compact development and support implementation by ensuring agency programs mobilize complementary investments, raise standards of living for beneficiaries, and contribute to achieving large-scale poverty reduction through economic growth. There are three different types of criteria defined within the guidance—required, optional, and institutional—each serving a different purpose. The institutional criteria intend to integrate and advance MCC's strategic vision and the U.S. Government's priorities into the agency's country programs.

In FY 2020, MCC formally adopted institutional investment criteria—a first for the agency—for Blended Finance and Women's Economic Empowerment (WEE). The formalized addition of these two new criteria is an important and exciting step for MCC to further integrate WEE and Blended Finance components into its program design. The new Investment Criteria are a priority for the agency and are expected to better align its programs with U.S. Government priorities and U.S. strategy abroad.

Engaging U.S. Businesses

MCC actively encourages U.S. firms to participate in the procurements of its funds, whether through MCC's headquarters in Washington, D.C., or through the accountable entities that implement its compacts 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, U.S. firms are the largest beneficiary of MCC funding across all nationalities.

MCC's market outreach plan includes the quarterly publication of a one-year forecast of all available procurement opportunities, development, and execution of U.S. market outreach events for critical procurements, and supports even closer collaboration between MCC and market enablers, including business and industry associations and the U.S. Department of Commerce.

MCC also launched a new Business Partners Map on its website. This is an interactive tool which allows easy access to information including actual dollar amounts on select MCC's contracts with U.S. businesses across the country. The map is a critical tool for MCC's continued stakeholder engagement to further emphasize how MCC's model is a good value for the American taxpayer and how its work encourages economic growth both at home and abroad by creating American jobs.

Accountability

In FY 2020, MCC began to re-examine its Government Owned Entity (GOE) policy to further strengthen the policy of excluding government-owned or controlled enterprises from MCA procurements using MCC compact funding. This better supports MCC's statutory mandate to require that procurements funded by its grants be conducted using "open, fair, and competitive procedures…used in a transparent manner." With this enhancement, MCC may now assume enterprises from countries with non-market economy status from the U.S. Department of Commerce are government controlled and thus GOEs disqualified from eligibility for MCC funded goods and works contracts. MCC is considering other possible means by which to further strengthen MCC's GOE Policy.

COVID-19 Response

MCC remains committed to effectively and successfully carrying out its mission this fiscal year, while prioritizing the health and safety of its staff and country counterparts.

MCC has and will continue to coordinate with the White House Joint Task Force, the Office of Management and Budget, Office of Personnel Management, and the interagency in support of the whole-of-government effort to contain the spread of COVID-19.

MCC was granted additional funding flexibility by the CARES Act which was signed into law by President Trump on March 27, 2020. The legislation raised the cap on the agency's administrative funds from $105 to $107 million to cover expenses related to COVID-19. The provision, however, does not increase overall resources for MCC. This flexibility has helped the agency to cover unanticipated costs, including evacuation costs for some overseas personnel and their families.

MCC's senior leadership team continues to address the broad range of issues resulting from the pandemic to ensure full and appropriate coverage for the agency's short- and long-term planning, including employee relations, program impacts and mitigation, external communications, and agency operations. Though the effects of the pandemic vary across the portfolio, MCC continues to develop mitigation strategies to safeguard its staff, its investments, and its partnerships around the world. In the months ahead, MCC remains committed to fulfilling its intended role within the U.S. development toolkit by delivering on its mission of reducing poverty through economic growth.

Analysis of MCC's Financial Statements

At the end of FY 2020, MCC prepared four basic financial statements with accompanying notes pursuant to the requirements of 31 U.S.C. § 3515(b). and presented them to the USAID/OIG for audit by an independent accounting firm. The principal statements include a Balance Sheet, a Statement of Net Cost, a Statement of Changes in Net Position, and a Statement of Budgetary Resources. The Financial Section of this report contains the financial statements and notes, and the auditor's report. In addition, reports used to monitor and control budgetary resources are prepared from the same records. Users of MCC's financial statements are advised that the statements are for a component of the U.S. Government.

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

A summary of MCC's major financial activities in FY 2020 and FY 2019 appears in the Changes in Financial Position table (Table 7). This table represents the resources available, assets on hand to pay liabilities, and the corresponding net position. The net cost of operations is the cost of operating MCC. Budgetary resources are funds available to the Agency to incur obligations and fund operations. This summary section also includes an explanation of significant fluctuations on each of MCC's financial statements.

Table 7: Changes in Financial Position (in thousands)

Program Costs	FY 2020	FY 2019	Variance (in $)	Change (in %)
Fund Balance with Treasury	$ 5,774,489	$ 5,476,864	$ 297,625	5%
Advances	57,458	38,976	18,482	47%
Other Assets	3	2,024	(2,021)	(100%)
Property, Plant and Equipment (net)	14,237	18,561	(4,324)	(23%)
Total Assets	**$ 5,846,187**	**$ 5,536,425**	**$ 309,762**	6%
Accounts Payable	$ 8,110	$ 9,314	$ (1,204)	(13%)
Accrual — Grant Liabilities	97,576	44,859	52,717	118%
Other Liabilities	13,937	13,148	789	6%
Total Liabilities	119,623	67,321	52,302	78%
Unexpended Appropriations	5,721,158	5,459,097	262,061	5%
Cumulative Results of Operations	5,406	10,007	(4,601)	(46%)
Total Net Position	**5,726,564**	**5,469,104**	**257,460**	5%
Total Liabilities and Net Position	**$ 5,846,187**	**$ 5,536,425**	**$ 309,762**	6%
Net Cost of Operation	**$ 649,732**	**$ 545,516**	**$ 104,216**	19%
Budgetary Resources	**$ 3,841,762**	**$ 3,458,718**	**$ 383,044**	11%

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, 2020, MCC held total assets of $5.8 billion compared to $5.5 billion reported in FY 2019. The majority of MCC's assets (99 percent) are held in its Fund Balance with Treasury (FBWT), which increased by $297.6 million due to differences in Appropriations Received and Gross Outlays.

Advances increased by $18.5 million due primarily to advances for compacts in the countries of Benin II and Ghana II. The decrease in other assets is primarily the result of the collection of receivables outstanding as of September 30, 2019. MCC has very few capital assets in relation to total assets because it does not own its facilities or other real property and does not capitalize its leases. There have been no additions to property, plant and equipment during the year and the decrease in the net balance represents the depreciation and amortization charge for the year.

Liabilities

As of September 30, 2020, MCC had $119.6 million in liabilities, which represents amounts owed to grantees, vendors, contractors, trading partners, and employees. The decline in Accounts Payable reflects timing differences dependent on the disbursement cycle. Grant liabilities comprise $97.6 million, or approximately 82 percent of MCC's total liabilities. Grant liabilities and retentions increased by $52.7 million is the result of an increase in retentions for the El Salvador II and Ghana II compacts as these programs entered the final years of their compact lifecycle and an increase in the grant accrual for the Benin II, Ghana II, and Morocco II compacts as increased expenditures were incurred as the program entered the final years of the compact period.

Net Position

MCC's overall net position as of September 30, 2020, was $5.7 billion, an increase of $257.5 million, 4.7 percent, from FY 2019. The available appropriations reported in MCC's positive net position represent the resources necessary to fund future compacts.

Statement of Net Cost

During FY 2020, MCC incurred $649.7 million in net program costs, compared to $545.5 million in FY 2019 as reflected below:

Table 8: Condensed Statement of Net Costs (in thousands)				
Program Costs	FY 2020	FY 2019	Variance (in $)	Change (in %)
Compact and Threshold Activities	$ 525,973	$ 418,930	$ 107,043	26%
Administrative and Other Costs	123,759	126,586	(2,827)	(2%)
Net Cost of Operations	**$ 649,732**	**$ 545,516**	**$ 104,216**	**19%**

The net increase of $107.0 million in Compact program costs is primarily the result of the programs in Benin, El Salvador, Ghana and Liberia entering the latter part their respective compact life cycle.

Statement of Changes in Net Position

This statement shows the change in net position during the reporting period. MCC's net position on September 30, 2020, was $5.7 billion, an increase of $257.5 million from September 30, 2019. MCC's net position is affected by changes to its two components: Cumulative Results of Operations and Unexpended Appropriations. As of September 30, 2020, Cumulative Results of Operations amounted to $5.4 million, a decrease of $4.6 million from September 30, 2019. 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 $5.7 billion, an increase of $262.1 million, or approximately 5 percent, from FY 2019.

Statement of Budgetary Resources

This statement and related disclosures provide information about how budgetary resources were made available as well as their status at the end of the period. It is the only financial statement derived predominantly from the entity's budgetary general ledger in accordance with Federal accounting rules. The Statement of Budgetary Resources (SBR) reflects the format prescribed by OMB Circular No. A-136, *Financial Reporting Requirements.*
For FY 2020, MCC reported total budgetary resources of $3.8 billion compared to $3.5 billion in FY 2019. Budgetary resources of $905.0 million were provided through FY 2020 appropriations and $2.9 billion were carried forward from appropriations in FY 2019 and prior years. Year-over-year budgetary resources increased predominantly due to MCC's compact with Côte d'Ivoire entering into force in FY 2019. In FY 2020, none of MCC's programs entered into force due to delays in country partners meeting agreement conditions, impacts due to COVID-19, and/or inherent development timelines based on portfolio timing.

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

Systems

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

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

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

Controls

On an annual basis, MCC assesses the vulnerability of its programs and systems in alignment with the 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 2020, 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 2020, 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 2020, MCC referred no debt to the Department of the Treasury.

Federal Information Security Modernization Act of 2014

In FY 2020, MCC continued to focus efforts to meet the Cross-Agency Priority Goals for Cybersecurity by leveraging IT modernization through upgrades of its infrastructure; including, laptop refresh, mobile phone, operating systems, and intranet. MCC fully automates management of its hardware, software, and mobile device services, and is 100 percent compliant in obtaining a valid security authorization to operate for its information systems. Lastly, the FY 2020 FISMA Inspector General's audit report closed one of four prior year audit recommendations and opened two new recommendations. Recommendations to close the three remaining FY 2019 audit recommendations were submitted after the audit's ending date. 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 two recommendations in its report titled, "MCC Complied in Fiscal Year 2019 With 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 2020 Chief Executive Officer Assurance Statement

November 13, 2020

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, 2020. 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, 2020.

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 1, 2020

Dear Valued Customer:

The purpose of this letter is to provide assurance that the Oracle Federal Financials application controls remained unchanged for the period July 1, 2020, through September 30, 2020.

You were previously notified that KPMG LLP examined the description of the Oracle Federal Financials 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 (SSAE 18) covering the period July 1, 2019, through June 30, 2020. A softcopy version of the report provided to you in August 2020.

The SSAE 18 review was conducted for the purpose of expressing an opinion as to whether (1) IBC's description of the Oracle Federal Financials 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, 2020. 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 Financials application controls at the IBC for the period July 1, 2020, through September 30, 2020. 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, 2020, did not change for the period of July 1, 2020, through September 30, 2020. The description of controls in the FY 2020 SSAE 18 examination report presents fairly the aspects of IBC controls that were in place as of September 30, 2020.

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, 2020. 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, 2020. As a result, the IBC continues to assert substantial compliance with financial accounting and reporting controls in place from July 1, 2020, through September 30, 2020.

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,

Wendell Bazemore
Associate Director
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 14, 2020

I am pleased to join our Chief Executive Officer in issuing the Millennium Challenge Corporation (MCC) Agency Financial Report (AFR) for Fiscal Year (FY) 2020. This year was unlike any other as the world grappled with the COVID-19 global pandemic. We at MCC maintained our singular focus of reducing poverty through economic growth and continued forward in accomplishing the strategic priorities determined prior to the pandemic. There continue to be many challenges, but we are proud of the dedication of the loyal staff and our contracting partners that meet those challenges head-on every day. The pandemic introduced many new constraints that tested our determination and resilience, forcing us to improvise by adapting to remote oversight and support for the Millennium Challenge Accounts (MCA) and our other valuable stakeholders.

We realized at the outset that the pandemic would adversely impact our partner countries so we have been working closely with Congress, with support from the White House, Office of Management and Budget (OMB), and interagency partners, on planning for contingencies.

Despite the challenges MCC continued to manifest its commitment to financial management excellence. I am pleased to report that for the tenth consecutive year MCC received an unmodified audit opinion on our FY 2020 Financial Statements and made an unmodified Statement of Assurance under the Federal Managers' Financial Integrity Act (FMFIA) on our internal controls and conformance with the requirements for our federal financial management system. The independent, external audit firm, CliftonLarsonAllen, LLP, cited no reportable instances of noncompliance with laws and regulations, no material weaknesses and one significant deficiency. The findings and recommendations are listed in the auditor's report. We concur with these finds and recommendations and in some cases have already begun to develop corrective actions to remediate them.

I am also very proud of the relentless effort made by our financial management professionals with our MCA partners, the Department of Compact Operations and the Department of Administration and Finance, on making significant improvements related to MCC's internal controls over grant accrual estimates and validations whereby the FY 2020 audit concluded no significant deficiencies in this area unlike past fiscal years.

In FY 2020 we continued our pursuit of organizational excellence through our continuous development and improvement of our financial management system and operating environment by improving tools, financial reports and policies and procedures.

We made significant strides toward improving the transparency and tracking of our resources. In April we released a budget execution business intelligence tool to assist staff responsible for overseeing MCC's administrative expense and due diligence resources. This interactive, financial reporting and data visualization tool has greatly improved the visibility of spending versus budget allotments, contributing to better management of funds during FY 2020 and assisting with resource planning for FY 2021. Additionally, with the launch of this tool, we were able to improve efficiency of staff time in generating financial and travel reports, gaining capacity to conduct higher-value analytical work.

In September MCC also awarded a contract for a new cloud-based budget planning software solution, which will transition our internal and external budget planning, formulation, and review processes to an automated budget system beginning with our internal FY 2022 planning process. We will benefit from improved data quality, transparency, and auditability, along with enhanced tracking, analytics, and reporting capabilities, which will ultimately lead to better utilization of MCCs resources.

This year we also became early adopters of Robotic Process Automation in partnership with our shared services provider, the Interior Business Center, and have automated a business process while exploring other opportunities to continue maximizing efficiencies through automation. Our financial management policy and procedure documents were updated to incorporate current federal financial management guidance and MCC operational practices that form the framework of the MCC financial management internal control environment and provide standardization across MCC financial management operations. Faced with the decommissioning of our legacy business intelligence application in early FY 2020 we converted all MCC financial reports to the more robust Oracle Business Intelligence Enterprise Edition (OBIEE) application.

With great anticipation we look forward to FY 2021 and to its challenges and we are committed to continuing to build upon our progress and successes as we pursue financial management excellence in support of MCC's mission.

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 August 27, 2020). 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 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, 2020 and September 30, 2019 (in thousands)		
Assets	**FY 2020**	**FY 2019**
Intragovernmental:		
Fund Balance with Treasury *(Note 2)*	$ 5,774,489	$ 5,476,864
Advances *(Note 3)*	8,260	9,735
Total Intragovernmental	**5,782,749**	**5,486,599**
With the Public:		
Accounts Receivable, Net *(Note 4)*	3	2,024
General Property, Plant, and Equipment, Net *(Note 5)*	14,237	18,561
Advances *(Note 3)*	49,198	29,241
Total with the Public	**63,438**	**49,826**
Total Assets	**$ 5,846,187**	**$ 5,536,425**
Liabilities		
Intragovernmental:		
Accounts Payable	$ 128	$ 821
Other Liabilities *(Note 7)*	742	624
Total Intragovernmental	**870**	**1,445**
With the Public:		
Accounts Payable	7,982	8,493
Accrual — Grant Liabilities *(Note 8)*	97,576	44,859
Other Liabilities *(Note 7)*	13,195	12,524
Total with the Public	**118,753**	**65,876**
Total Liabilities	**$ 119,623**	**$ 67,321**
Commitment and Contingencies *(Note 9)*		
Net Position		
Unexpended Appropriations — All Other Funds	$ 5,721,158	$ 5,459,097
Cumulative Results of Operations — All Other Funds	5,406	10,007
Total Net Position	5,726,564	**5,469,104**
Total Liabilities and Net Position	**$ 5,846,187**	**$ 5,536,425**

The accompanying notes are an integral part of these statements.

Statements of Net Cost

For the Years Ended September 30, 2020 and September 30, 2019 (in thousands)		
Program Costs	FY 2020	FY 2019
Compact	$ 412,353	$ 305,183
Compact Development Funding	22,800	20,407
Threshold	23,500	22,543
Due Diligence	67,320	70,797
Audit	4,489	4,149
Administrative	119,270	122,437
Net Cost of Operations	**$ 649,732**	**$ 545,516**

The accompanying notes are an integral part of these statements.

Statements of Changes in Net Position

For the Years Ended September 30, 2020 and September 30, 2019 (in thousands)		
	FY 2020	FY 2019
Unexpended Appropriations	**$ 5,459,097**	**$ 5,095,176**
Budgetary Financing Sources:		
Appropriations Received	905,000	905,000
Appropriations Used	(642,939)	(541,079)
Total Budgetary Financing Sources	**262,061**	**363,921**
Total Unexpended Appropriations	**5,721,158**	**5,459,097**
Cumulative Results of Operations:		
Beginning Balances, as adjusted	10,007	11,450
Budgetary Financing Sources:		
Appropriations Used	642,939	541,079
Other Financing Sources:		
Donations and Forfeitures of Property *(Note 11)*	53	66
Imputed Financing	2,139	2,928
Total Financing Sources	**645,131**	**544,073**
Net Cost of Operations	**(649,732)**	**(545,516)**
Net Change	(4,601)	(1,443)
Cumulative Results of Operations	**5,406**	**10,007**
Net Position	**$ 5,726,564**	**$ 5,469,104**

The accompanying notes are an integral part of these statements.

Statements of Budgetary Resources

For the Years Ended September 30, 2020 and September 30, 2019 (in thousands)	FY 2020	FY 2019
Budgetary Resources:		
Unobligated Balance from Prior Year Budget Authority, Net	$ 2,936,762	$ 2,553,718
Appropriations (discretionary and mandatory) *(Note 1E)*	905,000	905,000
Total Budgetary Resources	**$ 3,841,762**	**$ 3,458,718**
Status of Budgetary Resources:		
New Obligations and Upward Adjustments (Total)	$ 248,992	$ 737,660
Unobligated balance, end of year		
Apportioned, unexpired accounts	3,571,780	2,678,747
Unapportioned, unexpired accounts	20,990	42,311
Unexpired unobligated balance, end of year	3,592,770	2,721,058
Unobligated Balance, End of Year (Total)	3,592,770	2,721,058
Total Budgetary Resources	**$ 3,841,762**	**$ 3,458,718**
Outlays, Net (Total) (discretionary and mandatory)	**$ 607,376**	**$ 632,147**

The accompanying notes are an integral part of these statements.

Notes to the Financial Statements

Note 1 — Summary of Significant Accounting Policies

A. Reporting Entity

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

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

B. Reporting by Operational Components

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.
- **Compact Development Funding** — 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.

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 fiscal year. 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

As a component of the Government-wide reporting entity, MCC is subject to the Federal budget process, which involve no-year appropriations that are provided annually and appropriations that are provided on a permanent basis. The financial transactions that are supported by budgetary resources, which include appropriations, are generally the same transactions reflected in agency and the Government-wide financial reports.

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 both current and past

MCC's budgetary resources reflect past congressional action and enable MCC to incur budgetary obligations, but they do not reflect assets to the Government as a whole. Budgetary obligations are legal obligations for goods, services, or amounts to be paid based on statutory provisions (e.g., Social Security benefits).

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. As such the FBWT is reported as an asset by MCC and a liability of the General Fund.

The Department of Treasury processes all cash receipts and disbursements on behalf of MCC. When MCC seeks to use FBWT to liquidate budgetary obligations, Treasury will finance the disbursements in the same way it finances all other disbursements, which is to borrow from the public if there is a budget deficit (and to use current receipts if there is a budget surplus). 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 receivables are presented net of an allowance for doubtful accounts, which is based on analyses of debtors' ability to pay, specific identification of probable losses, aging analyses of past-due receivables, or historical collection experience.

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, 2020 and September 30, 2019, 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, 2020 and September 30, 2019, budgetary resources have not yet been made available to fund certain liabilities reported on the Balance Sheet. Liabilities not covered by budgetary resources represent amounts for which Congressional appropriation is required and funding is generally made available in the year payments are due or anticipated. Liabilities not covered by budgetary resources include the Judgment Fund, unfunded leave, Federal Employees Compensation Act (FECA), unemployment compensation, and unamortized rent abatement liability.

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

Judgment Fund

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

Unfunded Leave

A liability for annual and other vested compensatory leave is accrued as earned and reduced when taken. The value of employees' unused annual leave at the end of each fiscal quarter is accrued as a liability. At the end of each fiscal quarter, the balance in the accrued annual leave account is adjusted to reflect current pay rates and leave balances. To the extent that current or prior year appropriations are not available to fund annual leave earned but not taken, funding will be obtained from future financing sources. Sick leave and other types of non-vested leave are expensed when used, and in accordance with Federal requirements, no accruals are recorded for unused sick leave.

Unfunded Federal Employees Compensation Act

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

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

Unfunded Unemployment

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

Unamortized Rent Abatement Liability

The rent abatement represents MCC's period of free rent awarded by the lessor of the Franklin Court building. MCC maintains a 10-year operating lease for office space at Franklin Court, on which lease payments commenced in FY 2017. Per the terms of the contract, MCC was awarded approximately 15 months of rent abatement beginning on December 1, 2015. As a result of this 15 month rent abatement, 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, 2020 and September 30, 2019 (in thousands)

Status of Fund Balance with Treasury	2020	2019
Unobligated Balance		
Available	$ 3,571,780	$ 2,678,747
Unavailable	20,990	42,311
Obligated Balance not yet Disbursed	2,181,663	2,755,751
Non-Budgetary FBWT	56	55
Total	**$ 5,774,489**	**$ 5,476,864**

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, 2020, MCC reported intragovernmental advances totaling $8,260 thousand and public advances totaling $49,198 thousand. As of September 30, 2019, the amounts reported were $9,735 thousand and $29,241 thousand respectively. Intragovernmental advances decreased due to advance refunds and liquidations. Public advances increased primarily due to new advances for the Benin II, Ghana II, and Morocco II compacts.

Note 4 — Accounts Receivable, Net

Total receivables at September 30, 2020 and 2019 were $3 thousand (net of allowance for doubtful accounts of $16 thousand) and $2,024 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, 2020 (in thousands)

	Estimated Useful Life	Cost	Accumulated Depreciation	Book Value
General PP&E				
Leasehold Improvements	10 years	$ 8,392	$ (3,982)	$ 4,410
Furniture	10 years	3,788	(1,817)	1,971
Internal Use Software	5 years	15,095	(7,290)	7,805
Vehicles	5 years	316	(265)	51
Total		**$ 27,591**	**$ (13,354)**	**$ 14,237**

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**

The table below provides a reconciliation of the carrying value of net Property, Plant and Equipment between October 1, 2019 and September 30, 2020:

(in thousands)	Book Value
Balance beginning of the year	$ 18,561
Depreciation expense	(4,324)
Balance at end of year	**$ 14,237**

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 $34,935 thousand with a termination liability as of September 30, 2020 in the amount of $15,639 thousand excluding rent.

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	Copier	Building	Totals	Federal	Non-Federal
FY 2021	$ 2	$ 55	$ 6,499	$ 6,556	$ 55	$ 6,501
FY 2022	—	55	6,622	6,677	55	6,622
FY 2023	—	5	6,749	6,754	5	6,749
FY 2024	—	—	6,880	6,880	—	6,880
FY 2025	—	—	7,013	7,013	—	7,013
After FY 2025	—	—	1,172	1,172	—	1,172
Total Future Lease Payments	**$ 2**	**$ 115**	**$ 34,935**	**$ 35,052**	**$ 115**	**$ 34,937**

Note 7 — Other Liabilities

MCC's total other liabilities as of September 30, 2020 and 2019, respectively is comprised as follows:

Other Liabilities as of September 30, 2020 (in thousands)	Non-Current Liabilities	Current Liabilities	Total
Intragovernmental			
Employer Contributions & Payroll Taxes Payable	$ —	$ 676	$ 676
FECA	—	—	—
Unemployment	—	10	10
Liabilities for Non-Entity Assets	—	56	56
Total Intragovernmental Other Liabilities	**$ —**	**$ 742**	**$ 742**
With the Public			
Employer Contributions & Payroll Taxes Payable	$ —	$ 101	$ 101
Accrued Funded Payroll Benefits	—	2,339	2,339
Accrued Unfunded Annual Leave	—	5,459	5,459
Rent Abatement Liability	4,534	762	5,296
Total Other Liabilities with the Public	**$ 4,534**	**$ 8,661**	**$ 13,195**

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**

Note 8 — Accrual – Grant Liabilities

As of September 30, 2020, MCC reported grant accrual liabilities of $97,576 thousand, comprised of grant accruals of $87,524 thousand and retentions of $10,052 thousand. As of September 30, 2019, the grant accrual liabilities reported were $44,859 thousand, comprised of grant accruals of $41,437 thousand and retentions of $3,422 thousand. Grant accruals and retentions increased primarily due to the Benin II, Ghana II, and Morocco II compacts.

Note 9 — Commitments and Contingencies

MCC's program execution results in commitments of future obligations with country-specific accountable entities. Upon signing the agreement with the government, MCC obligates a small portion of the funding to support the pre-implementation activities and commits the remainder of the funding until Entry into Force (EIF). When the necessary milestones for EIF are met, the committed funds are recorded as an obligated. As of September 30, 2020, MCC had commitments for the Burkina Faso, Mongolia II, Nepal, and Senegal II compacts totaling $1,710,219 thousand and the Togo Threshold for $34,407 thousand. Similarly, as of September 30, 2019, MCC had commitments for the Mongolia II, Nepal, and Senegal II compacts totaling $1,293,640 thousand and the Togo Threshold for $34,407 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, 2020, eight MCAs had agreements subject to performance guarantees which in aggregate are not to exceed $59,536 thousand. As of September 30, 2019, five MCAs had agreements subject to performance guarantees which in aggregate are not to exceed $22,073 thousand.

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, 2020 and 2019, liabilities not covered by budgetary resources were as follows:

Liabilities Not Covered by Budgetary Resources (in thousands)	2020	2019
Intragovernmental		
FECA	$ —	$ 74
Unemployment	9	5
Total Intragovernmental	9	79
Annual Leave Liability	5,459	4,563
Franklin Court Unamortized Rent Abatement	5,296	5,937
Total Liabilities Not Covered by Budgetary Resources	10,764	10,579
Total Liabilities Covered by Budgetary Resources	108,859	56,742
Total Liabilities	**$ 119,623**	**$ 67,321**

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 $53 thousand for FY 2020 and $66 thousand for FY 2019.

Note 12 — Net Adjustments to Unobligated Balance, Brought Forward, October 1

During the years ended September 30, 2020 and 2019, certain adjustments were made to the balance of unobligated budgetary resources available as of October 1, 2019 and 2018. These adjustments include, among other things downward adjustments to undelivered orders that were obligated in a prior fiscal year. The adjustments for the years ended September 30, 2020 and 2019 are presented below:

Net adjustment to Unobligated Balance, Brought Forward October 1 (in thousands)	2020	2019
Unobligated balance brought forward from prior year	$ 2,721,058	$ 2,459,432
Adjustments to budgetary resources made during current year		
Downward adjustments of prior year orders	215,704	94,286
Unobligated budgetary resources from prior year budget authorities, (net discretionary and mandatory)	**$ 2,936,762**	**$ 2,553,718**

Note 13 — 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, 2020 and 2019, respectively is comprised as follows:

Undelivered Orders at September 30, 2020 and September 30, 2019 (in thousands)	2020	2019
Intragovernmental		
Paid	$ 8,260	$ 9,735
Unpaid	13,752	14,267
Total Intragovernmental	22,012	24,002
Public		
Paid	49,198	29,241
Unpaid	2,059,092	2,684,780
Total Public	2,108,290	2,714,021
Total	**$ 2,130,302**	**$ 2,738,023**

Note 14 — 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 2019 Statement of Budgetary Resources and the actual amounts reported for FY 2019 in the Budget of the U.S. Government released in 2020. Since the FY 2020 financial statements will be reported prior to the release of the Budget of the U.S. Government, MCC is reporting for FY 2019 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 2020 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	$ 3,459	$ 738	$ (632)
Other: Rounding	(1)	—	—
Budget of the U.S. Government	**$ 3,458**	**$ 738**	**$ (632)**

Note 15 — Reconciliation of Net Cost to Net Outlays

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

Reconciliation of Net Cost of Operations to Budget Outlays for the Year Ending September 30, 2020 (in thousands)

	Intra-governmental	With the Public	Total
Net Operating Cost	**$ 34,604**	**$ 615,128**	**$ 649,732**
Components of Net Operating Cost Not Part of the Budget Outlays			
Property, Plant and Equipment Depreciation	—	(4,324)	(4,324)
Increase/(Decrease) in Assets:			
Accounts Receivable	—	(2,021)	(2,021)
Advances	(1,475)	19,957	18,482
(Increase)/Decrease in Liabilities Not Affecting Budget Outlays:			
Accounts Payable	693	511	1,204
Salaries and Benefits	(186)	(416)	(602)
Other Liabilities (Rent Abatement, Unfunded Leave, Unfunded FECA)	68	(255)	(187)
Grant Accrual Liability	—	(52,717)	(52,717)
Other Financing Sources:			
Federal Employee Retirement Benefit Costs Paid by OPM and Imputed to the Agency	(2,139)	—	(2,139)
Donated Services	—	(53)	(53)
Total Components of Net Operating Cost Not Part of the Budget Outlays	**(3,039)**	**(39,318)**	**(42,357)**
Components of the Budget Outlays That Are Not Part of Net Operating Cost			
Acquisition of Capital Assets	—	—	—
Other	—	1	1
Total Components of the Budget Outlays That Are Not Part of Net Operating Cost	**—**	**1**	**1**
Net Outlays	**$ 31,565**	**$ 575,811**	**$ 607,376**

Reconciliation of Net Cost of Operations to Budget Outlays for the Year Ending September 30, 2019 (in thousands)	Intra-governmental	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 Benefits	(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 16 — 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 2019 FR can be found here: https://www.fiscal.treasury.gov/reports-statements/ and a copy of the 2020 FR will be posted to this site as soon as it is released.

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

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

MCC is not funded by any sources of Dedicated Collections.

Reclassification of Balance Sheet to Line Items Used for the Government-wide Balance Sheet as of September 30, 2020 (in thousands)

FY 2020 MCC Balance Sheet		Line Items Used to Prepare FY 2020 Government-wide Balance Sheet	
Financial Statement Line	**Amounts**	**Amounts**	**Reclassified Financial Statement Line**
Intragovernmental Assets			**Intragovernmental Assets**
Fund Balance with Treasury	$ 5,774,489	$ 5,774,489	Fund Balance with Treasury
Advances	8,260	8,260	Advances to Others and Prepayments
Total Advances	8,260	8,260	Total Reclassified Other
Total Intragovernmental Assets	5,782,749	5,782,749	**Total Intragovernmental Assets**
Accounts Receivable, Net	3	3	Accounts Receivable, Net
General Property Plant & Equipment, Net	14,237	14,237	General Property, Plant, & Equipment, Net
Advances	49,198	49,198	Other Assets
Total Assets	**$ 5,846,187**	**$ 5,846,187**	**Total Assets**
Intragovernmental Liabilities			**Intragovernmental Liabilities**
Accounts Payable	$ 128	$ 128	Accounts Payable
Total Accounts Payable	128	128	Total Reclassified Accounts Payable
Other Liabilities	742	523	Benefit program contributions payable
		56	Liability to the General Fund of the U.S. Government for Custodial and Other Non-Entity Assets
		163	Other Liabilities (without reciprocals)
Total Other Liabilities	742	742	Total Reclassified Other — Miscellaneous Liabilities
Total Intragovernmental Liabilities	**870**	**870**	**Total Intragovernmental Liabilities**
Accounts Payable	7,982	7,982	Accounts Payable
		5,560	Federal Employee and Veteran Benefits Payable
Accrual — Grant Liabilities	97,576		
Other Liabilities	13,195	105,211	Other Liabilities
Total Liabilities	**$ 119,623**	**$ 119,623**	**Total Liabilities**
Net Position			**Net Position**
Unexpended Appropriations — All Other Funds	$ 5,721,158	$ 5,721,158	Unexpended Appropriations — All Other Funds
Cumulative Results of Operations — All Other Funds	5,406	5,406	Cumulative Results of Operations — All Other Funds
Total Net Position	5,726,564	5,726,564	Total Net Position
Total Liabilities & Net Position	**$ 5,846,187**	**$ 5,846,187**	**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, 2020 (in thousands)

FY 2020 MCC Statement of Net Cost		Line Items Used to Prepare FY 2020 Government-wide Statement of Net Cost	
Financial Statement Line	**Amounts**	**Amounts**	**Reclassified Financial Statement Line**
Gross Costs	$ 649,732		**Non-Federal Costs**
		$ 615,128	Non-Federal Gross Cost
		615,128	**Total Non-Federal Gross Cost**
			Intragovernmental Costs
		9,928	Benefit Program Costs
		2,139	Imputed Costs
		19,415	Buy/Sell Costs
		3,122	Other Expenses (w/o Reciprocals)
		34,604	**Total Intragovernmental Costs**
Total Gross Costs	649,732	649,732	Total Reclassified Gross Costs
Net Cost of Operations	**$ 649,732**	**$ 649,732**	**Net Cost of Operations**

Reclassification of Statement of Net Cost to Line Items Used for the Government-wide Statement of Net Cost for the Year Ending September 30, 2020 (in thousands)

FY 2020 MCC Statement of Net Cost		Line Items Used to Prepare FY 2020 Government-wide Statement of Net Cost	
Financial Statement Line	**Amounts**	**Amounts**	**Reclassified Financial Statement Line**
Unexpended Appropriations			
Unexpended Appropriations, Beginning Balance	$ 5,459,097	$ 5,459,097	Net Position, Beginning of Period
Appropriations Received	905,000	905,000	Appropriations Received as Adjusted
Appropriations Used	(642,939)	(642,939)	Appropriations Used (Federal)
Total Unexpended Appropriations	**$ 5,721,158**	**$ 5,721,158**	
Cumulative Results of Operations			
Cumulative Results, Beginning Balance	$ 10,007	$ 10,007	Net Position, Beginning of Period
Appropriations Used	642,939	642,939	Budgetary Financing Sources
Donations and Forfeitures of Cash and Cash Equivalents	53	53	Other Taxes and Receipts (Non-Federal)
Imputed Financing	2,139	2,139	Imputed Financing Sources (Federal)
Total Financing Sources	645,131	645,131	Total Financing Sources
Net Cost of Operations	(649,732)	(649,732)	Net Cost of Operations
Ending Balance — Cumulative Results of Operations Total	**5,406**	**5,406**	**Net Position – Ending Balance**
Net Position	**$ 5,726,564**	**$ 5,726,564**	**Total Net Position**

Independent Auditors' Report

OFFICE OF INSPECTOR GENERAL

U.S. Agency for International Development

Audit of MCC's Fiscal Years 2020 and 2019 Financial Statements

AUDIT REPORT 0-MCC-21-002-C

NOVEMBER 14, 2020

1300 Pennsylvania Avenue NW • Washington, DC 20523

https://oig.usaid.gov • 202-712-1150

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

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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 14, 2020

TO: Millennium Challenge Corporation, Chief Financial Officer, Ken Jackson

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

SUBJECT: Audit of MCC's Fiscal Years 2020 and 2019 Financial Statements (0-MCC-21-002-C)

Enclosed is the final audit report on Millennium Challenge Corporation's (MCC) fiscal years 2020 and 2019 financial statements. 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, 2020 and 2019, were presented fairly, in all material respects; (2) report on internal control over financial reporting; and (3) report on compliance with applicable provisions of laws, regulations, contracts, and grant agreements. To answer the audit objective, the audit firm assessed risk, considered internal control and designed audit procedures relevant to MCC's fair presentation of its 2020 and 2019 financial statements.

The audit firm concluded that MCC's financial statements for the fiscal years ending September 30, 2020 and 2019, are presented fairly, in all material respects, in accordance with U.S. generally accepted accounting principles. The audit firm also found no instance of noncompliance with provisions of laws, regulations, contracts, and grant agreements.

The audit firm found no material weaknesses, but reported one significant deficiency related to MCC oversight and internal control over the Millennium Challenge Accounts' (MCA) financial reporting (modified repeat finding).

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

To address the deficiency identified in the report, we recommend that MCC's Chief Financial Officer:

Recommendation 1. Revise MCC's "Grant Accrual Estimation: Millennium Challenge Account Guidance" to state that when a MCA identifies an advance, the MCA will exclude the advance amount from the grant accrual amount to ensure that the advance is not included in the grant accrual estimate reported to MCC.

Recommendation 2. Request the MCAs to establish a documented control mechanism to verify that the grant accrual estimates reported to MCC agrees with the support document used by the MCAs to complete the grant accrual estimates data call template.

Recommendation 3. Provide additional training to the MCAs to ensure the MCAs have a clear understanding of the grant accrual estimation and validation requirements.

Recommendation 4. Require the MCAs to document improved budgeting process to ensure future payment needs are properly considered at the detail compact program/activity level as part of its quarterly budgeting process.

Recommendation 5. Require the MCA Director of Administration and Finance and relevant Program Directors to (1) determine the root cause for delayed payments and report that information to MCC, and (2) timely provide all relevant and applicable payment support and approval documentation (including but not limited to purchase order, contract, acceptance note, delivery note, delivery confirmation receipt, etc.) to the MCA Fiscal Agent for required payment verification procedures and timely process the invoice for payment.

Recommendation 6. Provide an additional reminder to the MCAs regarding the payment requirements in the Fiscal Accountability Plan and instruct them to monitor their compliance.

Recommendation 7. Revise the "Accountable Entities Guidelines for Contracted Financial Audits" to address the timing of the audit review process to ensure that independent public accountant firms are able to meet the 90-day delivery deadline for issuing the audit report.

Recommendation 8. Revise the "Accountable Entities Guidelines for Contracted Financial Audits" to establish a requirement after the initial compact or threshold audit to determine if the 90-day audit report deadline is still appropriate for the next audit given the circumstances (i.e., prior audit delays). If not, then issue an Implementation Letter to establish the new audit report deadline.

Recommendation 9. Revise the "Audit, Risk, and Control (ARC) Branch Process for Screening Potential Independent Public Accountant Firms" to clarify when ARC will begin and complete the screening process for a new compact or threshold program.

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 provided 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, 2020 and 2019

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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 2020 and 2019 financial statements of the Millennium Challenge Corporation (MCC), we found

- MCC's financial statements as of and for the fiscal years ended September 30, 2020, and 2019, are presented fairly, in all material respects, in accordance with United States of America (U.S.) generally accepted accounting principles;
- no material weaknesses, but one significant deficiency in internal control over financial reporting for fiscal year 2020 based on the limited procedures we performed; and
- no reportable noncompliance for fiscal year 2020 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)[1] such as Management's Discussion and Analysis (MD&A) and other information[2] 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) MCC's response to our findings and recommendations.

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[1] The RSI consists of Management's Discussion and Analysis, which are included with the financial statements.

[2] Other information consists of Management Challenges, Summary of Financial Statement Audit and Management Assurances, and information included with the financial statements, other than the RSI and the auditors' report.

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Report on the Financial Statements

We have audited MCC's financial statements in accordance with U.S. generally accepted auditing standards; 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 (OMB) Bulletin No. 19-03, *Audit Requirements for Federal Financial Statements* (OMB Bulletin 1903). MCC's financial statements comprise the balance sheets as of September 30, 2020, and 2019; the related statements of net cost, changes in net position, and budgetary resources for the fiscal years then ended; and the related notes to the financial statements.

We believe that the audit evidence we obtained is sufficient and appropriate to provide a basis for our audit opinion.

Management's Responsibility

MCC management is responsible for (1) the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; (2) preparing, measuring, and presenting the RSI in accordance with U.S. generally accepted accounting principles; (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 audits. U.S.generally accepted government auditing standards 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 auditors consider 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. Our audit also included performing such other procedures, as we considered necessary in the circumstances.

Opinion on the Financial Statements

In our opinion, MCC's financial statements present fairly, in all material respects, MCC's financial position as of September 30, 2020, and 2019, and its net cost, changes in net position, and budgetary resources for the fiscal years then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S.generally accepted accounting principles issued by the Federal Accounting Standards Advisory Board (FASAB) require that the RSI be presented to supplement the financial statements. Although the RSI is 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 appropriate operational, economic, or historical context. We have applied certain limited procedures to the RSI in accordance with U.S. generally accepted government auditing standards, which consisted of inquiries of management about the methods of preparing the RSI and comparing the information for consistency with management's responses to the auditors' inquiries, the financial statements, and other knowledge we obtained during the 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 the RSI because the limited procedures we applied 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 is presented for purposes of additional analysis and is not a required part of the financial statements or the RSI. In addition, management has included references to information on websites or other data outside of the 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. We did not audit and do not express an opinion or provide any assurance on the other information.

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, consistent with our auditors' responsibility discussed below. We performed our procedures related to MCC's internal control over financial reporting in accordance with U.S. generally accepted government auditing standards.

Management's Responsibility

MCC management is responsible for 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 misstatements, whether due to fraud or error.

Auditors' Responsibility

In planning and performing our audit of MCC's financial statements as of and for the year ended September 30, 2020, in accordance with U.S. generally accepted government auditing standards, 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 or on management's assurance statement on the overall effectiveness on internal control over financial reporting. Accordingly, we do not express an opinion on MCC's internal control over financial reporting or on management's assurance statement on the overall effectiveness on 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 and ensuring efficient operations.

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 U.S. generally accepted accounting principles, 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 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 and/or significant deficiencies may exist that have not been identified. However, during our audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. We did, however, identify a deficiency in internal control over financial reporting that we considered to be a significant deficiency, as described below and in Exhibit I.

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

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.

During our fiscal year 2020 audit, we identified deficiencies in MCC's internal control over financial reporting that we do not consider to be material weaknesses or significant deficiencies. Nonetheless, these deficiencies warrant MCC management's attention. We have communicated these matters to MCC management and, where appropriate, will report on them separately.

Intended Purpose of the Report on Internal Control over Financial Reporting

The purpose of this report 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. This report is an integral part of an audit performed in accordance with U.S. generally accepted government auditing standards in considering internal control over financial reporting. Accordingly, this 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 selected provisions of applicable laws, regulations, contracts, and grant agreements consistent with our auditors' responsibility discussed below. We caution that noncompliance may occur and not be detected by these tests. We performed our tests of compliance in accordance with U.S. generally accepted government auditing standard.

Management's Responsibility

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 selected 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.

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

Our tests for compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements disclosed no instances of noncompliance for fiscal year 2020 that would be reportable under U.S. generally accepted government auditing standard. 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 this report is solely to describe the scope of our testing of compliance with selected 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 U.S. generally accepted government auditing standard in considering compliance. Accordingly, this report on compliance with laws, regulations, contracts, and grant agreements is not suitable for any other purpose.

MCC's Response to Audit Findings and Recommendations

MCC's response to the findings and recommendations identified in our report is described in Exhibit 2. MCC's response was not subjected to the auditing procedures applied in the audit of the financial statements 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 and recommendations included in the prior year's Independent Auditors' Report, dated November 15, 2019. The status of prior year recommendations is presented in Exhibit 3.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Arlington, Virginia
November 13, 2020

EXHIBIT I
Significant Deficiency in Internal Controls

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 virtual 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:

Grant accrual liability and validation reporting errors — Grant accrual liability prepared by MCAs includes estimated works completed by vendors/contractors but not yet invoiced for payments or paid by MCAs. For quarter one through three of FY 2020, we found two MCAs incorrectly included estimated contract advance payments in the reported grant accrual liability for $130,889 in quarter one, $1,180,587 in quarter two, and $299,260 in quarter three, resulting in an overstatement of grant accrual liability. Our inquiry with MCC indicated they wanted to track MCA invoices that are for advances, but not to include them in the grant accrual reporting. For another MCA, we identified the reported grant accrual liability and related accrual validation was understated by $900 and $67,267, respectively for the first quarter. In another instance, for the second quarter, one MCA overstated reported grant accrual liability by $1,046,138. Collectively, the reporting errors identified were due to manual data input errors by the MCA and the lack of a written/documented guidance/process to instruct relevant MCA Project Directors and Engineers on how to capture work completed by vendors/contractors but not yet billed or paid at the end of each respective reporting quarter/period.

MCA invoices paid late — During our testing we found that certain MCAs did not make payments within a month (recognized as 30 – 31 calendar days) after receipt of valid invoices. Late payments ranged from 4 to 67 days. Due to MCAs are on a cash basis, delay in payments may result in MCAs' expenses not being timely recognized and recorded by MCC. The causes for these payment delays are primarily attributed to:

EXHIBIT I
Significant Deficiency in Internal Controls

- MCC did not timely provide instruction to direct the MCA on the payment tranche (tranche 1 or 2) to be used by the MCA to process vendor invoices.
- Ineffective budgeting of the compact program/activity by the MCA that require reallocation of other compact program/activity budget funding in order to process vendor invoices.
- MCA Department of Administration and Finance and its relevant Program Directors did not timely provide the required invoice support documentation to the MCA Fiscal Agent to process the Payment Request Form.
- Impact of the COVID-19 pandemic on the MCA operation, in which the MCA had not established a process to ensure that the MCA can process vendor invoice payments within time frame required by the MCA Fiscal Accountability Plan.

Late audit reports and audit delay — 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. Our audit identified one compact where no audit has been conducted since signing of the compact agreement on July 27, 2018. In addition, we identified two compacts and three thresholds where audit reports were late. Below table illustrates the extent of the late audit reports.

Accountable Entity	Audit Period	Audit Report Due Date	Report Issued	Days Late
Compact #1	April 1, 2019 – March 31, 2020	June 29, 2020	Not Issued	Over 130
Threshold #1	Sept. 12, 2017 – Sept. 30, 2019	Dec. 29, 2019	March 13, 2020	75
Threshold #2	Oct. 1, 2018 – Sept. 30, 2019	Dec. 29, 2019	March 5, 2020	67
Threshold #3	April 1, 2019 – March 31, 2020	June 29, 2020	August 5, 2020	37
Compact #2	Nov. 7, 2017 – March 31, 2020	Sept. 30, 2020	Oct. 12, 2020	12

MCC provided the following explanation as to reason for not meeting the compact and threshold audit requirement:

- Delays in vetting independent public accountant (IPA) firms to solicit audit services and in procuring the audit services.
- MCC did not timely receive audit planning documents, support documents, and audit documents from contracted IPA firms. Audits for the above referenced audit periods could not begin until MCC approves the prior MCA audit reports.
- MCC provided an extension of the initial compact audit period long after the audit reporting deadline were not met per the compact agreement.

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.

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EXHIBIT I
Significant Deficiency in Internal Controls

Delays in the required audits and the audit reports issuance 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. 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 of period except for close out audits, which are due no later than 150 days after compact end date.

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

Recommendation 1. Revise MCC's ***Grant Accrual Estimation: Millennium Challenge Account Guidance*** to state that when a MCA identifies an advance, the MCA will exclude the advance amount from the grant accrual amount to ensure that the advance is not included in the grant accrual estimate reported to MCC.

Recommendation 2. Request the MCAs to establish a documented control mechanism to verify that the grant accrual estimates reported to MCC agrees with the support document used by the MCAs to complete grant accrual estimates data call template.

Recommendation 3. Provide additional training to the MCAs to ensure the MCAs have a clear understanding of the grant accrual estimation and validation requirements.

Recommendation 4. Require the MCAs to document improved budgeting process to ensure future payment needs are properly considered at the detail compact program/activity level as part of its quarterly budgeting process.

Recommendation 5. Require the MCA Director of Administration and Finance and relevant Program Directors to (1) determine the root cause for delayed payments and report that information to MCC, and (2) timely provide all relevant and applicable payment support and approval documentation (including but not limited to purchase order, contract, acceptance note, delivery note, delivery confirmation receipt, etc.) to the MCA Fiscal Agent for required payment verification procedures and timely process the invoice for payment.

Recommendation 6. Provide additional reminder to the MCAs regarding the payment requirements in the Fiscal Accountability Plan and instruct them to monitor their compliance.

Recommendation 7. Revise ***The Accountable Entities Guidelines for Contracted Financial Audits*** to:

a. Address the timing of the audit review process to ensure that independent public accountant firms are able to meet the 90-day delivery deadline for issuing the audit report.

b. Establish a requirement after the initial compact or threshold audit to determine if the 90-day audit report deadline is still appropriate for the next audit given the circumstances (i.e., prior audit delays). If not, then issue an Implementation Letter to establish the new audit report deadline.

Recommendation 8. Revise the ***Audit, Risk, and Control (ARC) Branch Process for Screening Potential Independent Public Accountant Firms*** to clarify when ARC will begin and complete the screening process for a new compact or threshold program.

EXHIBIT 2
Management's Response to Audit Findings

MILLENNIUM
CHALLENGE CORPORATION
UNITED STATES OF AMERICA

DATE: November 13, 2020

TO: Mr. Alvin Brown
Deputy Assistant Inspector General for Audit
Office of Inspector General
United States Agency for International Development
Millennium Challenge Corporation

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

SUBJECT: MCC's Management Response to the Audit Report, "Audit of MCC's Fiscal Years 2020 and 2019 Financial Statements," dated November 13, 2020

The Millennium Challenge Corporation (MCC) appreciates the opportunity to respond to the report on the Office of Inspector General (OIG)'s audit, "Audit of MCC's Fiscal Years 2020 and 2019 Financial Statement," dated November 13, 2020. MCC concurs with the conclusions of the report where noted and provides a management response to each recommendation below. MCC will provide a management decision for each recommendation no later than six months after the final report date.

OIG Recommendation 1 — Revise MCC's "Grant Accrual Estimation: Millennium Challenge Account Guidance" to state that when a MCA identifies an advance, the MCA will exclude the advance amount from the grant accrual amount to ensure that the advance is not included in the grant accrual estimate reported to MCC.

MCC Response — MCC concurs with Recommendation 1 and notes a revision will be made to the "MCC Grant Accrual Estimation: Millennium Challenge Account Guidance" emphasizing the correct reporting requirements for in-house invoices for pending advances.

EXHIBIT 2
Management's Response to Audit Findings

OIG Recommendation 2 — Request the MCAs to establish a documented control mechanism to verify that the grant accrual estimates reported to MCC agrees with the support document used by the MCAs to complete the grant accrual estimates data call template.

MCC Response — MCC concurs with the recommendation.

OIG Recommendation 3 — Provide additional training to the MCAs to ensure that the MCAs have a clear understanding of the MCC's grant accrual estimation and validation requirements.

MCC Response — MCC concurs with the recommendation.

OIG Recommendation 4 – Require the MCAs to document improved budgeting process to ensure future payment needs are properly considered at the detail compact program/activity level as part of its quarterly budgeting process.

MCC Response — MCC concurs with the recommendation.

OIG Recommendation 5 — Require the MCA Director of Administration and Finance and relevant Program Directors to (1) determine the root cause for delayed payments and report that information to MCC, and (2) timely provide all relevant and applicable payment support and approval documentation (including but not limited to purchase order, contract, acceptance note, delivery note, delivery confirmation receipt, etc.) to the MCA Fiscal Agent for required payment verification procedures and timely process the invoice for payment.

MCC Response — MCC concurs with the recommendation.

OIG Recommendation 6 — Provide an additional reminder to the MCAs regarding the payment requirements in the Fiscal Accountability Plan and instruct them to monitor their compliance.

MCC Response — MCC concurs with the recommendation.

OIG Recommendation 7 — Revise the "Accountable Entities Guidelines for Contracted Financial Audits" to address the timing of the audit review process to ensure that independent public accountant firms are able to meet the 90-day delivery deadline for issuing the audit report.

MCC Response — MCC concurs with the recommendation.

OIG Recommendation 8 — Revise the "Accountable Entities Guidelines for Contracted Financial Audits" to establish a requirement after the initial compact or threshold audit to determine if the 90-day audit report deadline is still appropriate for the next audit given the circumstances (i.e., prior audit delays). If not, then issue an Implementation Letter to establish the new audit report deadline.

MCC Response — MCC concurs with Recommendation 8 and started taking steps with its update of the "Guidance for Accountable Entity Contracted Financial Audits" in June 2020. This document provides guidance for staff to ensure compliance with the audit requirements as noted in the Compact, Threshold Program Grant Agreement, and the Program Implementation Agreement. MCC looks forward to future assessments to evaluate its progress.

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EXHIBIT 2
Management's Response to Audit Findings

OIG Recommendation 9 — Revise the "Audit, Risk, and Control (ARC) Branch Process for Screening Potential Independent Public Accountant Firms" to clarify when ARC will begin and complete the screening process for a new compact or threshold program.

MCC Response — MCC concurs with Recommendation 9.

If you have any questions or require additional information, please contact me via phone, 202-521-2686; or by email jacksonks@mcc.gov. Additionally, you can also contact Jude Koval, Director of Internal Controls and Audit Compliance (ICAC) via phone, 202-521-7280; or by email kovaljg@mcc.gov.

CC: Damian Wilson, Principal Director, OIG, USAID
Amy Markel, Assistant Audit Director, OIG, USAID
Anna Elias, Auditor, Financial Audits Division, OIG, USAID
Adam Bethon, Deputy Chief Financial Officer, FMD, A&F, MCC
Lori Giblin, Chief Risk Officer, A&F, MCC
Eric Redmond, Controller, FMD, A&F, MCC
Michael Wright, Director, FMD, A&F, MCC
Jude Koval, Director, ICAC, A&F, MCC

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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 2019 Recommendations	*Type*	*Fiscal Year 2020 Status*
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.		Closed
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.	Significant Deficiency (SD)	Closed
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).		Open
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.	SD	Open

EXHIBIT 3
Status of Prior Year Recommendations

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

Other Information

Fiscal Year 2021 Top Management Challenges Identified by the Inspector General

MEMORANDUM

DATE: October 29, 2020

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

FROM: Assistant Inspector General for Audit, Thomas Yatsco /s/

SUBJECT: Fiscal Year 2021 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 agency financial report. The summary captures the examples in OIG's Top Management Challenges report for fiscal year 2021.[1]

Although our full report did not include a separate chapter for MCC, as was the case the last three years, we highlighted challenges relevant to MCC in two broader reporting areas: Promoting Local Capacity and Improving Planning and Monitoring To Achieve Sustainability of U.S.-Funded Development, and Addressing Vulnerabilities and Implementing Needed Controls in Agency Core Management Functions. This aligns with the Inspector General's vision of having one product that summarizes the top challenges facing all of the agencies under her purview.

Promoting Local Capacity and Improving Planning and Monitoring To Achieve Sustainability of U.S.-Funded Development. 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 sometimes inadequate.[2] For example, in the nation of Georgia, MCC identified sustainability risks related to the Georgian Government's ability to manage and maintain roads. While MCC planned to provide technical assistance to mitigate

[1] *USAID OIG's annual Top Management Challenges statements are available on our external website.*

[2] *"MCC Has Opportunities to Enhance Guidance and Tools for Sustaining Results of Road Infrastructure Compacts" (M-MCC-20-001-P), October 29, 2019.*

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

the risks, MCC abandoned the effort because the Georgian Government was unwilling to expend required resources to support the activity. MCC also planned to require the Georgian Government to budget and fund road maintenance as a precondition to receiving assistance. However, MCC did not assess how much funding would be needed and could not demonstrate that it was tracking maintenance spending during the project. Similarly, in Ghana, MCC planned to confirm the Government of Ghana's capacity to fund and perform road maintenance, but MCC could not demonstrate that it followed up on its plan. At the time MCC designed and developed 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 while other sections were in good to excellent condition.

In addition, the audit found that MCC needed 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 require verification and tracking of data, but the guidance was still in draft at the time of our audit. We made two recommendations to address these risks to sustainability. MCC generally agreed with the recommendations and finalized the guidance in September 2020 and will need to ensure the new guidance is effectively implemented to help sustain results of its road infrastructure compacts.

Addressing Vulnerabilities and Implementing Needed Controls in Agency Core Management Functions. We found that MCC's risk of improper purchases and payments increased from low to moderate in its fiscal year 2018 programs and remained unchanged for its fiscal year 2019 programs due to noncompliance with MCC's travel and charge card policies and procedures and violations of the Federal Travel Regulation.[3] Examples include claiming travel and cash advances that were unsupported by valid business needs and being improperly reimbursed for early check-in fees. The auditors made six recommendations to address these concerns, two related to fiscal year 2018 programs that are resolved but open pending review of final action for closure, and four related to fiscal year 2019 programs that MCC plans to close in the upcoming fiscal year.

Another recent OIG report noted challenges with controls specifically over MCC's use of premium travel.[4] The audit team estimated that MCC spent over $10 million more on premium travel than if they had used the lower-cost coach fare. The auditors found that 73 percent of MCC's total travel costs were for premium travel. In fiscal year 2019, premium travel usage at MCC (44 percent) was substantially higher than at the State Department (3 percent) or USAID (2 percent). Further, despite having policies in place to ensure compliance with Federal Travel Regulation, the auditors noted instances where controls were not effective in preventing waste and abuse. For example, auditors found instances where MCC staff overrode policies that required the use of coach, use of premium class travel was not justified, approvals were made by those who lacked authority, and travelers did not report to work the day following arrival and inappropriately collected per diem. The auditors made four recommendations to address the internal control weaknesses and noncompliance. The recommendations have been resolved but are open pending final action.

[3] *"Assessment of MCC's [Fiscal Year] 2018 Charge Card Programs Shows Risk of Improper Purchases and Payments Has Increased to Moderate" (0-MCC-20-003-C), November 18, 2019; and "Assessment of MCC's [Fiscal Year] 2019 Charge Card Programs Identified a Moderate Risk of Improper Purchases and Payments" (0-MCC-20-013-C), September 25, 2020.*

[4] *"Enhanced Controls Are Needed to Ensure the Cost-Effectiveness of MCC Travel and Prevent Waste and Abuse" (0-MCC-20-012-C), July 10, 2020.*

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One area where MCC has made progress related to terrorism 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 about concerns with the absence of this requirement, and we highlighted this concern in last year's top management challenges report. In June 2020, MCC revised its procedures to require contractors to make these certifications. In addition, MCC reported updating procurement eligibility verification guidance for Millennium Challenge Account (MCA) award recipients in March 2019 and said it continues to strengthen efforts to validate all currently active MCA awards.

The Federal Information Security Modernization Act report for MCC noted that control issues also affected MCC's program and procedures in fiscal year 2019.[5] While the audit concluded that MCC generally implemented an effective information security program, it also identified weaknesses in MCC's information security program and practices related to risk management, data protection and privacy, and timely review and updating of policies and procedures, and other areas primarily due to policies and procedures not being reviewed and updated in a timely manner. These weaknesses potentially exposed MCC's information and information systems to unauthorized access, use, disclosure, disruption, modification, or destruction. MCC agreed with and took action to address the four recommendations to further strengthen MCC's information security program.

Our oversight of MCC and these top management challenge areas will continue in the upcoming fiscal year. We are currently auditing the effectiveness of MCC's Threshold Program, which will assess the progress of each countries' threshold program against the Threshold Program's overall goals and objectives. In addition, the audit will determine the extent to which the MCC's Threshold Program Office is providing comprehensive performance information to leadership and the Board of Directors as part of the selection of partner countries for compacts. Another audit is looking at MCC's Economic Rate of Return (ERR), a form of cost-benefit analysis used during the compact development process to ensure accountability and transparency in its investment decisions. Specifically, the audit will determine the policies and procedures MCC has implemented to address previously identified challenges to the ERR process; assess the extent to which the policies and procedures for reviewing ERR analyses address ongoing risks and challenges; and assess the extent the ERR review process informs project selection and investment decisions. 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 202-712-1150; or Gary Middleton, Audit Director for MCC, at 202-216-3170.

[5] *"MCC Generally Implemented an Effective Information Security Program for Fiscal Year 2019 in Support of FISMA" (A-MCC-20-001-C), November 12, 2019.*

Office of Inspector General, Millennium Challenge Corporation
Washington, DC
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MCC Management's Response to the Inspector General

Millennium
Challenge Corporation
United States of America

November 13, 2020

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) 2021 Top Management Challenges, which reiterated the Millennium Challenge Corporation's (MCC) ongoing management challenges related to "Promoting Local Capacity and Improving Planning and Monitoring to Achieve Sustainability of U.S.-Funded Development" and "Addressing Vulnerabilities and Implementing Needed Controls in Agency Core Management Functions."

Attached to this transmittal is an update for the OIG and our stakeholders that highlights MCC's continued progress in these critical areas. 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 2021 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 2021 Top Management Challenges (the OIG 2021 Statement) is presented below. The OIG 2021 Statement identified the following management challenges for MCC:

- Promoting Local Capacity and Improving Planning and Monitoring to Achieve Sustainability of U.S. Funded Development
- Addressing Vulnerabilities and Implementing Needed Controls in Agency Core Management

MCC is committed to enhancing the effectiveness of its operations both domestically and abroad. MCC would like to note some initiatives related to each challenge and share its plans for continuing to address the challenges in Fiscal Year 2021.

Promoting Local Capacity and Improving Planning and Monitoring to Achieve Sustainability of U.S.-Funded Development

- MCC finalized and incorporated into its *Road Development and Implementation Guidelines* (September 2020), Section 6.1 Sustainability of Investment/Second Generation Road Fund — an approach to assessing the sustainability of the road projects and the capacity of government institutions responsible for maintaining the roads and the resources that will be needed. "Resources" refers not only to the necessary funding, but also to the technical capacity, expertise, and staffing to conduct required planning and analysis consistently, as well as the reliability of the responsible national, regional, or local governing institutions responsible for planning, managing, and maintaining the system. The approach in the revised Guidelines will help ensure MCC understands the risks associated with road maintenance funding and design well-targeted mitigation measures.
- Additionally, MCC also finalized and incorporated the *Transportation Sector Cost Benefit Analysis Guidance* (September 2020) into its economic analysis guidance. These guidelines standardized the application of economic analysis tools across transportation projects. This document was disseminated to appropriate MCC staff on September 28, 2020. A link to this document is now also included in onboarding materials to ensure dissemination to new staff. These new guidelines will help to ensure methodological consistency across MCC's economic assessments of transport projects which, in turn, should increase the Agency's confidence in the economic rationale underlying these investments.

Addressing Vulnerabilities and Implementing Needed Controls in Agency Core Management Functions

- Travel-Related Charge Card Audit Recommendations — MCC is utilizing the recommendations from the FY 2018 and 2019 OIG Charge Card Audit Reports to improve travel charge card controls and processes. MCC plans to further evaluate the effectiveness of training staff who travel and their corresponding approving officials on internal MCC policy to ensure continued compliance with the Federal Travel Regulation (FTR) and strengthen assurance of mission essential expenses to safeguard MCC's use of taxpayer dollars.
- Premium Travel Audit Report and Recommendations — MCC appreciates the OIG's acknowledgement as to MCC's compliance with the FTR regarding the use of premium travel and anticipates further enhancing internal controls over compliance with agency-wide policies and procedures.
- FISMA Audit Recommendations — MCC successfully followed through on all FY 2019 FISMA Recommendations, which the USAID OIG officially closed on November 3, 2020. In FY 2021, MCC will continue to improve its control environment and address the FY 2020 FISMA Audit Recommendations.

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 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 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 risk assessment in FY 2020. As a result of the risk assessment process, MCC assessed no funds as susceptible to significant improper payments.

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 2020 and did not identify significant program changes which would necessitate the 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 provide 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 2020, 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.

Further information on MCC's recapture efforts in FY 2020 have been reported to OMB through the annual payment integrity data call and may be viewed at https://paymentaccuracy.gov/.

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 works diligently with its financial service provider SSP to maintain oversight identify and prevent erroneous payments. MCC adjudicated adjudicates those potential erroneous payments on the U.S. Department of Treasury's Do Not Pay (DNP) portal and researched researches all matches or flags payments flagged for any probable or possible improper payments. During FY 2020, MCC issued no stop payment orders and the Treasury DNP system portal did not report any payments with matches either through the Death Master File or the System for Award Management system 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 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. Compacts and Thresholds are carried out by MCC and its Accountable Entities (the local units, sometimes also referred to as Millennium Challenge Accounts [MCAs]), which implement each country's MCC Compact or Threshold Program.

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 compact-specific AFC Risk Assessments early during the compact 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 Office of Inspector General Investigation Team (OIG/I). All MCC and MCA staff are aware of the OIG hotline to report allegations of potential fraud.

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.

In conjunction with the agency's ERM Program and Circular A-123 requirements, MCC Is currently conducting a fraud risk assessment to identify inherent fraud risks and subsequently fraud schemes which could potentially affect agency's programs, in alignment with the GAO's, A Framework for Managing Fraud Risks in Federal Programs. The fraud risk assessment is intended to:

1. Identify inherent fraud risks affecting the agency's programs
2. Assess the likelihood and impact of identified inherent fraud risks

To facilitate the assessment, MCC will tailor questions for each program to assess the likelihood and impact of inherent fraud risks using both quantitative and qualitative techniques. A cross-section of relevant stakeholders within the agency will participate in the assessment, including those responsible for the design and implementation of fraud controls. The results of the fraud risk assessment will be used by MCC management to determine the agency's fraud risk tolerance, assess the suitability of existing fraud controls and prioritize residual fraud risks, and document an agency fraud risk profile. MCC will use the fraud risk profile in conjunction with the results of the fraud risk assessment to continue to strengthen the agency's capability to prevent fraud in FY 2021.

Grant Programs

Below is a summary (Table 12) of the total number of awards and balances for which closeout has not yet occurred, but for which the period of performance has elapsed by two years or more prior to September 30, 2020 (i.e., on or before September 30, 2018).

Table 12: Summary of Expired, but not Closed, Federal grants and cooperative agreements (awards) as of September 30, 2020

Category	2–3 Years	> 3–5 Years	> 5 Years
Number of Grants/Cooperative Agreements with Zero Dollar Balances	—	—	—
Number of Grants/Cooperative Agreements with Undisbursed Balances	—	—	—
Total Amount of Undisbursed Balances (in thousands)	$ —	$ —	$ —

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

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2020-001-2476-01