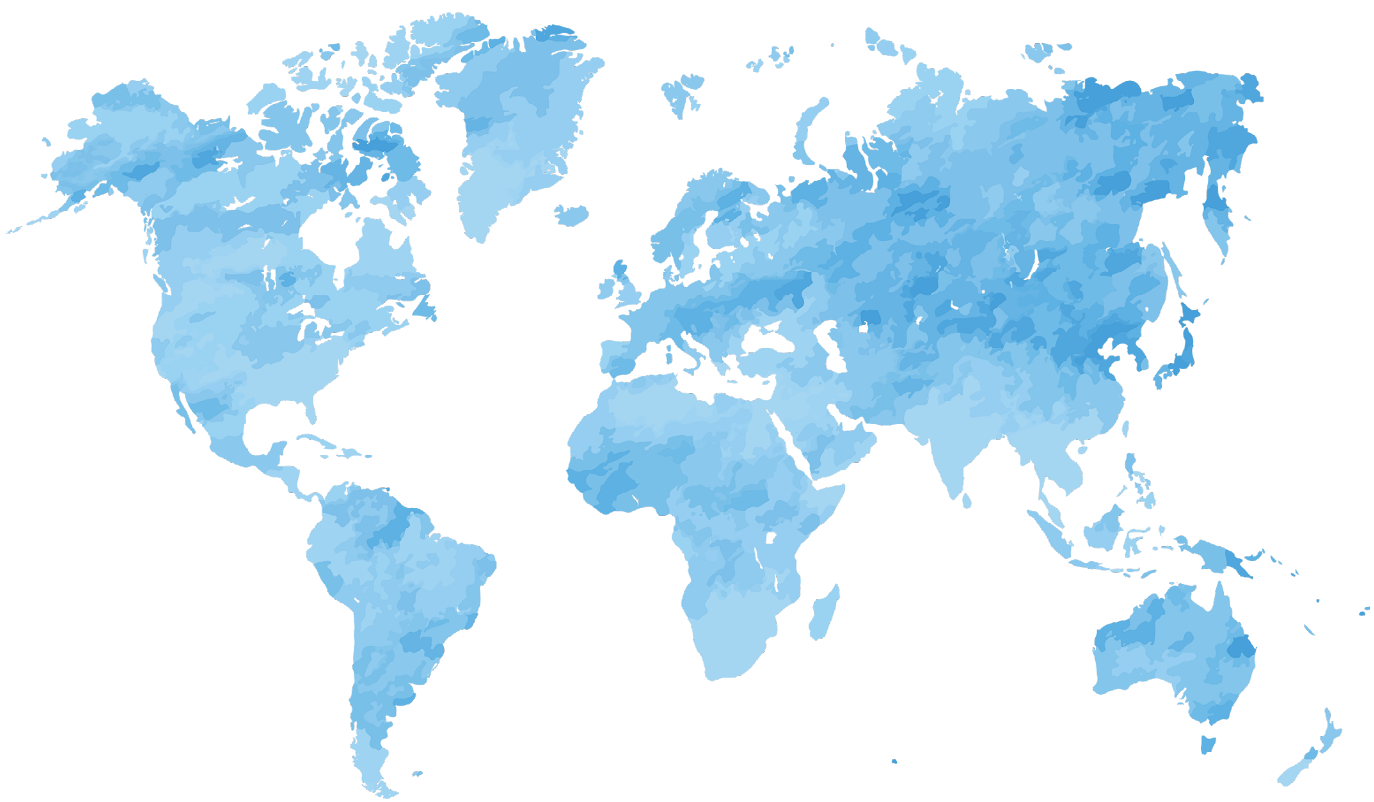
Millennium Challenge Corporation

Agency Financial Report

Fiscal Year 2018

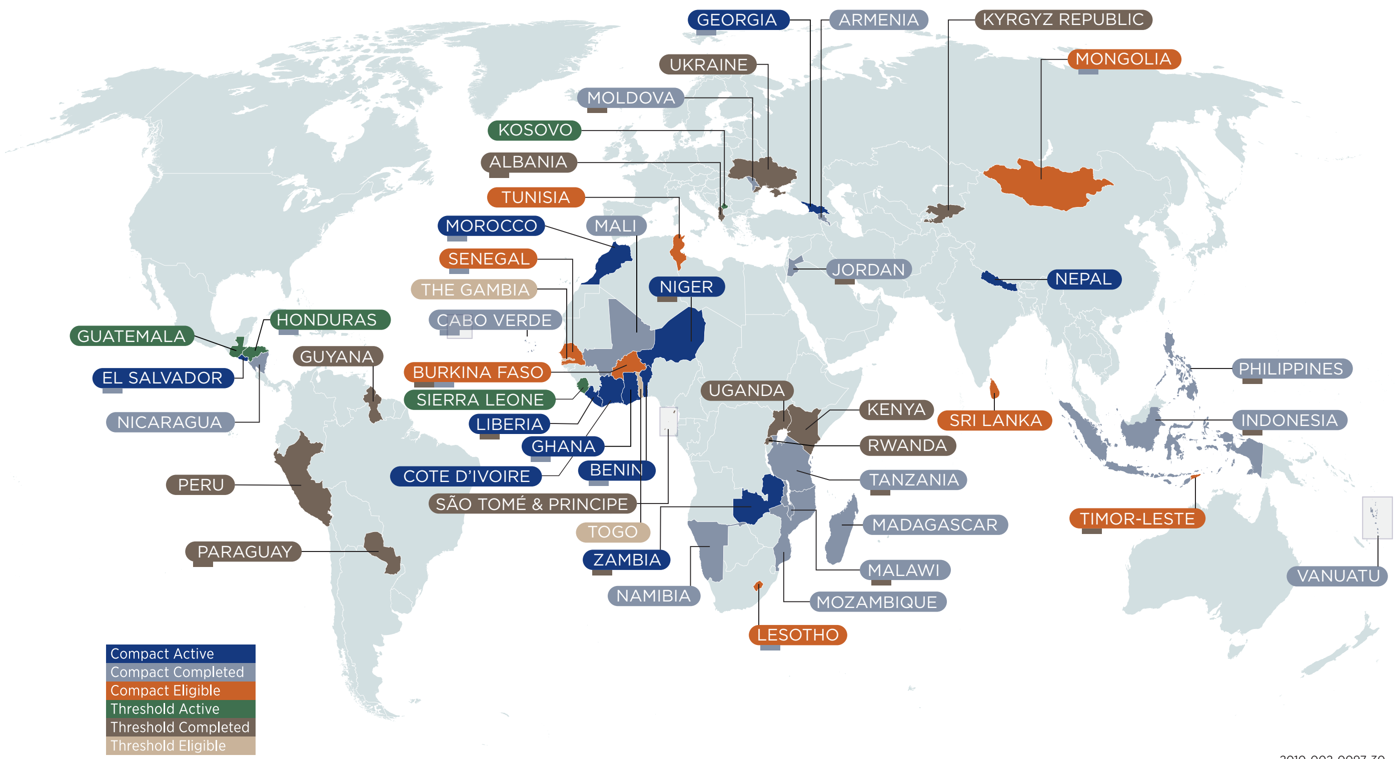


October 1, 2017 – September 30, 2018

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.

MILLENNIUM CHALLENGE CORPORATION
UNITED STATES OF AMERICA

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Contents

Introduction

The Agency Financial Report (AFR) for the Millennium Challenge Corporation (MCC) for fiscal year (FY) 2018 provides the results that enable the President, Congress, and the American people to assess MCC's performance for the reporting period beginning October 1, 2017, and ending September 30, 2018. In particular, the AFR provides an overview of MCC's programs, accomplishments, challenges, and 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 2018 that will also be included in MCC's FY 2020 Congressional Budget Justification (CBJ). The APR, along with the Congressional Budget Justification (CBJ), is projected to be posted on MCC's website in February 2019. 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, 2019, MCC will also provide further information related to its activities in an Annual Report to the Congress. The report will also be made available to the public on MCC's website.

Organization of This Report

The FY 2018 AFR includes a message from the Chief Operating Officer (COO), 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 USAID/Office of Inspector General's (OIG's) top management challenges, MCC Management's response to the top management challenges, Summary of Financial Statement Audit and Management Assurances, MCC's Payment Integrity, Fraud Reduction Report, and Grants Oversight and New Efficiency Act Requirements.
- **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 Operating Officer

November 15, 2018

I am pleased to submit the Millennium Challenge Corporation's (MCC) Agency Financial Report for FY 2018. The report reflects MCC's ongoing commitment to accountability as a hallmark of our programs and operations worldwide. Accountability underpins MCC's focus on leveraging data to identify and address some of the most vexing constraints to reducing poverty through economic growth in countries around the world. It also drives MCC's decisions to work only with partners that are being accountable to their citizens by pursuing sound economic and democratic policies. Finally, MCC delivers good value for money to taxpayers by leveraging a lean staff and efficient operations to deliver significant impact and advance American values, security and prosperity around the world.

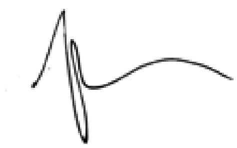
MCC continued to fulfill its mission with major achievements in Africa and Asia and pivotal legislative developments in FY 2018. We signed compacts with Cote d'Ivoire and Mongolia that will help unlock the private sector led growth required to reduce poverty in each of these strategic countries. Finally, we met our key targets for our programs under development, including the presentation of ambitious compacts with Senegal and Sri Lanka to our Board in September 2018.

Major legislative developments recognized MCC's trajectory of achievements and heralded new opportunities to leverage MCC's approach for ever greater impact. In April, President Trump signed into law the African Growth and Opportunity Act (AGOA) and Millennium Challenge Act Modernization Act, which grants MCC the unique authority to pursue concurrent compacts for regional integration, trade, or cross-border collaboration. This authority builds on MCC's successful track record of implementing complex infrastructure alongside difficult policy reforms in partner countries, and expands MCC's ability to invest at a new scale to deliver even greater impact.

MCC has continued to be a preeminent leader in delivering effective, evidence-based programs. In the past year we have welcomed the opportunity to begin to contribute our implementation and blended-finance expertise to the enhancement of our country's development finance capabilities through the BUILD Act and the Development Finance Corporation, which incorporate some of MCC's core principles and investment practices. In the coming year, we look forward to lending our leadership and expertise in mainstreaming gender into the growing U.S. government efforts to unlock women's potential through economic empowerment.

The performance and financial information in this report reflect the remarkable achievements of the past year. They also reflect the invaluable support and engagement of our stakeholders and partners throughout. As always, we welcome your feedback as a key element of our commitment to accountability.

Sincerely,



Jonathan G. Nash
Chief Operating Officer (and Head of Agency)
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 fight against 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 this mission by providing grant assistance for programs that unlock economic growth in our 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 to eligible countries:

- A ***compact*** provides for up to five years of assistance to a country that meets MCC's eligibility criteria and is selected for assistance by MCC's Board of Directors. The compact establishes a multiyear plan of partnership between the country and MCC to achieve shared development objectives. The compact establishes an assistance program designed to reduce poverty through sustainable economic growth and is built on the principles of country ownership, transparency and accountability, with input from the private sector, partner governments, other development partners, and civil society organizations. The compact defines each party's responsibilities and includes benchmarks, timetables, and performance goals.
- A ***threshold program*** grant aims to assist a country to become eligible for an MCC compact by supporting policy and institutional reforms that target binding constraints to economic growth. MCC uses a rigorous, structured diagnostic process to develop threshold programs, followed by program design and implementation.

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

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

[1] *MCC's statute, § 607(b)(3)(C).*

the world. Strengthening the next generation of emerging markets that will trade and do business with U.S. companies lead 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; 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 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 where to invest and how. The department employs data and analysis at each stage of the MCC process — from country eligibility and selection to project decisions to evaluation — and has four divisions and a Front Office. Across its divisions, the department administers MCC's annual country selection and eligibility process; manages the 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; oversees information technology (IT) infrastructure and services, 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; oversees and administers MCC's Enterprise Risk management (ERM) program; maintains official corporate records; coordinates audit interactions with the USAID/OIG and the Government Accountability Office (GAO); and coordinates and ensures timely and relevant reporting of performance data on compact programs. There is a dotted reporting line between the Office of the CEO and the Office of the Chief Information Officer (CIO). The Office of the CIO oversees corporate IT investments on behalf of the agency.

Staffing

MCC is a small government agency headquartered in Washington, D.C. Table 1 shows Federal employee staffing levels from FY 2016 through FY 2018.

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

	FY 2018	FY 2017	FY 2016
Headquarters	285	286	266
Overseas	31	26	24
Total	**316**	**312**	**290**

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

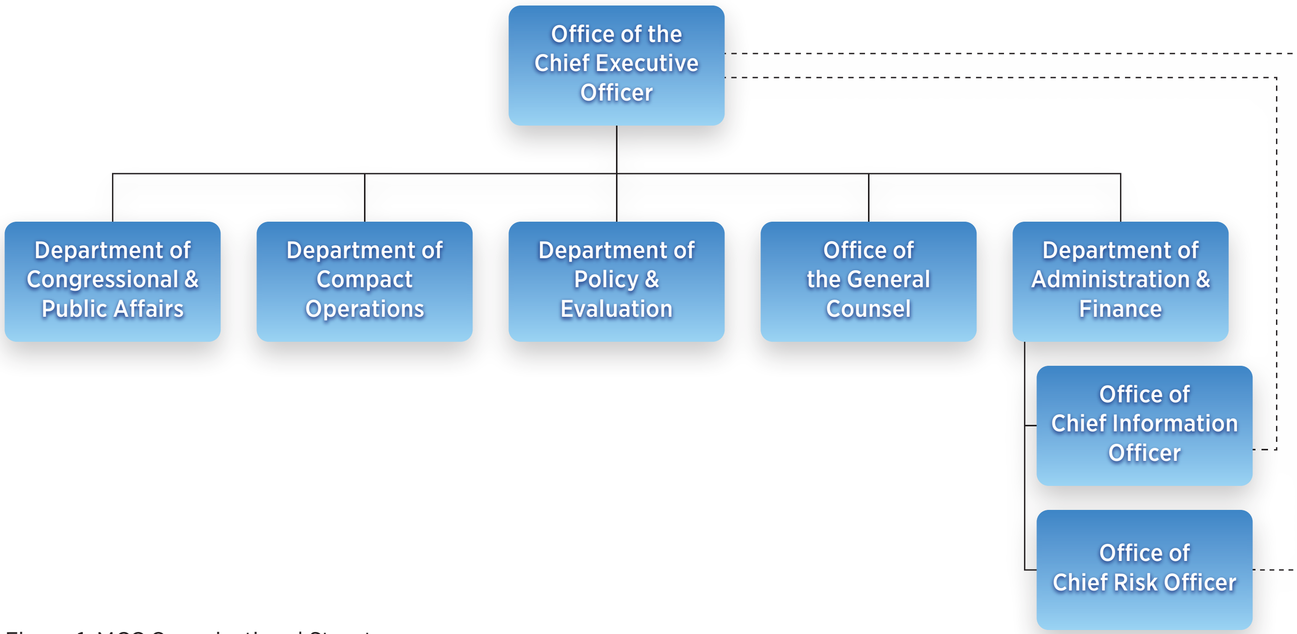


Figure 1. MCC Organizational Structure

Performance Goals, Objectives, and Results

MCC utilizes an innovative and tested approach to fight global poverty. 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 people. MCC achieves this mission by providing grant program funding that will unlock economic growth in our partner countries and help people lift themselves out of poverty. MCC's approach employs development best practices on selection, country ownership, 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 our partner countries. An APR will be provided as part of MCC's FY 2020 CBJ, which is projected to be made available in February 2019. A high-level summary of MCC's strategic direction and performance during FY 2018 follows.

Strategic Direction

In February 2016, MCC launched a five-year strategic plan called *NEXT*. Based on a comprehensive review of MCC's experiences and lessons learned over its first 10 years of operations, *NEXT* seeks to expand MCC's impact through new strategic directions, while doubling down on the core strengths of the MCC model. The plan sets forth five strategic goals to frame and guide the agency's work moving forward:

- **GOAL 1:** Help countries choose evidence-based priorities in growth and poverty reduction strategies that reflect new learning and new **opportunities.**
- **GOAL 2:** Strengthen reform **incentives** and accountability.
- **GOAL 3:** Capitalize on public and private partnerships for more impact and **leverage.**
- **GOAL 4:** Lead data and results **measurement,** learning, transparency, and development effectiveness.

- **GOAL 5:** Maximize internal efficiency and productivity. Maintain and motivate a **world class,** high-functioning staff.

More information about *NEXT* is on MCC's website (www.mcc.gov/resources/pub/next).

Building on *NEXT,* MCC established the following corporate priorities for FY 2018 to guide agency activities:

- ***Advance and Deliver High-Quality Compact and Threshold Programs:*** Identify, track and achieve key milestones with country partners in order to develop and implement high-quality compact and threshold programs on schedule.
- ***Strengthen Organizational Health and Effectiveness:*** Strengthen core organizational business processes and systems to save time and improve clarity, better leverage and share lessons-learned, inform and ensure transparent and efficient decision-making, and improve overall organizational health and effectiveness.
- ***Enhance Operational and Technical Agility:*** Develop and deploy new operational or technical guidance, tools, and/or approaches to enhance and enable operational and programmatic agility and innovation.
- ***Advance MCC Policy and Legislative Initiatives:*** Advance priority policy or legislative initiatives requiring Congressional, Board and/or stakeholder approval or support before implementation.

These FY 2018 corporate goals are reflected in the work and activities discussed in this AFR.

Snapshot of MCC Portfolio and Programming

As of September 30, 2018, MCC is currently engaged in partnerships with 23 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 Sept. 30, 2018
6 Countries in Compact Development
11 Countries in Compact Implementation
2 Countries in Threshold Program Development
4 Countries in Threshold Program Implementation

Table 3 displays grant totals, net of deobligated amounts, for every MCC compact signed since the agency's inception in 2004 through September 30, 2018.

Table 3. Value of Compact Grants as of September 30, 2018 (in thousands)

TOTAL	**$**	**12,508,828**	*(100.0%)*
Tanzania	$	694,546	*(5.6%)*
Morocco	$	650,053	*(5.2%)*
Ghana	$	536,289	*(4.3%)*
Indonesia	$	526,465	*(4.2%)*
Cote d'Ivoire	$	524,700	*(4.2%)*
Nepal	$	500,000	*(4.0%)*
Ghana II	$	498,200	*(4.0%)*
Burkina Faso	$	474,744	*(3.8%)*
Morocco II	$	450,000	*(3.6%)*
El Salvador	$	449,567	*(3.6%)*
Mozambique	$	447,905	*(3.6%)*
Niger	$	437,024	*(3.5%)*
Mali	$	434,287	*(3.5%)*
Senegal	$	433,318	*(3.5%)*
Georgia	$	387,179	*(3.1%)*
Philippines	$	385,072	*(3.0%)*
Benin II	$	375,000	*(3.0%)*
Lesotho	$	358,046	*(2.9%)*
Zambia	$	354,758	*(2.8%)*
Malawi	$	350,700	*(2.8%)*
Mongolia II	$	350,000	*(2.8%)*
Benin	$	301,810	*(2.4%)*
Namibia	$	295,719	*(2.4%)*
El Salvador II	$	277,000	*(2.2%)*
Jordan	$	272,935	*(2.2%)*
Mongolia	$	268,994	*(2.2%)*
Moldova	$	259,372	*(2.0%)*
Liberia	$	256,726	*(2.0%)*
Honduras	$	204,015	*(1.6%)*
Armenia	$	176,550	*(1.4%)*
Georgia II	$	140,000	*(1.1%)*
Nicaragua	$	112,703	*(0.9%)*
Cabo Verde	$	108,512	*(0.9%)*
Madagascar	$	85,594	*(0.7%)*
Cabo Verde II	$	65,641	*(0.5%)*
Vanuatu	$	65,404	*(0.5%)*

In total, 29 countries have received funding through 36 compacts (Benin, Cabo Verde, El Salvador, Georgia, Ghana, Morocco, and Mongolia have signed two compacts each), and 25 countries have received funding through 27 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 2018, MCC signed two new compacts (Cote d'Ivoire and Mongolia) and closed three compacts (Cabo Verde, Indonesia and Malawi).

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 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. First, MCC chooses partners based on 20 publicly available indicators that measure democracy, good governance, and sound economic and social policies.

During program development, proposed projects, focused on alleviating binding constraints to growth, are identified 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 provides details on 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 and to apply lessons learned to future compacts.

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.

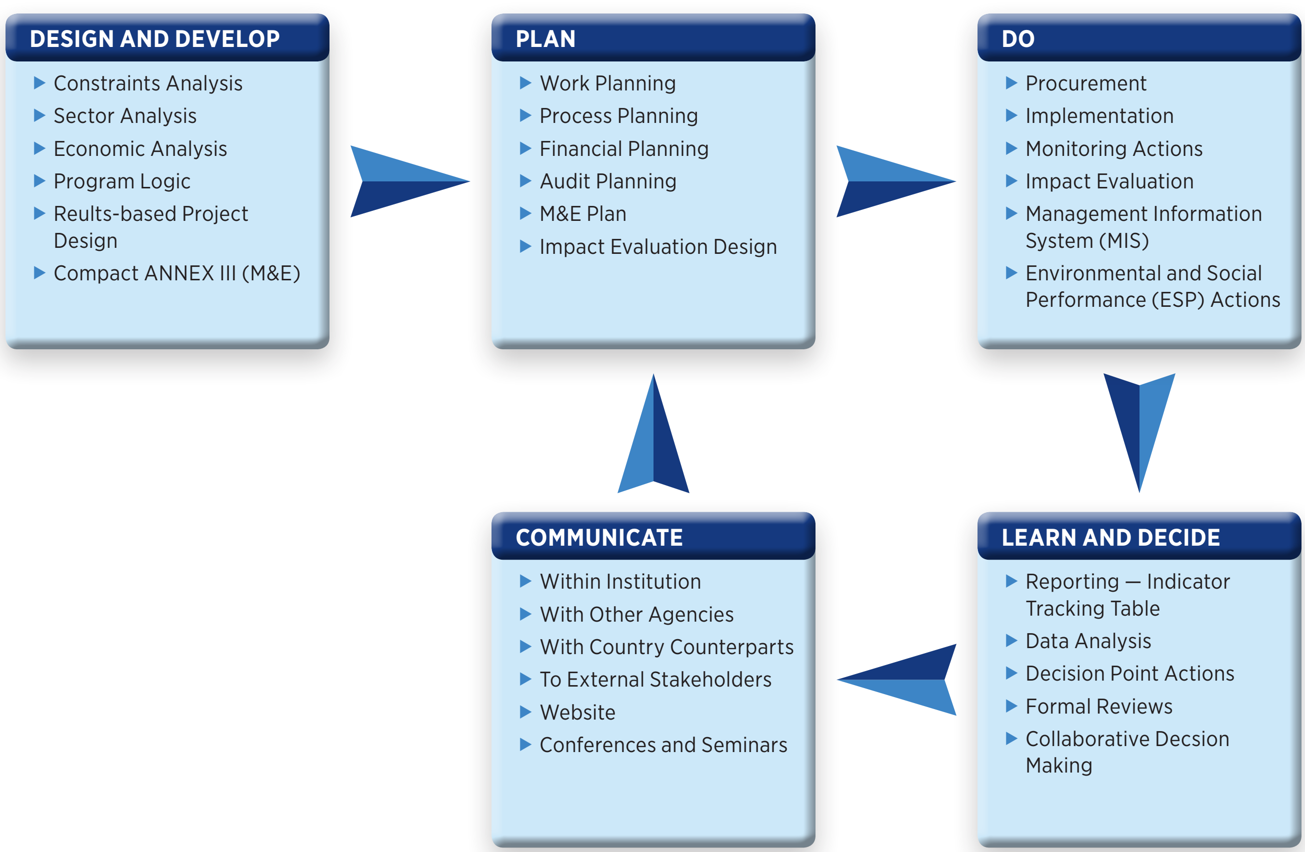


Figure 2. Integrating M&E in Compact Operations

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

Evaluating Program Performance and Results

MCC's development initiatives have helped 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. One hundred percent of MCC's projects are evaluated, with nearly 40 percent undergoing 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 174 million people around the world. MCC is also committed to assessing the cost-effectiveness of its programs to ensure that U.S. taxpayer dollars earn a social rate of return. A recent internal review of 122 closed projects found that, based on final costs and expected benefits, these projects had an average estimated economic rate of return of 15 percent.

In addition, MCC aggregates results and program outputs in key sectors to measure progress in those areas across compacts. Currently, MCC calculates aggregate results and program outputs on a quarterly basis in five categories: roads, agriculture and irrigation, water and sanitation, education, and property rights and land policy (land).

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

Table 4 presents MCC's program results across a representative set of select output indicators as of June 30 in 2018, 2017, and 2016, 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 MCAs 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 five sectors on the results pages on its website (www.mcc.gov).

Post-Program Evaluations

As noted above, MCC also commissions independent **performance** and **impact** evaluations to help evaluate the long-term results of its investments.

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

Table 4. Program Results by Sector on Select Output Indicators for FYs 2018, 2017, and 2016

	Cumulative Target Through FY 2018	Actual			Performance on Targets[1]		
		June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2018	June 30, 2017	June 30, 2016
Sector — Roads							
Indicator: Value of signed contracts for road work *(dollars in millions)*	$ 2,305	$ 2,409	$ 2,345	$ 2,345	105%	105%	105%
Indicator: Kilometers of roads under works contracts	3,930	3,944	3,918	3,918	100%	100%	100%
Indicator: Kilometers of roads completed	3,550	3,035	3,035	2,876	85%	85%	81%
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	203,963	121,795	70%	70%	42%
Indicator: Value of agricultural and rural loans *(dollars in millions)*	$ 87	$ 87	$ 87	$ 85[2]	100%	100%	97%
Indicator: Farmers trained	315,246	354,179	321,708	274,442	112%	114%	116%
Indicator: Enterprises assisted	3,564	4,223	4,223	4,203	118%	118%	118%
Countries Tracked: Armenia, Burkina Faso, Cabo Verde, El Salvador, Georgia, Ghana, Honduras, Indonesia, Madagascar, Mali, Moldova, Morocco, Mozambique, Namibia, Nicaragua, Senegal							
Sector — Water and Sanitation							
Indicator: Value of signed contracts for water and sanitation works *(dollars in millions)*	$ 776	$ 818	$ 795	$ 590	105%	102%	116%
Countries Tracked: Cabo Verde II, El Salvador, Georgia, Ghana, Jordan, Lesotho, Mozambique, Tanzania, Zambia							
Sector — Education							
Indicator: Students participating	266,981	216,101	215,398	215,243	81%	81%	81%
Indicator: Facilities completed	813	791	776	746	97%	96%	92%
Indicator: Value of signed contracts for construction and/or equipping of educational facilities *(dollars in millions)*	$ 208	$ 218	$ 207	$ 187	105%	103%	100%
Countries Tracked: Burkina Faso, El Salvador I, El Salvador II, Georgia II, Ghana, Mongolia, Morocco I, Morocco II, Namibia							
Sector — Land							
Indicator: Stakeholders trained	30,344	77,690	75,986	73,211[2]	256%	253%	270%
Indicator: Land administration offices established	280	399	384	393	142%	137%	158%
Countries Tracked: Benin, Burkina Faso, Cabo Verde II, Ghana, Lesotho, Madagascar, Mali, Mongolia, Mozambique, Namibia, Nicaragua, Senegal							

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

[2] *Data declined due to corrections of misreported data in closed compacts.*

Country Selection Process

The MCC Board of Directors selects eligible countries for MCC assistance. Transparency regarding both the process and the criteria that govern and inform the selection of eligible country partners is a hallmark of the MCC model. For a country to be selected for an MCC assistance program, it must demonstrate commitment to just and democratic governance, investment in its people, and economic freedom as measured by a variety of policy indicators. MCC's Board of Directors examines this commitment primarily by consulting annual country "scorecards" of policy performance, as well as relevant supplemental information. It then considers the overall opportunity to reduce poverty and generate economic growth in a country, as well as the funding available.

MCC's selection process relies heavily on these public, data-driven country scorecards, which allow stakeholders, Congress, taxpayers, and beneficiaries to hold the agency accountable for its decisions. Table 5 lists the selection indicators included in MCC's annual country scorecards.

MCC Effect

MCC's approach to selecting partners encourages countries — and not just MCC partner countries — to improve their economic and social policies before MCC grants a single dollar. This is called the "MCC Effect." MCC sees this when government and civil society groups contact MCC or indicator institutions to learn about and improve their scorecard performance.

A number of countries set up interministerial committees to improve their scorecard performance and policy data. An independent global survey of development stakeholders found that they repeatedly identified MCC 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 tells 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 to develop a compact by MCC's Board of Directors based on the process described above and the indicator criteria identified in Table 5. 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 **strong program logic** that clearly ties proposed projects to measurable results and **high economic returns,** as demonstrated by increased 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 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, sign the compact, and prepare for the compact to enter into force. Once a compact enters into force, the five-year implementation period (Phase Five) begins.

Compact implementation is governed by the terms and conditions of each compact and the related program implementation agreement, as well as MCC 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; 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 5: Selection Indicators

Indicator	Category	Source
Access to Credit Indicator	Economic Freedom	▶ International Finance Corporation (IFC)
Business Start-Up Indicator	Economic Freedom	▶ IFC
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 FY 2018, MCC signed two new compacts and MCC's Board of Directors selected one compact and one threshold in December 2017. During FY 2018, MCC had seven compacts in development, In addition, one signed compact entered into force, a key milestone that starts the five-year implementation timeline. Each of these programs will initiate new activities and remain a focus in FY 2019.

On November 7, 2017, MCC and the Government of Côte d'Ivoire signed a $524.7 million compact to spur economic growth and reduce poverty, supporting regional stability and new business opportunities. MCC's compact with Côte d'Ivoire is designed to support growth and private investment by building workforce capacity, reducing transportation costs, and opening new markets. MCC and Côte d'Ivoire identified two constraints to economic growth that will be addressed in the compact: (i) low levels of basic, technical, and vocational skills; and (ii) barriers to moving goods and people, especially in Abidjan. The compact will address these constraints through the Skills and Abidjan Transport Projects and is expected to allow Côte d'Ivoire to resume its economic preeminence in West Africa, becoming a desired location for employment-intensive industries such as manufacturing and business process outsourcing, as well as help mitigate lingering socio-political issues. The Government of Côte d'Ivoire is expected to contribute an additional $22 million to support the compact program. It is projected that the compact will enter into force in FY 2019.

On April 3, 2018, MCC's Board of Directors approved a $35 million Togo Threshold Program. This innovative program places Togo's citizens and the private sector at the heart of Togo's growth strategy, expanding access to the internet and communications technology, especially for underserved areas, women and youth, as well as clarifying land rights. Investments in these areas are critical to supporting democracy in the country, and spurring economic growth to reduce poverty for the benefit of the people of Togo. The Togo Threshold Program will support policy and institutional reforms in two areas identified as critical constraints to economic growth and poverty reduction: information and communication technology (ICT) and land tenure. It is projected that MCC and the Government of Togo will sign the threshold agreement in the first quarter of FY 2019.

On July 27, 2018, MCC and the Government of Mongolia signed a $350 million compact aimed to reduce poverty through economic growth by assisting Mongolia in addressing one of the country's most binding constraints to economic growth: inadequate access to water and sanitation in productive sectors and poor communities. The Compact will address this constraint through a single project that aims to increase the water supply to the capital city, Ulaanbaatar, by adding new groundwater wells, constructing a state-of-the art water purification plant, introducing new technologies for the recycling and reuse of wastewater, and supporting critical legal, regulatory and institutional reforms that enhance long-term sustainability. The Government of Mongolia will provide up to $112 million of additional financing to ensure implementation of the full compact program. MCC and the Government of Mongolia will continue to prepare for implementation, working towards entry into force.

At MCC's quarterly Board meeting in September 2018, MCC provided MCC's Board of Directors with an update on progress towards the development of a Sri Lanka Compact. The compact will assist the Government of Sri Lanka in addressing two binding constraints to economic growth: (i) weaknesses in transport infrastructure and planning, leading to both congestion in the Colombo Metropolitan Region, and slow movement of goods and people between provinces; and (ii) lack of private sector access to land for commercial investment. MCC plans to review and discuss the Sri Lanka Compact at the December 2018 Board meeting.

MCC also provided an update to MCC's Board of Directors at MCC's quarterly Board meeting in September 2018 on progress towards the development of a second compact in Senegal. The proposed compact will seek to assist the Government of Senegal in addressing one of its main binding constraints to economic growth: the high cost of electricity to grid-connected firms, low access to electricity outside of the main urban centers and to a lesser extent, the unreliability of electricity service that reduces firms' competitiveness by increasing costs and uncertainty of production. This investment is expected to benefit nearly 13 million people. MCC will seek board approval of the Senegal Compact through written consent in the first quarter of FY 2019.

In addition to the preceding updates to developing compacts and thresholds, MCC will continue working on four previously selected compacts under development (Tunisia, Burkina Faso, Lesotho, and Timor-Leste) and The Gambia Threshold Program in addition to any new selections to be made by MCC's Board of Directors in December 2018.

Regional Partnerships

On April 23, 2018, the President signed the African Growth and Opportunity Act (AGOA) and Millennium Challenge Act Modernization Act into law, providing MCC the authority to enter into one additional concurrent compact with a country if one or both of the compacts with the country is for the purpose of regional economic integration, increased regional trade, or cross-border collaborations.

After over 14 years of successfully delivering large, complex infrastructure projects and supporting difficult policy reforms in its partner countries, MCC is now poised to tap into economies of scale to achieve greater impact through regional investments. Many of the world's most compelling opportunities for economic growth and development are regional in scope, and MCC invests at a scale and magnitude that affects significant, sustainable change.

MCC has been provided the authority to simultaneously research and work with multiple eligible countries in a region to identify, negotiate, and eventually fund investments that would have a positive economic impact for each country involved as well as the region. By making coordinated investments across multiple countries to expand infrastructure, MCC will be able to help partners work together to build and grow regional markets, facilitate trade, and foster greater impact through economies of scale. This, in turn, will help generate new business and market opportunities for U.S. and other companies by making it cheaper, easier, and faster for businesses to get their products to new, emerging regional markets.

This new authority allows MCC to expand our impact while maintaining a singular focus on reducing poverty through economic growth, using a fully transparent business model underpinned with rigorous analysis, data-based decisions, and corporate accountability through public sharing of all investment decisions and outcomes. MCC remains committed to maintaining MCC's principles while we operationalize the new authority including maintaining competitive country selections, ensuring country ownership, continuing commitment for 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 act in accordance with the five year limit upon entry into force. MCC shall continue to hold its partner countries accountable for results and good governance, advancing greater stability and prosperity at home and abroad.

MCC has begun to take steps in order to successfully operationalize the new authority in preparation for MCC's Board of Directors to select regional investments.

The BUILD Act

On October 5, 2018, the President signed the Better Utilization of Investments Leading to Development (BUILD) Act into law with bipartisan support from Congress. The BUILD Act reforms the United States' development finance institutions to incentivize private sector investments and establishes the United States International Development Finance Corporation (IDFC). The new IDFC will utilize some of the core principles of MCC's investment model as well as MCC's constraints to growth analysis and agency data for identifying factors impeding economic growth in developing countries, recognizing investment opportunities, and working with country partners to enact reforms that crowd in private sector funding.

MCC aims to collaborate with the new IDFC in three distinct ways: (1) MCC intends to coordinate with IDFC on its development policies and implementation efforts; (2) MCC aims to provide utilization of relevant data for identifying a country's key growth sectors, assessing the enabling environment for public private partnerships, and identifying investment opportunities where public and private interests overlap; (3) MCC intends to consult with IDFC on its time-tested Constraints Analysis on the binding constraints to economic growth as a source of information to help inform the decisions of the IDFC as stated in the BUILD Act.

In these ways and more, MCC is willing to provide coordination with the IDFC as a strategic development partner. MCC and IDFC, when operating in a collaborative and coordinated manner within MCC countries, are able to leverage the United States development finance capabilities that match or even surpass those now employed by other donors, allowing the U.S. to maintain global leadership in development. MCC programmatic activities, such as infrastructure grants tied to investor-friendly policy reform, offer a toolkit of synergies that will provide the IDFC with a competitive development advantage as no other global development player may provide.

Looking forward, MCC's expertise in basing decisions on hard evidence and economic analysis, leveraging private sector investment, and incentivizing policy and institutional reforms position the agency to make significant contributions to the overall impact of the BUILD Act, the IDFC, and the ability of U.S. assistance to create jobs, expand markets and reduce poverty through economic growth and "transition countries from aid to trade efficiently and effectively."

Blended Finance

Blended Finance is an approach that combines structured investments from public and private resources with various actors, including private firms, governmental, state, or local agencies, or non-governmental organizations, during different stages of the development project. MCC's approach to blended finance creates the right circumstances for businesses to invest in partner countries. MCC catalyzes private and commercial finance for development by helping partner countries design, strengthen and harness financial markets for sustainable development and growth. The current MCC blended finance portfolio employs grant facilities, public-private partnerships and catalytic investment strategies to increase the impact and sustainability of programs. Examples include the use of grant facilities in Indonesia, Morocco, and Benin; public-private partnerships in Côte d'Ivoire and Benin; and catalytic investment strategies in Kosovo and El Salvador.

Because strategic, long-term capital support is key to achieving lasting results from programs, MCC will continue to attract private and commercial finance in and around our compacts, while also improving leverage ratios.

Women's Economic Empowerment

Investing in women's economic empowerment continues to be a leading policy driver throughout the development sphere with relevant targets across seven sustainable development goals and comprehensive initiatives being driven by nearly all key actors. Despite these collective efforts and some significant progress in reducing poverty, promoting gender equality, and fostering economic growth that is inclusive to all, tremendous gaps in women's economic opportunities remain around the world.

Gender and social inequality are known constraints to sustained economic growth at the national level. Since its inception, MCC has prioritized the incorporation of gender-inclusive initiatives into its country programs, and, therefore, MCC is well-positioned to be a leader in advancing the U.S. government's efforts to unlock the potential of women around the world in a holistic, sustainable, and impactful way.

Gender analysis informs all aspects of MCC's work, from selection of country partners to investments helping partner governments change policies and laws that prevent women from full and equal participation in the economy. Each MCC investment requires a Social and Gender Integration Plan, which provides a comprehensive roadmap for social inclusion and gender integration throughout compact and threshold programs. By design, MCC projects maximize opportunities to support women entrepreneurs, expand income-generating activities and employment opportunities for women, and increase women's access to land, education and skills development.

Through agency compact and threshold programs, which include significant investments in policy and institutional reform as well as infrastructure, MCC lifts up the U.S. government's ability to change the landscape of women's economic empowerment around the world. Advancing women's economic opportunities is the next step forward in MCC's long commitment to sustained gender inclusion, equality, and empowerment.

Engaging U.S. Businesses

MCC actively promotes participation by U.S. firms in MCC headquarters and MCC partner country overseas opportunities. Partner country overseas procurements, grants, and public-private partnerships are solicited, awarded, and administered by partner country accountable entities—or Millennium Challenge Accounts, also known as MCAs. MCC oversees partner country procurement processes to ensure that contracts are open, transparent, free of corruption, and provide best value to American taxpayer. Similarly, MCC partner countries select public-private partnership operators through an open, competitive selection process. MCC is engaging prospective U.S. bidders through enhanced collaboration with the Department of Commerce, Department of State, U.S. Chamber of Commerce, and others, including working with the Department of Commerce's Advocacy Center to reach its network of U.S. firms. MCC's market outreach efforts include promotion to targeted U.S. businesses through industry associations, market outreach events, and webinars, highlighting the advantages of working on MCC-funded projects while addressing any barriers to participation, showcasing post-compact investment opportunities for U.S. businesses, and building additional avenues for partnership with MCC through co-investment, joint research, knowledge sharing, and program co-design. MCC's website includes a single page with information on all forecasted and live MCC-funded opportunities, mcc.gov/work-with-us.

Analysis of MCC's Financial Statements and Stewardship Information

Financial Discussion and Analysis

At the end of FY 2018, MCC prepared four basic financial statements with accompanying notes and presented them to the USAID OIG for audit by an independent accounting firm. The Financial Section of this report contains the financial statements and notes, and the auditor's report. The following analysis provides a high-level summary of MCC's Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, and Statement of Budgetary Resources (SBR).

Balance Sheet

The Balance Sheet is a representation of MCC's financial condition at the end of the FY. 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, 2018, MCC held total assets of $5.2 billion compared to $5.1 billion reported in FY 2017. The majority of MCC's assets (99 percent) are held in its Fund Balance with Treasury (FBWT), which increased by $230.2 million due to differences in Appropriations Received and Gross Outlays.

Other assets, which reflect only 1 percent of MCC's total assets, include Advances, Property, Plant and Equipment (PP&E), and Accounts Receivable. Public Advances decreased by $54.5 million due primarily to liquidations of advances for compacts in the countries of Indonesia and Malawi. 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. Further, MCC has set capitalization thresholds at $200 thousand for IT equipment, $500 thousand for internal use software, and $50 thousand for other fixed assets. In FY 2018, MCC capitalized development costs of $4.5 million associated with the development of internal software. In FY 2017, MCC capitalized development costs of $10.3 million associated with the development of internal software.

Liabilities

As of September 30, 2018, MCC had $130.2 million in liabilities, which represents amounts owed to grantees, vendors, contractors, trading partners, and employees. Grant liabilities comprise $108.5 million, or approximately 83 percent of MCC's total liabilities. Grant liabilities and retentions increased by $9.4 million and $13.2 million, respectively, primarily due to increases in the grant accrual for the Zambia compact and retentions for the Malawi compact.

Net Position

MCC's overall net position as of September 30, 2018, was $5.1 billion, an increase of $152.3 million, over 3 percent, from FY 2017. The available appropriations reported in MCC's positive net position represent the resources necessary to fund future compacts.

Statement of Net Cost

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

During FY 2018, MCC incurred $755.5 million in net program costs, allocated among MCC's six active programs. Table 7 shows the percentage change of net costs by program for FY 2018 as compared to FY 2017. Net program costs increased by $8.9 million, or 1 percent, from FY 2017 due to a net increase in non-compact program costs, net of the decrease in compact program costs.

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, 2018, was $5.1 billion, an increase of $152.3 million from September 30, 2017. Net position is affected by changes to its two components: Cumulative Results of Operations and Unexpended Appropriations. As of September 30, 2018, Cumulative Results of Operations amounted to $11.5 million, an increase of $1.9 million from September 30, 2017. 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 $5.1 billion, an increase of $150.4 million, or approximately 3 percent, from FY 2017.

Statement of Budgetary Resources

This statement and related disclosures provide information about how budgetary resources were made available as well as their status at the end of the period. It is the only financial statement derived predominantly from the entity's budgetary general ledger in accordance with Federal accounting rules. The SBR reflects the format prescribed by OMB Circular No. A-136, *Financial Reporting Requirements.* The total amount displayed for the status of budgetary resources equals the total budgetary resources available to MCC as of September 30, 2018.

For FY 2018, MCC reported total budgetary resources of $3.2 billion compared to $3.3 billion in FY 2017. Budgetary resources of $905 million were provided through FY 2018 appropriations and $2.3 billion were carried forward from appropriations in FY 2017 and prior years.

Table 6. MCC Fund Categories

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

Table 7. MCC Net Program Costs (Dollars in Thousands)				
Program	FY 2018	FY 2017	% Change	Reason for Change
Compact	$ 536,327	$ 554,320	–3%	The $18.0 million decrease was primarily the result of decreases in expenditures for compacts closing in 2018 (Cabo Verde, Malawi and Indonesia), offset by an increase in the expenditures in the El Salvador and Georgia compacts as they enter the last years of their compact lifecycles.
609(g)	21,805	17,537	24%	The $4.3 million increase was primarily the result of increased expenditures for the Benin II, Mongolia II, and Senegal II programs.
Threshold Program	12,473	7,594	64%	The $4.9 million increase was primarily the result of increases in expenses for the country of Guatemala and Kosovo.
Due Diligence	65,943	56,627	16%	The $9.3 million increase was primarily due to an increase in program costs associated with the countries of Sri Lanka, Mongolia II, Kosovo, and Tunisia.
Audit	3,839	4,210	–9%	The $0.4 million decrease was due primarily to a decrease in external contract expenses incurred by the USAID OIG.
Administrative	115,098	106,313	8%	The $8.8 million increase was primarily due to an increase in Information Technology contracted services, as well as an increase personnel costs.
TOTAL	$ 755,485	$ 746,601		

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

Systems

MCC's financial management systems strategy employs the use of a shared service provider (SSP) to achieve its financial and budget management goals. MCC has benefited from economies of scale provided by the SSP strategy since its inception in 2004 and plans to continue utilizing the SSP for the foreseeable future. If MCC elected to change this strategy, system changes and implementation require approval from MCC IT Investment Review Board (IT-IRB). The IT-IRB provides executive decision-making on, and oversight of, MCC IT investment planning and management to ensure compliance with statutory and regulatory direction from Congress, OMB, and other applicable Federal oversight entities. Currently, the Interior Business Center (IBC), operated by the Department of the Interior, is MCC's SSP for financial and payroll management systems. IBC maintains and operates the following systems on MCC's behalf:

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

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

Controls

On an annual basis, MCC assesses the vulnerability of its programs and systems in alignment with the Federal Managers' Financial Integrity Act of 1982 (FMFIA) and its implementing guidance, OMB Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control,* as well as the associated guidelines issued by the CFO Council. OMB Circular No. A-123, Appendix A, *Management of Reporting and Data Integrity Risk,* provides guidance to Federal managers on improving the accountability and effectiveness of Federal programs and operations by establishing, assessing, correcting, and reporting on internal control over reporting. OMB Circular A-123 Appendix A allows for modified implementation to fit the circumstances, conditions, and structure of each entity. During FY 2018, 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:

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 2018, 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 2018, MCC referred no debt to the Department of the Treasury.

Federal Information Security Modernization Act of 2014

In FY 2018, MCC achieved compliance with Homeland Security Presidential Directive 12 (HSPD-12), by using Personal Identity Verification (PIV) cards for logical identification and authentication to the MCC Network for both staff and contractors. Furthermore, MCC made progress by closing all outstanding FISMA recommendations from prior years including managing approved baseline configurations to the production network; and enhancing policies and procedures that manage logical and physical security controls of our enterprise systems. The FY 2018 FISMA Inspector General's audit report agreed with the improvements outlined. In addition, MCC has instituted advanced security enhancements that prevents unauthorized software applications from executing on the network. This security control is above the recommendation for moderate-impact systems issued by the National Institute of Standards and Technology (NIST) in Special Publication (SP) 800-53, Revision 4, *Security and Privacy Controls for Federal Information Systems and Organizations.*

Digital Accountability and Transparency Act of 2014 (DATA Act)

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

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

Management Assurances

COO Assurance Statement

MILLENNIUM
CHALLENGE CORPORATION
UNITED STATES OF AMERICA

November 8, 2018

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, and compliance with applicable laws and regulations. Based on the results of its assessment, MCC can provide unmodified reasonable assurance that internal controls over operations, reporting, and compliance were operating effectively as of September 30, 2018. 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, 2018.

Jonathan G. Nash
Chief Operating Officer (and Head of Agency)
Millennium Challenge Corporation

Statement of Assurance from Service Provider

United States Department of the Interior
INTERIOR BUSINESS CENTER
Washington, DC 20240

October 1, 2018

Dear Valued Customer:

The purpose of this letter is to provide assurance that the Oracle Federal Financial application controls remained unchanged for the period July 1, 2018, through September 30, 2018.

You were previously notified that KPMG LLP examined the description of the Oracle financial application controls at the Department of the Interior (Department), Interior Business Center (IBC). The results of their review and analysis were provided in a Service Organization Control Report (SSAE18) covering the period August 1, 2017, through June 30, 2018. A softcopy version of the report was provided to you on July 16, 2018.

The SSAE 18 review was conducted for the purpose of expressing an opinion as to whether (1) IBC's description of the Oracle Federal application controls presents fairly in all material respects the aspects of the IBC controls that may be relevant to a user organization's internal control; (2) the controls included in the description were suitably designed to achieve the control objectives specified in the description if those controls were complied with satisfactorily; and (3) such controls had been placed in operation as of June 30, 2018. KPMG also performed testing procedures designed to determine the effectiveness of the specified controls in meeting control objectives specified by the IBC.

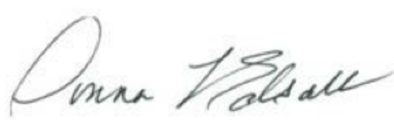
This letter provides representations and assurances related to Oracle Federal Financial application controls at the IBC for the period July 1, 2018, through September 30, 2018. This time period was not covered by the SSAE 18 examination report previously provided. To the best of my knowledge and belief, 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, 2018, did not change for the period of July 1, 2018, through September 30, 2018. The description of controls in the FY 2018 SSAE 18 examination report presents fairly the aspects of IBC controls in place as of September 30, 2018.

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, 2018. 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, 2018. As a result, the IBC continues to assert substantial compliance with financial accounting and reporting controls in place from July 1, 2018, through September 30, 2018.

If you have any questions on this assurance statement, please contact Margaret Treadway, Chief Enterprise Support Office, Margaret_Treadwav@ibc.doi.gov or 202-256-3079.

Sincerely,



Donna L. Edsall, CPA
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 15, 2018

MCC signed two new compacts totaling $874.7 million during FY 2018, bringing the total number of implementing compacts at the conclusion of the fiscal year to 12, with a combined value of $4.5 billion. Additionally, MCC oversaw the implementation of four threshold programs for a total of $137 million.

All of MCC operations are governed by U.S. law and MCC's policies, procedures and guidelines. We work to hold ourselves and our partner countries accountable in all of our activities. As a publicly financed entity, MCC assesses the performance of our investments using targets established on the basis of available evidence. MCC discloses and disseminates these results to stakeholders, including the public, the U.S. Congress, the USAID Office of Inspector General, in order to inform resource allocation, and to maintain high standards of financial accountability and compliance.

While MCC is not subject to the Chief Financial Officer Act, it elects to follow the Act's standards to demonstrate fiscal accountability and accurate accounting and reporting; generate auditable financial statements, strengthen internal controls and improve financial management systems; and enhance performance information through transparency.

During FY 2018, MCC fully implemented a new budget framework—the Integrated Planning, Budgeting and Execution (IPBE) system—to improve budgetary procedures, provide greater transparency of critical financial information and funding decisions, and position MCC to achieve greater accountability and financial oversight.

IPBE processes includes quarterly financial highlights and budgetary reviews, reviews of open obligations, and reconciliation of prior-year funds to allow for greater use of MCC's limited funding, as well as integration of budget execution into out-year planning processes, and improvements aimed at achieving consistent and defined fiscal coding to increase the dependence on MCC's financial systems. MCC will continue to seek improvements to financial management, and to support leadership with timely, accurate information.

In FY 2018, MCC's Department of Administration & Finance completed the agency-wide rollout of Oracle's Contract Lifecycle Management (CLM) system. By expanding our Interagency Agreement with the Department of the Interior (DOI), MCC was able to integrate Oracle's contract-writing system with our existing Oracle/DOI financials. MCC's CEO decided to implement Oracle CLM to improve workflow, provide real-time fund control and increase analytical capabilities. The system went live in the first quarter, and MCC's Contracts and Grants Management division (CGM) completed the manual conversion of all legacy contract data by the end of the fourth quarter. Streamlined business processes and workflow are now conducted within CLM, and Oracle's Approvals Management Engine further streamlines the delivery of requirements to CGM.

Through FY 2018, our financial management systems and transaction processing continued to be supported by DOI's Interior Business Center (IBC). IBC has been our shared service provider since FY 2004, and we have valued their contributions to our financial operations and recordkeeping. IBC provides an Oracle E-Business Suite 12.1 solution to federal agencies with an integrated Financial Management System, and hosts the transaction-processing system in a FedRAMP-compliant, secure facility. Benefits from this migration include reduced operations and maintenance costs, integration of acquisition functions with financial postings, and leveraging of Treasury's e-Invoicing system.

During the latter part of FY 2018, MCC assumed responsibilities from the USAID OIG to perform functions related to the oversight of the accountable entity financial audit process. This includes review of Independent Public Accountant (IPA) Audit Planning Documents and Audit Reports to ensure compliance with MCC Audit Guidelines and other auditing standards. MCC created a new Audit, Risk, and Controls Division to oversee these responsibilities. During FY 2019, MCC will review and revise the Audit Guidelines, implement a new process to properly vet future IPA firms for new compact and threshold program audits, and ensure review of audit deliverables.

I am pleased to report MCC received an unmodified opinion on the FY 2018 financial statements. The auditor's "Report on Internal Controls over Financial Reporting" indicated no material weaknesses, and identified three significant deficiencies and 10 recommendations. While we are pleased with the year's accomplishments, we recognize that there are a number of items noted in the AFR and the Independent Auditor's Report that will require dedicated continued attention.

Cynthia Huger
Vice President and Chief Financial Officer
Department of Administration and Finance

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 July 30, 2018). 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, 2018 and September 30, 2017 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, 2018 and September 30, 2017 (in thousands)		
Assets	**FY 2018**	**FY 2017**
Intragovernmental:		
Fund Balance with Treasury *(Note 2)*	$ 5,203,999	$ 4,973,783
Advances *(Note 3)*	3,548	6,461
Total Intragovernmental	**5,207,547**	**4,980,244**
Accounts Receivable, Net *(Note 4)*	60	378
General Property, Plant, and Equipment, Net *(Note 5)*	22,550	20,580
Advances *(Note 3)*	6,623	61,025
Total Assets	**$ 5,236,780**	**$ 5,062,227**
Liabilities		
Intragovernmental:		
Accounts Payable	$ 148	$ 398
Other Liabilities	569	537
Total Intragovernmental	**717**	**935**
Accounts Payable	7,727	7,465
Accrual — Grant Liabilities	108,546	85,956
Other Liabilities *(Note 7)*	13,164	13,512
Total Liabilities	**130,154**	**107,868**
Commitments & Contingencies *(Note 8)*		
Net Position		
Unexpended Appropriations — All Other Funds	5,095,176	4,944,802
Cumulative Results of Operations — All Other Funds	11,450	9,557
Total Net Position	**5,106,626**	**4,954,359**
Total Liabilities and Net Position	**$ 5,236,780**	**$ 5,062,227**

The accompanying notes are an integral part of these statements.

Statements of Net Cost

For the Years Ended September 30, 2018 and September 30, 2017 (in thousands)		
Program Costs	**FY 2018**	**FY 2017**
Compact Program Costs	$ 536,327	$ 554,320
609 (g) Program Costs	21,805	17,537
Threshold Program Costs	12,473	7,594
Due Diligence Program Costs	65,943	56,627
Audit Costs	3,839	4,210
Administrative Costs	115,098	106,313
Net Cost of Operations	**$ 755,485**	**$ 746,601**

The accompanying notes are an integral part of these statements.

Statements of Changes in Net Position

For the Years Ended September 30, 2018 and September 30, 2017 (in thousands)	FY 2018	FY 2017
Unexpended Appropriations	**$ 4,944,802**	**$ 4,787,823**
Budgetary Financing Sources:		
Appropriations Received	905,000	905,000
Appropriations Used	(754,626)	(748,021)
Total Budgetary Financing Sources	**150,374**	**156,979**
Total Unexpended Appropriations	**5,095,176**	**4,944,802**
Cumulative Results of Operations:		
Beginning Balances	9,557	2,462
Correction of Error	—	3,902
Beginning Balances, as adjusted	9,557	6,364
Budgetary Financing Sources:		
Appropriations Used	754,626	748,021
Other Financing Sources:		
Donations and Forfeitures of Property *(Note 10)*	185	292
Imputed Financing	2,567	1,481
Total Financing Sources	**757,378**	**749,794**
Net Cost of Operations	**(755,485)**	**(746,601)**
Net Change	1,893	3,193
Cumulative Results of Operations	**11,450**	**9,557**
Net Position	**$ 5,106,626**	**$ 4,954,359**

The accompanying notes are an integral part of these statements.

Statements of Budgetary Resources

For the Years Ended September 30, 2018 and September 30, 2017 (in thousands)	FY 2018	FY 2017
Budgetary Resources:		
Unobligated Balance from Prior Year Budget Authority, Net	$ 2,258,779	$ 2,352,059
Appropriations (discretionary and mandatory) *(Note 1E)*	905,000	905,000
Total Budgetary Resources	**$ 3,163,779**	**$ 3,257,059**
Memorandum (Non-Add) Entries:		
Net Adjustments to Unobligated Balance Brought Forward, October 1	$ 96,844	$ 93,477
Status of Budgetary Resources:		
New Obligations and Upward Adjustments (Total)	$ 704,347	$ 1,095,124
Apportioned, unexpired accounts	2,367,822	2,152,203
Unapportioned, unexpired accounts	91,610	9,732
Unexpired unobligated balance, end of year	2,459,432	2,161,935
Unobligated Balance, End of Year (Total)	2,459,432	2,161,935
Total Budgetary Resources	**$ 3,163,779**	**$ 3,257,059**
Outlays, Net (Total) (discretionary and mandatory)	**$ 674,784**	**$ 716,790**

The accompanying notes are an integral part of these statements.

Notes to the Financial Statements

Note 1 — Summary of Significant Accounting Policies

A. Reporting Entity

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

B. Reporting by Operational Components

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

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

C. Basis of Accounting and Presentation

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

The accounting structure of Federal activities is designed to reflect both the accrual and budgetary basis of accounting. Under the accrual method of accounting, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. The accompanying Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position are prepared using the accrual method of accounting. The Statement of Net Cost reports MCC's gross cost less earned revenues to arrive at 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 SBR is prepared in accordance with budgetary accounting rules.

While the financial statements have been prepared from the books and records of MCC in accordance with the formats prescribed by OMB, these financial statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records. Intradepartmental transactions and balances have been eliminated from the Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position.

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

D. Use of Estimates in Preparing Financial Statements

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

The most significant estimates are a result of the accrued expenses recorded by MCC for grant liability incurred by MCAs. The majority of those liabilities are related to large infrastructure project and quantity estimates made on works performed but not yet invoiced as of the end of the FY. Due to the nature of the infrastructure contracts, the variability in quantities estimated or projected may differ from actual quantities billed through interim or final invoicing.

E. Budgetary Basis of Accounting

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

F. Accrual — Grant Liabilities

MCC's partner countries, through their respective accountable entities, 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.

Where an MCA has expenditures under the grant at the end of each quarter that have not been advanced by MCC, such amounts are recorded as a grant expenses at the end of each quarter. In FY 2018 MCC changed the basis of estimating grant accruals such that MCC records as an accrual the value of all invoices that have been received by the MCA but not paid as of the quarter end, and an estimate of all work completed but not invoiced.

Prior to FY 2018 MCC referenced the unused spending authority in determining the grant accrual liability on the assumption that the "unused spending authority" in a given period represents the upper limit of the accrual calculation and that invoices on hand at the end of a given period (MCA in-house invoices) represented the lower limit of the accrual calculation. In arriving at a reasonable estimate of the MCAs' accrued liabilities using information available at the time of the calculation, MCC discounted the unused spending authority by using a rolling average of actual disbursements to calculate the grant accrual liabilities. When better information is available from MCAs on accrued liabilities, MCC relies on such information in arriving at the best estimate.

G. Fund Balance with Treasury

FBWT represents the aggregate amount of MCC's accounts with the Department of the Treasury available to pay current and future liabilities and finance authorized purchases, except where prohibited by law. The Department of Treasury processes all cash receipts and disbursements on behalf of MCC. MCC's FBWT represent no-year funds maintained in appropriated accounts. MCC's records are reconciled with those of The Department of Treasury on a monthly basis.

H. Advances

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

I. Accounts Receivable, Net

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

J. General Property, Plant, and Equipment, Net

MCC's general PP&E consists of capitalized general equipment costs. MCC's capitalization threshold is $50,000 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, 2018 and 2017, 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, 2018 and 2017, budgetary resources have not yet been made available to fund certain liabilities reported on the Balance Sheet. Liabilities not covered by budgetary resources represent amounts for which Congressional appropriation is required and funding is generally made available in the year payments are due or anticipated. Liabilities not covered by budgetary resources include the Judgment Fund, unfunded leave, Federal Employees Compensation Act (FECA), unemployment compensation, and unamortized rent abatement liability.

Judgment Fund

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

Unfunded Leave

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

Unfunded Federal Employees Compensation Act

FECA (established by PL 103-3) provides income and medical cost protection to covered Federal civilian employees injured on the job, employees who have incurred work-related occupational diseases, and beneficiaries of employees. Claims incurred for benefits for MCC employees under FECA are administered by the Department of Labor (DOL) and later billed to MCC. MCC's liability for workers' compensation includes any costs incurred but unbilled as of quarter end, as calculated by DOL, and not funded by current appropriations.

Unfunded Unemployment

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

Unamortized Rent Abatement Liability

The rent abatement represents MCC's period of free rent awarded by the lessor of the Franklin Court building. MCC maintains a 10-year operating lease for office space at Franklin Court, on which lease payments commenced in FY 2017. Per the terms of the contract, MCC was awarded approximately 15 months of rent abatement beginning on December 1, 2015. As a result of this 15 month rent abatement, and in accordance with the Financial Accounting Standards Board Accounting Standards Codification No. 842, *Leases,* MCC recorded a liability which will be amortized on a monthly basis utilizing a straight-line approach over the 10 year lease period.

O. Net Position

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

P. Parent/Child Relationships with Other Federal Agencies

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

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. As the child entity, MCC was allocated funds from the U.S. President's Emergency Plan for AIDS Relief, Office of the U.S. Global AIDS Coordinator.

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.

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, 2018 and September 30, 2017 (in thousands)

Status of Fund Balance with Treasury	2018	2017
Unobligated Balance		
Available	$ 2,367,822	$ 2,152,203
Unavailable	91,610	9,732
Obligated Balance not yet Disbursed	2,744,524	2,811,806
Non-Budgetary FBWT	43	42
Total	**$ 5,203,999**	**$ 4,973,783**

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, 2018, MCC reported intragovernmental advances totaling $3,458 thousand and public advances totaling $6,623 thousand. As of September 30, 2017, the amounts reported were $6,461 thousand and $61,025 thousand, respectively. Public advances declined primarily due to liquidation of advances for compacts that closed during FY 2018.

Note 4 — Accounts Receivable, Net

Total receivables at September 30, 2018 and 2017 were $60 thousand (net of allowance for doubtful accounts of $4 thousand) and $378 thousand (net of allowance for doubtful accounts of $5 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, 2018 (in thousands)

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

Status of General Property, Plant, and Equipment, Net as of September 30, 2017 (in thousands)

	Estimated Useful Life	Cost	Accumulated Depreciation	Book Value
General PP&E				
Leasehold Improvements	10 years	$ 8,392	$ (1,421)	$ 6,971
Furniture	10 years	3,788	(673)	3,115
Internal Use Software	5 years	10,253	—	10,253
Vehicles	5 years	369	(128)	241
Total		**$ 22,802**	**$ (2,222)**	**$ 20,580**

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 $47,573 thousand with a termination liability in the amount of $18,556 thousand.

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

Future Lease Payments Due — Buildings, Franklin Court (in thousands)

	Asset Category			
Fiscal Year	Vehicle	Copiers	Building	Totals
FY 2019	$ 7	$ 55	$ 6,260	$ 6,322
FY 2020	6	55	6,378	6,439
FY 2021	2	55	6,499	6,556
FY 2022	—	55	6,622	6,677
FY 2023	—	5	6,749	6,754
After FY 2023	—	—	15,065	15,065
Total Future Lease Payments	**$ 15**	**$ 225**	**$ 47,573**	**$ 47,813**

Note 7 — Other Liabilities

MCC's total other liabilities as of September 30, 2018 and 2017, respectively is comprised as follows:

Status of Other Liabilities as of September 30, 2018 (in thousands)

	Non-Current Liabilities	Current Liabilities	Total
With the Public			
Employer Contributions & Payroll Taxes Payable	$ —	$ 92	$ 92
Accrued Funded Payroll Benefits	—	2,010	2,010
Accrued Unfunded Annual Leave	—	4,602	4,602
Rent Abatement Liability	5,937	523	6,460
Total Liabilities with the Public	5,937	7,227	13,164
Total Other Labilities	**$ 5,937**	**$ 7,227**	**$ 13,164**

Status of Other Liabilities as of September 30, 2017 (in thousands)

	Non-Current Liabilities	Current Liabilities	Total
With the Public			
Employer Contributions & Payroll Taxes Payable	$ —	$ 89	$ 89
Accrued Funded Payroll Benefits	—	2,117	2,117
Accrued Unfunded Annual Leave	—	4,438	4,438
Rent Abatement Liability	6,460	408	6,868
Total Liabilities with the Public	6,460	7,052	13,512
Total Other Labilities	**$ 6,460**	**$ 7,052**	**$ 13,512**

Note 8 — Commitments and Contingencies

MCC's program execution results in commitments of future obligations with country-specific accountable entities. MCC and the accountable entity agree on the terms of the proposed program (compact/threshold), sign an agreement, and prepare for the agreement to enter into force. Once a compact/threshold enters into force, the obligation is recorded by MCC; until such time, MCC recognizes commitments for these accountable entities. As of September 30, 2018, MCC had commitments for the compacts of Cote D'Ivoire, Mongolia and Nepal totaling $1,261,890 thousand. Similarly, as of September 30, 2017, MCC had commitments for the compacts of Nepal and Niger totaling $869,350 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 non-performance. 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, 2018 one MCA had agreements subject to performance guarantees which in aggregate are not to exceed $5,236 thousand and may be exercised upon notification of non-performance on or before March 29, 2019.

Note 9 — 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, 2018 and 2017, liabilities not covered by budgetary resources were as follows:

Liabilities Not Covered by Budgetary Resources (in thousands)	2018	2017
Intragovernmental		
FECA	$ 74	$ 73
Unemployment	24	23
Total Intragovernmental	98	96
Annual Leave Liability	4,602	4,437
Franklin Court Unamortized Rent Abatement	6,460	6,868
Total Liabilities Not Covered by Budgetary Resources	11,160	11,401
Total Liabilities Covered by Budgetary Resources	118,994	96,467
Total Liabilities	**$ 130,154**	**$ 107,868**

Note 10 — 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 $185 thousand for FY 2018 and $292 thousand for FY 2017.

Note 11 — 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, 2018 and 2017, respectively is comprised as follows:

Undelivered Orders at September 30, 2018 and September 30, 2017 (in thousands)

	2018	2017
Intragovernmental		
Paid	$ 4,022	$ 6,020
Unpaid	20,796	27,170
Total Intragovernmental	24,818	33,190
Public		
Paid	$ 6,149	$ 61,465
Unpaid	2,604,765	2,688,196
Total Public	2,610,914	2,749,661
Total	**$ 2,635,732**	**$ 2,782,851**

Note 12 — 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 2017 Statement of Budgetary Resources and the actual amounts reported for FY 2017 in the Budget of the U.S. Government released in 2018. Since the FY 2018 financial statements will be reported prior to the release of the Budget of the U.S. Government, MCC is reporting for FY 2017 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 2018 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	$ 3,257	$ 1,095	$ (717)
Deductions	—	—	—
Budget of the U.S. Government	**$ 3,257**	**$ 1,095**	**$ (717)**

Note 13 — Reconciliation of Net Cost of Operations to Budget

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

Reconciliation of Net Cost of Operations to Budget for the Year Ending September 30, 2018 (in thousands)

	Intragovernmental	With the Public	Total
Net Operating Cost	**$ 37,540**	**$ 717,945**	**$ 755,485**
Components of Net Operating Cost Not Part of the Budget Outlays			
Property, Plant and Equipment Depreciation	—	(2,597)	(2,597)
Increase/(Decrease) in Assets:			
Accounts Receivable	—	(318)	(318)
Advances	(2,913)	(54,402)	(57,315)
(Increase)/Decrease in Liabilities Not Affecting Budget Outlays:			
Accounts Payable	250	(262)	(12)
Salaries and Benfits	(30)	106	76
Other Liabilities (Rent Abatement, Unfunded Leave, Unfunded FECA)	(2)	242	240
Grant Accrual Liability	—	(22,590)	(22,590)
Other Financing Sources:			
Federal Employee Retirement Benefit Costs Paid by OPM and Imputed to the Agency	(2,567)	—	(2,567)
Donated Services	—	(185)	(185)
Total Components of Net Operating Cost Not Part of the Budget Outlays	**(5,262)**	**(80,006)**	**(85,268)**
Components of the Budget Outlays That Are Not Part of Net Operating Cost			
Acquisition of Capital Assets	—	4,567	4,567
Total Components of the Budget Outlays That Are Not Part of Net Operating Cost	**—**	**4,567**	**4,567**
Net Outlays	**$ 32,278**	**$ 642,506**	**$ 674,784**

Independent Auditors' Report

OFFICE OF INSPECTOR GENERAL

U.S. Agency for International Development

Audit of MCC's Fiscal Years 2018 and 2017 Financial Statements

AUDIT REPORT M-000-19-001-C

NOVEMBER 15, 2018

1300 Pennsylvania Avenue NW • Washington, DC 20523

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

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

MEMORANDUM

DATE: November 15, 2018

TO: Millennium Challenge Corporation/Department of Administration and Finance,
Vice President and Chief Financial Officer, Cynthia Huger

FROM: Deputy Assistant Inspector General for Audit, Nathan Lokos /s/

SUBJECT: Audit of MCC's Fiscal Years 2018 and 2017 Financial Statements
(M-000-19-000-C)

Enclosed is the final audit report on Millennium Challenge Corporation's (MCC) financial statements as of September 30, 2018, and 2017. 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. 19-01, "Audit Requirements for Federal Financial Statements."

In carrying out its oversight responsibilities, OIG reviewed the audit firm's report and related audit documentation and inquired of its representatives. Our review, which was different from an audit performed in accordance with generally accepted government auditing standards, was not intended to enable us to express, and we do not express, an opinion on MCC's financial statements. The audit firm is responsible for the enclosed auditor's report and the conclusions expressed in it. We found no instances in which 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, 2018, and 2017, were presented fairly, in all material respects; (2) evaluate MCC's internal controls; and (3) determine whether MCC complied with applicable laws and regulations. The purpose was not to provide an opinion on the effectiveness of the entity's internal control or compliance with provisions of applicable laws, regulations, contracts, and grant agreements. To answer the audit objectives, the audit firm reviewed MCC's financial statements, including the balance sheets as of September 30, 2018, and 2017, and the related statements of net cost, changes in net position, the combined statements of budgetary resources for the years then ended, and the related notes to the financial statements. The net operating costs for this period were $755,485,000.

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

The audit firm concluded that MCC's financial statements for the fiscal years ending September 30, 2018, and 2017, are presented fairly, in all material respects, in accordance with U.S. generally accepted accounting principles. The audit firm also found no instances of noncompliance with provisions of laws, regulations, contracts, and grant agreements.

The auditors reported three significant deficiencies in internal control related to:

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

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

Recommendation 1. Update the "Expense Accruals Financial Management Division Procedure Manual" to reflect the current grant accrual methodology.

Recommendation 2. Provide Millennium Challenge Accounts with written guidance on developing grant accrual estimates to ensure validity of the grant accruals estimate. The guidance should include, but not be limited to, the following:

- Take into consideration the impact of contract advances and retentions for large works contracts in the accrual estimate.
- Ensure that accrual estimates do not include costs that will not be paid with compact funds.
- Consider historical questioned costs for contracts and grants that are significant in developing the accrual estimate.

Recommendation 3. Update the "Compact Grant Accrual Validation Data Call Desktop Manual" to include a time requirement for MCC to perform followup with Millennium Challenge Accounts so that errors in accrual estimates or validations are promptly identified and addressed.

Recommendation 4. Provide Millennium Challenge Accounts with written guidance to ensure that the Millennium Challenge Accounts perform grant accrual validation correctly to include, but not be limited to, validation of consultant contract costs.

Recommendation 5. Develop clear and complete written guidance for the Millennium Challenge Accounts' internal control over the data call process, provide effective training, and monitor the effectiveness of the internal control.

Recommendation 6. Develop, document, and implement a process to oversee and verify that the accountable Government entities conduct pre-Millennium Challenge Accounts compact procurements in accordance with the compact agreement and the Program Procurement Guidelines.

Recommendation 7. Update MCC's Program Procurement Guidelines to require the Millennium Challenge Accounts to document alternative procurement procedures so that all parties are aware of what is required, who is accountable for what, and how the procurement will be documented.

Recommendation 8. Develop, document, and implement policies and procedures for MCC's management oversight of transfer and retention of pre-Millennium Challenge Accounts compact procurement and related documents to the Millennium Challenge Accounts.

Recommendation 9. Inform the Millennium Challenge Accounts that the U.S. State Department's Terrorist Exclusion List should be documented separately, for all currently active awards and future awards, and update MCC's vendor eligibility verification guidance provided to the Millennium Challenge Accounts for completeness and accuracy.

Recommendation 10. Identify the Millennium Challenge Accounts who are late with the vendor invoice payments, determine the reasons/causes for late payments, implement corrective actions, and monitor effectiveness of the corrective actions.

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 due to the absence of a target date for final action. We ask that you provide written notification of actions planned or taken to reach management decisions, including the target dates for final action, on the recommendations.

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

MILLENNIUM CHALLENGE CORPORATION

Independent Auditors' Report of Millennium Challenge Corporation's Financial Statements for the Periods Ending September 30, 2018 and 2017

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CliftonLarsonAllen LLP
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INDEPENDENT AUDITORS' REPORT

To the Inspector General
United States Agency for International Development

To the Board of Directors
Millennium Challenge Corporation

Report on the Financial Statements

We have audited the accompanying financial statements of the Millennium Challenge Corporation (MCC), which comprise the balance sheets as of September 30, 2018, and 2017, and the related statements of net cost, changes in net position, the combined statements of budgetary resources for the years then ended, and the related notes to the financial statements (financial statements).

Management's Responsibility for the Financial Statements

MCC management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America (U.S.); this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the U.S.; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and Office of Management and Budget Bulletin No. 19-01, *Audit Requirements for Federal Financial Statements* (OMB Bulletin 19-01). These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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An audit 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 assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to MCC's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of MCC's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion on the Financial Statements

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of MCC as of September 30, 2018, and 2017, and its net costs, changes in net position, and budgetary resources for the years then ended, in accordance with accounting principles generally accepted in the U.S.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the U.S. require that the information in MCC's Management Discussion and Analysis (MD&A) and Required Supplementary Information (RSI) sections be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Federal Accounting Standards Advisory Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the RSI in accordance with auditing standards generally accepted in the U.S., which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audits of the financial statements. We do not express an opinion or provide any assurance on this information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

<u>*Other Information*</u>

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. All other information exclusive of the financial statements, MD&A, and RSI as listed in the table of contents of MCC's Agency Financial Report is presented for purposes of additional analysis and is not a required part of the financial statements. In addition, MCC management has included references to information on websites or other data outside of MCC's Agency Financial Report. This information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

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

Report on Internal Control over Financial Reporting

In planning and performing our audits of the financial statements, we considered MCC's internal control over financial reporting (internal control) to determine the 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 or on management's assertion on internal control included in the MD&A. Accordingly, we do not express an opinion on the effectiveness of MCC's internal control or on management's assertion on internal control included in the MD&A.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of MCC's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, we identified three deficiencies in internal control, summarized below and detailed in Exhibit I that we considered as significant deficiencies.

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

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

3. MCC's oversight and internal controls over MCAs' compliance needs to be strengthened (Modified Repeat Finding)

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

As part of obtaining reasonable assurance about whether MCC's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements noncompliance with which could have a direct effect on the determination of material financial statement amounts and disclosures. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported in accordance with *Government Auditing Standards* or OMB Bulletin 19-01.

Management's Responsibility for Internal Control and Compliance

MCC management is responsible for (1) evaluating the effectiveness of internal control over financial reporting based on criteria established under the Federal Managers' Financial Integrity Act (FMFIA), (2) providing a statement of assurance on the overall effectiveness on internal control over financial reporting, and (3) complying with other applicable laws, regulations, contracts, and grant agreements.

Auditors' Responsibilities

We are responsible for (1) obtaining a sufficient understanding of internal control over financial reporting to plan the audit, and (2) testing compliance with certain provisions of laws, regulations, contracts, and grant agreements.

We did not evaluate all internal controls relevant to operating objectives as broadly established by the FMFIA, such as those controls relevant to preparing statistical reports and ensuring efficient operations. We limited our internal control testing to testing controls over financial reporting.

Because of inherent limitations in internal control, misstatements due to error or fraud, losses, or noncompliance may nevertheless occur and not be detected. We also caution that projecting our audit results to future periods is subject to risk that controls may become inadequate because of changes in conditions or that the degree of compliance with controls may deteriorate. In addition, we caution that our internal control testing may not be sufficient for other purposes.

We did not test compliance with all laws, regulations, contracts and grant agreements applicable to MCC. We limited our tests to certain provisions of laws, regulations, contracts and grant agreements noncompliance with which could have a direct effect on the determination of material financial statement amounts and disclosures. However, providing an opinion on compliance with those provisions was not an objective of our audits, and accordingly, we do not express such an opinion. We caution that noncompliance may occur and not be detected by these tests and that such testing may not be sufficient for other purposes.

Management's Response to Audit Findings

Management's response to the findings identified in our report is presented in Exhibit 2. We did not audit MCC's response and, accordingly, we express no opinion on it.

Status of Prior Year's Control Deficiencies

We have reviewed the status of MCC's corrective actions with respect to the findings included in the prior year's Independent Auditors' Report, dated November 13, 2017. The status of prior year findings is presented in Exhibit 3.

Purpose of the Report on Internal Control over Financial Reporting and on Compliance

The purpose of the Report on Internal Control over Financial Reporting and the Report on Compliance is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of MCC's internal control or on compliance. These reports are an integral part of an audit performed in accordance with Government Auditing Standards in considering MCC's internal control and compliance. Accordingly, these reports are not suitable for any other purpose.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Arlington, Virginia
November 8, 2018

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EXHIBIT I
Significant Deficiencies in Internal Controls

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

In FY 2018, MCC changed its grant accrual methodology based on its evaluation of the validation data over the last four years to rely solely on MCC Compact Accountable Entities' (also known as Millennium Challenge Accounts or MCAs) grant accrual estimates submitted via data calls. MCAs were also responsible for assisting MCC in validating the estimated liability. MCC reported approximately $536 million in compact grant related expenses and an accrued grant liability of $108 million comprising retentions payable and expenses incurred but not yet reported by MCAs as of September 30, 2018. The compact grant activities are the core of MCC's financial and program operations.

We audited the grant accruals and validation for reasonableness and compliance with MCC's *Expense Accruals Financial Management Division Procedure Manual* (Manual) and interim grant accrual procedures that went into effect on October 1, 2017. During Fiscal Year (FY) 2018, MCC continued to refine its accrual methodology and collect supporting information in its data store[1] to help validate the methodology. However, we found the following conditions during our testing that impacted the quarterly grant accrual estimates. These issues increase the potential for the grant accrual estimate to be misstated and incorrectly reported in MCC's financial statements.

The Expense Accruals Financial Management Division Procedure Manual Does Not Reflect MCC's Actual Grant Accrual Methodology – MCC changed its grant accrual methodology via a memo effective October 1, 2017. MCC is no longer estimating the grant accrual amounts for MCAs, these are done by the MCAs, although MCC is still responsible for verifying these estimates. However, as of September 30, 2018, MCC's procedure manual has not been updated. Accounting policies that are not updated timely increase the risk of outdated policy and procedures not being followed by MCC's financial management personnel.

Issues with the Grant Accrual Estimates Versus Actual Validated Amounts – In our review of the quarterly grant accrual, we noted significant errors in the grant accrual estimates that raise concerns about MCC's process to ensure that its grant accrual methodology is valid and reliable. The actual costs incurred when compared to the estimates were materially not close. For example, for the fourth quarter of FY 2017, the material differences between the accrual estimates and actual payments showed that one MCA was $6 million over the estimate and another MCA was $6.5 million under the estimate. MCC explained that the differences were primarily caused by including paid advances and retentions, the foreign government contribution, and using unused spending authority in accordance with MCC's accrual policy at the time.

[1] A data store is a repository for storing and managing collections of data which include not just repositories like databases, but also simpler store types such as simple files, email, etc.

EXHIBIT I
Significant Deficiencies in Internal Controls

The grant accrual for the first quarter of FY 2018 showed a net difference of approximately $22 million over the estimate. Two MCAs accounted for 90 percent or $19.7 million of this difference. For this difference, one MCA provided reasonable explanation for $6.5 million difference; however, the remaining differences were due to including the foreign government contributions in the cost estimates and weak and untimely validations.

Additionally, the grant accrual for the second quarter of FY 2018 showed a net difference of accrual being over the estimate by approximately $9.5 million. One MCA accounted for 82 percent of this difference, or approximately $7.8 million. For this difference, MCC attributed the overage in part to aggressive MCA oversight of final grantee and contractor payments for valid expenses and deliverables, therefore, payments were reduced; not made; and/or returned. However, MCC was unable to confirm if the MCA considered its historical questioned costs information in its accrual estimate as the compact closed-out and the MCA no longer exists.

The common factor that attributed to all noted differences was insufficient written guidance for MCAs in developing their accrual estimates. There is a high risk of material misstatement and potential for these errors to occur again if sufficient guidance is not provided.

MCC's Validation Controls Were Weak – MCC, as part of its internal control process, performs a validation of its accrual estimates as a key control to assess the reasonableness of the estimated amount recorded in the prior quarter. This validation process should provide MCC an indication of whether the estimation methodology continues to be sound. However, during our testing we found significant weaknesses that impacted the validation process. MCC did not follow-up on the significant accrual differences in a timely manner. MCC's Compact Grant Accrual Validation Data Call Desktop Manual does not provide deadlines for completing the validation or for MCC to complete its investigation. For the fourth quarter of FY 2017, MCC did not obtain a response for the difference until five months after the validation period for that quarter. Subsequently, for the first quarter of FY 2018, MCC did not obtain a response for the difference until three months after the validation period for that quarter. Delays in completing follow-ups can result in accrual estimate or validation errors being repeated in the following quarters before corrective action can be taken. Additionally, for the first quarter of FY 2018 MCA indicated that the difference of $ 2.5 million was due to improper validation of consultancy contract costs following MCC's advice. MCA stated that MCC advised them to use the Consultant Deliverable Acceptance Dates for the period of performance which resulted in the understated validation costs. MCC does not have sufficient written guidance for MCAs on how to address grant accrual validations which resulted in significant variances in grant accruals.

EXHIBIT I
Significant Deficiencies in Internal Controls

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

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

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

Recommendation 1. Update the "Expense Accruals Financial Management Division Procedure Manual" to reflect the current grant accrual methodology.

Recommendation 2. Provide Millennium Challenge Accounts with written guidance on developing grant accrual estimates to ensure validity of the grant accruals estimate. The guidance should include, but not be limited to, the following:

- Take into consideration the impact of contract advances and retentions for large works contracts in the accrual estimate.
- Ensure that accrual estimates do not include costs that will not be paid with compact funds.
- Consider historical questioned costs for contracts and grants that are significant in developing the accrual estimate.

Recommendation 3. Update the "Compact Grant Accrual Validation Data Call Desktop Manual" to include a time requirement for MCC to perform follow up with Millennium Challenge Accounts so that errors in accrual estimates or validations are promptly identified and addressed.

Recommendation 4. Provide Millennium Challenge Accounts with written guidance to ensure that the Millennium Challenge Accounts perform grant accrual validation correctly to include, but not be limited to, validation of consultant contract costs.

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EXHIBIT I
Significant Deficiencies in Internal Controls

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

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

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

> *Advances and Contract Retentions reporting errors* – For the first quarter of FY 2018, we found that an MCA understated the amount reported for advances made to one contract for approximately $495,000, resulting in an overstatement of expenses, and an understatement of assets. Additionally, the same MCA overstated the contract retention amount for two contracts totaling approximately $646,000. MCA submitted the data call information before ensuring that the retentions were paid, which occurred after the payment cutoff date for the quarter. MCC did not identify the retention reporting errors. Without written procedures for the MCAs to perform quality control verifications, MCC cannot gain assurance that the data reported is accurate.
>
> *In-House invoices reporting errors* – Grant accrual estimates prepared by MCAs include vendor invoices received by the MCA (called in-house invoices) and goods and services received from vendors but not yet paid. For the first and second quarters of FY 2018, we found that selected MCAs disclosed reporting errors and incomplete data. For example, an MCA repeatedly overstated its in-house invoices by incorrectly reporting the value added tax (VAT) amounts which MCC funding is exempt from. In another instance, two MCAs understated their in-house invoices by incorrectly omitting the invoices in the data call. The reporting errors were due to MCAs not having sufficient internal controls for ensuring accuracy and completeness of the data reported, which resulted in misstatement of the expenses and accrued liabilities.

EXHIBIT I
Significant Deficiencies in Internal Controls

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

Recommendation 5. Develop clear and complete written guidance for the Millennium Challenge Accounts' internal control over the data call process, provide effective training, and monitor the effectiveness of the internal control.

3. MCC's oversight and internal controls over MCAs' compliance needs to be strengthened (Modified Repeat Finding)

During the initial stage of the compact set up, the MCA compact agreements require assistance from the country government (the accountable government entity) to maintain all accounting books, records, documents and other evidence relating to the Program to adequately document the use of all MCC funding. The compact agreement requires the accountable government entity to ensure that the procurement of all goods, works, and services must be in accordance with MCC's Program Procurement Guidelines (PPG). The MCC PPG outlines MCAs' procurement functions. MCC is responsible for updating its PPGs and providing contractual guidance to MCAs. The MCAs' procurements operations, including their compliance with applicable laws, regulations, contracts, and grant agreements are crucial to MCC's financial statements as their financial activities are material and significant. During our site visits to four selected MCAs, we evaluated the MCAs' design and effectiveness of internal controls. As a result of procedures performed, we identified the following control deficiencies that collectively we considered a significant deficiency in controls over MCA compliance.

Procurement eligibility verification were not completed – MCC requires MCAs to verify vendors' eligibility from six U.S. Government databases. In May 2017, MCC provided the MCAs specific websites to comply with the mandated vendor eligibility requirements. During our audit we discovered that MCC did not include the mandatory site, the US State Department, Terrorist Exclusion List. MCC provided this guidance without verifying that the websites provided to MCAs included this mandatory site. During our testing, we noted that one MCA verified two vendors' eligibility against the sites provided by MCC. Accordingly, the two vendors were not checked against the U.S. State Department, Terrorist Exclusion List. Eligibility verification checks are in place to ensure that ineligible vendors are not allowed to participate in the compact program. Due to incomplete eligibility verification, MCA may process a procurement with a vendor that is on the terrorist exclusion list, which is unallowable under the compact agreement.

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EXHIBIT I
Significant Deficiencies in Internal Controls

Weak oversight over pre-MCA compact procurements – During the initial stages of the compact, the pre-MCA compact procurements are initiated by the accountable government entity with the assistance of MCC prior to the establishment of the MCA or the hiring of the procurement agent. Specifically, MCC's PPG for MCAs requires various procurement documents and controls to support MCA's program procurements. During our audit we noted that two MCAs did not have the procurement documents for five major pre-MCA compact procurements (leases, procurement agent and fiscal agent contracts). MCC does not have sufficient procedures to ensure that pre-MCA compact procurements conducted on behalf of the MCA are properly documented and maintained. In the absence of documentation and the lack of properly documented procedures, MCAs are open to potential appeals, litigations, risk of fraud, waste and abuse.

MCA invoices were paid late – During our testing we found that certain MCAs did not make payments within thirty calendar days after receipt of valid invoices. Late payments ranged from 2 to 33 days. Moreover, one MCA did not date stamp invoices received for timely payment tracking purposes. The causes for these delays are not fully known by MCC, and MCC is investigating the deficiencies noted. Delay in payments may result in MCAs' expenses not being timely recognized and recorded by MCC.

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

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

Recommendation 6. Develop, document, and implement a process to oversee and verify that the accountable Government entities conduct pre-Millennium Challenge Accounts compact procurements in accordance with the compact agreement and the Program Procurement Guidelines.

Recommendation 7. Update MCC's Program Procurement Guidelines to require the Millennium Challenge Accounts to document alternative procurement procedures so that all parties are aware of what is required, who is accountable for what, and how the procurement will be documented.

EXHIBIT I
Significant Deficiencies in Internal Controls

Recommendation 8. Develop, document, and implement policies and procedures for MCC's management oversight of transfer and retention of pre-Millennium Challenge Accounts compact procurement and related documents to the Millennium Challenge Accounts.

Recommendation 9. Inform the Millennium Challenge Accounts that the U.S. State Department's Terrorist Exclusion List should be documented separately, for all currently active awards and future awards, and update MCC's vendor eligibility verification guidance provided to the Millennium Challenge Accounts for completeness and accuracy.

Recommendation 10. Identify the Millennium Challenge Accounts who are late with the vendor invoice payments, determine the reasons/causes for late payments, implement corrective actions, and monitor effectiveness of the corrective actions.

EXHIBIT 2
Management's Response to Audit Findings

MILLENNIUM
CHALLENGE CORPORATION
UNITED STATES OF AMERICA

November 13, 2018

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

Nathan Lokos
Deputy Assistant Inspector General for Audit
Office of Inspector General
United States Agency for International Development
1300 Pennsylvania Avenue, NW
Washington, DC 20005

Dear Ms. Leswing and Mr. Lokos,

In response to the audit findings and recommendations cited in the "Audit of MCC's Financial Statements, Internal Controls, and Compliance for the Fiscal Years Ending September 30, 2018 and 2017" report, MCC provides the following comments:

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

Recommendation 1: Update the "Expense Accruals Financial Management Division Procedure Manual" to reflect the current grant accrual methodology.

Recommendation 2: Provide Millennium Challenge Accounts with written guidance on developing grant accrual estimates to ensure validity of the grant accruals estimate. The guidance should include, but not be limited to, the following:

- Take into consideration the impact of contract advances and retentions for large works contracts in the accrual estimate.

EXHIBIT 2
Management's Response to Audit Findings

- Ensure that accrual estimates do not include costs that will not be paid with compact funds.
- Consider historical questioned costs for contracts and grants that are significant in developing the accrual estimate.

Recommendation 3: Update the "Compact Grant Accrual Validation Data Call Desktop Manual" to include a time requirement for MCC to perform follow up with Millennium Challenge Accounts so that errors in accrual estimates or validations are promptly identified and addressed.
Recommendation 4: Provide Millennium Challenge Accounts with written guidance to ensure that the Millennium Challenge Accounts perform grant accrual validation correctly to include, but not be limited to, validation of consultant contract costs.

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

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

Recommendation 5: Develop clear and complete written guidance for the Millennium Challenge Accounts' internal control over the data call process, provide effective training, and monitor the effectiveness of the internal control.

MCC Response: MCC concurs with the recommendation. A comprehensive corrective action plan will be developed to address the deficiency noted.

Significant Deficiencies: MCC's oversight and internal controls over MCAs' compliance needs to be strengthened (Modified Repeat Finding)

Recommendation 6: Develop, document, and implement a process to oversee and verify that the accountable Government entities conduct pre-Millennium Challenge Accounts compact procurements in accordance with the compact agreement and the Program Procurement Guidelines.

Recommendation 7: Update MCC's Program Procurement Guidelines to require the Millennium Challenge Accounts to document alternative procurement procedures so that all parties are aware of what is required, who is accountable for what, and how the procurement will be documented.

Recommendation 8: Develop, document, and implement policies and procedures for MCC's management oversight of transfer and retention of pre-Millennium Challenge Accounts compact procurement and related documents to the Millennium Challenge Accounts.

EXHIBIT 2
Management's Response to Audit Findings

Recommendation 9: Inform the Millennium Challenge Accounts that the U.S. State Department's Terrorist Exclusion List should be documented separately, for all currently active awards and future awards, and update MCC's vendor eligibility verification guidance provided to the Millennium Challenge Accounts for completeness and accuracy.

Recommendation 10: Identify the Millennium Challenge Accounts who are late with the vendor invoice payments, determine the reasons/causes for late payments, implement corrective actions, and monitor effectiveness of the corrective actions.

> **MCC Response:** MCC concurs with recommendations 6, 7, 8, 9 and 10. A comprehensive corrective action plan will be developed to address the deficiency noted.

Sincerely,

Cynthia Huger
Vice President and Chief Financial Officer
Department of Administration and Finance

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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 2017 Recommendations	***Type***	***Fiscal Year 2018 Status***
1. Evaluate whether its grant accrual methodology assumptions and calculations are effective. This evaluation should include an assessment of root causes for variances in estimated and actual accruals and take into consideration, experiences from at least the last 5 years.	Significant Deficiency (SD)	Open
2. Update the *"Expense Accruals Financial Management Division Procedure Manual"* to: a) Require supporting documentation, including rationale for deviating from MCC's accrual policy and procedures. This documentation should also include MCC's management approval for any deviations. b) Indicate in the guidance how reinstated unused spending authority and applicable subsequent disbursements are to be addressed in the grant accrual calculation.	SD	Open
3. Correct the accrual data for quarters three and four to reflect the actual spending authority and disbursements.	SD	Closed
4. Update the *"Compact Grant Accrual Validation Data Call Desktop Manual"* to include timeframes for validating Millennium Challenge Accounts' grant accrual estimates and MCC's follow-up on significant differences so errors are promptly identified and addressed.	SD	Open

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EXHIBIT 3
Status of Prior Year Recommendations

5. Provide Millennium Challenge Accounts with additional written instructions and training on evaluating the reasonableness of MCC's grant accrual estimates, and require each Millennium Challenge Account to submit documentation showing why it agrees with MCC's estimate.	SD	Open
6. Implement procedures for tracking and monitoring Millennium Challenge Accounts' compliance with grant management policies and procedures, including Millennium Challenge Accounts' grant oversight, procurement eligibility verification, and grant award processes.	SD	Open
7. Enforce the requirement for the Millennium Challenge Accounts to submit quarterly financial reports and financial information by the due dates.	SD	Closed
8. Establish procedures to ensure that Millennium Challenge Accounts' are providing accurate, complete, supportable, and valid financial information for data calls for contract retentions.	SD	Open

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Other Information

Fiscal Year 2018 Top Management Challenges Identified by the Inspector General

Ann Calvaresi Barr
Inspector General

Message From the Inspector General

USAID's foreign assistance programs provide humanitarian aid to people in countries recovering from natural disaster and periods of armed conflict, as well as assistance in combatting the spread of disease and addressing food insecurity, child and maternal mortality, illiteracy, and gender inequality. USAID manages nearly $30 billion in budgetary resources annually to expand economic growth, create markets and trade partners for the United States, and promote stable and free societies. In addition to promoting good will abroad, these investments help advance U.S. national security interests.

To help ensure the U.S. Government achieves maximum return on these investments, OIG provides independent oversight of USAID.[1] As part of this oversight, the Reports Consolidation Act of 2000 (Public Law 106–531) requires USAID to include in its performance and accountability report a statement by the Inspector General summarizing the most daunting challenges and the progress made in managing them.

Based on our recent audits and investigations, we identified four top management challenges for USAID for fiscal year 2019:

- **Managing Risks Inherent to Providing Humanitarian and Stabilization Assistance.** Managing fraud and other risks in foreign assistance programs is difficult, particularly in environments beset by conflict or natural disaster. Our work continues to expose weaknesses in USAID's planning and monitoring that reduce the timeliness and impact of assistance particularly in the nonpermissive environments USAID frequently works in. This demonstrates the need for improved risk assessment, identification, and mitigation plans to counter complex corruption schemes, and effective monitoring and evaluation to mitigate the growing threat of diversions to terrorists.
- **Strengthening Local Capacity and Improving Planning and Monitoring to Promote Sustainability of U.S.-Funded Development.** Promoting sustainability in countries that receive U.S. funding for development is central to USAID's goal to end the need for foreign assistance. However, our work points to the need for more rigorous up-front assessments of country capacity to build local skills and ensure public- or private-sector participation and financial backing to continue development activities and services after U.S. involvement ends. For example, USAID provided funding for a $20 million irrigation system in Pakistan

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

without reaching an agreement with stakeholders on who would maintain the system after the project ends, and the Haitian Government stalled on planned reforms considered key to the success of a USAID-funded project to expand electricity generation.

- **Reconciling Interagency Priorities and Functions to More Efficiently and Effectively Advance U.S. Foreign Assistance.** Foreign assistance that involves multiple U.S. Government agencies presents significant challenges in managing short- and long-term U.S. objectives. Gaps in USAID-Department of State coordination over basic restructuring plans underscored these challenges. Our oversight of USAID activities related to the Ebola response in West Africa, sustainable energy in Haiti, and other foreign assistance efforts in fragile states worldwide continues to show that competing priorities, differing policies and procedures, and additional layers of review complicate and impede multiagency response and development activities.
- **Addressing Vulnerabilities in Financial and Information Management.** Effective and reliable financial and information systems are vital to the stewardship of U.S. Government resources. However, meeting strict Federal financial and information management require¬ments for promoting transparency and accountability remains a challenge for USAID, despite noteworthy actions to better ensure compliance.

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

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

If you would like to discuss or have any questions about USAID's top management challenges for fiscal year 2019, please contact me at 202-712-1150.

USAID OFFICE OF INSPECTOR GENERAL

MEMORANDUM

DATE: October 15, 2018

TO: Acting Chief Executive Officer, Millennium Challenge Corporation (MCC), Brock Bierman

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

SUBJECT: Fiscal Year 2019 Management Challenge for MCC

The USAID Office of Inspector General (OIG) provides independent oversight of MCC to help ensure maximum return on its investments in compact countries. In keeping with the Reports Consolidation Act of 2000 (Public Law 106-531), we annually identify the agency's top management challenges and the progress it has made in managing them.[1]

In identifying MCC's management and performance challenges, we relied on our knowledge of MCC's operations and programs, and the results of our audit and investigative work. For fiscal year 2019, we did not identify any new top management challenges for MCC. We determined that while MCC took actions to address the challenge that we highlighted last year—strengthening local capacity and increasing sustainability in the activities it funds—it remains a challenge for fiscal year 2019.

Risks to sustainability are inherent to MCC projects and MCC has developed new policy, guidance, tools, and systems to help manage these risks. However, continued attention and monitoring will be critical to ensuring the effectiveness of MCC's risk management process. We are continuing to assess how these changes in policy are implemented in future compacts. Our ongoing audit of MCC investments in transportation infrastructure will determine the extent to which MCC addressed risks to the sustainability in past road projects and whether MCC has integrated sustainability lessons learned from past road projects into risk assessment policies and procedures. In addition, we will continue to focus our investigative efforts 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 the Principal Director for MCC, Donell Ries at 202-712-5704.

[1] *For Fiscal Year 2019, we did not include examples of MCC work in the Top Management Challenges report for USAID.*

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

MCC Management's Response to the Inspector General

November 8, 2018

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) 2019 Top Management Challenges, which reiterated a Millennium Challenge Corporation (MCC) ongoing management challenge related to "strengthening local capacity and increasing sustainability in the activities it [MCC] funds".

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

Sincerely,

Jonathan G. Nash
Chief Operating Officer (and Head of Agency)
Millennium Challenge Corporation

MCC's Response to OIG FY 2019 Top Management Challenges Letter

Millennium Challenge Corporation
United States of America

The Millennium Challenge Corporation's (MCC) response to the U.S. Agency for International Development (USAID) Office of Inspector General's (OIG) Fiscal Year 2019 Top Management Challenges (the OIG 2019 Statement) is presented below. The OIG 2019 Statement identified the following management challenge for MCC: Strengthening Country Ownership and Local Capacity to Promote Sustainability of U.S. Funded Development.

MCC is committed to enhancing the effectiveness of our operations both domestically and abroad. MCC would like to note some strategic initiatives achieved in 2018 and share our plans for continuing to address the challenges mentioned above in 2019.

Strengthening Country Ownership and Local Capacity to Promote Sustainability of U.S. Funded Development

In 2018, MCC's Department of Compact Operations (DCO) introduced a program aimed at integrating international best practices with MCC's operational experience to produce training, tools and guidance to strengthen local capacity for program management and standardize MCC's support for our programs. This management framework, known as Integrated Program Management (IPM), is specifically designed for MCC's compact and threshold programs and includes five basic systems: work planning, risk management, change management, project-level coordination, and contractor performance monitoring. MCC is now offering this additional support for all accountable entities as they prepare for implementation. Once introduced into a program, IPM will increase local capacity within partner countries to manage MCC's complex range of investments, as well as their ownership of the programs.

Also in 2018, MCC introduced a new annual reporting requirement for all programs which includes monitoring sustainability for all projects. In fiscal year 2019, MCC will continue to use these annual reports to better track sustainability measures and mitigate any associated risks that may arise.

In the coming year, MCC will focus efforts on gathering staff ideas to identify mechanisms, tools, and processes needed to provide more robust support to our partner countries during their start-up phase and strengthen country ownership within the program. MCC plans to focus on using innovative ideas to improve the timelines and processes with the compact and threshold programs to help increase local capacity in the early periods of the compact or threshold program.

Additionally, MCC's compact development guidance requires partner countries to consider the sustainability of compact investments at all stages of compact development. MCC's own Investment Criteria then requires MCC staff to identify the assumptions underlying the sustainability of proposed projects and activities at each stage of MCC's Investment Management Committee review during development. This helps to ensure that investment sustainability and country ownership is embedded in the earliest iterations of compact projects and activities. MCC is committed to providing solid, innovative best practices to ensure we are able to support our singular mission of reducing poverty through economic growth, while also enhancing the effectiveness of existing practices to build country ownership and local capacity to promote sustainability of compact investments. MCC is engaging in innovative approaches to help address the challenges of country ownership, local capacity and sustainability.

Summaries of Financial Statement Audit and Management Assurances

Table 8. Summary of Financial Statement Audit

Audit Opinion					
Restatement					
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 million, or that exceed $100 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.

MCC defines its programs in alignment with its major fund categories. MCC conducts risk assessments over all programs at least one time in a three year period. MCC will perform risk assessments on a more frequent basis if funds experience any significant legislative changes and/or significant increase in funding. In order to identify improper payments and assess MCC's compliance with OMB Circular No. A-123, Appendix C, MCC conducted a quantitative and qualitative risk assessment of all MCC funds with payment activity within the last two years. As a result of the risk assessment process, MCC assessed no funds as susceptible to significant improper payments. MCC will reevaluate the frequency of its risk assessments in FY 2019.

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 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 2018 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.

MCC occasionally identifies improper payments through internal control processes and other reviews, including OIG reporting. In these instances, MCC pursues recapture of overpayments appropriately. Below is a summary and outcome of self-identified improper payments and recovery efforts:

Table 10. Overpayments Recaptured Outside of Payment Recapture Audits

Fund	Improper Payments Not Yet Recovered from Prior Years	Improper Payments Identified for Recapture in FY 2018	Cumulative Improper Payments Identified for Recapture	Improper Payments Recaptured in FY 2018	Write-offs in FY 2018	Remaining Improper Payment Balance as of 9/30/2018	Recapture Rate
Administrative[1]	$ 118,953.05	$ 2,240.53	$ 121,193.58	$ 57,043.31	$ —	$ 64,150.27	47%
Compact	249,636.15	786,547.02	1,036,183.17	949,198.02	85,875.15	1,110.00	92%
Threshold	—	203.17	203.17	203.17	—	—	100%
Total	**$368,589.20**	**$788,990.72**	**$ 1,157,579.92**	**$ 1,006,444.50**	**$ 85,875.15**	**$ 65,260.27**	**87%**

[1] Based on review during FY 2018, MCC identified $316.98 which were erroneously identified as overpayments in FY 2017. As a result, this total is not included in the line item and will not be recovered.

The cumulative improper payments identified for recapture related to the Administrative Fund mainly consists of overpayments to MCC employees stationed overseas. These overpayments were first disclosed in FY 2016 and have been recaptured according to repayment plans over the previous two fiscal years. The remaining improper payment balance includes open balances related to the repayment plans. Additionally, the cumulative improper payments identified for recapture associated with the Compact Fund mainly represent questioned costs noted in OIG Audit Reports. MCC sustained the questioned costs during FY 2018. However, two questioned costs pertaining to two separate audit reports on a closed compact were deemed uncollectible in FY 2018 and have been written off. These questioned costs were identified in the FY 2017 Payment Integrity Disclosure and included in the Improper Payments Not Yet Recovered from Prior Years Total. MCC will continue recapture efforts in FY 2019 for the remaining improper payment balances.

Agency Improvement of Payment Accuracy with the Do Not Pay Initiative

Accurate and timely processing of payments is a high priority for MCC. IPERIA 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 Contracts and Grants Management Division strictly adheres to these requirements and also complies with the Federal Acquisition Regulations, ensuring that potential MCC vendors are registered in the System Acquisition Management (SAM), are not on the excluded party listing, and are not prohibited from competing for Federal government acquisitions. MCC's financial service provider, IBC, checks and verifies vendors' information against Treasury Working System before entering MCC vendor data into the core financial management system (Oracle) and before issuing payments. IBC issued payments to MCC local and foreign vendors during FY 2018 and developed a customized process to house the results of the Do Not Pay Continuous Monitoring data. MCC participates in that process and uses Oracle Discoverer to retrieve the results of these monitoring activities.

Prior to submitting an Oracle Vendor request form to IBC, MCC Contracts and Grants Management Division ensures that the vendor is not listed on the Do Not Pay listing.

MCC works diligently with its financial service provider to maintain oversight of payments. MCC adjudicates those payments every month on the DNP portal and researches all matches or flags for any probable or possible improper payments. During FY 2018, MCC issued no stop payment orders and the Treasury DNP system did not report any payments with matches either through the Death Master File (DMF) or the SAM. In cases where DNP were to provide a listing of unmatched payments, which were payments that Treasury could not match to the DMF or SAM, MCC investigates through the DNP Discoverer application within Oracle to verify payments before adjudicating the monthly report on the DNP Portal.

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 as well as progress with regard to the following topics:

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

MCC utilized the GAO's *Standards for Internal Control in the Federal Government* and OMB Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control,* to 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 for the agency with regard to preventing and detecting fraud in MCC-funded operations under its compact and threshold programs carried out by the MCAs. The AFC Team developed a Five Pillar Strategy to prevent, detect, and remediate fraud and corruption. They are:

- **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 respective in-country AFC trainings. The Risk Assessment process 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's Office of Investigations (OIG/I). In order to report allegations, all MCC and MCA staff are made aware of the OIG hotline to report allegations of potential fraud.

In addition, MCC continued to improve and mature its ERM Program during FY 2018 under the direction of the Chief Risk Officer and oversight from the Risk Committee and Executive Decision Group. The Risk Committee is a multi-disciplinary group with membership drawn from all six MCC departments. The Risk Committee meets on a periodic basis and focuses on program risks, organizational dynamics, future trends and scenarios, and Enterprise Risk Management (ERM) insights, including formalization of MCC's ERM Program and continued strategic risk monitoring of the agency-wide Risk Profile. The Executive Decision Group (EDG) provides oversight of MCC's ERM program, and approved the final FY 2018 Risk Profile. MCC contracts with a recognized consulting firm to assist in the development and implementation of its comprehensive ERM program. For FY 2018, the consulting firm conducted interviews with MCC Senior Management to identify the most prevalent risks disrupting or impacting the agency. Afterwards, it consolidated the risks into a list (a "risk register") and identified risk drivers, potential consequences, and current management actions based on these thorough senior management interviews. As part of the Risk Profile development process, MCC created an internal working group which analyzed the consolidated risk listing, discussed the risk drivers, potential consequences, and current management actions in an open forum, and, ultimately, voted to prioritize the most important risks facing the agency, using a risk scoring methodology developed by the consulting firm. The Risk Committee then discussed the outcome of the prioritization exercise, and sent its recommendation regarding prioritization of those risks to the Executive Decision Group. The Executive Decision Group approved the MCC Risk Profile (which includes with risk ratings pertaining to inherent risk (the level of risk present if no controls existed to mitigate the risk event), the likelihood that a risk event may occur, the impact if the risk occurred, and an overall residual risk rating considering current management actions and control activities), taking into account the recommendations of the Risk Committee. Fraud risk was identified during the ERM process as one of the key risks affecting the agency. This process is currently being replicated to develop an updated Risk Profile for FY 2019.

As part of the OMB A-123 Assessment Program, MCC also considers fraud risk affecting all cycles in conjunction with its Three-Year Assessment Plan. These cycles include accounts payable and disbursement management, human resources and payroll management, grants management (i.e., MCC-managed grants and cooperative agreements, compacts, and threshold program agreements), and procurement 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 preventive controls. MCC also has detective controls in place 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.

MCC has made progress in implementing and developing its fraud risk program, and will continue to strengthen it in FY 2019.

Table 11. Fraud Controls

Preventive Controls	Detective Controls
▶ Table 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 MCA and threshold 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 OMB A-123 engagement performs process and transaction-level testing to verify controls are designed and operating effectively. ▶ MCC conducts statistical testing related to OMB A-123, Appendix C, *Requirements for Effective Estimation and Remediation of Improper Payments.* The testing identifies potential improper payments. ▶ MCC and MCA officials conduct random site visits to operating field locations. ▶ MCC requires independent oversight of programs including monitoring and evaluation.

Grants Oversight and New Efficiency Act Requirements

The Grants Oversight and New Efficiency Act prescribes reporting requirements to ensure agencies are performing timely close-out activities for expired grants. Table 12 illustrates the number of MCC grants and cooperative agreements for which closeout has not yet occurred as of September 30, 2018, but for which the period of performance has elapsed by more than two years.

MCC is currently working towards closing out all of these agreements and anticipates that these will be closed by September 30, 2019. MCC anticipates recovering most, if not all, of the undisbursed amount and is in the process of preparing the closeout documentation.

Table 12. Grant and Cooperative Agreement Closeout Monitoring

Category	2–3 Years	> 3–5 Years	> 5 Years
Number of Grants/Cooperative Agreements with Zero Dollar Balances	0	2	3
Number of Grants/Cooperative Agreements with Undisbursed Balances	0	0	0
Total Amount of Undisbursed Balances (in thousands)	**$0**	**$0**	**$0**

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
CIF	Compact Implementation Fund
CIO	Chief Information Officer
CSRS	Civil Service Retirement System
DATA Act	Digital Accountability and Transparency Act of 2014
DMF	Death Master File
DNP	Do Not Pay
DOL	Department of Labor
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
FTE	Full-time Equivalent
FY	Fiscal Year
GAAP	Generally Accepted Accounting Principles
GAO	Government Accountability Office
GONE	Grants Oversight and New Efficiency Act of 2016
HSPD-12	Homeland Security Presidential Directive 12
IAA	Interagency Agreement
IAF	Inter-American Foundation
IBC	Interior Business Center
IG	Inspector General
IPBE	Integrated Planning, Budgeting, and Execution

Acronym	Definition
IPIA	Improper Payments Information Act
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
NIST	National Institute of Standards and Technology
OFF	Oracle Federal Financial System
OIG	Office of Inspector General
OIG/I	Office of Inspector General Investigative Team
OMB	Office of Management and Budget
OPIC	Overseas Private Investment Corporation
OPM	Office of Personnel Management
PAR	Performance and Accountability Report
PIV	Personal Identity Verification
PL	Public Law
PP&E	Property, Plant, and Equipment
SAM	System for Award Management
SBR	Statement of Budgetary Resources
SF	Standard Form
SFFAS	Statement of Federal Financial Accounting Standards
SP	Special Publication
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
USADF	United States African Development Foundation
USAID	United States Agency for International Development
U.S.	United States
U.S.C	United States Code
USD	United States Dollars
USG	United States Government
USTDA	United States Trade and Development Agency
WHO	World Health Organization
USSGL	U.S. Standard General Ledger

MCC Welcomes Your Comments

MCC welcomes comments and suggestions regarding this report.

Please contact MCC at:

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