Ms. Dana J. Hyde
Chief Executive Officer
Millennium Challenge Corporation
875 15th Street, NW
Washington, DC 20005

Dear Ms. Hyde:

The enclosed statement summarizes the Office of Inspector General’s conclusions on the most serious management and performance challenges for the Millennium Challenge Corporation (MCC) in fiscal year 2015. We based decisions on which challenges to report primarily on audits and analyses of MCC’s operations. More challenges may exist in areas that we have not yet reviewed, and other significant findings may result from future work.

The Reports Consolidation Act of 2000 (Public Law 106–531) requires that each federal agency include in its performance and accountability report a statement by its inspector general summarizing the most serious management and performance challenges facing the agency and assessing its progress in addressing those challenges. The enclosed statement will be included in MCC’s fiscal year 2015 agency financial report.

We have discussed the management and performance challenges summarized in this statement with the responsible MCC officials. If you have any questions or wish to discuss the statement further, I would be happy to meet with you.

Sincerely,

/s/

Catherine Trujillo
Acting Deputy Inspector General

Enclosure: a/s
Statement by the Office of Inspector General on the Millennium Challenge Corporation’s
Most Serious Management and Performance Challenges
Fiscal Year 2015

The Millennium Challenge Corporation (MCC) provides foreign aid to countries that meet its policy
dicators of ruling justly, investing in people, and encouraging economic freedom. The compacts are
designed to reduce poverty and increase economic growth through projects in sectors such as agriculture,
education, transportation, and water and sanitation. At the end of the fiscal year, MCC had nine current
compacts worth $3 billion: Cabo Verde II, El Salvador II, Georgia II, Ghana II, Indonesia, Jordan,
Malawi, Philippines, and Zambia. MCC continues to face its most serious management challenges in the
following areas:

• Developing Compacts
• Implementing Compacts
• Sustaining Compact Benefits
• Managing Finances Efficiently

Developing Compacts

MCC and its partner countries take approximately 2 years to develop compacts. They do preparatory
analysis, project definition, project development and appraisal, compact negotiation and signing, and
preparation for entry into force. Once a compact enters into force, the fixed, 5-year implementation period
starts. The compact development process is collaborative, involving partner-country stakeholders and
MCC.

A recent Office of Inspector (OIG) review identified the need for improvement in compact development,
specifically during the due diligence review of proposed projects when identifying alternative proposals
should be done.

• In July 2015,1 OIG reported that MCC did not consider alternatives in designing the Centralized
Irrigation System Rehabilitation Activity in the Moldova compact. The due diligence review at the
time accepted the country’s proposal to rehabilitate existing Soviet-era systems. However, during
compact implementation, construction could not proceed because insufficient funding was available
to build the systems in the manner planned. This required MCC to conduct a study at that point to
identify alternatives, resulting in delays to the implementation of the irrigation system rehabilitation.

Implementing Compacts

MCC and its partner countries, through Millennium Challenge Accounts (MCAs), complete the compact
implementation process over the compact term. Each MCA is staffed by a team of professionals in
management, procurement, finance, monitoring and evaluation, and law and by specialists in sectors
covered by the compact, such as infrastructure and agriculture. The MCA procures contractors to
implement the compact projects and oversees them with the assistance of contracted specialists.
Two recent reviews, one of MCA procurement,2 the other of a small-scale fisheries project,3 illustrate,
respectively, challenges encountered during compact implementation.

1 Review of the Millennium Challenge Corporation’s Transition to High-Value Agriculture Project in Moldova,
2 Review of the Millennium Challenge Corporation’s Procurement Process for Selected Country Programs, Report
  No. M-000-15-006-S, August 12, 2015. Fieldwork on this review was completed on September 4, 2014.
Auditors found three areas for improvement in the procurement process: MCC did not have written requirements for MCA market outreach to help attract a sufficient number of quality bidders. MCA terms of reference were not always accurate and clear, resulting in failed procurements. Contractor past performance information was not always used by the MCAs when selecting contractors.

Because MCC and the MCA did not have an effective plan for overseeing a nationwide mobile fish vendor project, it did not achieve its project goals. The $3.3 million project for mobile vendors was to train 2,000 vendors and provide them with motorbikes equipped with coolers. Instead, it trained 1,234 mobile vendors, achieving 62 percent of the training goal, and gave motorbikes to 699 of them, achieving 35 percent of the equipment goal.

Sustaining Compact Benefits

To ensure that project benefits can be sustained over time, MCC requires that sustainability be part of compact design and development. Sustainability can take a number of forms, like requiring a partner country to increase its contributions to a road maintenance fund so that when the MCC-funded road is completed, the partner country has adequate funding for upkeep. Recent OIG audits1,3 showed that sustainability measures could be improved.

OIG reported that the sustainability of certain project activities was at risk. Under the first Morocco compact, 15 of 30 completed fishery infrastructure projects were not operational (fully functioning) at compact end, including boat landing sites, ports, and wholesale fish markets. Delivery of planned sustainability benefits would not occur unless the projects become operational.

The sustainability of irrigation systems was at risk because the water user associations charged with managing and maintaining them had not received all planned training or experience on operating them.

Managing Finances Efficiently

Strong financial management is critical to effective and efficient operations. MCC must not only manage its finances well but also see that MCAs do so.

MCC received an unqualified audit opinion on its fiscal year (FY) 2014 financial statements and demonstrated further progress in improving its financial management practices. The audit report cited one material weakness and one significant deficiency in internal control. The latter, described below, represents an ongoing challenge to MCC’s ability to prepare complete, reliable financial statements.

MCC’s financial management system follows the guidance prescribed by the Federal Accounting Standards Advisory Board, whereas the independent MCAs established by recipient countries do not. MCC addresses this challenge by adjusting its grant liabilities at headquarters to bring the cash-basis reporting by MCAs in line with MCC’s accrual basis. In FY 2012, MCC revised its methodology for estimating grant accruals by examining disbursement history, unused spending authority, and invoices received but not paid. In FY 2014, MCC further revised its process so that it includes contract retentions as part of its grant accrual estimates. Further, in FY 2014 it was noted that accumulating sufficient MCA disbursement data to reasonably validate grant accrual estimates was a challenge and

time-consuming. As we perform the current financial statement audit, we continue to examine MCC’s method for validating accrual estimates.