



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

MANAGEMENT ADVISORY

DATE: December 4, 2025

TO: Daniel Petrie
Acting Chief of Staff
Millennium Challenge Corporation

FROM: Gabriele Tonsil /s/
Acting Assistant Inspector General for Audits, Inspections, and Evaluations

SUBJECT: MCC Compact and Threshold Programs: Actions Needed to Establish Specific Requirements for Closeout Processes for Suspended and Terminated Programs

The USAID Office of Inspector General (OIG) is alerting you to concerns about the Millennium Challenge Cooperation's (MCC) ability to close out programs that may be suspended or terminated following the U.S. foreign assistance review ordered by the President in January 2025.

As part of our ongoing audit of MCC's program closeout practices,¹ we found that the Agency does not have specific processes in existing policy for closing out suspended or terminated compact and threshold programs. Based on the outcome of the U.S. foreign assistance review, MCC may terminate several programs that were in the implementation phase in January 2025. These programs account for more than \$1 billion in foreign assistance, over \$60 million of which had been spent as of May 2025. MCC requires a closeout process before a program reaches its end date to ensure program activities are closed in an orderly and efficient manner and to help mitigate the risks of fraud, waste, and abuse at the end of a program. While MCC's closure policy applies to suspended or terminated compact programs "to the greatest extent possible," the policy does not require specific processes for closing suspended or terminated programs, such as documenting decisions to deviate from certain program closure actions established in its policy. The lack of specific processes to require closing out suspended or terminated compact and threshold programs increases the risk to MCC's ability to potentially close out spent foreign assistance funds in an orderly and efficient manner. It could also expose funds spent on the programs to fraud, waste, and abuse.

¹ USAID OIG, [Project Announcement: Audit of the Millennium Challenge Corporation's Program Closeout Practices](#), March 14, 2025.

We made one recommendation to strengthen MCC's closeout processes for suspended or terminated programs.

In finalizing this advisory, we considered your comments on the draft and included them in their entirety in Appendix A. Based on our review of the comments, we consider Recommendation I open and resolved pending further action. Please provide evidence of final action for Recommendation I to OIGAuditTracking@oig.usaid.gov.

Background

MCC was established in 2004 to help countries achieve sustainable economic growth and poverty reduction. The Agency awards assistance to the governments of selected countries that commit to principles of just and democratic governance, investment in people, and economic freedom.² MCC provides assistance to these countries through time-limited grants, primarily in the form of compact and threshold programs. Compact programs are 5-year grants between MCC and selected countries that fund specific projects targeted at reducing poverty and stimulating economic growth. Threshold programs are usually 2- to 4-year grants awarded to selected countries that demonstrate a commitment to meeting MCC's eligibility criteria but do not yet meet the requirements for a larger compact program. The selected country's government designates an accountable entity to manage and oversee program implementation.³

According to MCC policy, programs face increased risks of fraud and corruption as they near their scheduled end date and begin the closeout process. This is due to the increased pace of work and expenditures, time constraints, and perceptions of reduced consequences as contracts and employment agreements come to an end.⁴ MCC's policy outlines processes or actions for an orderly and efficient program closeout to mitigate the risks of fraud, waste, and abuse.

MCC's *Policy on Program Closure* outlines closeout actions that an accountable entity must perform starting 15 months prior to the compact program's scheduled end date.⁵ The policy includes actions related to hazard mitigation, asset disposition, financial management,

² To be a candidate for MCC assistance, a country must be classified as either low income or lower middle income by the World Bank and must not be prohibited from receiving assistance under Federal law. Countries that meet these conditions are considered candidate countries. Only candidate countries are eligible for selection to develop a compact or threshold program. MCC's Board of Directors uses a selection criteria and methodology to determine a candidate country's eligibility. The Board reviews the country's performance on MCC's scorecard indicator performance, the opportunity to reduce poverty and generate economic growth, and the availability of funds.

³ The accountable entity is a legal entity set up by the government of the country selected for a compact or threshold program. The accountable entity implements the projects funded by MCC.

⁴ MCC, *Policy on Program Closure*, September 7, 2023.

⁵ MCC updated its 2023 *Policy on Program Closure* on July 29, 2025. However, we used the 2023 version that was in effect when we prepared this management advisory letter.

monitoring and evaluation, recordkeeping, and project sustainability. Table I shows examples of different closeout actions as part of the compact program closure process.

Table I. Examples of Required Actions to Close Compact Programs

Action Type	Accountable Entity Closeout Actions
Hazard Mitigation	- Identify environmental, social, gender, and health and safety hazards or complaints and their corresponding mitigation activities. - Outline mitigation activities that will be continued or likely unresolved after the completion of the program.
Asset Disposition	- Document asset disposition methodology (e.g., sell, donation, transfer). - Complete a physical count of all fixed assets.
Financial Management	- Develop a budget for the closeout period. - Perform cost reconciliations of accounts. - Submit final financial report. - Submit taxes report. - Submit final procurement performance report. - Submit final audit or review engagement.
Monitoring and Evaluation	- Submit a closeout indicator tracking table. - Deliver data sets, evaluations, and other supporting documentation.
Recordkeeping	Retain records for MCC use after the closeout date.
Project Sustainability	Complete risk and sustainability risk assessment.

Source: OIG analysis of MCC's closure policy.

MCC oversees the accountable entity's implementation of these closeout actions. The policy does not specifically cover threshold programs. However, MCC and the accountable entity may apply closeout actions in the policy to threshold programs.

Due to Federal priorities, MCC is facing funding and staffing restrictions, which could impact the Agency's programs. On January 20, 2025, the President directed a review of all U.S. foreign assistance, causing MCC to pause funding for all its programs.⁶ At that time, MCC had 13 programs in the implementation phase.⁷ The Agency subsequently underwent staff reductions following a government-wide effort to reduce the size of the Federal workforce.⁸ In addition, MCC's fiscal year 2026 congressional budget justification proposes canceling \$1.2 billion of unspent funds from the Agency's prior year funding.

⁶ Executive Order, "Reevaluating and Realigning United States Foreign Aid," January 20, 2025.

⁷ MCC also had 17 programs either in development or signed but not yet in the implementation phase.

⁸ Executive Order, "Implementing The President's "Department of Government Efficiency" Workforce Optimization Initiative," February 11, 2025.

MCC Lacks Specific Closeout Processes for Suspended and Terminated Programs, Potentially Risking up to \$60 Million of Foreign Assistance

Based on our review of MCC's policy, we found that the Agency did not establish specific processes for closing suspended or terminated compact or threshold programs. Federal internal control standards state that management should define clear objectives and design control activities to achieve those objectives and respond to risks.⁹ Specifically, management should define what is to be achieved, who is responsible, and the timeframe for completion so that expectations are understood at all levels of the agency. Moreover, management should clearly document processes to ensure that objectives are met and risks are effectively addressed.

MCC's closure policy outlines various closeout actions that an accountable entity must perform for compact programs that end on their scheduled end date but does not provide similar requirements for suspended or terminated compact and threshold programs.¹⁰ The policy states that closeout processes for suspended and terminated compact programs apply only to "the greatest extent possible" and that the accountable entity and MCC should make reasonable efforts to develop a program closure plan on an expedited basis.¹¹ The policy does not outline what specific closeout actions should apply to suspended and terminated programs or provide guidance on what should be prioritized in cases where it is not possible to complete all closeout processes. It also does not require documentation to justify deviations from completing certain closure actions.¹² Moreover, the policy states that it does not apply to threshold programs but that MCC may apply certain actions in the policy to these programs.¹³

MCC did not have specific processes for closing suspended or terminated compact or threshold programs because of how its closure policy was designed. According to MCC officials, the policy gives the Agency the flexibility to select the applicable closeout actions for suspended or terminated programs based on the country's specific circumstances. MCC officials explained that programs may be suspended or terminated for various reasons. For example, they noted, closing a program after a military coup that caused security challenges would require different actions than closing a program due to election irregularities. Additionally, closeout actions may vary depending on when the suspension or termination occurs, such as within the first 2 years of program implementation compared to when the program enters its last years. These factors can change which closeout actions are applicable or feasible. However,

⁹ U.S. Government Accountability Office, *Standards for Internal Control in the Federal Government* (GAO-14-704G), September 2014, Principles 6 and 10.

¹⁰ MCC, *Policy on Program Closure*, September 7, 2023. Section 5.16 of the policy discussed the applicability of the policy for suspended and terminated compact programs.

¹¹ A program closure plan is a document that describes the schedule and steps that the accountable entity will take to close each project and activity of a compact program, address the closure or continuation of the accountable entity, and manage other important aspects.

¹² For a compact program, MCC's closure policy authorizes an accountable entity to prepare a written justification to deviate from completing a closure action defined in the policy. MCC must approve the justification.

¹³ MCC, *Policy on Program Closure*, September 7, 2023. If MCC decides to apply its closure policy to a threshold program, the agreed-upon actions must be documented between MCC and the accountable entity.

this flexibility could result in a lack of clarity about the Agency's expectations, leaving them open to individual interpretation and creating inconsistencies on what program closeout actions should be executed, who is responsible for specific actions, and when those actions should be completed.

In late July 2025, MCC announced that the review of its U.S. foreign assistance programs had concluded. The review results directed MCC to terminate several compact and threshold programs in the implementation phase, pending the Board of Directors' approval.¹⁴ These programs totaled more than \$1 billion in foreign assistance to selected countries, of which the Agency had spent over \$60 million.¹⁵ If MCC terminates these programs as directed and does not implement closeout actions, the spent funds could be at risk of fraud, waste, and abuse.

Additionally, without specific processes that should apply to closing out suspended or terminated compact and threshold programs, MCC may not be prepared for the potential workload of closing programs that would generally take over a year to perform.¹⁶ This is not the first time we have reported this concern. In a March 2010 report, we stated that while MCC had developed policies and processes to guide the termination of its compact in Madagascar, it did not facilitate an accountable termination of the compact resulting in gaps in financial accountability, asset management, and data security.¹⁷ For example, \$490,000 in program funds were not recovered and assets valued over \$102,000 were unaccounted for during the closeout. We concluded that MCC did not effectively oversee the implementation of the closeout processes, which led to mistakes and delays in terminating the Madagascar program.

Furthermore, the potential terminations following the July 2025 foreign assistance review place MCC in a new situation of managing closeouts of several programs at the same time with fewer resources. MCC has suspended and terminated other programs after determining that a country's actions did not align with Agency policy, but it has not had to terminate multiple programs at once. Recent workforce reductions may make it more challenging for MCC to close terminated programs if the Board of Directors decides to do so.¹⁸ Beyond decreasing the number of staff available to manage program closeouts, the reductions may lead to a loss of experience and knowledge among the remaining staff, increasing the risks to the closure of these programs. Requiring specific closeout processes for suspended and terminated programs, or documenting deviations, can help staff understand which actions to complete. Such actions would better ensure program activities are closed orderly and efficiently, and help mitigate the risks of fraud, waste, and abuse at the end of a program.

¹⁴ Following the U.S. foreign assistance review, MCC had also been directed to terminate other programs that were in development or signed but not yet in implementation.

¹⁵ According to MCC officials, disbursed amounts are as of May 31, 2025.

¹⁶ MCC, *Policy on Program Closure*, September 7, 2023. According to the policy, accountable entities begin preparing a closure plan 15 months prior to the scheduled end date.

¹⁷ USAID OIG, [Review of the Termination of the Millennium Challenge Corporation Compact with Madagascar](#) (M-000-10-002-P), March 31, 2010.

¹⁸ In July 2025, MCC officials told us that they are still waiting to determine the total number of staff who resigned from the Agency due to the government-wide effort to reduce the size of the Federal workforce.

Therefore, we recommend MCC:

- **Recommendation I.** Require closeout processes outlined in MCC's *Policy on Program Closure* be applied to suspended and terminated programs and have deviation decisions be documented as appropriate.

On November 18, 2025, we issued the draft management advisory to MCC. On November 25, 2025, we received the Agency's response, which is included as Appendix A to this advisory.

After reviewing MCC's response to the draft management advisory, we acknowledge a management decision for Recommendation I. We consider the recommendation resolved but open pending completion of planned activities.

We prepared this management advisory from May 2025 through August 2025 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform our work to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions. To identify MCC's requirements for closing suspended and terminated programs, we reviewed the Agency's policy on program closeout processes. To identify risks related to MCC awards, we reviewed program documentation to identify the risks facing suspended or terminated programs and reviewed MCC's fiscal year 2026 congressional budget requests to identify potential changes in funding levels. Finally, to determine the status of current MCC awards, we used information from the Agency's website to identify the population of compact and threshold programs, along with their total funding amounts, that were in the implementation phase as of January and July 2025. We then verified the accuracy of this information with MCC officials. We also obtained testimonial information from MCC officials about their closure policy and processes and changes to their staffing levels. We believe that the evidence obtained was reliable for our reporting purposes.

We appreciate the assistance provided to our staff during our ongoing audit.

Appendix A. Agency Comments



DATE: November 25, 2025

TO: Gabriele Tonsil
Acting Assistant Inspector General for Audits, Inspections, and Evaluations
Office of Inspector General, United States Agency for International Development

FROM: Daniel Petrie
Acting Chief of Staff
In lieu of an official authorized to perform all of the functions and duties of Acting CEO or Acting Head of Agency Millennium Challenge Corporation

DANIEL B
PETRIE (affiliate)

Digitally signed by DANIEL B PETRIE (affiliate)
Date: 2025.11.25 16:19:03 -05'00'

SUBJECT: MCC's Management Response to the OIG Management Advisory Letter titled, "MCC Compact and Threshold Programs: Actions Needed to Establish Specific Requirements for Closeout Processes for Suspended and Terminated Programs"

The Millennium Challenge Corporation (MCC) appreciates the opportunity to review the Office of Inspector General (OIG) Management Advisory Letter titled, "MCC Compact and Threshold Programs: Actions Needed to Establish Specific Requirements for Closeout Processes for Suspended and Terminated Programs." MCC partially concurs with the conclusion of the report and provides a management response, which includes the management decision, to the recommendations below.

OIG Recommendation 1 – Require closeout processes outlined in MCC's Policy on Program Closure be applied to suspended and terminated programs and have deviation decisions be documented as appropriate.

MCC Response – MCC concurs in part with the recommendation. MCC will update the Policy on Program Closure by September 30, 2026 to include a requirement that MCC document how the Policy on Program Closure is being applied "to the greatest extent possible" for suspended and terminated programs. Additionally, as it relates to those programs approved for termination by the MCC Board of Directors at its August 21, 2025 meeting, MCC will ensure that there is proper documentation relating to how MCC's Policy on Program Closure was applied to these programs "to the greatest extent possible."

If you have any questions, please contact Lori Giblin, Chief Risk Officer at giblinlm@mcc.gov.

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