



Office of Inspector General

Mr. Daniel Yohannes
Chief Executive Officer
Millennium Challenge Corporation
875 15th Street, NW
Washington, DC 20005

Dear Mr. Yohannes:

The enclosed statement summarizes the Office of Inspector General's (OIG) conclusions on the most serious management and performance challenges facing the Millennium Challenge Corporation (MCC). Our decisions on which challenges to report were based primarily on audit evaluation, investigative work we have performed, and additional analysis of MCC operations. More challenges may exist in areas that we have not yet reviewed, and other significant findings may result from further work.

The Reports Consolidation Act of 2000 (Public Law 106-531) requires that agency performance and accountability reports include a statement prepared by each agency's inspector general, summarizing the most serious management and performance challenges facing the agency and reporting the agency's progress in addressing those challenges. The enclosed statement will be included in MCC's fiscal year 2010 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, please contact me or Alvin A. Brown, the Assistant Inspector General for MCC.

Sincerely,

/s/

Donald A. Gambatesa
Inspector General

Enclosure

Millennium Challenge Corporation's Most Serious Management and Performance Challenges Fiscal Year 2010

The Office of Inspector General (OIG) has determined that the Millennium Challenge Corporation's (MCC) most serious management and performance challenges for fiscal year (FY) 2010 are in the following areas:

- Information technology (IT) management
- Financial management
- Threshold Program for compact eligibility
- Political instability resulting in placing on hold, suspending, terminating, or canceling planned compact activity

Information Technology Management

We first reported that MCC had management challenges in the IT area in FY 2008. This year OIG considers two new areas under IT management to be management challenges: (1) the privacy program and (2) project management. In prior years, OIG identified MCC's IT security as a management challenge. MCC made significant improvements to strengthen its IT security and has taken final action on recommendations from prior years. OIG's FY 2010 audit of MCC's compliance with the Federal Information Security Management Act (FISMA) identified a serious weakness, and MCC has taken steps to reduce the overall risk to an acceptable level. Therefore, OIG does not consider MCC's IT security to be a management challenge for FY 2010, but we will continue to monitor MCC's progress.

- **Privacy Program.** Currently, laws and regulations are in place to address the protection of privacy. Violations of people's privacy by U.S. Government agencies can carry substantial penalties. A July 2010 audit found that MCC had not implemented key components of a privacy program for its IT systems to mitigate the risk of violations against key information technology privacy requirements. OIG made 18 recommendations to correct the extensive weaknesses—including a recommendation that MCC determine whether the privacy program should be reported as a material weakness pursuant to the Federal Managers' Financial Integrity Act of 1982. To date, however, management decisions have not been reached for two of the recommendations related to the placement of MCC's Chief Information Officer and Chief Privacy Officer within the organizational structure—two key positions. Because MCC has not reached management decisions for those recommendations and because of the extent of the weaknesses identified in the audit, MCC's privacy program continues to be a management challenge area.

IT Project Management. MCC has not implemented key project controls to meet costs, schedules, and performance goals for its IT projects. MCC spent over \$6.9 million—

\$200,000 more than planned—for a system scheduled to be implemented 2½ years ago that does not fully meet the needs of the organization. Since the IT Project Management weaknesses continue to exist, we have included this as a management challenge for FY 2010.

Financial Management

We first reported financial management as a management challenge in FY 2008. Despite including this as a management challenge in prior years, OIG issued unqualified opinions on MCC's Financial Statements. For FY 2010, OIG has issued qualified opinions on MCC's Financial Statements. Our FY 2010 report also included three material internal control weaknesses that resulted in MCC's FY 2009 expenses being materially understated and FY 2010 expenses being overstated.

Sound financial management is critical to providing reliable financial information, managing results, and ensuring operational integrity. Many of MCC's activities and expenses occur in the compact programs implemented by MCC's Millennium Challenge Accounts (MCA) overseas. MCC did not adequately monitor these organizations' ongoing activities or the financial information reported in its financial management system and eventually on its financial statements. Some examples of specific issues identified in recent audits are:

- MCA's audits do not address its compliance with MCC's financial reporting requirements.
- MCC's financial management system follows the guidance prescribed by the Federal Accounting Standards Board, whereas the MCAs follow Other Comprehensive Basis of Accounting. MCC has not addressed the issue of non-compatibility and its effects on its financial statements.
- MCAs are requesting disbursements from the National Business Center, MCC's service provider, as expenses instead of advance payments to the vendors. These advance payments are then improperly recorded as expenses by MCC, leading to overstating MCC's expenses and understating MCC's advances on its annual financial statements.
- MCC does not review the underlying documents for payments to vendors before payments are made by MCC or the National Business Center. Instead, MCC relies on approved payment request forms submitted by personnel of the MCA entity.

As a result, we are reporting the area of financial management as a serious challenge.

Threshold Programs for Compact Eligibility

This is the second year that we have included this as a management challenge. In 2009, OIG audited the Threshold Program and reported that MCC had provided about \$440 million in funding for threshold programs to assist 12 countries to become compact eligible. However, we found no clear indication that the MCC Threshold Program was helping countries to become eligible.

Subsequently, MCC completed a review of its Threshold Program and developed and presented a new Threshold Program to its Board of Directors during 2010 for approval. The new program will continue to support a country's commitment to reforms in the three broad policy areas of ruling justly, investing in people, and encouraging economic freedom, but it will no longer be designed to boost a country's indicator scores within a 2- or 3-year period. Although MCC is working toward implementing its new program, we still consider the Threshold Program to be an ongoing management challenge.

Political Instability Resulting in Placing on Hold, Suspending, Terminating, or Canceling Planned Compact Activities

This is the second year we have included this as a challenge. In 2009, OIG reported that MCC had suspended, terminated, or canceled a total of \$340 million in planned activities in 5 of the 19 compact countries because of political instability in and around those countries. MCC placed on hold, suspended, terminated, or canceled activities because of the removal of democratically elected leaders (in two cases) and patterns of undemocratic actions involving the 2008 elections (in two other cases). As a result, activities totaling \$152 million were terminated. In another case, a neighboring country would not allow the compact country to meet the compact requirements. According to MCC officials, this made the project unfeasible and resulted in the cancellation of a \$188 million project.

Although MCC's planned compact activity was not impacted by any political instability during 2010 and thus did not place on hold, suspend, terminate, or cancel planned activities in any compact countries, this is a very serious management challenge that will persist because of the nature of MCC's mission. According to MCC officials, MCC has established a set of policy indicators that a country must meet in order to become eligible for a compact, and MCC compacts require countries to seek to maintain and improve their performance on the policy areas measured by the indicators throughout the lifespan of the compact. However, because MCC operates in the dynamic environments of developing countries, and compacts are carried out over 5 years, this will be an ongoing management challenge.