



Highlights of [GAO-10-52](#), a report to congressional committees

## Why GAO Did This Study

Established in January 2004 with a mission to reduce poverty through economic growth, the Millennium Challenge Corporation (MCC) has committed \$6.9 billion for compacts with 19 developing countries. MCC vests compact management with accountable entities in recipient countries, called Millennium Challenge Accounts (MCA). MCAs, with guidance from MCC, allocate resources, oversee and implement a financial plan, approve expenditures and procurements, and implement compact projects.

This report, directed by the fiscal year 2008 Consolidated Appropriations Act, assesses MCC and MCA (1) financial controls; (2) procurement practices; and (3) development, implementation, and oversight of contracts and projects. GAO focused on financial and procurement transactions and projects at MCAs in Honduras, Georgia, and Cape Verde, countries with high disbursement totals as of the end of fiscal year 2008.

## What GAO Recommends

GAO recommends that the Chief Executive Officer of MCC (1) improve FAPs and ensure comprehensive policies for all MCA expenses, (2) reinforce MCC's price reasonableness analysis guidance, and (3) improve project design reviews and cost estimates prior to issuing contract solicitations. MCC accepted the recommendations.

View [GAO-10-52](#) or key components. For more information, contact David Gootnick at (202) 512-3149 or [gootnickd@gao.gov](mailto:gootnickd@gao.gov).

## MILLENNIUM CHALLENGE CORPORATION

### MCC Has Addressed a Number of Implementation Challenges, but Needs to Improve Financial Controls and Infrastructure Planning

#### What GAO Found

As required by MCC guidelines, each of the three MCAs GAO reviewed had developed a Fiscal Accountability Plan (FAP) that documented policies and procedures related to internal control, such as funds control, documentation, and segregation of duties. However, each of the FAPs GAO reviewed, in place as of the end of fiscal year 2008, had gaps in certain areas, such as incomplete policies and procedures for some expenses. Although MCC agreements require that each country prepare a FAP, the initial guidance MCC provided to the three MCAs was general and did not contain sufficient information to help the countries develop sound internal control structures. For example, guidance stated that records must support transactions and that procedures must incorporate segregation of duties. However, specific guidance on payroll, travel, and inventory controls would have helped the MCAs develop comprehensive policies. To address this, MCC developed a FAP template in November 2008, but MCC allows the MCAs flexibility and does not require them to implement the template's policies and procedures. In addition, GAO identified a significant number of the transactions tested that lacked adequate supporting documentation or were not properly approved by management. These deficiencies increase the risk of fraud, waste, and abuse of MCC program funding.

MCC has increased standardization of the MCA procurement guidelines, which were initially developed on a country-by-country basis. The MCAs GAO assessed generally adhered to MCC's procurement guidelines. GAO found that, in some cases, MCAs did not document a price reasonableness analysis of winning bids. GAO also found that when MCAs delegated procurement responsibility to outside entities, the procedures used by these entities were generally consistent with MCC's procurement framework.

MCC conducts oversight of MCA infrastructure contracts and projects, but insufficient planning of projects during compact development and cost escalation has undermined project implementation. As a result of insufficient planning, designs had to be revised, and project scopes have been reduced. Significant delays to project schedules—the result of undertaking additional planning and design—further compounded the escalation in construction costs experienced on projects and contributed to the restructuring of projects. For example, two of five planned roads in Cape Verde were eliminated, in part due to insufficient design and cost increases. In addition, the schedule for construction of the remaining three roads was extended by 11 months. MCC has worked with the MCAs to significantly restructure projects to keep them within their budgets and 5-year compact time frames. MCC also has taken steps to provide increased assistance to MCAs to help them conduct better planning for projects. However, these changes alone will not address the problems projects encountered with design development and cost escalation. Industry best practices and past GAO work have shown that conducting design reviews and updating cost estimates prior to contract solicitation help to ensure that projects can be successfully bid and constructed.