OFFICE OF INSPECTOR GENERAL
for the Millennium Challenge Corporation

AUDIT OF THE MILLENNIUM CHALLENGE CORPORATION'S FINANCIAL STATEMENTS, INTERNAL CONTROLS, AND COMPLIANCE FOR THE PERIOD ENDING SEPTEMBER 30, 2007 AND 2006

AUDIT REPORT NO. M-000-08-001-C
November 9, 2007

WASHINGTON, DC

Office of Inspector General
for the
Millennium Challenge Corporation

November 9, 2007

The Honorable John J. Danilovich
Chief Executive Officer
Millennium Challenge Corporation
875 15th Street, NW
Washington, DC 20005-2203

Subject: Audit of the Millennium Challenge Corporation's Financial Statements, Internal Controls, and Compliance for the Period Ending September 30, 2007 and 2006
Report No. M-000-08-001-C

Dear Mr. Ambassador:

Enclosed is the final report on the subject audit. The Office of Inspector General (OIG) contracted with the independent certified public accounting firm of Williams Adley & Company, LLP to audit the financial statements of the Millennium Challenge Corporation (MCC) for the period ending September 30, 2007. The contract required that the audit be performed in accordance with United States Generally Accepted Government Auditing Standards, Office of Management and Budget (OMB) Bulletin 07-04, *Audit Requirements for Federal Financial Statements,* and the GAO/PCIE *Financial Audit Manual.*

In its audit of the MCC's financial statements for the period ending September 30, 2007 the auditors found:

- The financial statements were fairly presented in conformity with U.S. Generally Accepted Accounting Principals.

- MCC's internal controls over financial reporting and its operation contained two significant deficiencies. These significant deficiencies are material weaknesses.

- MCC had two instances of material noncompliance with laws and regulations.

The material weaknesses identified in MCC's internal controls process increases MCC's need to develop written policies and procedures to streamline its financial operations. Under current operating procedures, the material weaknesses increase the risk of improper recording, unauthorized transactions, omissions, potential funds control violations and noncompliance with laws, regulations, contracts and grant agreements. Williams Adley & Company, LLP reported the following internal control weaknesses:

1. MCC did not sufficiently execute its monitoring functions related to advances.

2. MCC lacks written policies and procedures related to financial reporting accountability and document control.

Williams Adley & Company, LLP also reported instances of noncompliance with laws, regulations, contracts, and grant agreements, inclusive of those referred to in the Federal Financial Management Improvement Act of 1996 (FFMIA) and disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Bulletin 07-04, *Audit Requirements for Federal Financial Statements.* The instances of noncompliance are:

1. MCC did not fully comply with FFMIA (material noncompliance).

2. MCC did not fully comply with the Federal Information Security Management Act (FISMA) (material noncompliance).

In carrying out its oversight responsibilities, the OIG reviewed Williams Adley & Company, LLP's report and related audit documentation. This review, as differentiated from an audit in accordance with U.S. Generally Accepted Government Auditing Standards, was not intended to enable the OIG to express, and we do not express, opinions on MCC's financial statements, or internal control; on whether MCC's financial management systems substantially complied with FFMIA; or on MCC's compliance with other laws and regulations. Williams Adley & Company, LLP is responsible for the attached auditor's report, dated October 23, 2007, and the conclusions expressed in the report. However, our review disclosed no instances that Williams Adley & Company, LLP did not comply, in all material respects, with applicable standards.

To address the internal control weaknesses and the noncompliance findings reported by Williams Adley & Company, LLP, we are making the following recommendations to MCC's management:

Recommendation No. 1: We recommend that the Millennium Challenge Corporation's management:

1.1. Implement a policy that reduces outstanding advances based on the First-in, First-out (FIFO) method.

1.2. Implement the common payment system for all MCAs on a more aggressive timeline.

1.3. Make payments in accordance with the monthly schedule, and if a payment is held, consider the need for it to be disbursed at all.

1.4. Ensure that there is a more rigorous review of advance requests including an assessment of outstanding advances.

Recommendation No. 2: We recommend that the Millennium Challenge Corporation management:

2.1. Formally document the MCC accountability for ensuring MCA compliance with the reporting provisions.

2.2. Implement document retention policies that include standards for version control and a central repository for documents that are used by multiple MCC units.

2.3. Continue with the planned implementation of the BIDS project and ensure that information is validated prior to inclusion in the new system.

Recommendation No. 3: We recommend that management continue to assess the automated options available to handle the Millennium Challenge Corporation operations and develop short range and long range plans for the implementation of the most appropriate information technology structure to address electronic integration of, at least, the payroll, procurement and travel functions and systems to increase the efficiencies and effectiveness of the processing of financial transactions, and decrease the risk of errors.

In finalizing the report, we received and considered MCC's response to the draft report and the recommendations included therein. In its comments, MCC was generally responsive; however, the corporation did not provide estimated implementation dates for corrective action on recommendations 1 and 3.

Please provide revised management decisions for recommendations 1 and 3, and inform us when you have taken final action on recommendation number 2.

The OIG appreciates the cooperation and courtesies extended to our staff and to the staff of Williams Adley & Company, LLP during the audit. Please contact me or Richard J. Taylor, Director, Financial Audits Division, at (202) 216-6963, if you have any questions concerning this report.

Sincerely,

/s/
John M. Phee
Assistant Inspector General
Millennium Challenge Corporation

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Williams, Adley & Company, LLP
Certified Public Accountants/Financial Management Consultants

Independent Auditors' Report

Inspector General
United States Agency for International Development

Board of Directors
Millennium Challenge Corporation

We have audited the accompanying Statements of Financial Position of the Millennium Challenge Corporation (MCC or Corporation) as of September 30, 2007 and 2006 and the related Statements of Net Costs, Changes in Net Position, and Budgetary Resources for the year ended September 30, 2007 and 2006. These financial statements are the responsibility of Corporation management. Our responsibility is to express an opinion on these financial statements based on our audit.

In the prior fiscal year MCC prepared their financial statements in accordance with the requirements of the Government Corporation Control Act and the OMB Circular A-136 requirement for 45 day reporting. In fiscal year 2007 MCC decided to early adopt all requirements of OMB Circular A-136, as permitted by the Circular. The requirements resulted in a change in the financial statements presented by the Corporation. The fiscal year 2006 information has been formatted in accordance with the new presentation.

In connection with our audit, we also considered the MCC's internal control over financial reporting and tested the MCC's compliance with certain provisions of applicable laws, regulations, contracts and grant agreements that could have a direct and material effect on the financial statements.

SUMMARY

As stated in our opinion, we concluded that the MCC's financial statements as of and for the year ended September 30, 2007 and 2006 are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America.

Our consideration of internal control over financial reporting and its operation resulted in two matters that we consider to be significant deficiencies. We believe that these significant deficiencies are material weaknesses.

1. ***MCC Did Not Sufficiently Execute Its Monitoring Functions Related to Advances***

2. ***MCC Lacks Written Policies and Procedures Related to Financial Reporting Accountability and Document Control***

The results of our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements, inclusive of those referred to in the *Federal Financial Management Improvement Act of 1996* (FFMIA), disclosed two instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*:

3. ***MCC did not fully comply with FFMIA (material noncompliance)***

4. ***MCC did not fully comply with Federal Information Security Management Act (material noncompliance)***

The following sections discuss our opinion on the MCC's financial statements, our consideration of the MCC's internal control over financial reporting, our tests of the MCC's compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements, and the distribution of our report. The status of prior year findings is included as Appendix A. Management's response to the findings and our evaluation of said response is included as Appendix C and Appendix B, respectively. We noted other matters that were communicated to management in a separate letter.

OPINION ON THE FINANCIAL STATEMENTS

We have audited the accompanying Statements of Financial Position of the Corporation as of September 30, 2007 and 2006, and the related Statements of Net Costs, Changes in Net Position, and Budgetary Resources for the year ended September 30, 2007 and 2006. These financial statements are the responsibility of Corporation management. 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 United States of America and standards applicable to financial statement audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements.* Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In the prior fiscal year MCC prepared their financial statements in accordance with the requirements of the Government Corporation Control Act and the OMB Circular A-136 requirement for 45 day reporting. In fiscal year 2007 MCC decided to early adopt all requirements of OMB Circular A-136, as permitted by the Circular. The requirements resulted in a change in the financial statements presented by the Corporation. The fiscal year 2006 information has been formatted in accordance with the new presentation.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial positions of the Corporation as of September 30, 2007 and 2006, and changes in net position, net costs, and budgetary resources for the years ended September 30, 2007 and 2006, in conformity with accounting principles generally accepted in the United States of America.

Our audit was made for the purpose of forming an opinion on the basic financial statements of the Corporation taken as a whole. The information contained in the Management's Discussion and Analysis and Performance Section is not a required part of the financial statements, but is supplementary information required by the Federal Accounting Standards Advisory Board guidance. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the information. However, we did not audit the information and do not express an opinion thereon.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our fiscal year 2007 audit, we considered MCC's internal control over financial reporting by obtaining an understanding of MCC's internal control, determined whether internal controls had been placed into operation, assessed control risk, and performed tests of controls in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 07-04 and *Government Auditing Standards*. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982* (FMFIA), such as those controls relevant to ensuring efficient operations. The objective of our audit was not to provide assurance on internal control; accordingly, we do not provide an opinion on internal control.

Our consideration of internal control over financial reporting would not necessarily disclose all matters that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, significant deficiencies are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect MCC's ability to record, process, summarize, and report financial data consistent with the assertions by management in the financial statements.

Material weaknesses are significant deficiencies in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements, in amounts that would be material in relation to the financial statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in internal controls, misstatements, losses or noncompliance may occur and not be detected.

We noted two matters involving the internal control over financial reporting and its operation that we consider to be significant deficiencies. We believe that these significant deficiencies are material weaknesses. We noted other matters that were communicated to management in a separate letter.

MATERIAL WEAKNESSES

MCC Did Not Sufficiently Execute Its Monitoring Functions Related to Advances

Condition:

MCC entered into various compacts and provided several advances during fiscal year 2007. MCC personnel indicated that monthly disbursements were made based upon the quarterly disbursement requests. Current policies and procedures require that the disbursement requests are reviewed by several organizations within MCC for reasonableness, accuracy and need. Also, MCC personnel indicated that advances are generally liquidated within approximately 180 days using the quarterly financial reports provided by the Millennium Challenge Accounts (MCAs). The current policy requires that outstanding advances are liquidated within the Oracle Federal Financial System on the First-in First-out (FIFO) basis. However, we noted the following:

1. Several advances were not liquidated within 180 days (see chart below).

2. Advances were not always liquidated on the FIFO basis. For example, we noted that although Georgia had an advance for $255,713 outstanding for 541 days, re-disbursements equaling $6,477,332 were posted against an advance that was 348 days outstanding instead. Additionally, we noted that Ghana had advances totaling $3,065,233 outstanding for 290 days or greater, however, re-disbursements totaling $685,738 were posted against an advance outstanding for 207 days.

3. MCAs were granted additional funds in spite of open advances that were outstanding for 180 days or greater. We noted that Madagascar had outstanding advances totaling $13,790,783 as of June 30, 2007, with re-disbursements posted of $2,467,082, and received additional advances of $1,110,762 for August and $3,663,616 for September.

4. We noted that monthly tranches were not always issued properly. Three MCAs received two months of advances within one month. We noted that El Salvador received $1,361,939 and $364,347 on August 1, 2007 for the months of July and August; and Georgia received $3,655,620 and $3,500,000 on June 29, 2007 for the months of March and June.

5. The fourth quarter financial reports indicated that four MCAs had cash on hand of greater than 30 days cash needs as evidenced by no disbursement requested until the second month of the quarter or in one instance no disbursement was requested for the entire quarter.

Country	Date of Disbursement	Amount of Disbursement	Amount Remaining as of 9/30/07	Days Outstanding
Benin	8/31/2007	$1,531,951	$556,849	264
Georgia	2/26/2007	$10,913,824	$5,966,180	348
Ghana	6/14/2007	$863,315	$299,414	294
	3/7/2007	$55,620	$55,620	207

Also, in our review of the outstanding advances we noted that interagency advances to the Department of Treasury of $1,611,899 and U.S. Agency for International Development (USAID) of $120,000 were over 365 days outstanding.

The Department of the Treasury's Financial Management Service publications did not envision the inclusion of sovereign governments; however, in the analysis of cash management, we used the Treasury Financial Manual (TFM) as a valuable source of sound business practices. The TFM is the Department of the Treasury's official publication for financial accounting and reporting of all receipts and disbursements of the Federal Government. The purpose of the TFM is to provide policies, procedures, and instructions for Federal departments and agencies to follow in carrying out their fiscal responsibilities.

Also, through various OMB Circulars, OMB has attempted to address the need for advances to cover immediate cash needs or timely disbursements of an entity for direct program costs for carrying out the purpose of the approved program or project. Thus, funds paid to a grantee are not to be held, but are to be promptly applied to the grant purpose. Although the timeframe for immediate cash needs has not been clearly defined by OMB, the general rules employed by various Federal agencies are 30 days for non-governmental entities as outlined in the TFM. Based upon this definition, MCC has provided Federal funds in excess of immediate cash needs.

Criteria:

Per the Appropriations Law Volume II, advances under an assistance program are intended to accomplish the program purposes and not to profit the recipient other than in the manner and extent specified in the program. Section 2025 of The Treasury Financial Manual –Volume 1, Part 6-Chapter 2000, states that advances to a recipient organization will be limited to the minimum amounts necessary for immediate disbursement needs and will be timed to be in accord only with the actual immediate cash requirements of the recipient organization in carrying out the purpose of an approved program or project. The timing and amount of cash advances will be as close as is administratively feasible to actual disbursements by the recipient organization.

Best business practice defines immediate cash needs as money used for the purpose of carrying out the Compact's approved programs within a thirty day period. Also, when funds are drawn from Treasury before it is needed, or in excess of current needs, the government loses the use of the funds.

Cause:

Although, MCC's management has changed the advance issuance and monitoring policies and procedures, several aspects of advance monitoring have not been effectively implemented. The review of the advance requests related to immediate cash needs and outstanding advances currently performed is inadequate.

Effect:

The lack of effective advance monitoring has lead to excess cash on hand and increasing amounts of interest remitted from FY 2006 ($304,000) to FY 2007 ($1,624,762). Not using the FIFO method to liquidate the advances distorts the aging of outstanding advances and provides inaccuracies in the data.

Recommendation # 07-01:

We recommend that MCC management:

(1) Implement a policy that truly reduces outstanding advances based on the FIFO method;
(2) Implement the common payment system for all MCAs of a more aggressive timeline;
(3) Make payments in accordance with the monthly schedule and if a payment is held consider the need for it to be disbursed at all; and
(4) Management should ensure that there is a more rigorous review of advance requests including an assessment of outstanding advances.

MCC Lacks Written Policies and Procedures Related to Financial Reporting Accountability and Document Control

Condition:

In performing our analysis of compact expenses and advances, we requested supporting documentation of approved disbursement requests and final quarterly financial reports (QFR) by country for FY 2007. MCC's Department of Administration and Finance was hampered in addressing our request in a timely manner because of the lack of a centralized data/document repository. Also, MCC does not have adequate version control over the documents to ensure that the final documents are maintained in a manner that is accessible to all MCC employees requiring information.

During FY 2007, MCC disbursed over $82 million to compact countries who in turn reported approximately $72 million in expenses on their quarterly reports. The disbursement requests and quarterly reports are essential to ensuring that expenses and advances are accurately reported in the proper period. MCC has policies and procedures for processing and clearing the disbursement requests and quarterly financial reports that are received from the MCAs. The MCA is required to submit the QFR by the 10^{th} day of the third month of the quarter. The remaining 20 days of the month are used by MCC to process and clear the reports through various MCC departments including the country teams, legal, Fiscal Accountability, and Department of Administration and Finance. However, MCC does not have written policies and procedures related to the non-receipt of the QFR and identification of the accountable person(s) for ensuring compliance and notification.

MCC has decided to invest in an enterprise information system that will serve as a central repository for the documentation related to the various countries supported by the MCC. The projected implementation of the system is the third quarter of FY 2008.

Criteria:

The GAO *Standards for Internal Control in the Federal Government* states that internal control and all transactions and other significant events need to be clearly documented and the documentation should be readily available for examination. Also, information should be recorded and communicated to management and others within the entity who need it and in a form and within a timeframe that enables them to carry out their internal control and other responsibilities.

OMB Circular A-127 "*Policies and Standards for Financial Management Systems*" states that financial management in the Federal government requires accountability of financial and program managers for financial results of actions taken, control over the Federal government's financial resources and protection of Federal assets. To enable these requirements to be met, financial management systems must be in place to process and record financial events effectively and efficiently, and to provide complete, timely, reliable and consistent information for decision makers and the public.

Additionally, management and employees should establish and maintain an environment throughout the organization that sets a positive and supportive attitude toward internal control and conscientious management. A positive control environment is the foundation for all other standards. It provides discipline and structure as well as the climate which influences the quality of internal controls.

Cause:

The country teams and specifically, the program officer, are responsible for ensuring that quarterly financial reports are received from each country in accordance with the timeline established. However, the written roles and responsibilities of the position and operational area do not include the accountability for these reports and provision for a centralized repository. Also, MCC has not established document retention standards that include document versioning controls. Additionally, MCC believes that because the agreements require the submission of the reports and funds cannot be disbursed to the MCA without current reports on file, the possibility of nonsubmission is nonexistent. However, if the MCA has sufficient funds on hand and thus does not require a disbursement, the incentive to provide timely reporting decreases.

Effect:

If compact expenses are not recorded timely and accurately based upon approved documentation, the MCC financial reporting and financial statements will be inaccurate and MCC management’s ability to rely on the financial statements to make informed decisions will be impaired. As the number of compact countries and amounts of funds disbursed increases, the ability to maintain documentation and report accurately and timely becomes increasingly more important to the effective and efficient running of MCC operations.

Also, operating efficiency is reduced because the lack of centralized records causes people to keep their own set of records because they can not rely on information being available when needed. Specifically, it has required the Department of Administration and Finance to expend additional efforts to track down the required reports for recording in the accounting system and providing to the auditors. The lack of version control and central repository also affects other reports and documentation required from the various countries including performance reports, monitoring and evaluations plans, etc. Currently, the 9 compacts that are in force require 4 QFRs, at least 4 disbursement requests, and 2 performance reports on an annual basis. Also, countries receiving Compact Implementation Funds (CIF) and 609g funds required to submit quarterly QFRs. Additionally, there are untold draft versions of these same reports. If you multiply these reports by the additional countries that will be reporting in the future, the proper controls over documentation become increasingly critical to effective data management.

Recommendation # 07-02:

We recommend that MCC management:

(1) Formally document the MCC accountability for ensuring MCA compliance with the reporting provisions;
(2) Implement document retention policies that include standards for version control and a central repository for documents that are used by multiple MCC units; and
(3) Continue with the planned implementation of the enterprise information system and ensure that information is validated prior to inclusion in the new system.

The status of prior year's findings is provided in Appendix A. Management's response in its entirety is included in Appendix C.

As required by OMB Bulletin No. 07-04, with respect to internal controls related to performance measures determined by management to be key and reported in the Management's Discussion and Analysis, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions. Our procedures were not designed to provide assurance on internal control over performance measures and, accordingly, we do not provide an opinion thereon.

COMPLIANCE WITH LAWS AND REGULATIONS

MCC's management is responsible for complying with laws and regulations applicable to MCC. As part of obtaining reasonable assurance that MCC's balance sheet is free of material misstatements, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain other laws and regulations specified in OMB Bulletin No. 07-04, including the requirements referred to in the FFMIA. We limited our tests of compliance to these provisions and we did not test compliance with all laws, regulations, contracts, and agreements applicable to MCC. Providing an opinion on compliance with laws, regulations, contracts, and grant agreements was not an objective of our audit and, accordingly, we do not express such an opinion.

Under OMB Bulletin No. 06-03 and FFMIA, we are required to report whether MCC's financial management systems substantially comply with: (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level. To meet this requirement, we relied on the results of a SAS 70 review of the Department of Interior's Oracle Federal Financial System performed by an Independent Audit Firm. The results of that review have been presented to MCC in a separate report. Providing an opinion on compliance with those provisions was not, however, an objective of our audit and, accordingly, we do not express such an opinion.

The results of our tests disclosed that the Corporation did not fully comply with the FFMIA, which is required to be reported under *Government Auditing Standards* or OMB Bulletin No. 06-03.

Under FFMIA, we are required to report whether the Corporation's financial management systems substantially comply with the Federal financial management systems requirements, applicable Federal accounting standards, and the United States Government Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA section 803(a) requirements.

The results of our tests disclosed two instances of noncompliance with laws and regulations.

MATERIAL NONCOMPLIANCE

MCC Does Not Fully Comply With The Federal Financial Management Improvement Act

Condition:

Millennium Challenge Corporation (MCC) systems do not comply with the Federal Financial Management Improvement Act (FFMIA). The FFMIA requires an integrated financial management system. MCC does not have an integrated financial management system. MCC has multiple incompatible systems that cannot exchange data electronically, i.e. E-Travel and Federal Personnel/Payroll System (FPPS). The entry of the travel expenses and disbursements must be done manually. The entry of obligations and commitments requires a process of manual entry into Oracle Federal Financial (OFF). The payroll expenses and disbursements must be uploaded into OFF from FPPS.

During FY 2007, the Department of Accounting and Finance (A&F) traveled to NBC's Headquarters to perform testing of the interface between E-travel and OFF. A&F tested the interface based on 17 different employee travel scenarios, and noted that only five standard scenarios processed through both E-travel and OFF successfully.

Criteria:

The FFMIA requires MCC to implement and maintain a financial management system that complies substantially with Federal requirements for an integrated financial management system.

Cause:

The MCC does not have its own financial system. The Corporation has contracted with NBC to provide accounting and IT services including usage of its OFF application. The MCC is required by government regulations to use Federal Centers of Excellence of which NBC is one. According to MCC officials the Corporation has been directed to use the systems available through NBC. MCC believes that in fiscal year 2007 it used the only options available. NBC is working with MCC to provide enhancement to the system to accommodate MCC needs within the context of the OMB requirements for Centers of Excellence.

Effect:

The financial systems may not provide users with complete, accurate, timely financial information needed for decision-making purposes because of the inefficiencies caused by the manual processes.

Recommendation # 07-03:

We recommend that management continue to assess the automated options available to handle MCC operations and develop short range and long range plans for the implementation of the most appropriate information technology structure to address electronic integration of at least the payroll, procurement and travel functions and systems to increase the efficiencies and effectiveness of the processing of financial transactions; and decrease the risk of errors.

MCC Does Not Fully Comply With The Federal Information Security Management Act (FISMA)

An OIG audit identified significant non-compliance with FISMA requirements. Also, MCC engaged an outside expert to perform an independent security audit. MCC acknowledged that it had not met the majority of the FISMA requirements and proposed a timetable for compliance.

We are reporting this deficiency as required by the guidance issued by the Office of Management and Budget. However, because this deficiency was addressed in a prior OIG audit report, we are not making any recommendations in this report.

DISTRIBUTION

This audit was performed pursuant to the Government Corporation Control Act, OMB Circular A-136, and is intended solely for the information and use of the United States Congress, the President, the Director of the Office of Management and Budget, Comptroller General of the United States, the Corporation and its Inspector General, and is not intended to be, and should not be, used by anyone other than these specific parties.

October 23, 2007
Washington, D.C.

STATUS OF PRIOR YEAR FINDINGS

MCC Does Not Fully Comply with The Federal Information Security Management Act (FISMA)

In a report issued June 2005, an OIG audit identified significant non-compliance with FISMA requirements. Subsequently, MCC completed its FISMA report to OMB as of September 30, 2005, where it acknowledged that it had not met the majority of the FISMA requirements and proposed a timetable for compliance.

We are reporting this deficiency, as required by the guidance issued by the Office of Management and Budget. However, because this deficiency was addressed in a prior OIG audit report, we are not making any recommendation in this report.

The OIG continues to report significant noncompliances with FISMA requirements in fiscal year 2006 and 2007.

MCC's Policies and Procedures Were Not Always Complete and Consistent (material weakness)

During fiscal year (FY) 2006, the Millennium Challenge Corporation (MCC) used various processes to address the financial aspects of its operations. These processes evolved during the year as the organization grew in both number of personnel and span of operations. However, during this growth, the development and implementation of final written policies and procedures to guide MCC's streamlined operational structure was not adequately addressed. During the fiscal year, MCC lacked final written policies and procedures. Written policies and procedures must be in place to ensure operational efficiencies, risk reduction, and consistent application. Several policies and procedures, i.e. advances, budget, and accruals, remained in draft form, throughout the year. Additionally, several procedures do not address the responsible positions at the various control levels for the processing of data/data entry functions, or submission and approval levels and procedures in the areas of fixed assets and the open obligations review required revision.

While the current Department of Administration and Finance (A&F) management team has emphasized the preparation and issuance of a comprehensive financial management policies and procedures (FMPP) manual, as of the end of the FY, such a manual was being drafted. MCC has hired contractors to assist in the production of the FMPP manual by December 31, 2006.

Recommendation #06-01:

We recommend that Millennium Challenge Corporation's Department of Administration and Finance complete the Financial Management Policies and Procedures (FMPP) manual and implement the written policies and procedures for all areas that result in a financial event.

Status:

The Department of Administration and Finance completed the FMPP manual in March 2007. It was implemented and also updated in August 2007.

MCC Policies for Disbursing Advances to Grantees Do Not Accommodate Effective Cash Management (material weakness and noncompliance)

Condition:

MCC entered into various compacts and provided several advances during fiscal year 2006. MCC personnel indicated that monthly disbursements were made based upon the quarterly request. However, we noted that for most Millennium Challenge Authorities (MCAs), MCC disbursed funds on a quarterly basis based upon the disbursement request, rather than monthly. We noted that several disbursements were not used within 30 days nor the quarter.

Country	Date of Disbursement	Amount of Disbursement	Projected Cash Balance at September 30, 2006	Date when disbursement was completely expended
Madagascar	July 28, 2005	$ 2,500,924	-	March 30, 2006
	December 13, 2005	$ 1,755,506	-	June 30, 2006
	May 31, 2006	$ 5,391,665	$2,311,342	Not expected to be expended by September 30, 2006
Georgia	May 2, 2006	$ 3,603,404	$221,594	Not expected to be expended by September 30, 2006
	September 15, 2006	$6,509,706	6,509,706	
Honduras	February 28, 2006	$ 1,646,545	$138,840	Not expected to be expended by September 30, 2006
	September 29, 2006	$1,369,849	$1,369,849	
Cape Verde	February 1, 2006	$ 7,526,864	$3,913,663	Not expected to be expended by

Country	Date of Disbursement	Amount of Disbursement	Projected Cash Balance at September 30, 2006	Date when disbursement was completely expended
				September 30, 2006
Vanuatu	June 30, 2006	$ 1,127,055	$1,023,658	Not expected to be expended by September 30, 2006
	August 9, 2006	$ 219,504	$219,504	
	September 6, 2006	$ 111,688	$111,688	
	September 18, 2006	$ 116,377	$116,377	
Nicaragua	June 30, 2006	$ 1,483,399	433,889	Not expected to be expended by September 30, 2006
	August 28, 2006	$ 378,550	378,550	
	August 31, 2006	$ 289,110	289,110	

The Department of the Treasury's Financial Management Service publications did not envision the inclusion of sovereign governments; however, in the analysis of cash management, we used the Treasury Financial Manual (TFM) as a valuable source of sound business practices. The TFM is the Department of the Treasury's official publication for financial accounting and reporting of all receipts and disbursements of the Federal Government. The purpose of the TFM is to provide policies, procedures, and instructions for Federal departments and agencies to follow in carrying out their fiscal responsibilities.

Also, through various OMB Circulars, OMB has attempted to address the need for advances to cover immediate cash needs or timely disbursements of an entity for direct program costs for carrying out the purpose of the approved program or project. Thus, funds paid to a grantee are not to be held, but are to be promptly applied to the grant purpose. Although the timeframe for immediate cash needs has not been clearly defined by OMB, the general rules employed by various Federal agencies are 30 days for non-governmental entities as outlined in the TFM. Based upon this definition, MCC has provided Federal funds in excess of immediate cash needs.

Recommendation # 06-02:

We recommend that Millennium Challenge Corporation:

1) Develop and implement policies and procedures to ensure that the payment schedules and other agreements entered into with grantees are reflective of the U.S. Treasury requirements concerning advances and immediate cash needs.
2) Develop and implement policies and procedures to ensure that all disbursement requests from the accountable entity of the recipient countries follow the official format that documents the cash requirements for each month of the quarterly period.
3) Make and document all payments to the recipient countries on a monthly basis instead of a quarterly basis.

4) Establish and implement policies and procedures to ensure that any custodial liabilities, e.g. interest owed to the U.S. government resulting from the grantee advances, are properly recorded.

Status:

The Millennium Challenge Corporation developed and implemented policies and procedures reflective of the GAO policy based on an evaluation of what was needed to meet grant purposes in any given quarter, through the funds will be released in tranches on a monthly schedule. The MCAs submit quarterly financial reports that include disbursement requests. The disbursement requests provide a monthly schedule of cash needs that NBC and the Division of Finance follow to issue the disbursements. DF and The National Business Center (NBC) have implemented controls and review procedures to ensure quarterly disbursement requests and subsequent monthly disbursements comply with policies and procedures per the FMPP. Disbursements are recorded when issued and expenses are recorded on a quarterly basis based upon the financial reports received from the MCA. The interest receipts are recorded in the general ledger by NBC.

MCC Does Not Have a Property Management System (material weakness)

We noted that MCC reported $5,656,567 in property as of June 30, 2006; however, they were unable to provide detailed records to support the amount reported. The MCC does not have a property management system that provides detail information on original cost, date of purchase, location, useful life, depreciation, and accumulated depreciation.

For the year end financial statements, sufficient analysis was performed to ensure consistent application of the capitalization policy and to determine an appropriate measure of depreciation expense to ensure that fixed assets would be fairly stated.

Recommendation #06-03:

We recommend that Millennium Challenge Corporation develop and maintain appropriate fixed asset records to ensure accurate reporting and physical control.

Status:

MCC implemented new property policies and procedures in FY 2007. MCC with the assistance of a contractor conducted an inventory and reconciled it to the general ledger. Also, MCC established fixed asset records and computed and recorded depreciation expenses during the year.

MCC Did Not Properly Record Compact Expenses During the Fiscal Year (material weakness)

As a result of our review of the third quarter financial statements, we noted that MCC did not report any compact program costs. Although MCC had received disbursement requests that can be used to post the expenses incurred, nothing was recorded. According to the compact and disbursement agreement, each MCA is required to submit quarterly disbursement requests that include the expenses incurred to date. These requests are due regardless of the need for funding. The requests should provide the following:

- Previous quarter advances;
- Previous quarter disbursements;
- Estimated expenses; and
- Next quarter's advance request.

For the year end financial statements, MCC recorded compact expenses of $8,493,394. Additional analysis was performed utilizing the disbursement requests to increase expenses recorded and to ensure that advances and compact expenses were fairly stated.

Recommendation #06-04:

We recommend that Millennium Challenge Corporation's management:

(1) Require that the final quarterly request received from the accountable entity of the recipient countries be made available to the Department of Administration and Finance and the Fiscal Accountability Office.

(2) Develop and implement policies and procedures that ensure compact expenses are properly and accurately recorded and reported on a quarterly basis

(3) Implement written procedures requiring that appropriate and timely follow-up measures are performed and are recorded for historical reference on incomplete, outstanding, or late disbursement requests.

(4) Develop and implement policies and procedures that require the Department of Administration and Finance to perform a thorough review of the financial statements to ensure that costs are not omitted.

Status:

The Department of Administration and Finance in conjunction with the Fiscal Accountability Office developed and implemented revisions to the quarterly financial reports to streamline the process for recording compact expenses and related accruals. The current process requires that quarterly reports and disbursement requests are cleared by the Department of Administration and Finance and the Fiscal Accountability Office thereby ensuring that they are received. MCC issued policies and procedures for tracking and follow-up on outstanding quarterly disbursement requests and financial reports. Also, procedures for the review of quarterly and annual financial statements were developed and implemented by the Division of Finance.

MCC's Chief Financial Officer Was Not an Integral Part of the Compact/Grant Processes (material weakness)

Based on interviews and observations, we noted that MCC's Division of Finance was not integrally involved in the compact/grant processes to ensure that the financial aspects are addressed, recorded and reported in their proper sequence and appropriate timing. The Chief Financial Officer or his designees should be integrally involved in all MCC operations that result in a financial transaction. The CFO should be integrally involved in the:

(1) establishment of the compact amount to ensure that there is sufficient appropriations available,
(2) development of grant policies and procedures to ensure that they are in compliance with Federal government laws and regulations and to ensure that sufficient financial information is provided to MCC to accomplish its responsibilities,
(3) review of compacts in order to initiate accounting transactions in the system and budget transactions with OMB, and
(4) establishment of the reporting structure to ensure that financial information is provided timely and in the format necessary for required financial reporting.

Recommendation #06-05:

We recommend that Millennium Challenge Corporation's management revise their policies and procedures to invest the Office of the Chief Financial Officer with the level of responsibility, role, and all levels of authority established by the Chief Financial Officer Act.

Status:

The Chief Executive Officer sent a memorandum to MCC's executive team iterating CFO's responsibilities for the full spectrum of the Corporation's financial management activities. The FMPP manual reiterates the full spectrum of the CFO's responsibilities also.

MCC's Travel Disbursement Controls and Procedures Do Not Permit the Effective and Efficient Management of Travel (reportable condition)

MCC follows the Federal Travel Regulations and has an overall policy related to travel. However, prior to February 2006, MCC was using blanket travel authorizations (TA) to serve as an approval for employee travel. Once MCC approved the blanket TA, it was submitted to National Business Center (NBC) to post an obligation within Oracle. After February, MCC modified the travel policy that instituted the individual TA's that outlined the specific purpose of the employee's travel. NBC no longer posts travel obligations in advance in Oracle but obligates and pays the travel vouchers, simultaneously.

Similar to FY 2005, MCC requires all employees to post their travel expenses online in E-Travel. Although the travel voucher process is electronic, E-Travel does not interface with Oracle Federal Financials. Therefore, an NBC accounting technician must manually enter each voucher. During our travel testing, we noted twenty-six instances totaling $97,802 for which employees' receipts were not available. We also noted the following:

1. Eleven of 115 (10%) travel vouchers totaling $869 exceeded per diem rates;
2. Six of 115 (5%) vouchers equaling $557 consisted of expenses in excess of $75 and were not supported; and
3. Four of 115 (3%) vouchers totaling $35,663 were not approved by the travel manager within E-Travel.

MCC enhanced its travel policy in August 2006. MCC management changed the Corporation's supporting documentation requirements to require travelers to scan into the E-travel system and electronically attach to the pertinent travel vouchers receipts for claimed expenses of $75 or more. Division of Finance personnel are responsible for reviewing submitted vouchers to ascertain that required receipts are electronically attached to travelers' vouchers. Travelers who do not scan and attach their required receipts to vouchers are contacted by Division of Finance staff to obtain "missing" receipts.

Recommendation #06-06:

We recommend that Millennium Challenge Corporation's management develop and implement controls to reject travel expense reimbursement requests that exceed the allowable country per diem unless additional electronic authorization is provided.

Status:

The Deputy CFO instructed the DF's travel management staff to not approve any claimed travel expenses that exceed established limitations as defined by the Federal Travel Regulations (FTR) and to reject travelers' claims that exceed per diem limits. The travelers were provided feedback on travel voucher errors and a traveler's responsible manager/supervisor was apprised of claimed expenses that are not in compliance with per diem (actual costs) requirements. The manager/supervisor explicitly approved such expenses.

DF travel management staff underwent refresher FTR training and provided training on using the E-Travel system to MCC employees to better orient and guide them in properly preparing travel authorizations and vouchers.

MCC Did Not Fully Comply with FFMIA and GPRA

Millennium Challenge Corporation has not fully complied with the following laws and regulations:

- Government Performance and Results Act (GPRA)
- Federal Financial Management Improvement Act (FFMIA)

We noted that the agency performance plans provided to us did not fully comply with GPRA requirements, for example: human, capital and other resources needed to achieve performance goals were not quantified as required. Also, agency performance goals were not written in a manner that could be quantified in several instances and milestones were not included. Therefore, we could not directly link measurement of agency performance goals with the overall strategic plan. In addition, baseline data to be used as performance indicator measurement thresholds were not provided for some indicators.

The FFMIA requires an integrated financial management system. MCC does not have an integrated financial management system. When MCC decided to outsource its accounting operations, MCC selected NBC from the available Federal Centers of Excellence as the best choice to meet its needs. In order to address the needs of MCC, multiple systems, i.e. E-Travel, procurement, and Federal Personnel and Payroll System (FPPS), are used, but these systems cannot exchange data electronically. The entry of the travel expenses and disbursements must be done manually. The entry of obligations and commitments requires a process of emails, scanning and manual entry into Oracle Federal Financial (OFF) System application. The payroll expenses and disbursements must be uploaded into OFF from FPPS.

Additionally, we obtained and reviewed the Financial Management Controls and Assertion letter and noted the following assertion, "During FY 2006, NBC's sytems were not in substantial compliance with FFMIA requirements. In its assurance statement as of June 30, 2006, NBC asserted that 'were in substantial non-compliance with FFMIA requirements'." Subsequently, NBC instituted several corrective actions to address the issues raised and were in substantial compliance by September 30, 2006, per their representation.

Recommendation #06-07:

We recommend that MCC management:

(1) Develop performance goal templates and follow-up training to ensure that Government Performance and Results Act (GPRA) requirements are adequately addressed and consistent. We also recommend that baseline data be finalized or performance indicators reviewed and amended such that they can be measured against obtainable data.

(2) Assess the automated options available to handle MCC operations and develop short range and long range plans for the implementation of the most appropriate information technology structure to address electronic integration of at least the payroll, procurement and travel functions and systems to increase the efficiencies and effectiveness of the processing of financial transactions; and decrease the risk of errors.

Status:

The Department of Administration and Finance managed a performance working group, representing all departments to revise the MCC corporate performance plan for FY 2007, and acquired the services of a contractor to assist in drafting the plan, setting baselines and targets, and developing procedures to ensure that departmental and individual performance plans are aligned with the corporate plan. MCC was able to complete the performance plan which expanded the Framework, made key decisions on the baseline, performance measures, reliable data sources, and the vetting process to be employed by each department. The departmental plans are expected to be completed in October and the individual employee plans in December 2007.

In FY 2007 MCC has assessed various automated options related to the integration of its various systems and discussed options with their service provider. They have determined system requirements and performed a gap analysis. However, integration of the various systems requires additional analysis, planning and assessment.

Management Comments and Our Evaluation

We received and evaluated MCC's management comments to the recommendations made in this report. We considered their comments to be generally responsive except for specific exceptions detailed below. Management comments have been included in their entirety in Appendix C.

In its response, MCC's management stated that it recognizes the importance of accountability, effective stewardship, and public disclosure related to the resources entrusted to it, and that their goal is to achieve and maintain excellence in financial management, financial reporting and internal control systems. Further, MCC's management commented that it will implement the recommendations as soon as possible to strengthen their systems of internal controls and lend further credibility to their financial statements and overall financial operations. MCC's management went on to address each recommendation. MCC's management also recognized and thanked the OIG and Williams, Adley & Company, LLP for working closely with them during the audit process.

Based on MCC's comments, we consider that a management decision has been reached on recommendation 2 provided in this report but not on recommendations 1 and 3. These recommendations do not provide defined timelines for the corrective action implementation. Also, the corrective action for recommendation 1.4 requires additional details to ensure that the recommendations are appropriately addressed. MCC should report to the OIG when management decision has been reached on the four recommendations and when final action has been taken on the recommendations. The following is a brief summary of MCC's management comments on the three recommendations included in this report and our evaluation of those comments.

Recommendation No. 1

MCC accepts the recommendation. With regard to Recommendation # 1, MCC's current Financial Management Polices and Procedures do not contain any requirement to liquidate advances on a First-in, First-out (FIFO) basis; however we agree that FIFO would provide for improved reporting of outstanding advances. MCC will work with the National Business Center (NBC), its financial services provider, to ensure that all prior and future advances are liquidated on a FIFO basis.

MCC implemented the Common Payment System (CPS) in Mali in May 2007. All countries signing compacts after that date will utilize CPS. The CPS provides for payment of MCA expenses through the U.S. Treasury based upon presentation of a valid approved invoice. CPS supports sound cash management by eliminating the current practice of cash advances to MCA compact countries

MCC will establish a timeline for converting to CPS countries that entered into Compacts prior to May 2007. In the interim, MCC intends to follow sound cash management practices, and will disburse funds consistent with the GAO policy and based on the best information available and grant requirements in any given quarter. MCC will continue to release the funds in tranches following a monthly schedule.

Auditor Evaluation: We conclude that management has not adequately addressed this issue because the response does not address recommendation 1.4; and does not provide an implementation date.

Recommendation No. 2

MCC accepts the recommendation. In conjunction with the reorganization of the Operations Department, MCC will be reviewing existing polices and procedures related to compact implementation. This will include documenting the roles and responsibilities for ensuring receipt of required reports from partner countries.

MCC has submitted a comprehensive Records Disposition (retention) schedule to the National Archives and Records Association for review and approval within the next six to nine months. The issue of version control and a centralized repository is being addressed as part of development of the Enterprise Architecture and the implementation of the Business Intelligence and Data Storage (BIDS). A key component of BIDS will be the Administrative Data Store (ADS). The ADS is a data warehouse that will include MCA Compact data, MCA Progress Reports, and records of MCC reviews, approvals and decisions captured through an automated workflow process. The expected implementation date for this component of the BIDS is June 2008. In the interim, MCC will establish procedures to address the version control issue using existing tools.

Auditor Evaluation: We conclude that management has adequately addressed this issue.

Recommendation No. 3

MCC accepts the recommendation. The Department of Administration and Finance (A&F) will continue to work to the National Business Center (NBC) on the interface between Etravel and Oracle to resolve the issues noted during initial testing. MCC will be changing to a new government credit card provider in FY 2008 for both travel and purchase card transactions. MCC is currently considering either JP Morgan Chase or Citibank, both of which have a fully tested and integrated interface with the Oracle Federal Financial System (OFFS). Regarding the payroll integration, the NBC has indicated its business plan does not include the integration of FPPS with OFFS, outside of the labor interface already provided.

During FY 2007, A&F made substantial progress on reviewing its current financial systems environment and developing alternatives for a fully integrated system to meet the requirements of the FFMIA. A&F has established system requirements, performed a gap analysis based on its current environment, and developed cost alternatives to close the exiting gaps. A&F will also work with the Office of Management and Budget (OMB) to find the best resolution for this condition whether with the NBC, or with some other federal or private center of excellence.

Auditor Evaluation: We conclude that management has not adequately addressed this issue because no defined timetable has been stated for the corrective action.

MILLENNIUM CHALLENGE CORPORATION
REDUCING POVERTY THROUGH GROWTH

November 2, 2007

TO: John Phee
Assistant Inspector General

FROM: Michael Ryan /s/
Vice President, Administration and Finance

SUBJECT: Management Response to Draft Independent Auditor's Report on MCC's Financial Statements for Fiscal Years Ended September 30, 2007 and 2006, Respectively

We have received the subject draft report and are pleased to note that the independent auditors, Williams, Adley and Company, LLP, are issuing an unqualified opinion on our principal financial statements, namely the Statements of:

Financial Position;
Net Costs;
Changes in Financial Position; and
Budgetary Resources.

The auditor's unqualified opinion is being issued despite material internal control weaknesses and noncompliance with selected laws and regulation that have been identified.

The Millennium Challenge Corporation's (MCC) management recognizes the importance of accountability, effective stewardship and public disclosure related to the resources entrusted to it. Our goal is to achieve and maintain excellence in our financial management, financial reporting and internal control systems. Accordingly, we will implement the recommendations as soon as possible to strengthen our systems of internal control and lend further credibility to our financial statements and overall financial operations.

We wish to recognize and thank you, your team, and Williams, Adley and Company for working closely with us during the audit process. Any questions may be addressed to Mr. Dennis Nolan, Deputy Chief Financial Officer, or to me.

Following are our management decisions and responses to Williams Adley's audit recommendations.

***Material Weakness 1*:** MCC did not sufficiently execute its monitoring functions related to advances.

Recommendations: Williams, Adley and Company recommend that the Millennium Challenge Corporation's management:

1.1. Implement a policy that reduces outstanding advances based on the FIFO method.

1.2. Implement the common payment system for all MCAs on a more aggressive timeline.

1.3. Make payments in accordance with the monthly schedule and if a payment is held consider the need for it to be disbursed at all.

1.4. Ensure that there is a more rigorous review of advance requests including an assessment of outstanding advances.

Management Decision: MCC accepts the recommendation. With regard to Recommendation # 1, MCC's current Financial Management Polices and Procedures do not contain any requirement to liquidate advances on a First-in, First-out (FIFO) basis; however we agree that FIFO would provide for improved reporting of outstanding advances. MCC will work with the National Business Center (NBC), its financial services provider, to ensure that all prior and future advances are liquidated on a FIFO basis.

MCC implemented the Common Payment System (CPS) in Mali in May 2007. All countries signing compacts after that date will utilize CPS. The CPS provides for payment of MCA expenses through the U.S. Treasury based upon presentation of a valid approved invoice. CPS supports sound cash management by eliminating the current practice of cash advances to MCA compact countries

MCC will establish a timeline for converting to CPS countries that entered into Compacts prior to May 2007. In the interim, MCC intends to follow sound cash management practices, and will disburse funds consistent with the GAO policy and based on the best information available and grant requirements in any given quarter. MCC will continue to release the funds in tranches following a monthly schedule.

Material Weakness 2: MCC lacks written policies and procedures related to financial reporting accountability and document control.

Recommendations: Williams, Adley and Company recommends that the Millennium Challenge Corporation management:

2.1. Formally document the MCC accountability for ensuring MCA compliance with the reporting provisions.

2.2. Implement document retention policies that include standards for version control and a central repository for documents that are used by multiple MCC units.

2.3. Continue with the planned implementation of the BIDS project and ensure that information is validated prior to inclusion in the new system.

Management Decision: MCC accepts the recommendation. In conjunction with the reorganization of the Operations Department, MCC will be reviewing existing polices and procedures related to compact implementation. This will include documenting the roles and responsibilities for ensuring receipt of required reports from partner countries.

MCC has submitted a comprehensive Records Disposition (retention) schedule to the National Archives and Records Association for review and approval within the next six to nine months. The issue of version control and a centralized repository is being addressed as part of development of the Enterprise Architecture and the implementation of the Business Intelligence and Data Storage (BIDS). A key component of BIDS will be the Administrative Data Store (ADS). The ADS is a data warehouse that will include MCA Compact data, MCA Progress Reports, and records of MCC reviews, approvals and decisions captured through an automated workflow process. The expected implementation date for this component of the BIDS is June 2008. In the interim, MCC will establish procedures to address the version control issue using existing tools.

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Material Noncompliance 1: MCC does not fully comply with the Federal Financial Management Improvement Act (FFMIA).

Recommendation: Williams, Adley and Company recommend that management continue to assess the automated options available to handle the Millennium Challenge Corporation operations and develop short range and long range plans for the implementation of the most appropriate information technology structure to address electronic integration of at least the payroll, procurement and travel functions and systems to increase the efficiencies and effectiveness of the processing of financial transactions; and decrease the risk of errors.

Management Decision: MCC accepts the recommendation. The Department of Administration and Finance (A&F) will continue to work to the National Business Center (NBC) on the interface between Etravel and Oracle to resolve the issues noted during initial testing. MCC will be changing to a new government credit card provider in FY 2008 for both travel and purchase card transactions. MCC is currently considering either JP Morgan Chase or Citibank, both of which have a fully tested and integrated interface with the Oracle Federal Financial System (OFFS). Regarding the payroll integration, the NBC has indicated its business plan does not include the integration of FPPS with OFFS, outside of the labor interface already provided.

During FY 2007, A&F made substantial progress on reviewing its current financial systems environment and developing alternatives for a fully integrated system to meet the requirements of the FFMIA. A&F has established system requirements, performed a gap analysis based on its current environment, and developed cost alternatives to close the exiting gaps. A&F will also work with the Office of Management and Budget (OMB) to find the best resolution for this condition whether with the NBC, or with some other federal or private center of excellence.

Material Noncompliance 2: MCC does not comply with the Federal Information Security Management Act (FISMA). Williams, Adley and Company makes no recommendation(s) relative to this material noncompliance. This deficiency was identified by the Office of Inspector General in a prior audit. During FY 2007, MCC management:

- Hired two fulltime FISMA staff;
- Completed an MCC Self Assessment;
- Completed an MCC's Information System Security Plan (ISSP);
- Completed Quartile scans on MCCnet;
- Approved three additional FISMA team members-Subject Matter Expert, Technological Writer and Network Engineer; and
- Created a new CISSO position with an additional slot, and hired a full-time employee who will start in November.

BALANCE SHEETS

In dollars	FY 2007	FY 2006
Assets		
Intra-Governmental		
Fund Balance with Treasury *(Note 2)*	**$5,549,289,597**	**$4,078,656,972**
Accounts Receivable *(Note 3)*	67,798	62,202
Total Intra-Governmental	5,549,357,395	4,078,719,174
General Property, Plant, and Equipment*(Note 4, Note 5)*	7,115,606	4,632,785
Advances *(Note 1F,P)*	32,243,157	18,881,386
Total Assets	**$5,588,716,158**	**$4,102,233,345**
Liabilities		
Intra-Governmental		
Other	$ 1,457,862	$ 2,516,786
Total Intra-Governmental	**1,457,862**	**2,516,786**
Accounts Payable	39,176,698	10,134,698
Other	3,971,886	2,698,070
Total Liabilities	**$ 44,606,446**	**$ 15,349,554**
Net Position		
Unexpended Appropriations – Other Funds	$5,536,714,361	$4,082,189,638
Cumulative Results of Operations – Other Funds	7,395,351	4,694,153
Total Net Position	**$5,544,109,712**	**$4,086,883,791**
Total Liabilities and Net Position	**$5,588,716,158**	**$4,102,233,345**

The notes are an integral part of the financial statements

STATEMENTS OF BUDGETARY RESOURCES

In dollars	FY 2007	FY2006
Budgetary Resources		
Unobligated Balance – Beginning of Period	$2,671,372,416	$2,053,722,184
Recoveries of Prior Years Obligations	15,930,609	-
Budget Authority:		
Appropriations	1,752,300,000	1,770,000,000
Nonexpenditure Transfers, Net, Anticipated and Actual	(9,415,980)	-
Permanently Not Available *(Note 7)*	-	(17,700,000)
Total Budgetary Resources	**$4,430,187,045**	**$3,806,022,184**
Status of Budgetary Resources		
Obligations Incurred		
Direct	$2,174,044,542	$1,109,535,594
Unobligated Balance Available		
Apportioned	1,516,900,216	877,383,424
Unobligated Balance Not Available	$ 739,242,287	$1,819,103,166
Total Status of Budgetary Resources	**$4,430,187,045**	**$3,806,022,184**
Change in Obligated Balance		
Obligated Balance, Net – as of October 1, 2005		
Unpaid Obligations, Brought Forward, October 1	$1,408,398,635	$ 272,636,873
Obligations Incurred	2,174,044,542	1,109,535,594
Gross Outlays	(278,605,423)	(109,119,072)
Recoveries of Prior Year Unpaid Obligations, Actual	(15,930,609)	-
Obligated Balance, Net – End of Period		
Unpaid obligations	$3,287,907,145	$1,273,053,395
Net Outlays		
Gross Outlays	$ 278,605,423	$ 109,119,072

The notes are an integral part of the financial statements

STATEMENTS OF NET COSTS

Program	2007 Total	2006 Total
Program Costs (In dollars)		
Compact		
Gross Costs (Note 6)	$ 81,079,458	$ 16,747,194
Less: Earned Revenue	-	-
Net Program Costs	81,079,458	16,747,194
609 (g) Programs		
Gross Costs	17,172,113	5,895,167
Less: Earned Revenue	-	-
Net Program Costs	17,172,113	5,895,167
Threshold Programs		
Gross Costs	75,766,215	15,235,063
Less: Earned Revenue	-	-
Net Program Costs	75,766,215	15,235,063
Due Diligence Programs		
Gross Costs	32,789,662	15,137,340
Less: Earned Revenue	-	-
Net Program Costs	32,789,662	15,137,340
Audit		
Gross Costs	2,865,820	619,714
Less: Earned Revenue	-	-
Net Program Costs	2,865,820	619,714
Administrative		
Gross Costs	77,922,457	54,785,827
Less: Earned Revenue	-	-
Net Program Costs	77,922,457	54,785,827
Program Costs – Net of All Programs	**$287,595,725**	**$108,420,305**
Net Costs of Operations	**$287,595,725**	**$108,420,305**
The notes are an integral part of the financial statements		

STATEMENTS OF CHANGES IN NET POSITION

In dollars	FY 2007	FY 2006
Cumulative Results of Operations		
Beginning Balances	$ 4,694,987	$ 4,276,833
Adjustments	-	-
Beginning Balance, as Adjusted	$ 4,694,987	$ 4,276,833
Budgetary Financing Sources		
Appropriations Used	$ 288,359,297	$ 107,689,343
Other Financing Sources		
Donations and Forfeitures of Property	$ 123,750	$ -
Imputed Financing	1,813,042	1,148,282
Total Financing Sources	290,296,089	108,837,625
Net Cost of Operations	(287,595,725)	(108,420,305)
Net Change	2,700,364	417,320
Cumulative Results of Operations	**$ 7,395,351**	**$ 4,694,153**
Unexpended Appropriations		
Beginning Balance	$4,082,189,638	$2,437,546,656
Changes in Accounting Principles	-	-
Beginning Balance, as Adjusted	$4,082,189,638	$2,437,546,656
Budgetary Financing Sources		
Appropriations Received	$1,752,300,000	$1,770,000,000
Appropriations Transferred In/Out	(9,415,980)	-
Other adjustments *(Note 7)*	-	(17,700,000)
Appropriations Used	(288,359,297)	(107,657,018)
Total Budgetary Financing Sources	1,454,524,723	1,644,642,982
Total Unexpended Appropriations	5,536,714,361	4,082,189,638
Net Position	**$5,544,109,712**	**$4,086,883,791**
The notes are an integral part of the financial statements		

Note 1—Summary of Significant Accounting Policies

A. Basis of Presentation

The accompanying principal financial statements have been prepared to report the financial position, results of operations and budgetary resources for MCC, as required by Section 613 of the Millennium Challenge Act of 2003. They have been prepared using MCC's books and records in accordance with MCC accounting policies, the most significant of which are summarized in this note. The statements are presented in accordance with the guidance and requirements of the recently issued OMB Circular A-136, which incorporates and updates Bulletin 01-09, Form and Content of Agency Financial Statements, and the Government Management Reform Act of 1994. Fiscal Year 2006 statements, previously prepared in accordance with the Government Corporation Control Act (31 U.S.C. §9106), have been reformatted and republished for Circular A-136 comparative purposes. Fiscal year 2006 financial statements have also been restated for comparative purposes to include Threshold program balances that were not reflected timely prior to final publication.

MCC accounting policies follow generally accepted accounting principles for the Federal government, as recommended by the Federal Accounting Standards Advisory Board (FASAB). The FASAB has been recognized by the American Institute of Certified Public Accountants (AICPA) as the official accounting standard set for the Federal government. These standards have been agreed to, and published by the Director of OMB, the Secretary of the Treasury, and the Comptroller General.

MCC's principal financial statements are:

- Balance Sheet
- Statement of Budgetary Resources
- Statement of Net Cost
- Statement of Changes in Net Position

These notes are considered an integral part of the financial statements.

B. Reporting Entity

MCC was formed in January 2004 pursuant to the Millennium Challenge Act of 2003 (Public Law 108-199). MCC's mission is to reduce poverty by supporting sustainable, transformative economic growth in developing countries that create and maintain sound policy environments. The assistance is intended to provide economic growth and the elimination of extreme poverty, strengthen good governance, encourage economic freedom, and promote investments in people.

C. Budgets and Budgetary Accounting

MCC's programs and activities are funded through no-year appropriations. Such funds are available for obligation without fiscal year limitation and remain available until expended. MCC was provided total appropriations of almost $1.752 billion and $1.770 billion in FY 2007 and FY 2006, respectively. OMB apportions MCC administrative funds on an annual basis pursuant to statutory limitations in MCC's annual congressional appropriations. In addition, MCC receives from OMB a separate apportionment for due diligence funds, which MCC uses for compact evaluations and support, compact programs, 609(g) funds, the Threshold program, and audit funds. Because of the no-year status of MCC appropriations, unobligated administrative, audit, and due diligence funds (apportioned annually) are not returned to the Treasury; however, unobligated balances as of September 30 for these three categories of funds are transferred to the compact fund category at the beginning of the subsequent fiscal year for future use.

D. Basis of Accounting

Financial transactions are recorded on accrual and budgetary bases in accordance with pertinent federal accounting and financial reporting requirements. Under the accrual method of accounting, financing sources are recognized when used and expenses are recognized when incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates MCC's compliance with legal constraints and controls over the use of federal funds.

The accompanying Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position have been prepared on the accrual basis. The Statement of Budgetary Resources has been prepared in accordance with budgetary accounting rules.

E. Fund Balance with Treasury

MCC does not maintain cash in commercial bank accounts. Rather, MCC's funds are maintained in Treasury accounts. The Department of the Treasury processes all cash receipts and disbursements for MCC. The Fund Balances with Treasury represent no-year funds, which are maintained in appropriated funds that are available to pay current and future commitments.

F. Advances to Others

MCC advances funds to eligible compact and pre-compact countries in order to implement compact projects in an MCA country or for federal government inter-agency agreements. Funds advanced to compact and pre-compact countries are used to pay legitimate costs and expenses incurred by MCC and partner countries. Advances at the end of FY 2007 and FY

2006 were $32.2 million and $18.9 million, respectively. Of the twenty-one (21) MCC outstanding advances, four (4) are greater than 180 days.

G. Accounts Payable

MCC records as liabilities all amounts due to others as a direct result of transactions or events that have occurred. Accounts payable represent amounts due to federal and non-federal entities for goods and services received by MCC, but not paid at the end of the accounting period. Accounts payable reported at the end of FY 2007 and 2006 were $39.2 and $10.1 million, respectively. The increase in the Accounts Payable is attributable to an increase from $7.6 million in FY 2006 to $28.6 million in FY 2007 for USAID Threshold programs**.**

H. Actuarial FECA Liability

The Federal Employees’ Compensation Act (FECA) provides income and medical cost protection to covered federal civilian employees injured on the job, employees who have incurred a work-related occupational disease, and beneficiaries of employees whose deaths are attributable to a job-related injury or occupational disease.

Claims incurred for benefits for MCC employees under FECA are administered by the Department of Labor (DOL) and later billed to MCC. MCC’s actuarial liability for workers’ compensation includes any costs incurred but unbilled as of year-end, as calculated by DOL, and not funded by current appropriations.

MCC incurred no FECA liabilities during FY 2007 and FY 2006.

I. Accrued Annual Leave

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. Annual leave is funded from current appropriations. 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 leave.

J. 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 at the end of the fiscal year. Cumulative results of operations represent the net differences between financing sources and expenses from MCC’s inception.

K. Financing Sources

In accordance with Note 1.C, MCC funds its program and operating expenses 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.

L. Retirement Benefits

MCC's employees participate in either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). FERS was established by Public Law 99-335. Pursuant to this law, most U.S. Government employees hired after December 31, 1983, are covered by FERS and Social Security. 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 7 percent of their gross pay toward their retirement benefits. For those employees covered by FERS, MCC contributes 11 percent of their gross pay toward retirement. Employees are also allowed to participate in the federal Thrift Savings Plan (TSP). For employees under FERS, MCC contributes an automatic 1 percent of basic pay to TSP and matches employee contributions up to an additional 4 percent of pay, for a maximum MCC contribution amounting to 5 percent of pay. Employees under CSRS may participate in the TSP, but will not receive either MCC's automatic or matching contributions.

For FY 2007, MCC has made contributions of $142,000 to CSRS, $2.4 million to FERS, and $849,000 to TSP. During FY 2006, MCC made retirement contributions of $761,000 to CSRS, $1.977 million to FERS, and $620,700 to TSP.

M. Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of financing sources and expenses during the reporting period. Actual results could differ from such estimates.

N. Contingencies

MCC can be a party to various routine administrative proceedings, legal actions, and claims brought by or against it, including threatened or pending litigation involving labor relations claims, some of which may ultimately result in settlements or decisions against MCC. In the opinion of MCC's management and legal counsel, there are no proceedings, actions, or claims outstanding or threatened that would materially impact MCC's financial statements.

O. 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 in excess of $2,500 for Federal Tort Claims Act settlements or awards pertaining to these litigations are funded from a special appropriation administered by the Department of the Treasury called the Judgment Fund. Although the ultimate disposition of any potential Judgment Fund proceedings cannot be determined, management expects that any liability or expense that might ensue would not be material to MCC's financial statements.

P. Custodial Receivables and Liabilities

Under current policy and procedures, MCC funds all compacts and pre-compacts with other countries by advancing funds on a monthly basis to cover projected needs. Such funds provided to the countries are required to be deposited in interest-bearing accounts, if legally feasible, until disbursed. The interest earned on these accounts is remitted to MCC and deposited into an account at the U.S. Treasury. Such interest may not be retained or used by MCC, but periodically is returned to the Treasury's general funds. MCC had outstanding advances related to compact and pre-compact financing of approximately $30.8 million and $18.8 million on September 30, 2007, and September 30, 2006, respectively. MCC received and deposited $1.65 million and $304,000 in interest remittances on September 30, 2007, and September 30, 2006, respectively (see Note 2).

Q. Donated Services

MCC may on occasion use donated services from other federal agencies and private firms in the course of business operations. The approximate fair market value of these donated services for September 30, 2007, is $123,750 and was $0 in FY 2006.

R. Transfers with Other Federal Agencies

MCC is a party to allocation transfers with another federal agency as a transferring entity. Allocations are legal delegations by one agency of its authority to obligate budget authority and outlay funds to another agency. A separate fund account (child 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 budget authority are credited to this account, and subsequent obligations and outlays incurred by the child entity are charged to this allocation account as they execute the delegated activity on behalf of the parent entity.

All financial activity related to these allocations and transfers (e.g., budget authority, obligations, and outlays) is reported in the financial statements of the parent entity, from which the underlying legislative authority, appropriations, and budget appointments are derived. MCC allocated funds, as the parent, to USAID. In FY 2007 and FY 2006, MCC transferred budgetary authority of $161 million and $155 million, respectively, to USAID for Threshold programs.

Note 2—Fund Balance with Treasury

The U.S. Treasury accounts for all U.S. Government cash on an overall consolidated basis. The Fund Balance with Treasury (FBWT) line items on the Balance Sheet for September 30, 2007, and September 30, 2006, consisted of amounts presented in Exhibit 3-1. MCC funds its program and operating expenses through no-year appropriations; therefore, all unobligated balances as of September 30 are transferred to the compact fund category at the beginning of the subsequent fiscal year and are available for use in future years until fully expended.

Exhibit 3-1: Fund Balance with Treasury as of September 30 (in thousands)

	September 30, 2007	September 30, 2006
Appropriated Funds		
Unobligated	$2,261,383	$2,805,604
Obligated	3,287,907	1,273,053
Total	**$ 5,549,290**	**$ 4,078,657**

Note 3—Accounts Receivable, Net

Accounts receivable reflect overpayments of payroll, travel, and other MCC current/former employee expenses. MCC does not record an allowance for doubtful accounts because these expenses are deemed wholly collectible. Total receivables were $68,000 and $62,000 as of September 30, 2007, and September 30, 2006, respectively.

Note 4—General Property, Plant, and Equipment, Net

In March 2007, MCC revised its property capitalization threshold from an original cost of $25,000 or more and an estimated useful life of 2 or more years to an original cost of $50,000 or more and an estimated useful life of 5 or more years, except for its software capitalization which was changed to an original cost of $200,000 or more and an estimated useful life of 5 or more years and its information technology infrastructure capitalization to an original cost of $200,000 or more and an estimated useful life of 3 or more years. These revisions reduce MCC's administrative costs associated with accounting for General Property, Plant, and Equipment (PP&E) and results in increased operational efficiency.

MCC changed its depreciation convention, converting from a half-year convention to a quarter-year convention. Assets are depreciated (or amortized) quarterly over their estimated useful lives using the straightline depreciation method. This change resulted in additional depreciation expense of $181,638. As required by FASAB 21, the net effect of this change has been included in the FY 2007 cumulative results of operations and net position.

MCC's actual depreciation expense for FY2007 is $860,061.

Note 5—Leases

MCC leases office space in two adjacent locations in Washington, D.C. These leases are on 10-year (Bowen Building) and 8-year (City Center) lease terms that terminate on May 25 and May 26, 2015, respectively (see Exhibit 3-2). MCC made significant leasehold improvements to the office space and amortizes the improvement based on the in-service (invoice) date of the improvement. Amortization is calculated on a quarterly basis. These leasehold improvements will be reflected as a Fixed Asset on MCC's Balance Sheet net of amortization.

Exhibit 3-2: Operating Leases Funds (in dollars)

Future Payments Due			
Fiscal Year	**Bowen**	**City Center**	**Totals**
FY 2008	$5,394,621	$1,889,524	$7,284,145
FY 2009	5,394,621	1,889,524	7,284,145
FY 2010	6,352,911	1,889,524	8,242,435
FY 2011	6,352,911	1,942,376	8,295,287
FY 2012	6,352,911	1,942,376	8,295,287
After 5 Years	19,058,733	5,932,834	24,991,567
Total Future Lease Payments	**$48,906,708**	**$15,486,158**	**$64,392,866**

Note 6—Intra-Governmental Costs and Exchange Revenue

The Statement of Net Cost reports MCC's gross cost less earned revenues to arrive at net cost of operations. Costs have been illustrated by MCC specific programs (see Exhibit 3-3). The format of the Statement of Net Cost is also now consistent with OMB Circular A-136 guidance. Exhibit 3-3 shows the value of exchange transactions between MCC and other federal entities as well as non-federal entities. Intra-Governmental Costs relate to transactions between MCC and other federal entities. Public costs on the other hand relate to transactions between MCC and non-federal entities. MCC does not have any exchange revenues.

Exhibit 3-3: Intra-Governmental Costs and Exchange Revenue (in thousands)

	Compact	609(g)	Threshold	Due Diligence	Audit	Admin	September 30, 2007	September 30, 2006
Intra-Governmental	-	59	-	3,567	2,789	7,741	14,156	9,428
Public	81,079	17,113	75,766	29,223	77	70,181	273,439	98,992
Total – Program	81,079	17,172	75,766	32,790	2,866	77,922	287,595	108,420

Note 7— Adjustments to Beginning Balance of Budgetary Resources

In FY 2006, $17.7 million of amounts appropriated under the FY 2006 Foreign Operations, Export Financing and Related Programs Appropriations Acts (Public Law 109-148) were rescinded. The rescission was part of the Across-the-Board Rescission enacted for FY 2006.

There were no adjustments to the FY 2007 beginning balances of Budgetary Resources.

Note 8—Explanation of Differences Between the SBR and the Budget of the U.S. Government

MCC ensures that the information reported on its books is reflected within the Budget of the U.S. Government. Because MCC's financial statements are published before the President's Budget, this reconciliation is based on the Statement of Budgetary Resources for FY 2006 and the 2006 actual data reported in the President's 2008 budget submission. FY 2007 actual data will be published in February 2008 within the 2009 Budget of the United States. Material differences reported in the Budgetary resources column ($2.053 billion) represent unobligated balances reported on MCC's SBR and SF 133, but not in the Budget of the U.S. Government. Material differences reported in the Total Outlays column represent SF 133 outlays reported by USAID in FY 2006 that were not reported timely to MCC to present in its FY 2006 financial statements. (See Exhibit 3-4.)

Exhibit 3-4: Material Differences Between the SBR and the President's Budget (in millions)

	Budgetary Resources	Obligations Incurred	Distributed Offsetting Receipts	Net Outlays
Statement of Budgetary Resources	3,806	1,109		109
Unobligated Balance Carry Forward from FY 2005	(2,053)			
Unreported Outlays				2
Budget of the U.S. Government	1,753		1	111

Note 9—Undelivered Orders at the End of the Period

The reported net position consists of unexpended appropriations and cumulative results of operations, which reflects the difference between financing sources and expenses since MCC's inception. Exhibit 3-5 represents Undelivered orders—unpaid for compact and 609(g) funds as of September 30, 2007 and September 30, 2006.

Exhibit 3-5: Undelivered Orders—Compact and 609(g) Funds (in dollars)

Undelivered Orders	2007	Compacts	609(g) Funding	2006
Armenia	$ 227,716,911	$ 227,716,911	$ -	$ 235,646,174
Benin	293,870,370	293,870,370	-	1,062,985
Cape Verde	96,151,990	96,147,871	4,119	106,077,520

Undelivered Orders	2007	Compacts	609(g) Funding	2006
El Salvador	458,715,779	458,715,779	-	-
Georgia	265,875,250	264,656,190	1,219,060	296,178,084
Ghana	538,097,271	537,668,659	428,612	13,584,891
Honduras	204,027,319	204,027,319	-	213,166,147
Kenya	25,000	25,000	-	-
Lesotho	16,078,147	15,668,416	409,731	902,934
Madagascar	87,042,735	87,042,735	-	103,290,130
Mali	462,993,330	458,630,248	4,363,082	4,421,534
Morocco	32,400,000	32,400,000	-	-
Mozambique	31,254,763	25,346,200	5,908,563	12,956,078
Nicaragua	165,314,884	165,314,884	-	173,583,320
Senegal	1,930,524	-	1,930,524	4,882,237
Tanzania	9,800,000	-	9,800,000	-
Vanuatu	63,683,392	63,683,392	-	65,214,603
Total–Undelivered Orders	**$2,954,977,665**	**$2,930,913,974**	**$24,063,691**	**$1,230,966,637**

Note 10—Reconciliation of Net Cost of Operations to Budget

Exhibit 3-6 reconciles the FY 2007 resources available to MCC to finance operations with the net cost of operating MCC's programs. Some operating costs, such as depreciation, do not require direct financing sources. This exhibit illustrates the reconciliation of Net Cost of Operations to Budget.

Exhibit 3-6: Reconciliation of Net Cost of Operations to Budget (in dollars)

Resources Used to Finance Activities		Program Costs	
Budgetary Resources Obligated			
Net obligations	$2,189,975,151	**Gross Costs**	$287,595,725
Net other resources used to finance activities	1,936,792		
Total resources used to finance activities	2,191,911,943		
Total resources used to finance items not part of the net cost of operations	(1,905,176,279)	**Less: Earned Revenue**	-
Total resources used to finance the net cost of operations	286,735,664		
Total components of net cost of operations that will not require or generate resources	860,061		
Net Cost of Operations	**$ 287,595,725**	**Net Cost of Operations**	**$287,595,725**

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