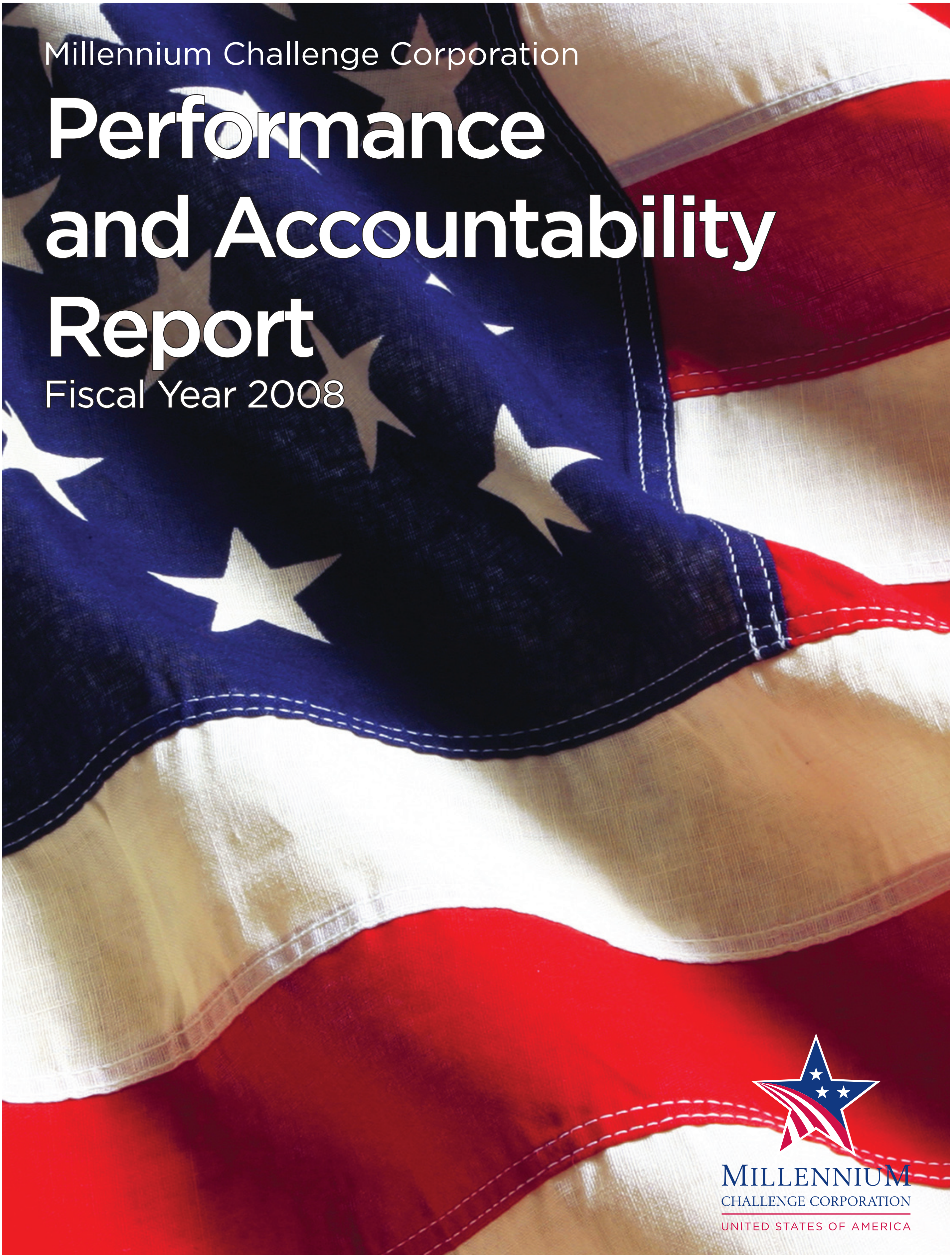
Millennium Challenge Corporation

Performance and Accountability Report

Fiscal Year 2008



MILLENNIUM
CHALLENGE CORPORATION
UNITED STATES OF AMERICA

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List of Acronyms

A&F	Department of Administration and Finance
CIF	Compact Implementation Fund
CISO	Chief Information Security Office
CPS	Common Payment System
CSRS	Civil Service Retirement System
DCIA	Debt Collection Improvement Act
FECA	Federal Employees' Compensation Act
FERS	Federal Employees Retirement System
FFMIA	Federal Financial Management Improvement Act
FISMA	Federal Information Security management Act
FMFIA	Federal Managers' Financial Integrity Act
FY	Fiscal Year
GAAP	Generally Accepted Accounting Principles
GAO	Government Accountability Office
IPIA	Improper Payments Information Act
ITS	International Treasury System
MCA	Millennium Challenge Account
MCC	Millennium Challenge Corporation
MIDAS	MCC Integrated Data Analysis System
NBC	National Business Center
OIG	Office of Inspector General
OMB	Office of Management and Budget
RRT	Results Reporting Tables
SAS	Statement of Auditing Standards
SBR	Statement of Budgetary Resources
SCNP	Statement of Changes in Net Position
SNC	Statement of Net Cost
TSP	Thrift Savings Plan
USAID	United States Agency for International Development

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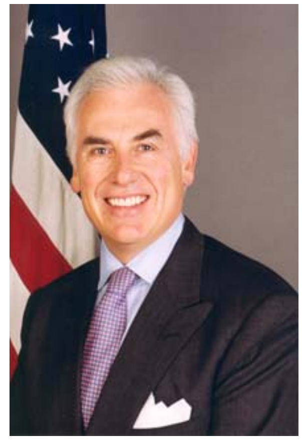

Message from Millennium Challenge Corporation's

Chief Executive Officer

I am pleased to submit the 2008 *Performance and Accountability Report* for the Millennium Challenge Corporation. We have made significant strides since MCC's creation over four years ago, and our investments in some of the world's poorest countries are yielding impressive results. MCC's progress is due to continued emphasis on implementation and insistence that partner countries demonstrate accountability for results that contribute to measurable improvements for their citizens. Our efforts in 2008 continue to reflect sound stewardship of resources that Congress provides. MCC ended fiscal year 2008 with 18 compacts, threshold programs in 19 countries, and prospects for engagement with additional countries in fiscal year 2009.

Results during fiscal year 2008, as outlined in this report, confirm that MCC is making an ongoing difference in the lives of the world's poor as an on-the-ground reality that is funding antipoverty, pro-growth strategies in partner countries worldwide. MCC's insistence that countries practice sound policies and build capacity to help themselves has changed expectations about how successful development is achieved by linking good policies and country empowerment to sustainable results.

I am also pleased to report that MCC has received an unqualified opinion on its financial statements from an independent auditor every year since inception, including the current year. Moreover, I can certify with reasonable assurance that MCC's systems of accounting and internal controls are in compliance with the provisions of Section 2 (internal and administrative controls) and Section 4 (financial systems) of the *Federal Managers' Financial Integrity Act*. I also have concluded that the systems of accounting and internal controls provide reasonable assurance of MCC compliance with the internal control objectives stipulated by the Office of Management and Budget in Circular A-123, *Management's Responsibility for Internal Control*. Finally, I have determined that MCC is currently in substantial compliance with pertinent requirements of the *Federal Financial Management Improvement Act*.

MCC is excited about its prospects for the future and looks forward to building on this year's achievements, strengthening existing partnerships, and forging new partnerships.

John J. Danilovich
Chief Executive Officer

Message from Millennium Challenge Corporation's

Chief Financial Officer

The 2008 Performance and Accountability Report of the Millennium Challenge Corporation reflects our continued commitment to achieve the highest standards of federal management. Since its inception, MCC has received an unqualified or "clean" audit opinion from the Office of Inspector General (OIG) on its financial statements including the latest unqualified opinion for FY 2008.

We are pleased to report that MCC's Department of Administration and Finance has made significant progress on a number of key initiatives during the past fiscal year:

- MCC has established an electronic workflow and authorization process for all personnel actions. This will ensure that all personnel actions are properly authorized, documented, and retained prior to processing.

- We have continued our development of the MCC Integrated Data Analysis System (MIDAS) to improve financial reporting, and further integrate programmatic, performance, and financial information. When fully implemented, the system will improve the timeliness and use of financial and performance data to manage the cost of our programs and support decision-making.

- In August 2008, MCC completed its implementation of a "Common Payment System" (CPS). CPS centralizes the payment of compact expenses with MCC's financial services provider and eliminates the need to "advance" large amounts of funds to partner countries. The use of CPS will improve MCC's management reporting capabilities by providing real time data on compact disbursements and will limit the exposure of cash balances in foreign banks.

- MCC reorganized its information technology management structure, and implemented new technologies and policies to improve the stability and security of the MCC information technology infrastructure. Since May 2008, MCC has reduced the vulnerability level of MCC systems by 80 percent, and MCC has developed action plans to address all 17 findings in the OIG

FY 2008 *Federal Information Security Management Act (FISMA)* audit before the end of the current fiscal year.

MCC also resolved a large number of outstanding OIG recommendations from prior year financial, performance, and compliance audits. MCC closed 29 of the 32 recommendations that were open at the beginning of the fiscal year, and a total of 40 including those from prior years.

We are pleased to report that the FY 2008 Independent Auditor's Report cites only one material weakness in MCC's controls over financial reporting, an improvement over the two material weaknesses indentified during the FY 2007 audit. The FY 2008 Report also identifies four other matters that are considered significant deficiencies in the areas of authorization for personnel actions, expense accruals, general ledger postings, and management of information systems. MCC agrees with all of the OIG recommendations, and is in the process of developing action plans to address and resolve these findings in the current fiscal year.

MCC's key milestone for FY 2009 is to achieve concrete results under our compacts. MCC's achievements in FY 2008 and the continued progress we plan for FY 2009 will provide the financial, administrative, and technology support needed for successful compact development and implementation, and will help MCC demonstrate real results towards our goal of poverty reduction through growth.

Michael Casella

Michael Casella
Acting Vice President, Administration and Finance

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LIST OF EXHIBITS

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1. MANAGEMENT DISCUSSION AND ANALYSIS

OUR MISSION AND PROGRAMS

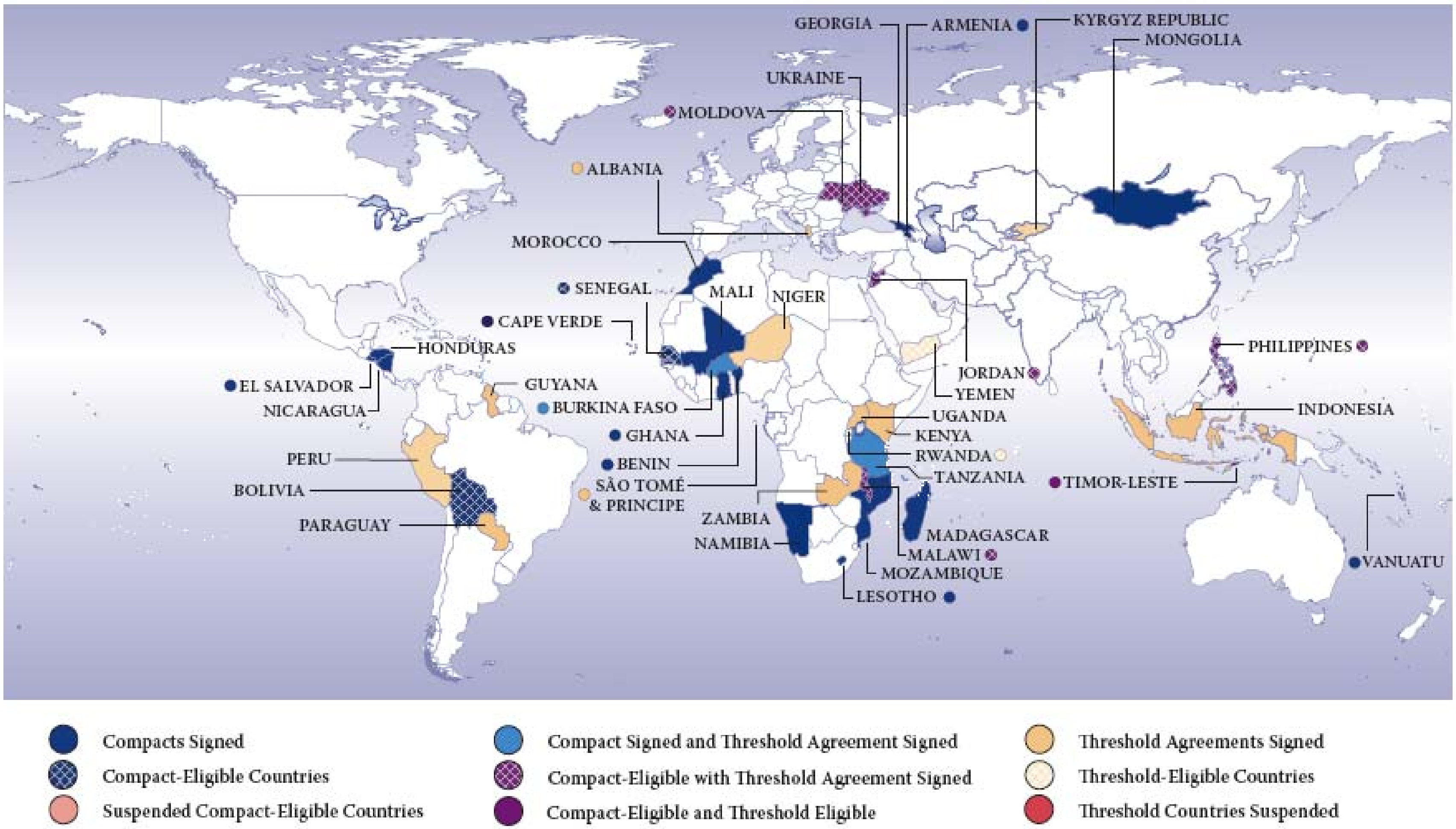
The Millennium Challenge Corporation's (MCC) mission is to reduce poverty by supporting sustainable, transformative economic growth in developing countries that create and maintain sound policy environments.

MCC is a United States Government corporation designed to work with some of the poorest countries in the world. Established in January 2004, MCC is based on the principle that aid is most effective when it reinforces good governance, economic freedom, and investments in people.

MCC selects countries that are eligible for a compact, a multi-year agreement between MCC and an eligible country to fund specific programs targeted at reducing poverty and stimulating economic growth. To become eligible to receive a compact, MCC evaluates a country's performance on 17 independent and transparent policy indicators in three categories: ruling justly, investing in people, and economic freedom. Countries that have demonstrated significant improvement in policy indicators but do not yet qualify for a compact grant may be eligible for Threshold program assistance. Threshold programs are smaller grants designed to help improve a country's performance on specific indicators.

Since its inception, MCC's total commitment to fighting poverty worldwide has resulted in 18 compact agreements signed with countries in Africa, Central America, Eurasia, and the Pacific, totaling over $6.3 billion. Four of these compacts were signed in Fiscal Year (FY) 2008. In addition, six threshold programs were approved during FY 2008, giving MCC a total of 20 threshold programs, including MCC's first Stage II threshold program, totaling an additional $440 million. The countries currently receiving MCC assistance and those that are eligible for assistance are detailed in Exhibit 1.

Exhibit 1: Compact and Threshold Countries



Compact Programs

A compact is a multi-year grant agreement between MCC and an eligible country, based on its performance on 17 independent and transparent policy indicators, to fund specific programs aimed at reducing poverty and stimulating economic growth. It is a mutual promise between the U.S. Government and a partner country, each with specific responsibilities to fulfill. After compact signing, entry into force is the point at which funds are obligated and the implementation of compact programs commences. Exhibit 2 lists the dates that all MCC compacts were signed and entered into force.

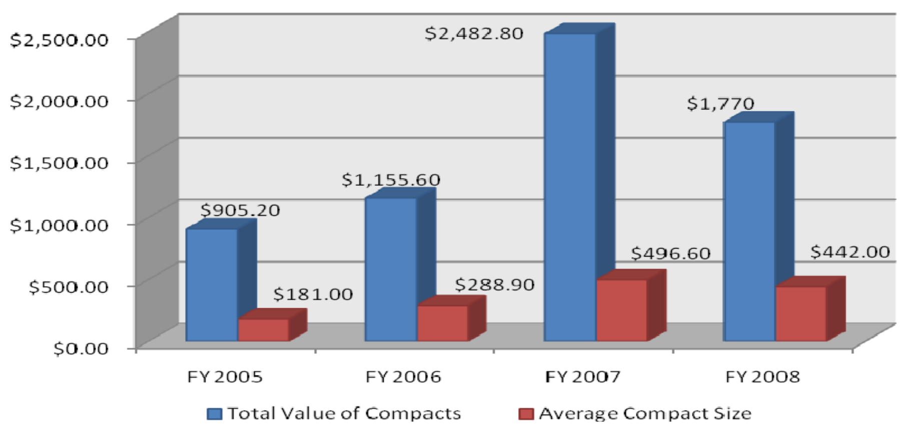
Exhibit 2: Compacts in Signing Order

Compact Country	Grant ($ millions)	Signed On	Entry Into Force On
1. Madagascar	$109.8	April 18, 2005	July 27, 2005
2. Honduras	$215.0	June 13, 2005	September 29, 2005
3. Cape Verde	$110.1	July 4, 2005	October 17, 2005
4. Nicaragua	$175.0	July 14, 2005	May 26, 2006
5. Georgia	$295.3	September 12, 2005	April 7, 2006
6. Benin	$307.3	February 22, 2006	October 6, 2006
7. Vanuatu	$65.7	March 2, 2006	April 28, 2006
8. Armenia	$235.7	March 27, 2006	September 29, 2006
9.Ghana	$547.0	August 1, 2006	February 16, 2007
10. Mali	$460.8	November 13, 2006	September 17, 2007
11. El Salvador	$460.9	November 29, 2006	September 20, 2007
12. Mozambique	$506.9	July 13, 2007	September 22, 2008
13. Lesotho	$362.6	July 23, 2007	September 17, 2008
14. Morocco	$697.5	August 31, 2007	September 15, 2008
15. Mongolia	$284.9	October 22, 2007	September 17, 2008
16. Tanzania	$698.1	February 17, 2008	September 15, 2008
17. Burkina Faso	$480.9	July 14, 2008	*Entry into Force projected for 4th quarter of fiscal year 2009*
18. Namibia	$304.5	July 28, 2008	*Entry into Force projected for 4th quarter of fiscal year 2009*
Total	**$6,318.0**		

Exhibit 3 provides the number of compacts, their total value, and average size for each fiscal year.

Exhibit 3: Number of Compacts, Total Value and Average Compact Size by Fiscal Year

	Year Compact Signed			
	FY 2005	**FY 2006**	**FY 2007**	**FY 2008**
Number of Compacts Signed	5	4	5	4
Total Value of Compacts ($ in millions)	$905.2	$1,155.6	$2,482.8	$1,770
Average Compact Size ($ in millions)	$181.0	$288.9	$496.6	$442.0



Threshold Programs

A Threshold program is designed to assist countries that are on the threshold of eligibility, meaning they have not yet qualified for compact funding, but demonstrate significant commitment to improving their performance on the 17 eligibility criteria MCC uses to select partners for full compact funding. Threshold programs are two to three years in duration. A Stage II, or second, threshold program is designed for countries whose threshold programs are ending, but they (1) have yet to meet the compact eligibility criteria, (2) have successfully implemented their current threshold program, and (3) continue to pursue a policy reform agenda. MCC's authorizing legislation allows using up to ten percent of MCC funding for the Threshold program. Exhibit 4 lists Threshold programs that are currently underway as of the end of FY 2008.

Exhibit 4: Threshold Programs in Signing Order

Threshold Program Country	Grant ($ millions)	Signed On
1. Burkina Faso	$12.9	July 22, 2005
2. Malawi	$20.9	September 23, 2005
3. Albania	$13.9	April 3, 2006
4. Tanzania	$11.2	May 3, 2006
5. Paraguay*	$34.6	May 8, 2006
6. Zambia	$22.7	May 22, 2006
7. The Philippines	$20.7	July 26, 2006
8. Jordan	$25.0	October 17, 2006
9. Indonesia	$55.0	November 17, 2006
10. Ukraine	$45.0	December 4, 2006
11. Moldova	$24.7	December 15, 2006
12. Kenya	$12.7	March 23, 2007
13. Uganda	$10.4	March 29, 2007
14. Guyana	$6.7	August 23, 2007
15. São Tomé and Principe	$8.7	November 9, 2007
16. Kyrgyz Republic	$16.0	March, 14 2008
17. Niger	$23.1	March 17, 2008
18. Peru	$35.6	June 9, 2008
19.Rwanda	$24.7	September 24, 2008
20.Albania II: Stage II	$15.7	September 29, 2008
Total	**$440.2**	

***On the horizon:** MCC received a Stage II threshold program proposal from Paraguay on September 30, 2008.

MILLENNIUM CHALLENGE CORPORATION'S ORGANIZATION

Governance

Led by a Chief Executive Officer (CEO) and overseen by a Board of Directors, MCC is responsible for the stewardship of the Millennium Challenge Account (MCA), which receives funds each year appropriated by Congress. MCC is governed by a public-private Board of Directors comprised of the Secretary of State, Secretary of the Treasury, U.S. Trade Representative, U.S. Agency for International Development (USAID) Administrator, MCC's CEO, and four individuals from the private sector who are appointed by the President with the advice and consent of the U.S. Senate. The Secretary of State is the Chair of the Board and the Secretary of the Treasury is the Vice Chair. The CEO, appointed by the President and confirmed by the U.S. Senate, manages MCC.

While MCC is not a Chief Financial Officers (CFO) Act agency, and is therefore not subject to the CFO Act of 1990,[1] it adheres to the requirements and principles applicable to such agencies by preparing an annual Performance and Accountability Report (PAR), in accordance with Office of Management and Budget (OMB) requirements and guidance.

Organizational Structure

Since 2004, supporting partner countries in compact development has been at the core of MCC's efforts. With the success of developing viable, results-oriented compacts aimed at reducing poverty and stimulating growth, MCC has now entered a new phase.

In FY 2008, MCC restructured its departments to enhance the efficiency and quality of compact implementation. By integrating and restructuring two existing departments, the Department of Operations and the Department of Accountability, into two new departments called the "Department of Compact Development" and the "Department of Compact Implementation," MCC is now better organized to support successful compact implementation while fully integrating the important role of gender in development, effective monitoring and evaluation, and social and environmental assessments into both new departments.

With this new structure, MCC will effectively utilize the expertise and experience of its professionals to focus more on program implementation, while continuing its important work on compact development. By streamlining compact development, MCC remains capable of developing a robust pipeline of sound compact proposals, which meet vigorous diligence reviews, and are poised for signature, entry into force, and implementation. In addition, this new structure provides resident country directors overseeing each compact with more responsibility and flexibility to respond to implementation issues in ways appropriate to country context.

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[1] Pub. L. 101-576.

Staffing

Relative to other international institutions, MCC maintains a very small staff in its Washington, D.C. headquarters. As of the end of fiscal year 2008, MCC employed 262 staff members in its Washington, D.C. offices. MCC has been successful in attracting top candidates from the public and private sectors and has maintained an organizational structure with a high percentage of senior staff and a low percentage of administrative support personnel, coming just under the authorized headcount level of 300 full-time employees. During the intense period of compact development and implementation start-up, MCC contracts with additional outside experts for limited engagements. MCC also uses contractors for oversight, supervision, monitoring, and evaluation assistance.

Consistent with MCC's original design and vision, MCC's model for providing development assistance to partner countries puts the responsibility for program development and implementation on the partner country. In keeping with its model of high standards of accountability, but also requiring countries to take ownership of their own development, MCC's practice is to have a small staff, usually consisting of two U.S. employees—a resident country director and a deputy resident country director—in each partner country.

During fiscal year 2008, MCC set up new offices in four partner countries for a total of 18 overseas offices. These offices will play a pivotal role in MCC's increased emphasis on implementation oversight because of their proximity to the MCA entities responsible for implementation.

New Logo

MCC developed a new logo during fiscal year 2008 as part of its efforts to raise awareness of the global fight against poverty and U.S. Government efforts to provide sustainable, long-term solutions for the world's poor.

MCC's new logo, a star formed in the classic shape of those on the American flag, is an emblem of the partnership and progress that MCC's innovative way of delivering foreign assistance is bringing to some of the world's poorest countries.

The logo contains sweeping stripes of red and white, symbolic of roads or fields that are part of many MCC programs, as well as three stars representing the principles of aid with accountability, country ownership and partnership, and results-based assistance that define MCC's cooperation with countries across the globe.

PERFORMANCE GOALS, OBJECTIVES, AND RESULTS—FY 2008 HIGHLIGHTS

This year's Highlights section provides a summary of performance results for MCC's strategic goals and objectives, an overview of how MCC measures performance, and steps MCC has taken to ensure the reliability of performance data. Detailed performance results are provided in this report in Section 2—Performance.

Summary of Results

In fiscal year 2008, MCC continued to demonstrate its three core values, or principles, of recognizing good policy performance in partner countries, putting partner countries in the lead, and focusing on tangible results by holding partner countries accountable for the aid they receive. These core values underpin MCC's mission and support its four strategic goals defined in MCC's *2006—2011 Strategic Plan*. Specific indicators provide the basis for measuring the results of target goals and objectives.

Across the four strategic goals, MCC has generally met or exceeded many of its performance objectives for which data is currently available.[2] In other areas, indicators show that performance has not improved, or changed only slightly from prior years. As explained in Section 2-Performance, MCC does not establish specific performance targets for all objectives under Strategic Goal 2.[3]

A summary of selected results for each strategic goal is provided on the following two pages. For detailed performance information on each strategic goal, performance objectives, specific indicators, targets, and current and historical performance results, refer to Section 2-Performance.

[2]In many cases, fourth quarter data was not yet available as of the publication date of this report. As such, many of the FY 2008 performance data are current as of the end of the third quarter, June 30, 2008.

[3]MCC does not establish targets for Strategic Goal 2 due to the policy-reform nature of the objectives under this goal and because progress in these areas is largely outside of MCC's control.

Strategic Goal 1: *Achieve sustainable, transformative development*

Populations affected by compacts: While four of the eight objectives that MCC uses to measure this goal have supplemental indicators, or indicators that may not be directly attributable to MCC, several objectives under Strategic Goal 1 are measured in the context of the populations affected by the compact in a given country. For 6 of the 8 objectives under goal 1, 2008 data was either unavailable at the time this report was being published, or only baseline data was available.

Compact and threshold countries move from donor assistance toward private investment: Moving countries to private sector funding of development is one of the key goals of the MCC model of assistance. MCC expects performance on this indicator to improve more significantly for compact eligible and threshold countries than for other countries. In FY 2008, compact eligible and threshold countries slightly improved their collective country credit rating scores—one indicator of private investment desirability, while other candidate countries showed a decline in their collective country credit rating score.

MCC partner countries exceeded conditions precedent targets: MCC countries met 93 percent (1,315) of their conditions precedent (CP) on time. CPs are actions that a compact country needs to take before MCC will release a disbursement of funds. CPs can include such actions as appointing key personnel, completing feasibility studies or environmental impact assessments, or reaching specific implementation milestones.

Strategic Goal 2: *Support development of a sound policy environment for economic growth and poverty reduction in the developing world*

Overall positive trend in improving partner country policy environments: In FY 2008, MCC continued to see countries improving their policy environments, as measured by performance indicators for ruling justly, investing in people, and economic freedom. Seventeen of the countries selected as eligible for assistance in FY 2008 were previously selected as eligible in at least one previous fiscal year, indicating their continued scorecard performance of above the median in relation to their peers.

- **Partner countries improve on ruling justly**: For the majority of indicators under this objective, MCC compact eligible, threshold, and other candidate countries improved their average rate of positive change in improving political rights, civil liberties, government effectiveness and voice and accountability
- **Partner countries improve on all investing in people indicators:** Compact eligible and threshold countries, in particular, increased their health expenditures and immunization rates under this objective.
- **Some economic freedom indicators showed positive change, while other indicators showed minimal or negative change:** MCC compact eligible, threshold and other eligible countries generally showed overall positive change with respect to the cost and time of starting businesses. The fiscal policy and regulatory quality indicators showed minimal or negative change overall from prior years.

Strategic Goal 3: *Advance international development assistance practice by improving MCC's operational effectiveness*

MCC as a model in the international development community: The first objective, "Enhance MCA model recognition and support within the international community," assesses whether there is recognition of MCC's approach, or a good understanding of the MCA model and whether MCC is recognized for innovative and best practice approaches. Data for this indicator will be available at the end of calendar year 2008.

Partner countries highly satisfied with their partnership with MCC, while some indicated MCC maintains an insufficient level of ownership or responsibility over projects: Results of MCC's FY 2008 Gallup poll of partner country representatives indicated that 73 percent are satisfied overall with MCC as a partner, and 81 percent believe that MCC's approach to country ownership will help them achieve their development goals. Fewer partner countries believe that MCC fits with existing development systems and institutions (68 percent), and maintains a sufficient level of ownership or responsibility over projects (64 percent).

Strategic Goal 4: *Build MCC's capabilities to achieve its primary strategic goals*

Administrative costs of developing and implementing compacts generally decreasing: MCC significantly improved on one of its two efficiency indicators[4] due to MCC staff continuing to shift their workload from the administrative start-up of compacts to the marginal cost of compact implementation. In addition, as MCC signed more compacts and threshold agreements, fiscal and procurement agents assumed more timely responsibility for compact administration upon entry into force, and the duration of time between compact signature and entry into force decreased.

MCC works closely with OIG to implement audit recommendations on time: For FY 2008, MCC addressed 21 of 32 (66 percent) OIG recommendations on time, failing to meet its target of 75 percent. The 34 percent of recommendations that were not closed on time were due to ongoing discussions with OIG about MCA responsibilities. In February 2008, MCC and OIG reached an agreement that MCAs would be held accountable for addressing their own audit recommendations, with MCC oversight.

Staff Engagement: MCC's level of employee engagement, as measured by the second annual staff Gallup survey, declined slightly since 2007. Similar to last year's results, respondents consistently identified MCC's strengths as the core organizational mission and the quality of work performed. Respondents indicated foundational elements as areas for continued attention, such as setting and discussing performance expectations.

[4] The two efficiency measures include: (1) percent of administrative funds obligations per compact funds *committed*; and (2) administrative funds obligated per compact funds *disbursed.*

Exhibit 5 provides just a few of many MCC success stories showing tangible performance results of compact implementations. The results indicate that MCC is reaching key process milestones on these projects in addition to the overall results captured through the measurement of objectives under each strategic goal.

Exhibit 5: Examples of Program Tangible Results

Strategic Goal 1–Farmers' Lives are Transformed through Malagasy Lima Beans Cooperative

Small Crop Produces Large Dividends for Malagasy Farmers

Reinvigorating the economy of an entire region of a country can start with something as simple as taking a fresh look at a traditional crop. The Millennium Challenge Account (MCA) -Madagascar's $17.7 million investment in the Agricultural Business Investment Project is helping farmers in rural regions like Menabe transition from subsistence agriculture to participating successfully in a market economy. Mr. Maharavo, a lima bean producer who has participated in the project, has already seen tangible results. "Our quality of life has already improved. Our children are better dressed. We can afford better food for our children to better meet their nutritional needs," Mr. Maharavo said. Seventy-eight members of the cooperative who have sold their produce have earned up to $940 each. This is an exceptional increase in incomes considering in the average per capita income is Menabe is $138 a year with annual household incomes averaging $648. "We can now consider saving," said Mr. Maharavo. The project not only benefits producers and other actors in the value chain but it also helps build the capacity of local agricultural experts at the national level. These are skills they will use to help other agricultural producers and businesses to thrive beyond the end of the MCC compact.

Strategic Goal 2–Product-to-Market Improvements Means Poverty Reduction for the People of Morocco

U.S. Revitalizes Fisheries through MCC

The U.S. Government, through the MCC Compact with Morocco, will fund the construction and rehabilitation of landing sites for fishing boats in 13 ports and 20 landing sites along Morocco's coasts over the course of the next five years. Training that will teach fishers and distributors the best techniques to ensure safe, effective, and sanitary methods to process their goods and help get them to market will commence later this year. The groundbreaking project will increase incomes for approximately 25,000 of Morocco's poor.

Strategic Goal 3–Identifying and Sharing Best Practices Improves Operations for All

MCC Partners Exchange Best Practices in Maximizing Poverty Reduction

Benin, Georgia, and Mali three countries in different stages of implementing their MCC programs recently organized visits for key staff to exchange knowledge in the areas of management, procurement, financial reporting, and monitoring and evaluation. By sharing their experiences, these countries are hoping to enhance both the transparency and the efficiency with which they implement compact programs. Countries at the beginning of the process have found it extremely useful to establish contact with their counterparts who are farther along in implementation. These relationships not only help answer questions about the process of implementing MCC grants, but open a channel to exchange best practices and ideas on how to allocate resources efficiently in the fight against poverty. “There is no point in reinventing the wheel,” says Dominique Ekon, Procurement Director for MCA –Benin, when asked about the importance of regularly exchanging information among countries. “We’ll gladly share any knowledge or experience we have acquired in the implementation process with other MCAs who would benefit from it.” Ekon travelled to Mali in mid-April at the invitation of MCA-Mali to share procurement best practices with the Malian team and his counterpart. “Because of his experience in procurement, Dominique was able to provide us with practical, day-to-day advice on how to enhance productivity across sectors while ensuring ‘ownership’ of the program within the local partners,” says Gautam Ramnath, MCC’s’s Deputy Resident Country Director for Mali.

How MCC Measures Performance

MCC assesses country performance in the context of its core values—good policy performance, country ownership and tangible results—which are particularly important throughout the country selection, compact development and compact implementation processes. MCC also measures the performance of program implementation through its four annual strategic goals and corresponding objectives. This section provides an overview of how MCC gathers and assesses country performance through its core values, performance goals, objectives, and annual target indicators and results. Detailed performance results can be found in Section 2—Performance.

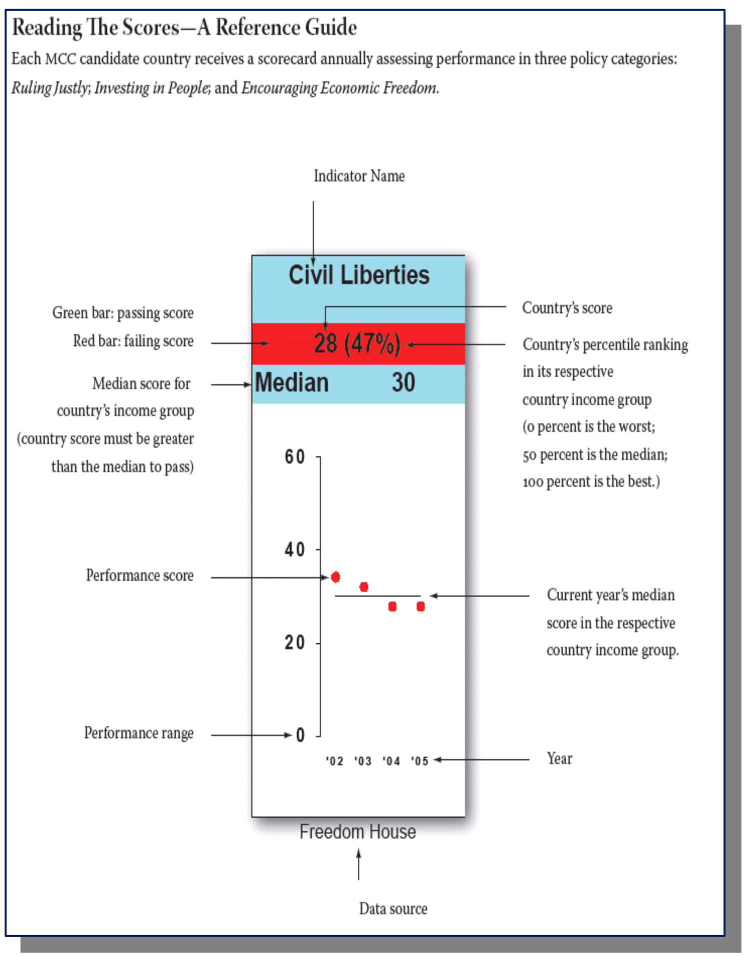
MCC's Core Values

Good Policy Performance—Country Selection

The foundation of MCC's engagement with partner countries is that policies matter. History has demonstrated that countries with strong policies in the areas of ruling justly, investing in people, and economic freedom have lower rates of poverty and higher rates of economic growth. Decades of development experience point to these attributes as necessary conditions for growth and poverty reduction.

MCC assesses partner country performance in these three areas by using objective, transparent, and third-party indicators taken from non-U.S. Government sources. MCC uses these indicators to create a scorecard that measures a country's policy performance among its own peer group in the same per capita income range. MCC's Board of Directors then uses these scorecards, in addition to other relevant qualitative information, to determine and select annually which countries are eligible to receive aid based on policy performance. Exhibit 6 depicts an example of a scorecard that measures one of the seventeen selection criteria—civil liberties.

Exhibit 6: Sample Selection Criteria Scorecard



Country Ownership—Compact Development

Building on the foundation of a sound policy environment, MCC is seeing real results in country ownership as countries become accountable for their own development and play the lead role in the process of developing and implementing their compacts. This ownership is crucial to ensuring that development results are sustainable and truly transformational.

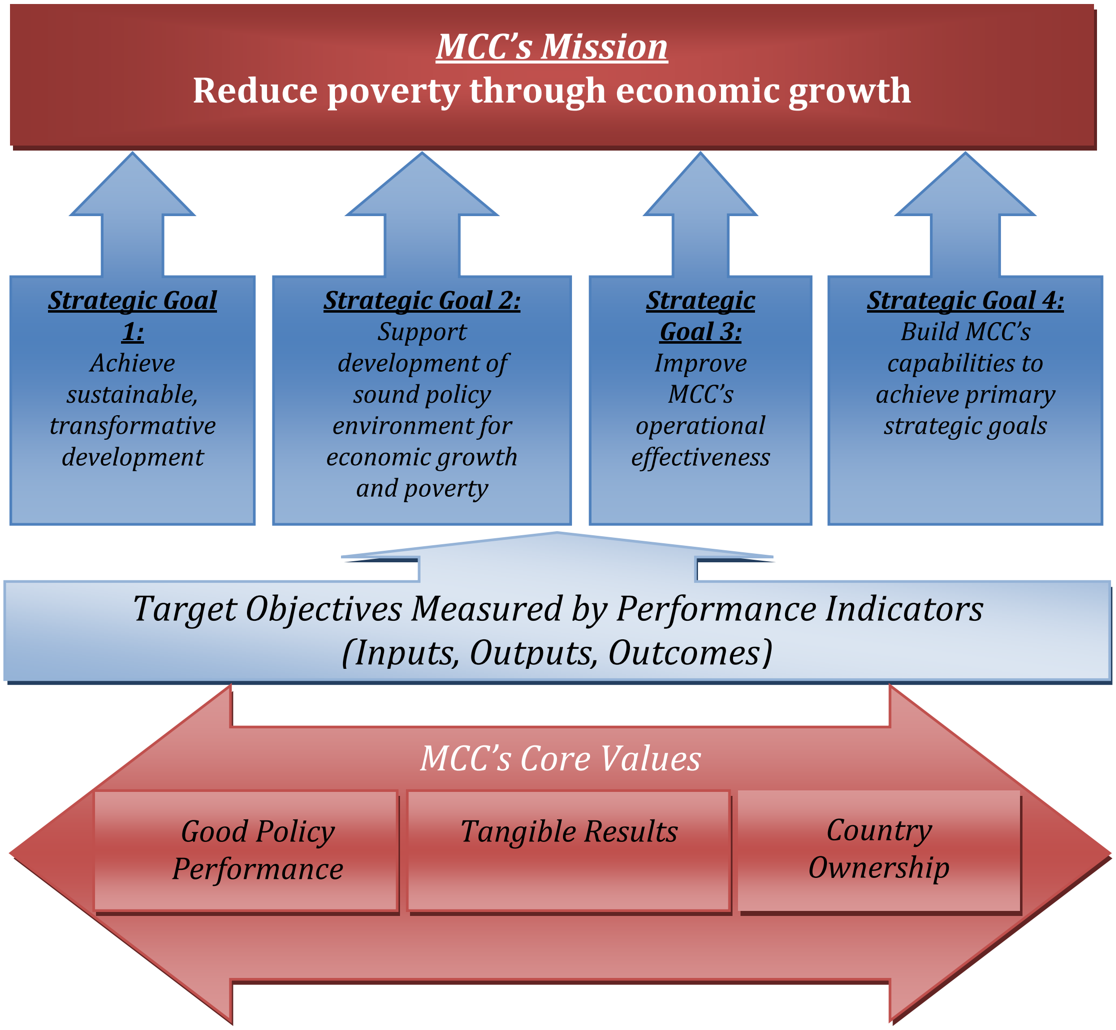
Once countries qualify and are selected for MCC assistance on the basis of their policy performance, they are invited to develop a proposal for funding, or a *compact*. This stage is referred to as the compact development process in which eligible countries must first identify their main constraints to poverty reduction and economic growth. Eligible countries are expected to design and submit their proposals for compact funding that address their own priorities and constraints. Countries develop their proposals in consultation with their own society, building country ownership that increases the likelihood of success and sustainability. MCC evaluates and conducts due diligence on each proposal to determine whether it will lead to poverty reduction and growth. If a country's proposal is approved for funding, MCC and the country sign a compact. This mutual agreement outlines responsibilities for both MCC and the partner country and stipulates performance benchmarks to ensure accountability and outcomes.

Tangible Results—Compact Implementation

Once MCC's Board approves a compact proposal, MCC holds its partner countries responsible for the aid they receive. That is why MCC's assistance goes to those countries that develop programs with clear objectives, benchmarks to measure progress, procedures to ensure sound financial management, and a plan to monitor outcomes and evaluate impacts. Ultimately, MCC expects its assistance to generate tangible results in the lives of the poor even after compact funding ends. To ensure transparency and accountability, MCC's assistance is disbursed only as performance benchmarks are achieved.

MCC's core values of good policy performance, country ownership and tangible results provide the foundation for achieving MCC's mission, strategic goals and corresponding target objectives. In FY 2008, MCC continued tracking the achievement of multiple performance objectives aligned to each of the four strategic goals, as outlined in the *FY 2006 – 2011 Strategic Plan*. The performance of each objective was measured according to whether key indicator targets were met, not met, or improved, or not improved from the prior year(s). Exhibit 7 on the following page depicts the relationship among MCC's mission, core values, strategic goals, objectives and results. Detailed information on MCC's performance measurement framework is provided in Section 2—Performance.

Exhibit 7: MCC Mission, Core Values, Strategic Goals, Objectives and Results



Strategic Goals in Support of MCC's Mission

MCC's mission is to reduce poverty through economic growth. The *FY 2006 – 2011 Strategic Plan* outlines four strategic goals that support the achievement of this mission:

(1) ***Achieve sustainable, transformative development***—the expected outcome of this strategic goal is to significantly reduce poverty through sustainable, material economic growth for a significant number of people. Successful performance on this goal demonstrates that compact countries are taking appropriate steps to properly implement their compacts.

(2) ***Support development of a sound policy environment for economic growth and poverty reduction in the developing world—***the expected outcome for this goal is to increase the incentives for developing countries to adopt sound policies by making

available substantial benefits to countries that rule justly, invest in their people, and encourage economic freedom. MCC's Threshold program is closely tied to this strategic goal, as it assists countries in becoming eligible for compact assistance by helping them improve their performance on the policy indicators under this goal.

(3) ***Advance international development assistance practice by continually improving MCC's operational effectiveness***—the expected outcome of this goal is for MCC to be a leader in the development assistance arena and to be viewed as a model of effectiveness by other development practitioners. MCC identifies best practices, internally and externally, and adopts them to improve its operations.

(4) ***Build MCC's capabilities to achieve its primary strategic goals:*** the expected outcome of this strategic goal is to operate efficiently and effectively by developing human resources and financial and administrative capacities, articulate clear processes, policies, and quality standards, and build strong support systems.

Performance Objectives, Targets and Indicators

Each strategic goal has a sub-set of specific performance objectives and corresponding indicators, or metrics, that are laid out in MCC's *FY 2007 – 2008 Performance Plan* and discussed in further detail in Section 2 of this report. In setting performance targets, MCC considers which indicators should include targets, how numerical values should be set, and how frequently performance against targets should be assessed. It is MCC's policy that the performance indicators selected for targeting are important, measurable, and to the extent possible, subject to MCC's control. Compact-specific target values are established according to what would be required to achieve the economic returns or benefits envisaged at the time the project was presented for approval by the MCC Board of Directors. Therefore, the target values are closely linked to the original justification of the projects.

MCC has also identified a number of performance indicators that may not be directly attributable to MCC interventions, but that do provide important information on partner country progress that is relevant to MCC's programs. MCC measures such non-attributable performance with *supplemental indicators*. These indicators are tracked by MCC but not treated as formal indicators.

Data Reliability

MCC's performance data reported in the PAR is derived from external sources, including other donor agencies or through independent evaluations contracted by the candidate countries during the compact implementation process. Where data is not available for select indicators, MCC often conducts surveys through an independent third party to assess its performance. For performance results that are based on data that MCC collects from MCAs, MCC takes steps to ensure that information is accurate.

Plans to Enhance Performance Measurement in FY 2009

Going forward in FY 2009, MCC will continue measuring for results under the four strategic goals outlined in the *FY 2006 – 2011 Strategic Plan*. However, MCC has refined the corresponding objectives and indicators to more closely align them to each goal. For example, the achievement of each objective will be more directly attributable to MCC, or within MCC's control to achieve. In addition, the new objectives for FY 2009 and beyond were designed to be achievable within one fiscal year. For example, Strategic Goal #1 objectives will measure the inputs and outputs across compact program sectors—roads, irrigation, agriculture, and rural development—for each fiscal year in which activity on those sectors occurs. This new approach will streamline the data collection process so that performance data can be readily obtained, measured, analyzed and reported.

Use of Non-Parties

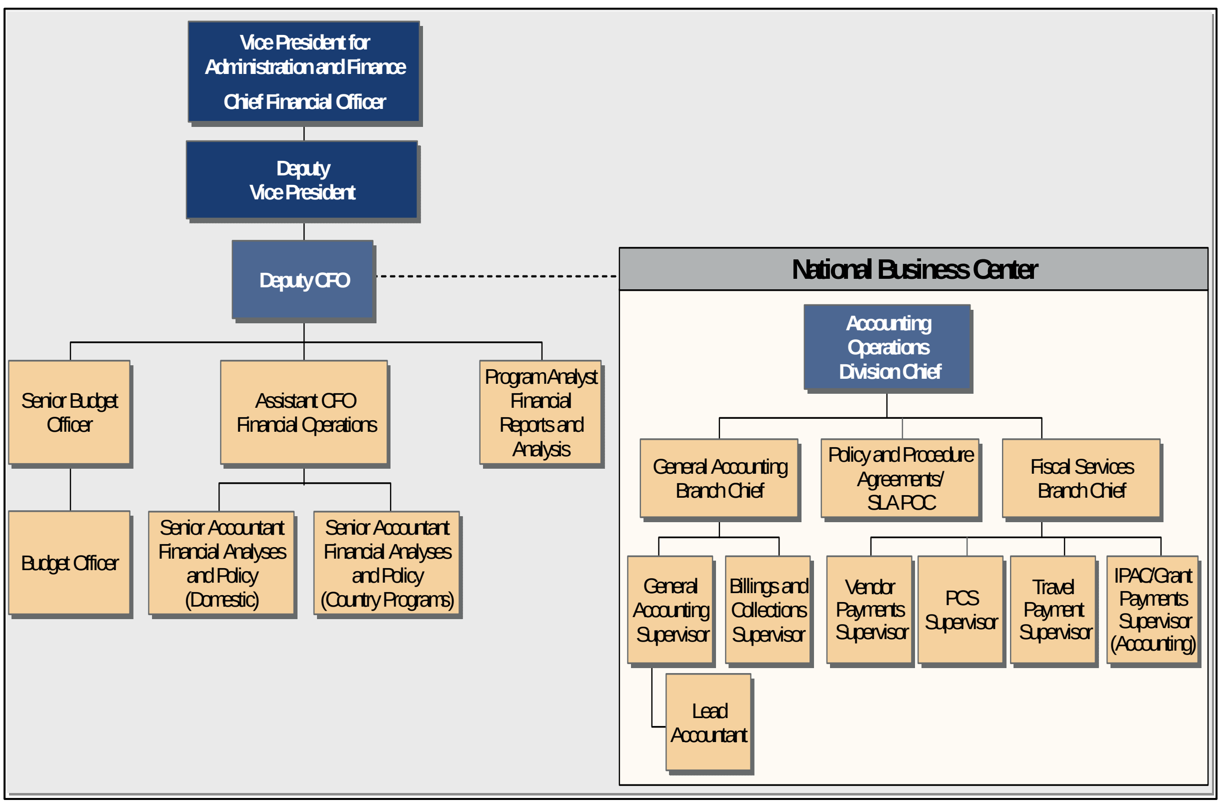
MCC's FY 2008 PAR has been developed by the Department of Administration and Finance (A&F) with MCC-wide input and the coordination assistance of a consulting company.

FINANCIAL PERFORMANCE AND ANALYSIS

MCC's financial management operations are managed and controlled by the Division of Finance, within A&F and under the leadership of MCC's Vice President of Administration and Finance. The Division is responsible for implementing financial management policies, controls, and systems and for providing comprehensive financial management for MCC. In addition, the Division is responsible for managing MCC's internal control implementation and assessment efforts.

The majority of MCC's financial management services and all its financial management systems, including the core financial system and program feeder systems, are provided by the Department of Interior's National Business Center (NBC), one of the Federal Government's financial management "Centers of Excellence" under OMB's financial management line of business. Exhibit 8 illustrates the Division of Finance and NBC's organizational structure.

Exhibit 8: Division of Finance and National Business Center



In FY 2008, MCC continued improving its financial management and internal controls environment. For example, MCC undertook the following efforts last year:

- ***Common Payment System (CPS):*** Under CPS all U.S. dollar and some local currency payments will be made directly to contractors and other payees through a U.S. Treasury payment system, which is cost-free to MCC. MCC's transition to CPS was completed in August 2008. All 18 countries with signed compacts have been trained and transitioned to the CPS. New compacts will immediately benefit from this system. Salaries and other smaller local currency payments will generally continue to be paid through local bank accounts, but funds will be transferred to the accounts when they are needed, rather than on a monthly basis. CPS will eliminate large balances of MCC funds in local bank accounts, thereby reducing the risk to the funds, and will allow MCC to provide real-time reporting on disbursements. For example, as a result of the implementation of CPS, MCC has reduced country cash balances from a high of $49.4 million on April 1, 2008 to approximately $6.6 million on September 20, 2008. MCC has cumulatively disbursed approximately $98 million since it implemented CPS.

- ***Improved financial data:*** During FY 2008, MCC completed financial data clean-up efforts to standardize sector classifications and the structure of projects and activities across countries, leading to improved data quality and reporting. In addition, MCC's Division of Finance, in conjunction with the Division of Contracts and Grants Management, has developed a strategy to de-obligate contracts from prior years where work has been completed.
- ***Improved human resource procedures:*** MCC has established an electronic workflow and authorization process for all personnel actions. This will ensure that all personnel actions are properly authorized, documented, and retained prior to processing.
- ***MCC-wide data storage and analysis system:*** MCC is streamlining its financial workflow, improving financial reporting, and further integrating programmatic, performance and financial information with a new comprehensive MCC Integrated Data Analysis System (MIDAS). Once implemented, the system will improve the timeliness and use of financial and performance data to manage the cost of MCC programs and further enhance internal and external reporting and internal controls.
- ***Information Technology Infrastructure:*** MCC reorganized its information technology management structure, and implemented new technologies and policies to improve the stability and security of the MCC information technology infrastructure. Since May 2008, MCC has reduced the vulnerability level of MCC systems by 80 percent, and has developed action plans to address all 17 findings in the OIG *FY 2008 Federal Information Security Management Act (FISMA)* audit before the end of the current fiscal year.

During FY 2008, MCC's financial operations continued to intensify with the signing of four compacts with eligible countries.[5] MCC's cumulative level of compact commitments increased significantly during the year and will continue to trend upward as MCC formally enters into additional compacts with eligible countries in future years. The following sections present the overall perspectives and highlights of MCC's financial performance through the end of FY 2008.

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[5] MCC entered into compacts with the following countries during FY 2008: Burkina Faso, Mongolia, Namibia and Tanzania.

Financial Statements Highlights

For FY 2008, MCC received an unqualified or "clean" audit opinion from the Office of Inspector General (OIG) on its financial statements. MCC's independent auditors, Cotton & Company's FY 2008 *Independent Auditor's Report* cites only one material weakness in MCC's controls over financial reporting, an improvement over the two material weaknesses indentified during the FY 2007 audit. In addition, the auditors did not disclose any instances of non-compliance, as required to report under *Government Auditing Standards* and OMB Bulletin 07-04.

While MCC is not a CFO Act agency, MCC adheres to the requirements and principles imposed upon such agencies by the CFO Act, the Government Management Reform Act of 1994, and other pertinent laws and regulations. As such, MCC prepares annual financial statements for audit and presentation to OMB and other stakeholders. MCC's comparative financial statements present MCC's financial position and its changes during the reporting period, its cost of operations, and its budgetary resources and their status for the fiscal years ending September 30, 2008 and September 30, 2007.

Balance Sheet

The balance sheet presents amounts of future economic benefits owned or managed by MCC (assets), amounts owed by MCC (liabilities), and amounts that constitute the difference (net position).

Assets and Unexpended Appropriations

As of September 30, 2008, MCC reported total assets of almost $6.6 billion, an increase of $1 billion from September 30, 2007. This increase is primarily the result of funds appropriated by Congress that had not been expended as of the end of the year. At fiscal year-end, MCC held $6.5 billion in unexpended appropriations, of which $5.6 billion has been obligated for MCC programs.

MCC's Fund Balance with Treasury constitutes the vast majority (99.2 percent) of total assets. Because MCC neither owns any of its facilities or other real property nor has any capital leases for office space or its information technology (IT) equipment, MCC has very few capital assets in relation to total assets. The capitalization thresholds are $200,000 for IT equipment and $50,000 for other fixed assets. As of September 30, 2008, MCC reported fixed assets of $8.1 million, composed solely of leasehold improvements. The leasehold improvements are for enhancements made to leased office space at MCC headquarters in Washington, D.C.

Liabilities and Net Position

As of September 30, 2008, MCC had approximately $42.2 million in liabilities, which were amounts owed to its vendors, contractors, trading partners, and employees. MCC's ratio of assets to liabilities as of September 30, 2008, was 156 to 1, which represented an increase from the 2007 ratio of 124 to 1.

MCC's overall net position as of September 30, 2008, was $6.6 billion. During FY 2008, MCC's net position increased by $1.01 billion (18 percent) from September 30, 2007. During this period, MCC received $1.557 billion in appropriated funds and expended approximately $474 million. The available appropriations that are reflected in MCC's positive net position represent the resources necessary to fund future compacts and are indicative of a lag between appropriation, commitment, and expenditure of compact funds. As of the end of FY 2008, MCC signed compacts with 18 countries and had 20 threshold programs in place.

Statement of Net Cost

The Statement of Net Cost (SNC) is designed to show separately the components of the net cost of MCC's operations for the period.

Program Costs

During FY 2008, MCC incurred $461 million in net program costs. As of the end of FY 2008, MCC had cumulatively advanced $42.5 million to MCA (Millennium Challenge Account) accountable entities and other Federal Government agencies.

Statement of Changes in Net Position

The Statement of Changes in Net Position (SCNP) reports the change in net position during the reporting period. Net position is affected by changes to its two components: Cumulative Results of Operations and Unexpended Appropriations. Cumulative Results of Operations amounted to $6.8 million as of September 30, 2008, and $7.4 million as of September 30, 2007. This balance is the cumulative difference, for all previous fiscal years through 2008, between funds available to MCC from all financing sources and the net costs of MCC.

Statement of Budgetary Resources

The Statement of Budgetary Resources (SBR) and related disclosures provide information about how budgetary resources were made available and their status at the end of the period. The Resources section of the statements present the total budgetary resources available to MCC. The Status of Resources section of the statements displays information about the status of budgetary resources at the end of the period. The total amount displayed for the status of budgetary resources equals the total budgetary resources available to MCC as of the reporting date. For 2008, MCC had total budgetary resources of $3.7 billion, including $4.4 billion carried forward at the beginning of FY 2008 from prior years. MCC incurred obligations of $2.8 billion for the year, a 27 percent increase from the $2.2 billion of obligations incurred during 2007.

The following section provides additional details pertaining to MCC's use of the funds appropriated to it by Congress.

Status and Use of Funds

Exhibit 9: Annual Funding by Fiscal Year

Fiscal Year	Annual Funding (in thousands)
2004	$ 994,000
2005	1,488,100
2006	1,752,300
2007	1,752,300
2008	1,557,000
Total	**$7,543,700**

MCC's programs and activities are funded by Congress through annual no-year appropriations. Since its establishment, MCC has received total funding of more than $7 billion, including $1.557 billion in FY 2008 (see Exhibit 9). MCC's funding was reduced by $70.6 million due to Congressional enacted rescissions.

As of September 30, 2008, $781 million of MCC's realized resources represented the balance of apportioned funds available for obligation. While MCC receives no-year funding, OMB apportions, per congressional limits, the amount of funds that MCC may obligate for administrative purposes. Administrative costs include personnel salaries and benefits, leases, rentals, travel, and other miscellaneous expenses. For FY 2008, OMB apportioned $85.8 million for MCC to use for administrative purposes. During FY 2008, MCC obligated approximately $85.2 million in administrative funds, or 99.3 percent of the total amount apportioned by OMB.

MCC classifies appropriations in six fund categories:

- **Administrative.** Funds appropriated by Congress and apportioned by OMB for the purpose of operating expenses.
- **Compact.** Funds approved by Congress, apportioned by OMB, and obligated by MCC to cover compacts between MCC and partner countries.
  - **Compact Implementation Fund (CIF).** Funds approved by Congress and apportioned by OMB. CIF funds represent a portion of the funds agreed to in a compact and are made available at the time of compact signing for the purposes of speeding implementation between compact signing and entry into force. MCC uses authority provided in Section 609(g) of its authorizing legislation to provide these funds to a partner country[6].
  - **Grants.** Funds apportioned by OMB for grants and cooperative agreements.
- **609(g).** Funds approved by Congress and apportioned by OMB to fund contracts or grants for the purpose of facilitating the development and/or implementation of a compact between the MCC and a partner country.
- **Due Diligence.** Funds apportioned by OMB and used by MCC to cover costs associated with assessing compact proposals developed by eligible countries and providing compact implementation oversight.

[6] Section 609(g) of the Millennium Challenge Act of 2003 provides that the MCC CEO may enter into contracts or make grants for any eligible country for the purpose of facilitating the development and implementation of the compact between the United States and the country.

- **Threshold.** Funds appropriated by Congress, apportioned by OMB, and used by MCC to assist countries in meeting selection criteria for MCA eligibility. Such countries are considered "on the threshold" of qualifying for eligibility for an MCC compact.
- **Audit.** Funds appropriated by Congress and apportioned by OMB for audits of MCC operations and programs. The USAID Office of Inspector General (OIG) is responsible for conducting MCC audits.

During FY 2008, MCC incurred total obligations of approximately $2.7 billion for all program fund categories. Total lifetime obligations incurred by MCC since inception are approximately $6.49 billion. As noted in Exhibit 10, administrative funds represent a small proportion of the total funds provided by Congress, while in FY 2008 approximately 97 percent of MCC's obligations were for program operations. Should MCC not obligate the total amount of administrative funds apportioned by OMB during the budget year, the excess (unobligated) amount is no longer available for administrative purposes but "rolls over" and is subsequently available for program purposes.

Exhibit 10: Obligations by Fund Category

Funds Category	FY 2008 Obligations (in thousands)	Lifetime Obligations (in thousands)
Administrative	$ 84,513	$ 283,361
Compacts (including CIF/Grants)	2,512,827	5,699,027
609(g)	10,514	59,674
Due Diligence	32,870	117,652
Threshold	126,095	451,696
Audit	3,102	10,127
Total	**$ 2,769,921**	**$ 6,621,537**

Exhibit 11 shows funds obligated for compacts by country as of the end of FY 2008. In addition to the program obligations in FY 2008, MCC recorded an estimated $785.4 million in commitments (anticipated obligations) for signed compacts with Burkina Faso ($480.9 million) and Namibia ($304.5 million), which had not entered into force during FY 2008.

Exhibit 11: Compact Obligations

MCA/ Country	Total Compact Obligations (in thousands)
Armenia	$ 235,650
Benin	307,298
Burkina Faso	16,101
Cape Verde	110,078
El Salvador	460,940
Georgia	295,300
Ghana	547,009
Honduras	215,000
Kenya	100
Lesotho	362,551
Madagascar	109,773
Mali	460,811
Mongolia	284,911
Morocco	697,500
Mozambique	506,924
Namibia	19,543
Nicaragua	175,000
Tanzania	698,136
Vanuatu	65,690
Total	**$5,568,315**

Note: Compact obligations listed are inclusive of CIF and grant funds per Section 609(g) of the Millennium Challenge Act of 2003.

Financial Management Systems, Internal Controls, and Compliance with Laws and Regulations

The NBC is MCC's financial management shared services provider for financial and payroll systems. MCC is responsible for overseeing NBC and ensuring that financial systems and internal controls are in place to fulfill legislated and regulatory financial management requirements. The following sections present information on MCC's financial systems, controls, and compliance with key laws and regulations.

Management Assurances

Federal Financial Management Improvement Act of 1996

The Federal Financial Management Improvement Act (FFMIA) requires federal agencies to implement and maintain financial management systems that are in substantial compliance with (1) federal financial management systems requirements, (2) federal accounting standards, and (3) the United States Standard General Ledger at the transaction level. Because MCC uses NBC for financial management and reporting services, MCC relies upon NBC's evaluations of its financial management systems and its determinations of compliance with FFMIA. NBC issued a letter dated July 15, 2008 stating that its auditor, KPMG, found no weaknesses or significant deficiencies in evaluating NBC's financial systems during the Statement of Auditing Standards No. 70 (SAS 70) review. Exhibit 12 below presents this letter.

Exhibit 12: National Business Center SAS-70 Letter

United States Department of the Interior

NATIONAL BUSINESS CENTER
Washington, DC 20240

U.S. Department of the Interior
NBC
National Business Center
Government Shared Service Provider

July 15, 2008

Mr. Dennis E. Nolan
Millennium Challenge Corporation
875 Fifteenth Street, NW
Washington, DC 20005

Dear Mr. Nolan:

This letter is to provide you with information on the annual Statement of Auditing Standards No. 70 (SAS 70) report for the Oracle Federal Financial System hosted by the National Business Center (NBC) for your agency. This report includes an opinion from KPMG LLP, our third party independent auditor who conducted the review, regarding the adequacy of general information technology controls for your Oracle application in support of your assurances over financial reporting. This information and resulting assurance covers the period of July 1, 2007 through June 30, 2008.

The opinion from KPMG states that the description of controls presents fairly in all material respects the relevant aspects of the NBC's controls placed in operation as of June 30, 2008. After reviewing the nine control objectives, KPMG has qualified their opinion on one of the control objectives as follows:

> Control Objective 9 – Application Security
>
> KPMG found that Oracle access permissions allow individuals that approve invoices for payment to also create new invoices. In addition, not all new invoices require a reference document such as a purchase order.

The NBC has concurred with the finding and will identify the root cause of the segregation of duties issue and within Oracle limitations remediate the conflicting access rights. The NBC takes a qualification seriously and will take immediate action, as appropriate, to mitigate and/or resolve the concern. This segregation of duties issue was resident in the Oracle application prior to FY 2008 and not uncovered during prior SAS 70 audit engagements. KPMG's use of a new audit tool revealed the segregation violation. The NBC is not aware of any situation during FY 2008 where this functionality has been used to misuse, defraud, or mishandle federal funds.

A copy of the report has been provided for your reference. Please note that KPMG has labeled the SAS 70 report as "Sensitive but Unclassified." This means that the distribution of the report is limited. This report is intended solely for use by management of the NBC, our customers, and the independent auditors of our customers. We appreciate your adherence to this document classification and the minimal distribution of this report.

TAKE PRIDE IN AMERICA

Mr. Dennis E. Nolan 2

For those customers where the NBC also processes your financial transactions, we have conducted the FY 2008 assessment of internal controls over financial reporting in conformity with the requirements of OMB Circular A-123, Appendix A, and according to the guidance contained in the Chief Financial Officer's Council (CFOC) Implementation Guide for OMB A-123. Our testing covers the period of July 1, 2007 through June 30, 2008.

The NBC evaluated internal controls at the process level by documenting key financial reporting processes, identifying key controls, understanding and assessing the control design and any associated risks, and developing a detailed testing strategy and schedule of tests. We then tested internal controls at the transaction level for accounting operations based upon the guidelines established in the GAO Financial Audit Manual (FAM), including testing of all key controls and identification of control gaps and compensating controls. As part of testing at the transaction level, we used a random selection methodology that ensured transactions for each client were included for every applicable test conducted. During the FY 2008 A-123 Appendix A testing cycle, the NBC tested 32 key accounting and finance operations processes by completing 120 transaction level tests for all customers.

The results of our testing indicated that no material weaknesses or significant deficiencies were uncovered and that processes and controls in place as of June 30, 2008 were operating effectively to safeguard data from waste, fraud, abuse, and destruction.

You will be receiving another letter from the NBC in early October 2008 providing management assurance for the period of July 1, 2008 through September 30, 2008 regarding system and internal controls to complete the annual audit process.

If you have any questions concerning this information, please do not hesitate to contact Dean Martin, NBC Audit Liaison Officer, on (303) 969-5195.

Sincerely,

Sandra Weisman
Associate Director
Financial Management Directorate

Attachment

Federal Managers' Financial Integrity Act of 1982 and Internal Controls over Financial Reporting

The Federal Managers' Financial Integrity Act of 1982 (FMFIA) requires agencies to issue an annual statement of assurance to the President and Congress on their internal controls.[7] Office of Management and Budget (OMB) Circular A-123, Appendix A, provides the guidance (including additional requirements and a methodology) for agency management to comply with the Act. Although OMB has determined that MCC is not required to implement the full requirements of A-123, MCC seeks to follow internal controls best practices by implementing a modified approach to its internal controls reviews. In lieu of full annual A-123 reviews, MCC implemented a plan to conduct reviews over the course of two years—fiscal years 2007 and 2008—and will continue this approach going forward.

The results of MCC's A-123 assessments over the past two years support the CEO in concluding with reasonable assurance that MCC's internal controls are in compliance with provisions of FMFIA, Section 2, and that MCC is in compliance with the internal control objectives stipulated by OMB Circular A-123. MCC's assurance is made on the basis of its review of internal controls over financial reporting, in addition to assurance statements provided by MCC's financial services provider, NBC, and other relevant information, including Government Accountability Office (GAO) and Office of Inspector General (OIG) audit reports. Further information on each year's reviews is provided in the following paragraphs.

Fiscal Year 2007: As reported in last year's PAR, MCC's FY 2007 review found that MCC improved its internal controls environment across the organization. Specifically, the A&F Department developed formal financial management policies and procedures and established greater oversight over controls by establishing formal mechanisms for resolving information technology (IT) system issues; developed a plan to meet Federal Information Security management Act (FISMA) compliance requirements; established an MCC-wide employee training program; and decentralized budgets to MCC departments.

Also as part of the FY 2007 review, MCC reviewed documentation and key internal control test results for those processes that NBC performs on MCC's behalf. NBC provided assurance to MCC that its auditor, KPMG, found no weaknesses or significant deficiencies in evaluating NBC's financial systems during the Statement of Auditing Standards No. 70 (SAS70) review. NBC also provided assurance that its processes and controls in place between October 1, 2006 and September 30, 2007 were adequate and effective to safeguard data from waste, fraud, abuse, and destruction and that the auditors found no material weaknesses or significant deficiencies in those processes or controls. The FY 2007 review also provided the basis for the FY 2008 review.

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[7] Section 2 of FMFIA specifically requires agencies to provide assurance that (i) obligations and costs are in compliance with applicable law; (ii) funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and (iii) revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the assets.

<u>Fiscal Year 2008</u>: MCC made continued progress in improving its internal controls environment during FY 2008 by:

- Establishing a working group to revise compact quarterly reporting requirements and related approval processes;

- Fully implementing the International Treasury System (ITS)—or Common Payment System (CPS)—to disburse compact funds, thereby addressing the FY 2006 OIG audit report recommendation to limit cash balances in each MCA's permitted bank account;

- Began implementation of the MCC Integrated Data Analysis System (MIDAS) to improve the quarterly MCA reporting and performance tracking processes, while also supporting the centralized collection and storage of agency-wide financial and performance information in an electronic warehouse where staff are able to access it readily to conduct current and historical queries and develop financial and performance reports as needed;

- In addition, MCC conducted (through an independent contractor) a comprehensive internal controls review that included the following components. MCC leadership has already addressed many of the findings that were documented as part of the review.

  ***(1) Risk assessment of MCC's core business processes*:** The risk assessment determined that MCC's highest risk business processes are the *Compact Management* process and the *Contracts and Grants Management* process. MCC assessed the risks of each business process on the basis of their: (1) impact on financial statements, (2) complexity, (3) volume of transactions, (4) degree of centralization, and (5) audit findings and internal control weaknesses.

  ***(2) Entity and process level transaction testing, findings and recommendations*:** In response to the risk assessment, MCC conducted transaction testing on the Compact Management and Contracts and Grants Management processes for the FY 2008 review. In addition, MCC selected the Personnel, Salary and Benefits process and the Threshold Program funds sub-process for transaction testing.[8] Hundreds of transactions were randomly selected across fifty-nine control activities within each key business process and tested as part of the review.

  Testing identified some control weaknesses across the processes, primarily in the areas of obtaining and maintaining official documentation on written approvals required in the *Compact Management* and *Contracts and Grants Management* processes. Through the aforementioned MIDAS initiative, MCC is taking steps to ensure that all compact approval records are appropriately documented, tracked

[8] The Personnel, Salary and Benefits process was chosen for testing because NBC performs this process on MCC's behalf, and MCC had not yet been able to review the payroll process documentation or test results at NBC. A Threshold Program sub-process was chosen because USAID performs this process on MCC's behalf and MCC had not yet reviewed USAID's internal controls over these aspects of the program.

and maintained. In addition, MCC has significantly enhanced training provided to Contracting Officer's Technical Representatives (COTR) and ensures that all COTRs fully understand their roles and responsibilities, particularly as they relate to obtaining and maintaining approval documentation on invoices and other contract documents.

(3) Personnel, Salary and Benefits process: NBC's assurance statement validated that no material weaknesses were found in NBC's payroll processes. However, MCC was not able to review test results for key controls over NBC's payroll process, particularly in the context of MCC payroll, due to testing being conducted by a separate department. As such, MCC intends to request to review NBC's payroll process test results in subsequent A-123 reviews. In a separate internal review of the part of the Personnel, Salary and Benefits process that takes place at MCC, MCC found some control weaknesses in the timekeeping system, in addition to some control weaknesses in the employee timesheet certification process. Timekeeping policies and procedures are currently under review to identify areas for improvement.

(4) Testing of improper payments*:* MCC evaluated NBC's compliance with the Improper Payments Act to validate that NBC maintains effective internal controls. NBC's parent department, the Department of the Interior (DOI), determined that the department is at low risk for improper payments. A DOI audit reviewed NBC payments from three fiscal years and found the number of improper payments well below the dollar amount and frequency threshold. NBC also conducts annual SAS 70 audits and A-123 testing on improper payments. See the "Improper Payments Information Act of 2002" section below for more information regarding NBC improper payments data.

(5) An evaluation of NBC's controls on business processes performed on MCC's behalf*:* MCC's evaluation of NBC's controls found that overall, the processes that NBC tested were supported by adequate internal controls. Specifically, NBC's testing concluded that its *Funds Management/Cash Receipts and Disbursements Controls* are effective, and that *Controls for Financial Reporting/CFO Reporting*, including year-end closing entries, journal entries and the quarterly accrual process controls, are effective.

Compliance with Laws and Regulations

In addition to complying with FMFIA and OMB Circular A-123 requirements, MCC's management is also responsible for ensuring MCC's compliance with other relevant financial management laws and regulations. Principal among these are:

- Prompt Payment Act
- Debt Collection Improvement Act of 1996
- Improper Payments Information Act of 2002

- Federal Information Security Management Act

Prompt Payment Act

The Prompt Payment Act (Public Law 100-496), as amended, requires federal agencies to pay vendors transacting business with them in a timely manner. With certain exceptions, the Act requires agencies to make payments within 30 days of the later of (1) receipt of properly prepared invoices or (2) the receipt of goods or services. For amounts owed and not paid within the specified payment period, agencies are required to pay interest on the amount owed at a rate established by the Department of the Treasury.

An agency's performance under the Act for any given period is most often measured by the percentage of payments made within the specified timeframes out of all payments subject to the Act's provisions. In FY 2008, MCC's "prompt payment" performance improved to 99.326 percent, a 1.826 percent increase over FY 2007's 97.5 percent. During the year, MCC paid $4,410 in late interest to vendors, a 37 percent decrease from FY 2007's $6,960 interest.

Also, during the year, NBC made 98.83 percent of MCC's vendor payments via electronic transfer, a 0.07 percent decrease over FY 2007's 98.9 percent.

Debt Collection Improvement Act (DCIA) of 1996

In 1996, Congress passed the DCIA in response to steady increases in the amount of delinquent debt owed to the Government. Under the Act, all federal agencies must refer past due, legally enforceable, non-tax debts that are more than 180 days delinquent to the Department of the Treasury's Financial Management Service (FMS) for collection through the Treasury Offset Program. A debt is considered delinquent if it is 180 days past due and is legally enforceable. A debt is legally enforceable if there has been a final agency decision that the debt, in the amount stated, is due and there are no legal bars to collection action.

During FY 2008, MCC referred no debts to the FMS for collection.

Improper Payments Information Act (IPIA) of 2002

An improper payment is any payment that should not have been made or was made in an incorrect amount. The President has made the development of management controls to detect and prevent improper payments a major focus of his Management Agenda. Congress, following the President's lead, passed the Improper Payments Information Act of 2002 (Public Law 107-300). The Act requires agencies to review annually all programs and activities to identify those that are susceptible to improper payments, estimate the annual improper payments in susceptible programs and activities, and report the result of their improper payment reduction plans and activities. OMB Memorandum 03-13 defines a program as susceptible to improper payments if it has improper payments that exceed 2.5 percent and $10 million of program spending. MCC can report excellent payment performance that was significantly below the OMB ceiling.

Federal Information Security Management Act (2008)

MCC's FY 2008 Federal Information Security management Act (FISMA) audit, issued in August 2008, discussed issues regarding MCC's information security program, many of which MCC has already addressed, or is proactively taking steps to address.

For example, in accordance with the FISMA, MCC has taken several steps towards improving the overall technical security:

- In March 2008, the Chief Information Security Office (CISO) conducted a risk assessment that included a review of the existing security architecture, and assessment of the MCC network vulnerability posture, and a review of current intrusion events on the network. Based on the results of this assessment, in May, the CIO reorganized the security oversight functions and the investment in security technologies, including vulnerability and intrusion detection systems.
- Since May 2008, the newly independent MCC CIO office team has been developing new security policy, engineering new security architecture, and is deploying new monitoring technologies to help measure and manage risk to the MCC networks. To date, the team has helped reduce the measured vulnerability level of MCC systems by eighty percent. As this program continues to mature, the CISO will complete the development of policies and technologies that will improve the stability and security of the MCC information technology infrastructure.
- MCC continues to complete the development of additional policies and technologies to bring MCC's networks into full compliance with federal security regulations.

Summary of Material Weaknesses, Non-Compliance, and Corrective Actions

For FY 2008, MCC received one material weakness finding related to quality control over financial reporting. MCC reviewed and commented on its audit finding and provided current status and corrective actions for the future. The section below summarizes the audit finding and MCC's corrective action plan.

Quality Control over Financial Reporting (material weakness)

MCC concurs with the recommendations. MCC has published, in its FMPP Manual on Financial Reporting, Financial Audits, and Performance and Accountability Reports, FMPP 420, procedures regarding the preparation of the financial statements and footnote disclosures to ensure that financial statement items are reported accurately and are properly supported. MCC will revise and expand its written procedures to include procedures to perform detailed quality control reviews to include reviewing adjustments recorded by NBC to ensure each is valid and has been properly recorded. Further MCC will develop documentation that provides an "audit trail" supporting management review and approval. It is estimated MCC will complete these improvements no later than March 31, 2008.

MCC has made painstaking efforts to mitigate the apparent difficulties of its relationship with USAID in its capacity as a service provider. During the last fiscal year, MCC met with USAID on four different occasions to discuss among other things, the timing of delivery of its deliverables. The meetings took place between September 2007 and October 23, 2008. The most recent meeting, held in conjunction with the OIG demonstrated that while USAID will make an effort to meet the requirements of OMB Circular A-136 and MCC's Memorandum of Understanding, their system of controls prevents them from ensuring MCC receives final deliverables timely. MCC will continue its efforts to work with USAID to eliminate this major source of financial statement errors and misstatements.

MCC believes it has taken full ownership and responsibility for its financial statements. MCC converted its statements to comply with OMB Circular A-136 in advance of the OMB mandated date of September 30, 2007. In conjunction with this change, MCC assumed responsibility for the preparation of all of its footnote disclosures and associated exhibits. As stated above, MCC will be implementing measures to improve quality control in accordance with the auditor's recommendations.

Limitations of Financial Statements

The principal financial statements have been prepared to report the financial position and results of MCC's operations pursuant to the requirements of 31 U.S.C. 3515(b). While the statements have been prepared from the books and records of MCC in accordance with Generally Accepted Accounting Principles (GAAP) for federal entities and the formats promulgated by OMB and prescribed by the Federal Accounting Standards Advisory Board, the statements are in addition to the financial reports used to monitor and control budgetary resources that are prepared from the same books and records.

The statements should be read with the understanding that they have been prepared for a component of the U.S. Government, a sovereign entity.

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2. PERFORMANCE REPORT

In accordance with the Government Performance Results Act of 1993, MCC's Board of Directors approved its Strategic Plan on November 8, 2005, covering FY 2006 to FY 2011. The Strategic Plan defines MCC's mission, which is *to reduce poverty by supporting sustainable, transformative economic growth in developing countries which create and maintain sound policy environments.*

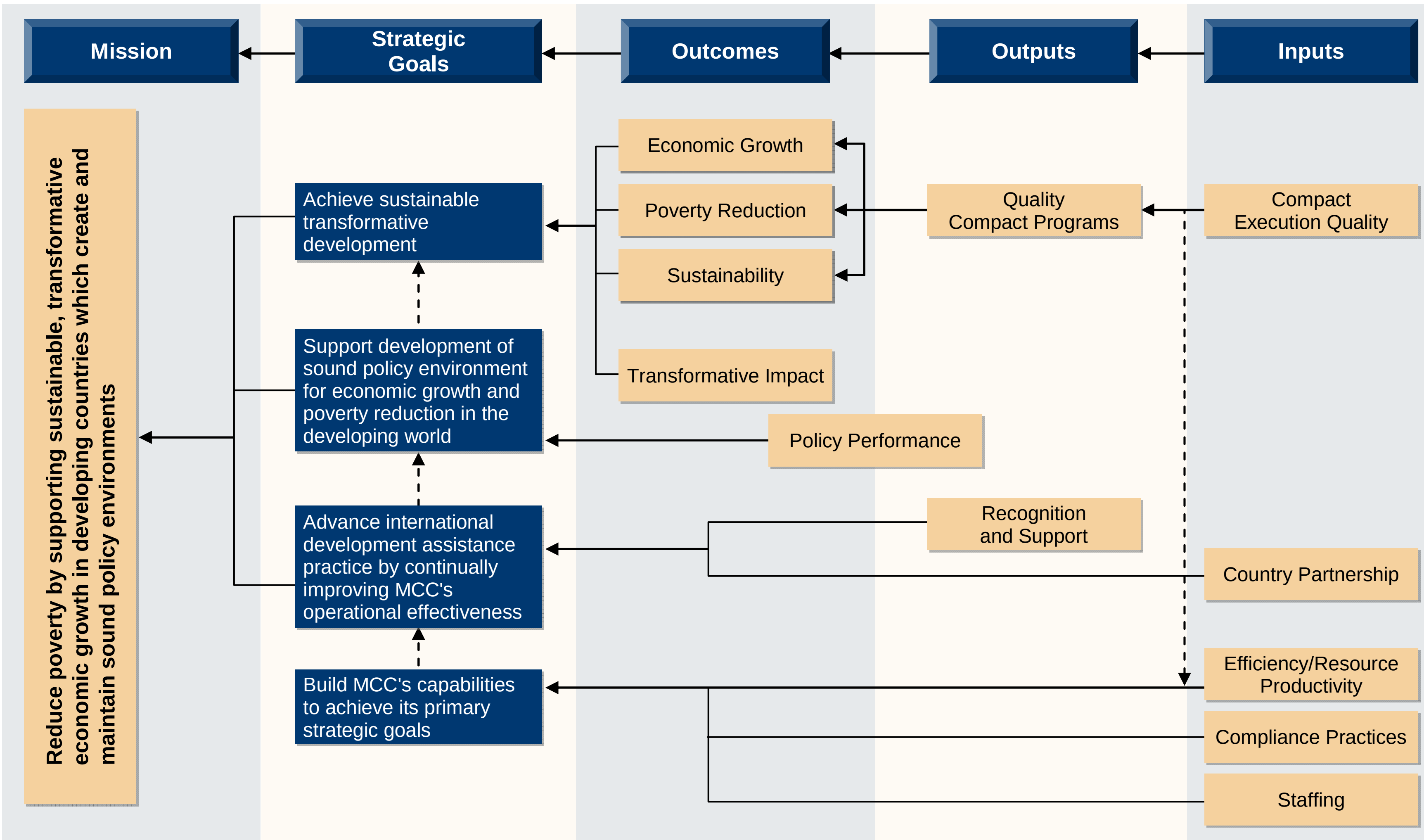
In addition, the Strategic Plan defines four strategic goals for MCC:

- **Strategic Goal #1.** Achieve sustainable, transformative development
- **Strategic Goal #2.** Support development of a sound policy environment for economic growth and poverty reduction in the developing world
- **Strategic Goal #3.** Advance international development assistance practice by continually improving MCC's operational effectiveness
- **Strategic Goal #4.** Build MCC's capabilities to achieve its primary strategic goals.

Consistent with the approach outlined in MCC's Corporate Performance Plan, MCC continued tracking the achievement of each of the four strategic goals in FY 2008 through multiple corresponding objectives. For each objective, MCC maintains updated data for measuring input, output, and outcome measures, or indicators.

Exhibit 13 maps the annual performance goals from the Corporate Performance Plan to MCC's strategic goals. The following section details MCC's Corporate Performance Plan objectives, methods for verifying data, and approach to setting targets and measuring progress. The remaining portion of the performance section is dedicated to reporting the detailed results for each of MCC's annual performance objectives for 2008, including data from previous years, when available.

Exhibit 13: MCC's Corporate Performance Plan



PERFORMANCE INDICATOR FRAMEWORK

MCC is designed to support innovative strategies and ensure accountability with measurable results. MCC integrates monitoring and evaluating into each compact so that progress can be measured against targets agreed to at the start of the program. However, due to the nature of international development work, the inherent challenge of obtaining current data, and the impact of external factors, performance is not always quantifiable or immediately measurable. Many of MCC's partner countries also have limited capacity to measure outcome or output results. In addition, compacts are normally implemented over a 5-year period, making outcome data available only well into the implementation period. Due in part to these factors, MCC again did not set targets for all indicators this year, particularly for many of the objectives under Strategic Goal 2 (see MCC's policy on performance targets below for details on MCC's approach).

Accordingly, most data comes from reliable external sources, including other donor agencies or independent evaluations contracted for by the candidate countries during the compact implementation process. Where data is not available for select indicators, MCC is developing and conducting surveys by independent third parties to assess its performance.

FY 2009 Improvements to the Performance Framework

Going forward in FY 2009, MCC will continue measuring for results under the same four strategic goals, but with further refinements to the objectives and indicators. The updates to the objectives (1) reflect a closer alignment to MCC's four strategic goals; (2) are more directly attributable to MCC, or within MCC's control to achieve; and (3) will be measureable and achievable within the fiscal year. For example, Strategic Goal #1 objectives will measure the inputs and outputs across compact program sectors—roads, irrigation, agriculture, and rural development. This new approach will simplify the data collection process so that performance data can be readily obtained, measured, analyzed and reported.

Data Verification and Validation

MCC has developed improved tools and increased transparency for economic analysis, including joint efforts with newly eligible countries to do a growth constraint analysis as a framework for consultation on program development, enhanced beneficiary analysis, and improved sensitivity analysis of expected returns. For performance results that are based on data that MCC collects, MCC has taken steps to ensure that information from MCA reports is accurate. MCAs are required to submit comprehensive quarterly reports that form the basis for annual performance evaluations on compact-specific indicators. MCC reviews these reports for accuracy to ensure that the final performance results reported in the PAR are accurate.

Since FY 2007, all Threshold programs undergo independent program evaluations. MCC's Results Reporting Tables (RRT) measure Threshold program quarterly progress on a series of program indicators. MCC initiated this process and coordinates its efforts closely with USAID, which submits the RRTs along with quarterly narrative reports. The RRT indicators typically originate either from the Threshold Country Plan or from a list of performance benchmarks that MCC, USAID, and the Threshold country government work together to develop.

MCC Policy on Performance Targets

MCC's policy on setting performance targets addresses three related issues: which indicators should include targets, how numerical values should be set, and how frequently performance against targets should be assessed. It is MCC's policy that the performance indicators selected for targeting are important, measurable, and to the extent possible subject to MCC's control. Compact-specific target values are established according to what would be required to achieve the economic returns or benefits envisaged at the time the project was presented for approval by the MCC Board of Directors. Therefore, the target values are closely linked to the original justification of the projects.

The frequency of performance assessment against output targets is established on a case-by-case basis, dictated by the nature of the program. For example, infrastructure projects that do not start construction for a year do not have targets for the first year. Agricultural projects involving crops that will mature in year three will have targets on yields starting in year three. Assessment against compact-specific outcome targets will not normally take place until later in the life cycle of each compact because their targets assume the completion of most compact activities.

Supplemental Measures

Because MCC's mission is to be transformative, a number of supplemental measures of economic growth, poverty reduction, and policy reform are included in the Corporate Performance Plan. MCC will measure trends in 17 supplemental indicators, but it will not set specific targets for these indicators or otherwise treat them as formal outcome indicators. These measures do not strictly meet the "A" in the SMART criteria because they are not directly attributable to MCC interventions. For example, while MCC can point to specific examples where the "MCC effect" has led to policy reform measures, MCC cannot claim credit for country performance on the supplemental policy indicators measures in this plan. Similarly, while MCC and partner countries have jointly set targeted economic growth and poverty reduction targets in each MCC compact, MCC will not be solely responsible for nation-wide improvements in per capita income growth, poverty rate reduction, the Human Development Index, or the Institutional Investor credit rating.

External Factors Affecting Performance

Various external factors affected MCC's ability to reach its performance goals for FY 2008. These factors, consistent with those identified in the Corporate Performance Plan, included:

- **Economic and political environment.** Stable economic and political environments in partner countries are necessary for these countries to pursue MCC programs.

- **Policy reform.** MCC compact, threshold, and candidate[9] countries must undertake significant policy reforms that may face significant domestic opposition. Compact-eligible countries at a minimum must avoid backsliding on key policy issues.
- **Compact-eligible country capacity.** Compact-eligible countries must adequately engage in all aspects of compact development and implementation with sufficient resources and human and political capital. Inadequacies in administrative capability, technical expertise, fiscal and procurement capacity, and other areas can impact a country's performance.
- **Congress.** Congress authorized MCC in 2004, and as an entirely grant-making institution MCC, depends on congressional appropriations to fund its compacts and Threshold programs.
- **Partner U.S. Government agencies.** MCC must maintain the support of agencies that serve on the MCC Board, as well as OMB and the National Security Council, on key policy and operational issues. MCC also depends on assistance from a number of agencies in the implementation of MCC programs.
- **Non-Governmental Organizations.** The support of key U.S. NGOs is essential to MCC because NGOs provide (a) an independent source of information about the countries with which MCC works, and (b) can provide independent evaluation and validation of specific MCC programs.

[9] Candidate countries are those countries that meet per capita income levels set by MCC.

MCC PERFORMANCE IN FY 2008

STRATEGIC GOAL #1

Achieve Sustainable, Transformative Development

The MCC Strategic Plan defines the expected outcome for this strategic goal to be a significant reduction in poverty through sustainable, material economic growth for a significant number of people. MCC has defined a number of outcome, output, and input measures to assess progress toward this strategic goal.

The following objectives constitute Strategic Goal #1:

1.1 Generate economic growth and reduce poverty in compact countries
1.2 Achieve sustainability of successful projects in compact countries
1.3 Improve compact countries' capacity to meet basic human needs
1.4 Improve compact countries' GDP growth
1.5 Decrease percentage of population living on less than $1 and $2 per day
1.6 Improve compact-eligible and threshold countries' average country credit ratings
1.7 Improve annual percentage of compact targets met on time
1.8 Increase the number of Conditions Precedents (CPs) met on time

MCC's performance against each of its eight objectives under Strategic Goal #1 is discussed in the following pages. Each objective is measured by a specific indicator that demonstrates whether progress towards accomplishing that objective is being achieved. Four of the eight objectives under Strategic Goal #1 are measured by supplemental indicators, and as such, do not have established targets, since progress in these areas is largely outside of MCC's control. Performance targets and baselines from prior years are included, as applicable, to demonstrate progress through the years.

Objective 1.1: Generate Economic Growth and Reduce Poverty in Compact Countries

Outcome Indicator: Compact-Specific Economic Growth and Poverty Reduction

Creating compacts that increase economic growth and reduce poverty is MCC's most important goal. Successful projects in compact countries will produce economic growth and reduce poverty for the populations affected by the compact. Baseline years for this measure vary by country and are determined by the implementation schedule of the compact. The first round of results for this indicator is not expected until 2009, as was stated in the fiscal year *FY 2007 – 2008 Performance Plan*. Exhibit 14 below details the baselines set per country.

Exhibit 14: Generate Economic Growth and Reduce Poverty in Compact Countries

Compact Country	Income Indicator (varies by country)	Baseline Year	Value*	Source
Armenia	Change in real income from agriculture in rural areas (index)	2005	100%	National Statistical Service, Integrated Survey of Living

				Standards
Benin	Average household income in land and finance areas	2006	1457.07	INSAE (2008) EMICoV household survey
Cape Verde	Increase in annual income in US$	2005	$0 M	MCA Cape Verde
El Salvador	Annual per capita income of program beneficiaries in the Northern Zone (treatment group)	2004	$720	Dirección General de Estadistica y Censo, Encuesta de Hogares de Propositos Multiples
	Annual per capita income of program beneficiaries in the Northern Zone (control group)	2004	$720	Direccion General de Estadistica y Censo, Encuesta de Hogares de Propositos Multiples
Georgia	Incremental increase in household incomes from compact interventions	2007	$0	Millennium Challenge Georgia
Ghana	Crop income per household (Northern Zone) in US$	2006	$700	Based on data provided by the Ministry of Agriculture and the MASDAR study of a project in the Afram Plains District
	Crop income per household (Afram Basin Zone - East) in US$	2006	$820	
	Crop income (Afram Basin Zone - West) in US$	2006	$540	
	Crop income per household (Southern Zone) in US$	2006	$1,860	
Honduras	Increase in annual income of beneficiaries in US$	2005	$0 M	MCA-Honduras
Madagascar	Increase in household income in zones	2005	$698	Estimates from the household survey
Mali	Total revenue of firms servicing the airport	2008	TBD	Airport survey to be conducted in FY09
	Total receipts of hotels and restaurants in Bamako	2007	$133 M	Tourism Office of Mali (OMATHO)
	Gross value-added of firms in the industrial park	2007	$0 M	Project removed from compact
	Real income per capita from irrigated agricultural production	2008	TBD	Household Baseline Survey 2008-09
Nicaragua	Total expected income gains (US$ millions)	2007	Data not yet available	FIDEG household survey of beneficiary survey

Vanuatu	Average cash income per capita of residents living within the catchment area of infrastructure sub-projects - disaggregated by Efate and Santo	2006	$ 1291 (Efate); $2122 (Santo)	Vanuatu Household Income and Expenditure Survey

*The baseline value for compact specific GDP is in national currency units. The baseline value for the poverty headcount ration is in percent.

Objective 1.2: Achieve Sustainable Projects in Compact Countries

Outcome Indicator: Sustainability

As reported in last year's PAR, MCC was in the process of defining an indicator to accurately measure the sustainability of projects. MCC intends for this indicator to measure the extent to which the impact of successful programs or compact activities has continued after a compact has been completed and all funding has been disbursed. However, because no compact has been completed and no funding for compacts has been fully disbursed yet, baselines, targets and a reporting framework for this indicator were not precisely identified for fiscal year 2008. Thus, the rating is not applicable.

Objective 1.3: Countries Improve Their Capacity to Meet Basic Human Needs

Supplemental Indicator: United Nations Human Development Index (HDI)

This is a supplemental indicator, and as such, it does not have an established target. The United Nations Human Development Index (HDI) measures a country's achievements in three dimensions of human development—life expectancy at birth; adult literacy rate and the combined primary, secondary, and tertiary gross school enrollment ratio; and GDP per capita. The average HDI score of countries that are eligible for MCC assistance (either compact or threshold) gives a broad indication of their level of development. MCC will monitor the average HDI score of countries eligible for compact or threshold assistance to see whether the level of human development is increasing following MCC selection and delivery of assistance. Relative changes in average HDI scores of the three country groups (compact, threshold, and non-eligible) will be monitored.

Countries included in the HDI are classified into one of three clusters of achievement in human development: high human development (with an HDI of 0.800 or above); medium human development (HDI of 0.500–0.799); and low human development (HDI of less than 0.500). Exhibit 15 details HDI scores by country groups.

Exhibit 15: Countries Improve Their Capacity to Meet Basic Human Needs

Date	Actual	Comments
2006	0.548 for non-eligible countries; 0.536 for threshold countries; 0.593 for compact countries	Baseline data is from the 2006 Human Development Report (HDR), which uses 2004 country data. The baseline covers countries that were compact-eligible or Threshold-eligible candidates in FY 2004 and FY 2005.

Date	Actual	Comments
2007	0.737 for non-eligible countries; 0.571 for threshold countries; 0.608 for compact countries	The 2007/2008 HDR uses 2005 country data.
2008	The most current HDR covers both 2007 and 2008. The next HDR will be available at the end of 2009.	

Objective 1.4: Improve GDP Growth

Supplemental Indicator: GDP Per Capita Growth Rate

This is a supplemental indicator, and as such, it does not have an established target. The average GDP growth per capita of countries that are eligible for MCC assistance (either compact or threshold) gives a broad indication of whether their economic performance is improving and creating conditions for sustainable poverty reduction. MCC will monitor year-on-year changes in the average GDP growth per capita of countries eligible for compact or threshold assistance to see how their economies are performing following MCC selection and delivery of assistance.

In 2007, MCC made the decision to use the International Monetary Fund (IMF) World Economic Outlook (WEO) database instead of the World Bank Development Indicators (WDI) database, which had been used in the prior year. This decision was based on a few key factors. First, the IMF produces its database through biannual data collection, resulting in the production of timely, accurate national income data twice a year. Conversely, the WDI produces its statistics once a year in April and does not always have the most recent data to publish. Further, national income data from the WEO database is used in other indicator analysis in this report (e.g., fiscal policy).

Based on this decision, MCC recalculated 2004 - 2006 figures for the fiscal year 2008 report, using WEO data. This allows for more accurate comparison of per capita growth rates across years. Exhibit 16 below details annual GDP per capita growth rates by country groups.

Exhibit 16: Improve GDP Growth

Date	Actual	Comments
2004	Non-eligible countries: 4.64% Threshold countries: 2.29% Compact countries: 3.68%	These are the baseline figures (per capita growth rates in 2004).
2005	Non-eligible countries: 4.44% Threshold countries: 2.15% Compact countries: 4.06%	Non-eligible countries had a decrease of 0.20% in GDP per capita annual growth rate from 2004 to 2005. Threshold countries had a decrease of 0.14% in GDP per capita annual growth rate from 2004 to 2005. Compact countries had an increase of 0.38% in GDP per capita annual growth rate from 2004 to 2005.
2006	Non-eligible countries: 4.30% Threshold countries: 3.16% Compact countries: 4.65%	Non-eligible countries had a decrease of 0.34% in GDP per capita annual growth rate from 2004 to 2006. Threshold countries had an increase of 0.86% in GDP per capita annual growth rate from 2004 to 2006.

Date	Actual	Comments
		Compact countries had an increase of 0.97% in GDP per capita annual growth rate from 2004 to 2006.
2007	Non-eligible countries: 4.62% Threshold countries: 5.42% Compact countries: 4.46%	Non-eligible countries had a decrease of 0.02% in GDP per capita annual growth rate from 2004 to 2007. Threshold countries had an increase of 3.12% in GDP per capita annual growth rate from 2004 to 2007 driven primarily by a significant increase in growth (from negative figures in 2004 and 2005 to 17%) in 2007 in Timor Leste. Compact countries had an increase of .77% in GDP per capita annual growth rate from 2004 to 2007.
2008	NA	Data available in 2009

Objective 1.5: Decrease Percent Living on Less Than $1 and $2 Per Day

Supplemental Indicator: Percent of Population Living below $1 and $2 per Day

This is a supplemental indicator, and as such, it does not have an established target. Data reported in 2007 sets the baseline for this indicator. MCC will monitor progress on this indicator on an annual basis. Changes in this indicator are a measure of poverty reduction. Compact-specific indicators outlined in Objective 1.1 are specific to those households directly impacted by MCC projects. This metric provides supplementary data for MCC to assess trends in poverty reduction at a national level. Because MCC programs do not have a national scope, targets are not set. Exhibit 17 below details, by country, the percent of population living below $1 and $2 per day.

Exhibit 17: Decrease Percent Living on Less Than $1 and $2 Per Day

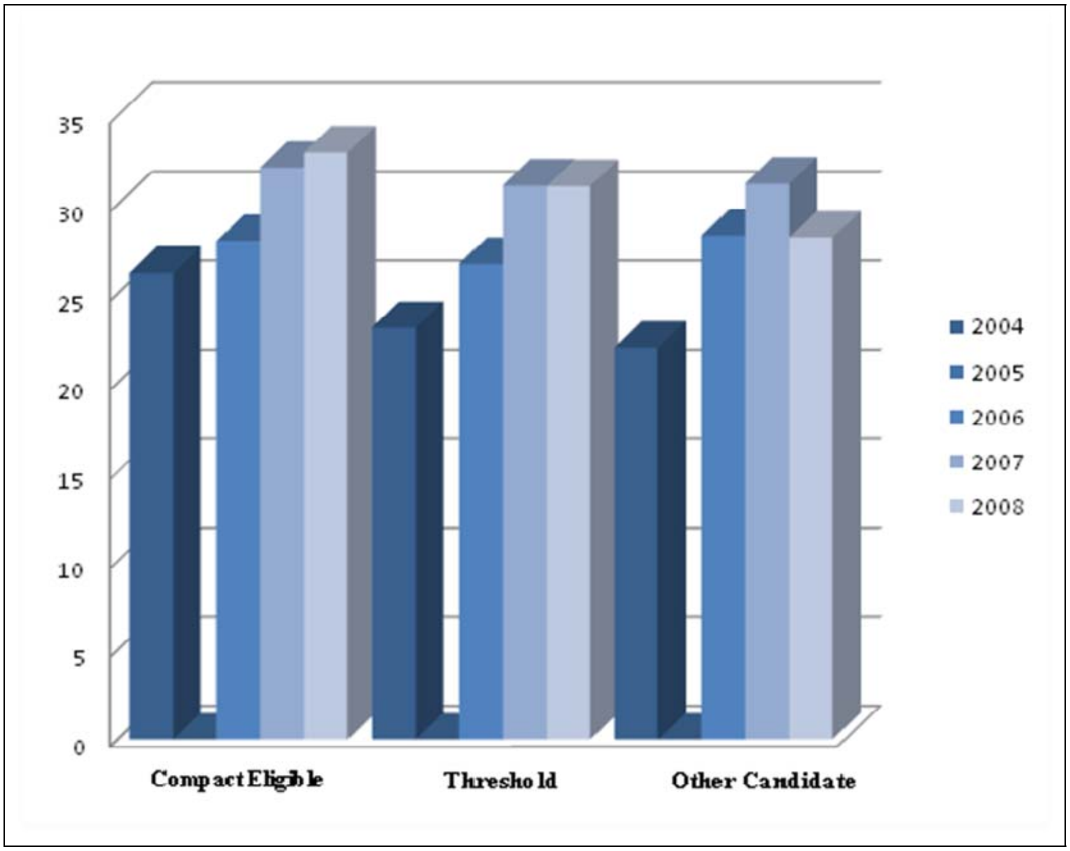
Date	Country	$1 per day (actual)	$2 per day (actual)
2007	Armenia	2% (2003)	31.07% (2003)
	Benin	30.9% (2003)	73.74% (2003)
	Bolivia	23.2% (2002)	42.18% (2002)
	Burkina Faso	27.19% (2003)	71.77% (2003)
	Cape Verde	NA	NA
	El Salvador	19.04% (2002)	40.55% (2002)
	Georgia	6.514% (2003)	25.29% (2003)
	Ghana	45.05% (1999)	75.01% (1999)
	Honduras	14.9% (2003)	35.71% (2003)
	Jordan	2% (2003)	6.95% (2003)
	Lesotho	36.4% (1995)	56.03% (1995)
	Madagascar	61.03% (2001)	85.1% (2001)
	Mali	36.13% (2001)	72.07% (2001)
	Moldova	2% (2003)	20.75% (2003)
	Mongolia	10.82% (2002)	44.58% (2002)
	Morocco	2% (1999)	14.33% (1999)
	Mozambique	36.18% (2002)	74.14% (2002)

Date	Country	$1 per day (actual)	$2 per day (actual)
	Namibia	34.93% (1993)	55.78% (1993)
	Nicaragua	45.12% (2001)	79.93% (2001)
	Senegal	17.01% (2001)	56.17% (2001)
	Sri Lanka	5.55% (2002)	41.59% (2002)
	Tanzania	57.82% (2000)	89.93% (2000)
	Timor-Leste	NA	NA
	Ukraine	2% (2003)	4.94% (2003)
	Vanuatu	NA	NA
2008	According to the World Bank's 2007 World Development Indicators, some data have been slightly revised without any change to survey years. These revisions are very minor and therefore are not reflected here. No country data have been updated since the 2007 report.		

Objective 1.6: Compact Eligible and Threshold Countries Receive Higher Average Country Credit Ratings
Supplemental Indicator: Institutional Investor Country Credit Rating*

This is a supplemental indicator, and as such, it does not have an established target. This indicator demonstrates the extent to which a country is making progress in attracting private investment. Moving countries toward "graduation" from donor funding to private sector funding of development is one of the key goals of the MCC model of assistance. It is expected that performance on this indicator will improve more significantly for threshold and compact eligible countries than for the remaining MCA candidate countries. In 2008, twenty-five countries were eligible for MCA Compact assistance. Exhibit 18 shows a representation of Institutional Investor's country credit rating for MCC compact, threshold, and candidate countries. This indicator is measured in a scale of 0 to 100 points. A score of 100 indicates the most creditworthiness.

Exhibit 18: Compact Eligible and Threshold Countries Receive Higher Average Country Credit Ratings



*Data for 2005 unavailable

<u>Objective 1.7: Improve Annual Percentage of Compact Targets Met on Time</u>
Output Indicator: Quality of Compacts in Implementation

As of September 2008, a total of 11 compact countries have an obligation to report on targets. This report does not include five countries that just achieved Entry into Force in September 2008 -- Lesotho, Mongolia, Morocco, Mozambique, and Tanzania. These five countries do not have target requirements yet, as they have just begun implementation.

The indicators in the following table provide the percentage of Outcome, Output and Process targets achieved in each country. Seventy-five out of 203 targets at the Outcome, Output, and Process levels were achieved—an overall achievement rate of 37 percent. Fifty-nine targets have not been reported on yet, but data is expected to be available by the end of December 2008.

A target is determined as being met if the actual reported is within a ten percent margin of the target for numeric indicators, or within 30 days of a date indicator. Process indicators are frequently in date format. It is also worth noting that some of the targets were achieved by a wide margin. For example, they exceeded the target by a substantial amount. That is not reflected here because the PAR indicator is nominal in scale; the indicator was either met or not met. Exhibit 19 lists outcomes, outputs, and processes by country.

Exhibit 19: Improve Annual Percentage of Compact Targets Met on Time

Country	% Targets Achieved in FY08			Comments
	Outcome	Output	Process	
Armenia	64	50	33	8 outcome, 3 output, and 1 process indicator have not been reported on yet, as they were due 9/30/2008
Georgia	40	100	NA	
El Salvador	0	50	20	3 outcome and 1 process indicator have not been reported on yet, as they were due 9/30/2008
Honduras	33	17	NA	2 outcome and 3 output indicator have not been reported on as they were due 9/30/2008
Nicaragua	75	54	50	
Vanuatu	NA	0	NA	2 of the indicators were for sub-projects that were eliminated from the Compact; the remaining 3 indicators were for sub-projects that will still be done, but underwent major restructuring in FY08
Benin	25	18	42	
Mali	NA	NA	8	
Ghana	NA	NA	51	The process indicators are not yet part of the formal M&E Plan, but the process is underway
Cape Verde	0	25	50	32 output and 6 process indicators have not been reported on yet, as they were due 9/30/2008
Madagascar	56	NA	67	
Total	**47**	**35**	**31**	
Overall Achieved	**38**			

Objective 1.8: Increase the Conditions Precedents (CPs) Met on Time

Input Indicator: Compact Execution Quality

This indicator measures the percentage of Conditions Precedents (CPs) that were met on time. CPs are actions that a compact country needs to take before MCC will release a disbursement of funds. CPs can include such actions as appointing key personnel, completing feasibility studies or environmental impact assessments, or reaching specific implementation milestones. The low percentage of CPs deferred or waived demonstrates that MCA countries are taking necessary actions to ensure proper implementation of their compacts. Exhibit 20 shows the percentage of CPs met on time for fiscal years 2006, 2007, and 2008.

Exhibit 20: Increase the Conditions Precedents (CPs) Met on Time

Date	Target	Actual	Comments
2006 (Baseline)	NA	73% met on time	For 13 disbursements made during FY 2006, 250 CPs were met on time and 92 CPs were deferred. None were waived.
2007	Meet 75% on time	77% met on time	For FY 2007, 1,201 CPs were scheduled to be reported during this period and 77% (915) were met on time.
2008	Meet 75% on time	93% met on time	For FY 2008, 1,417 CPs were scheduled to be reported during this period and 93% (1,315) were met on time.
Rating	Target met		

The percent of CPs met on time for each compact country during fiscal year 2008 are outlined in Exhibit 21 below.

Exhibit 21: Conditions Precedents Met

Compact Country	CPs Reported for FY 2008	CPs Met	% of CPs Met
Armenia	315	305	97
Benin	212	189	89
Burkina Faso	0	NA	NA
Cape Verde	178	146	82
El Salvador	36	36	100
Georgia	194	194	100
Ghana	115	88	76
Honduras	111	111	100
Lesotho	8	4	50
Madagascar	40	40	100
Mali	69	69	100
Mongolia	0	NA	NA
Morocco	31	24	77
Mozambique	0	NA	NA
Namibia	0	NA	NA
Nicaragua	108	108	100
Tanzania	0	NA	NA
Vanuatu	86	86	100
Total	**1,417**	**1,314**	**93**

Note: This indicator counts CPs associated with compact funding, including CIF funds.

STRATEGIC GOAL #2

Support Development of a Sound Policy Environment for Economic Growth and Poverty Reduction in the Developing World

The following objectives constitute Strategic Goal #2:
2.1 Improve policy performance in ruling justly
2.2 Improve policy performance in investing in people
2.3 Improve policy performance in economic freedom

The MCC Strategic Plan defines the expected outcome for this strategic goal to be the creation of incentives for developing countries to adopt sound policies by making available substantial benefits to countries that rule justly, invest in their people, and encourage economic freedom. MCC looks at several elements in choosing selection indicators and uses indices of performance developed by independent sources. These indicators are not goals in themselves; rather they measure policies that are necessary conditions for a country to achieve sustainable economic growth.

Due to the policy-reform nature of the objectives under this strategic goal and the fact that progress in these areas is largely outside of MCC's control, all the indicators identified under this strategic goal are supplemental indicators, meaning they do not strictly meet the "A" in the SMART criteria in that they are not directly attributable to MCC interventions, as discussed in more detail in the previous section. Although MCC cannot claim credit for country performance along these indicators, they are included because they are reflective of overall progress in partner countries and therefore directly relevant to MCC's programs. Therefore, while MCC will measure trends in these supplemental indicators, MCC will not set specific targets for these indicators or otherwise treat them as formal outcome measures.

While the performance objectives for Strategic Goal #2 are considered supplemental and do not have formal targets or a performance rating, MCC expects the performance on these indicators to improve more significantly for threshold and compact eligible countries than for the remaining candidate countries.

Tied closely to Strategic Goal #2 is the Threshold program, for which MCC has identified several formal outcome measures. The Threshold program assists countries in becoming eligible for compact assistance by helping countries improve their performance on the policy indicators under Goal #2. Therefore, results for this program are also reported in this section. USAID administers all of the existing Threshold programs on behalf of MCC, providing the benefit of USAID's technical expertise, development experience, field presence, and administrative infrastructure.

Threshold program activities include technical assistance, strategic planning, legislative development, and control of corruption. MCC's threshold program strategy is to:

- **Use a short timeframe.** Unlike many other policy reform programs, the Threshold program lasts only for a short timeframe (generally two years). This has been shown to be a motivation for the countries to act quickly and smartly, taking advantage of MCC resources to accelerate their reforms.

- **Create a pipeline for compacts.** The Threshold program provides a critical pipeline of countries for MCC's compact program, establishing the countries' relationship with MCC and enhancing MCC's understanding of the specific countries and their challenges. Since MCC's inception, seven threshold countries have already been selected for compact eligibility, giving MCC and the countries an opportunity to work in partnership on policy reforms and establishing an institutional relationship prior to engaging on much larger compact programs.

As a result of the Threshold program's focus, it has a separate set of performance measures in addition to the objectives set under Strategic Goal #2 in MCC's *FY 2007–2008 Performance Plan.* Each country has a different set of objectives based on its particular program. Details of these performance goals and results can be found in Section 2 of this report.

How MCC Measures Policy Reform

MCC facilitated policy reform by two primary means: the "MCC effect" and the Threshold program. The "MCC effect" uses the possibility of large-scale assistance to encourage countries to adopt the reforms needed to become eligible for an MCC compact. The Threshold program assists countries in becoming eligible for compact assistance by improving their performance in the three policy areas. Countries are selected by the MCC Board to participate in the Threshold program based on their demonstrated commitment to improving policy performance on MCA selection criteria areas.

In FY 2008, MCC signed six Threshold agreements, with São Tomé and Principe, Kyrgyz Republic, Niger, Peru, Rwanda, and Albania II. All FY 2008 programs include independent program evaluations that are beginning to provide MCC and the development community lessons learned and information on the impact of Threshold program activities.

Calculating Rates of Change for Policy Performance Variables

To calculate rates of change for different indicators and comparison groups, MCC has made a number of important assumptions. MCC chose to calculate proportional changes in the median performance of individual peer groups for each income level classification. The Low Income Countries (LIC) are divided into compact-eligible countries, threshold countries, and the remaining candidate countries.[10]

MCC first measured absolute changes in median performance on 13 indicators.[11] This calculation uses 2002 as the base year (in most cases) and the most recent year for which data

[10] The Remaining Candidate Countries category includes all countries that satisfy the income criteria for MCA candidacy, including those that are statutorily prohibited from receiving U.S. assistance. MCC includes the statutorily prohibited countries because they are currently included in the median calculations used to determine eligibility for MCA assistance. The basis for determining whether countries satisfy the income criteria comes from the most recently available data on Gross National Income (GNI) per capita for 2003.

[11] The MCC currently uses 17 indicators in its selection process, however only 13 are discussed in this exercise. The indicators omitted include: "Land Rights and Access", which was used for the first time in the FY 2008 selection process; "Natural Resource Management", which was used for the first time in the FY 2008 selection process; "Trade Policy", for which the underlying tariff rate data come from varying years and which may not reflect changes

are available as the end year.[12] MCC then divided the absolute change in a particular peer group's median performance by the "data range" in the base year. MCC defines the data range as the difference between the 90th percentile and the 10th percentile for all countries classified as LIC or Low Middle Income Countries (LMIC) in 2003.

There are a number of important caveats regarding these calculations. MCC divides these caveats into five categories: sample sizes, time lags, inferences based on median changes, and categorical classifications.

General Caveats

- **Sample Sizes.** For some of the indicators, data are missing for a non-trivial number of countries. This can significantly reduce the sample of countries for which comparisons can be made across any specific time period.[13] It is possible that these reduced sample sizes may introduce bias into the calculations, because rapidly improving countries may be more likely or less likely to have more complete data series, and therefore may be more likely or less likely to be included in our calculations.

  In addition, when countries are separated into different categories, e.g., threshold, compact, and other, the sample of countries for which the necessary data points are available is quite small. Across indicators, the composition of the sample for these different categories may vary for any given time period. While there is no reason to assume that this will introduce any systematic bias, it may introduce noise into the measure that will limit MCC's ability to draw inferences from observed changes.

  Within the small samples for which median performance is being calculated there are also very large outliers present for some indicators. The median is used rather than the mean in order to mitigate the impact of outliers, but outliers can still tend to make the rate of change very noisy from year to year. For this reason, great caution should be used in drawing inferences about the performance of categories of countries (e.g., threshold, compact, or other candidate countries) from year to year.

  For the purposes of this exercise, data points are considered missing either because no data have been reported for a given year or because third-party providers have reported data that has not been updated, e.g., they have reported the same value for a given indicator in consecutive years without updating the information.[14]

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made in the time period of interest; "Primary Education Expenditures", which relied on data from two distinct sources; and "Inflation", for which many changes will be driven by exogenous factors. MCC has now combined Days to Start a Business and Cost of Starting a Business into a single Business Start-Up indicator, but for the purposes of this report, the data for the two indicators is reported separately.

[12] 2002 is used as the base year due to the fact that the MCA selection criteria were first announced in 2002 and since much of the data used in the initial selection rounds (FY 2004 and FY 2005) were from 2002.

[13] The sample size is further constrained by a rule that requires a country to have data for *both* the base year and *all* end years in order to remain in the sample considered for the calculation (for this exercise, a country must have data for 202, 2005, 2006, and 2007 to be included in the calculation). This rule was created to eliminate the kind of bias that would emerge if, for example, one country that was a lower performer, had data only in the base year and another country that was a higher performer had data only in the end year. The change in median would therefore be skewed not by country performance but by the difference in composition of the base year and end year groups.

[14] There are some cases in which data values from different years have been pooled to construct values for a given year. Where this is applicable, this has been noted in the text.

- **Time Lags.** In most cases, there is a significant lag between changes in policy performance and changes in indicator performance. Reporting periods also vary by indicator, rendering rate-of-reform comparisons across indicators and "categorical rates of reform" highly problematic. The data available in a given year for a given indicator may also reflect a range of reporting periods. For example, some sub-indicators, which jointly constitute the indicators used in the selection process, report on a calendar year; others report on 12-month periods that vary from the calendar year; and others cover 2- or 3-year periods.
- **Inferences Based on Changes in the Median.** The measure of reform reflects changes in the medians for individual indicators. This measure necessarily gives a limited picture of how the full distribution of values changes over time. The median only provides information about where the two countries in the middle of each distribution fall. It does not provide any information about the mean or the rest of the distribution, which might be compressing, expanding, or skewing in either direction. Medians are also highly sensitive to the composition of the group being evaluated. The presence or absence of just one country can potentially have dramatic effects on the median score; this potential is greater in smaller sample sizes. Any inferences regarding the change in performance over time for any given indicator should keep the nature of MCC's chosen summary statistic well in mind.
- **Categorical Classifications.** For the purposes of this exercise, countries were divided into different categories according to their status (e.g., compact eligible, threshold, and other) as established by the FY 2005 selection process for LICs and the FY 2006 selection process for LMICs.

Differences from the FY08 Measures

When comparing FY 2008 performance with the reported performance in FY 2007, it is important to note the following critical factor:

- **Prior Year Data Revisions.** Many of the indicator sources have been revised from prior year data, upon the release of data updates. Because of this, the median estimates and rate of change estimates reported for 2006 and 2007 may be slightly different than they were reported in the FY 2007 report. MCC believes it is preferable to reflect the revised accurate data whenever possible.

MCC's performance against its objectives for Strategic Goal #2 is outlined in the exhibits below. Most data is on a one year lag. For all objectives, the indicators were selected as a proxy for quality of policy environment.

Objective 2.1: Improve Policy Performance in Ruling Justly
Supplemental Indicator: Political Rights

The Political Rights indicator rates countries on the prevalence of free and fair elections of officials; the ability of citizens to form political parties that may compete fairly in elections; freedom from domination by the military, foreign powers, totalitarian parties, religious hierarchies and economic oligarchies; and political rights of minority groups. This indicator evaluates countries on a 40-point scale, with 40 representing “most free” and 0 representing “least free.” Exhibit 22 details this indicator’s performance, including for prior years, as applicable.

Exhibit 22: Political Rights

Period (Year)	Actual–Compact Eligible	Comments
2003	27	Actual data is from 2002.
2006	27	Actual data is from 2005 (1-year time lag). The political rights indicator rate of change for 2003-2006 is 0%.
2007	28	Actual data from 2006 (1-year lag). The political rights indicator rate of change for 2003–2007 is 3.39%.
2008	28	Actual data from 2007 (1-year lag). The political rights indicator rate of change for 2003–2008 is 3.39%.
Period (Year)	**Actual–Threshold**	**Comments**
2003	21	Actual data is from 2002.
2006	24	Actual data is from 2005. The political rights indicator rate of change for 2003–2006 is 10.17%.
2007	25	Actual data is from 2006. The political rights indicator rate of change for 2003–2007 is 13.56%.
2008	23	Actual data is from 2007. The political rights indicator rate of change for 2003–2008 is 6.78%.
Period (Year)	**Actual Value–Other Candidate**	**Notes**
2003	9.5	Actual data is from 2002.
2006	10.5	Actual data is from 2005. The political rights indicator rate of change for 2003–2006 is 3.39%.
2007	11	Actual data is from 2006. The political rights indicator rate of change for 2003–2007 is 5.08%.
2008	11	Actual data is from 2007. The political rights indicator rate of change for 2003–2008 is 5.08%.

Supplemental Indicator: Civil Liberties

The Civil Liberties indicator rates a country on freedom of expression, association, and organizational rights; rule of law and human rights; and personal autonomy and economic rights. This indicator evaluates countries on a 60-point scale, with a score of 60 representing "most free" and a score of 0 representing "least free." Exhibit 23 details this indicator's performance, including for prior years, as applicable.

Exhibit 23: Civil Liberties

Period (Year)	Actual Value–Compact Eligible	Notes
2003	41	Actual data is from 2002.
2006	41.5	Actual data is from 2005. The civil liberties indicator rate of change for 2003–2006 is 1.43%.
2007	41	Actual data is from 2006. The civil liberties indicator rate of change for 2003–2007 is 0%.
2008	39	Actual data is from 2007. The civil liberties indicator rate of change for 2003–2008 is -5.71%.
Period (Year)	**Actual Value–Threshold**	**Notes**
2003	35	Actual data is from 2002.
2006	37	Actual data is from 2005. The civil liberties indicator rate of change for 2003–2006 is 5.71%.
2007	36	Actual data from 2006. The civil liberties indicator rate of change for 2003–2007 is 2.86%.
2008	36	Actual data from 2007. The civil liberties indicator rate of change for 2003–2008 is 2.86%.
Period (Year)	**Actual Value–Other Candidate**	**Notes**
2003	20	Actual data is from 2002.
2006	21	Actual data is from 2005. The civil liberties indicator rate of change for 2003–2006 is 2.86%.
2007	22	Actual data is from 2006. The civil liberties indicator rate of change for 2003-07 is 5.71%.
2008	22.5	Actual data is from 2007. The civil liberties indicator rate of change for 2003-08 is 7.14%.

Supplemental Indicator: Control of Corruption

The Control of Corruption indicator rates countries on the frequency of "additional payments to get things done;" the effects of corruption on the business environment; "grand corruption" in the political arena; and the tendency of elites to engage in "state capture." This indicator measures the rate of change on a scale that ranges from 3 to -3. A higher score indicates a higher rate of positive change in the control of corruption. Exhibit 24 details this indicator's performance, including for prior years, as applicable.

Exhibit 24: Control of Corruption

Period (Year)	Actual Value–Compact Eligible	Notes
2003	-0.442	Actual data is from 2002.
2006	-0.403	Actual data is from 2005. The control of corruption indicator rate of change for 2003–2006 is 3.17%.
2007	-0.435	Actual data is from 2006. The control of corruption indicator rate of change for 2003–2007 is 0.55%.
2008	-0.458	Actual data is from 2007. The control of corruption indicator rate of change for 2003–2008 is -1.38%.
Period (Year)	**Actual Value–Compact Eligible**	**Notes**
2003	-0.822	Actual data is from 2002.
2006	-0.771	Actual data is from 2005. The control of corruption indicator rate of change for 2003–2006 is 4.19%.
2007	-0.714	Actual data is from 2006. The control of corruption indicator rate of change for 2003–2007 is 8.90%.
2008	-0.690	Actual data is from 2007. The control of corruption indicator rate of change for 2003–2008 is 10.91%.
Period (Year)	**Actual Value–Other Candidate**	**Notes**
2003	-0.927	Actual data is from 2002.
2006	-1.019	Actual data is from 2005. The control of corruption indicator rate of change for 2003–2006 is -7.65%.
2007	-0.986	Actual data is from 2006. The control of corruption indicator rate of change for 2003–2007 is -4.96%.
2008	-0.939	Actual data is from 2007. The control of corruption indicator rate of change for 2003–2008 is -1.01%.

Supplemental Indicators: Government Effectiveness

The Government Effectiveness indicator rates countries on the quality of public service provision; civil services' competency and independence from political pressures; and the government's ability to plan and implement sound policies. This indicator measures rate of change on a scale from 3 to -3. A higher score indicates a higher rate of positive change in government effectiveness. Exhibit 25 details this indicator's performance, including for prior years, as applicable.

Exhibit 25: Government Effectiveness

Period (Year)	Actual Value–Compact Eligible	Notes
2003	-0.314	Actual data is from 2002.
2006	-0.356	Actual data is from 2005. The government effectiveness indicator rate of change for 2003–2006 is -2.98%.
2007	-0.356	Actual data is from 2006. The government effectiveness indicator rate of change for 2003–2007 is -3.01%.
2008	-0.378	Actual data is from 2007. The government effectiveness indicator rate of change for 2003–2008 is -4.54%.
Period (Year)	**Actual Value–Threshold**	**Notes**
2003	-0.733	Actual data is from 2002.
2006	-0.760	Actual data is from 2005. The government effectiveness indicator rate of change for 2003–2006 is -1.91%.
2007	-0.743	Actual data is from 2006. The government effectiveness indicator rate of change for 2003–2007 is -0.73%.
2008	-0.594	Actual data is from 2007. The government effectiveness indicator rate of change for 2003–2008 is 9.82%.
Period (Year)	**Actual Value–Other Candidate**	**Notes**
2003	-0.906	Actual data is from 2002.
2006	-0.987	Actual data is from 2005. The government effectiveness indicator rate of change for 2003–2006 is -5.66%.
2007	-0.979	Actual data is from 2006. The government effectiveness indicator rate of change for 2003–2007 is -5.15%.
2008	-0.875	Actual data is from 2007. The government effectiveness indicator rate of change for 2003–2008 is 2.23%.

Supplemental Indicators: Rule of Law

The Rule of Law indicator rates countries on the extent to which the public has confidence in and abides by rules of society; the incidence of violent and non-violent crime; the effectiveness and predictability of the judiciary; and the enforceability of contracts. This indicator measures the rate of change on a scale that ranges from 3 to -3. A higher score indicates a higher rate of positive change in rule of law. Exhibit 26 details this indicator's performance, including for prior years, as applicable.

Exhibit 26: Rule of Law

Period (Year)	Actual Value–Compact Eligible	Notes
2003	-0.300	Actual data is from 2002.
2006	-0.214	Actual data is from 2005. The rule of law indicator rate of change for 2003–2006 is 5.58%.
2007	-0.386	Actual data is from 2006. The rule of law indicator rate of change for 2003–2007 is -5.54%.
2008	-0.402	Actual data is from 2007. The rule of law indicator rate of change for 2003–2008 is -6.61%.
Period (Year)	**Actual Value–Threshold**	**Notes**
2003	-0.574	Actual data is from 2002.
2006	-0.612	Actual data is from 2005. The rule of law indicator rate of change for 2003–2006 is -2.45%.
2007	-0.590	Actual data is from 2006. The rule of law indicator rate of change for 2003–2007 is -1.00%.
2008	-0.582	Actual data is from 2007. The rule of law indicator rate of change for 2003–2008 is -0.53%.
Period (Year)	**Actual Value–Other Candidate**	**Notes**
2003	-1.019	Actual data is from 2002.
2006	-1.015	Actual data is from 2005. The rule of law indicator rate of change for 2003–2006 is 0.28%.
2007	-0.977	Actual data is from 2006. The rule of law indicator rate of change for 2003–2007 is 2.71%.
2008	-0.995	Actual data is from 2007. The rule of law indicator rate of change for 2003–2008 is 1.57%.

Supplemental Indicator: Voice and Accountability

The Voice and Accountability indicator rates countries on the ability of their institutions to protect civil liberties; the extent to which citizens of a country are able to participate in the selection of governments; and the independence of the media. This indicator measures the rate of change on a scale from 3 to -3. A higher score indicates a higher level of performance. Exhibit 27 details this indicator's performance, including for prior years, as applicable.

Exhibit 27: Voice and Accountability

Period (Year)	Actual Value–Compact Eligible	Notes
2003	-0.093	Actual data is from 2002.
2006	-0.085	Actual data is from 2005. The voice and accountability indicator rate of change for 2003–2006 is 0.41%.
2007	-0.004	Actual data is from 2006. The voice and accountability indicator rate of change for 2003–2007 is 4.76%.
2008	-0.030	Actual data is from 2007. The voice and accountability indicator rate of change for 2003–2008 is 3.10%.
Period (Year)	**Actual Value–Threshold**	**Notes**
2003	-0.427	Actual data is from 2002.
2006	-0.359	Actual data is from 2005. The voice and accountability indicator rate of change for 2003–2006 is 3.31%.
2007	-0.281	Actual data is from 2006. The voice and accountability indicator rate of change for 2003–2007 is 7.14%.
2008	-0.212	Actual data is from 2007. The voice and accountability indicator rate of change for 2003–2008 is 10.53%.
Period (Year)	**Actual Value–Other Candidate**	**Notes**
2003	-1.211	Actual data is from 2002.
2006	-1.133	Actual data is from 2005. The voice and accountability indicator rate of change for 2003–2006 is 3.86%.
2007	-1.103	Actual data is from 2006. The voice and accountability indicator rate of change for 2003–2007 is 5.35%.
2008	-1.104	Actual data is from 2007. The voice and accountability indicator rate of change for 2003–2008 is 5.25%.

Objective 2.2: Improve Policy Performance in Investing in People
Supplemental Indicator: Health Expenditure

The value reported under the Health Expenditure indicator is government health expenditure as a percentage of GDP. Figures are originally estimated in million national currency units (million NCU) and in current prices. Exhibit 28 details this indicator's performance, including for prior years, as applicable.

Exhibit 28: Health Expenditure

Period (Year)	Actual Value–Compact Eligible	Notes
2004	2.51	Actual data is from 2002.
2006	2.64	Actual data is from 2004. The health expenditure indicator rate of change for 2004–2006 is 3.33%.
2007	2.78	Actual data is from 2005. The health expenditure indicator rate of change for 2004–2007 is 6.94%.
2008	2.77	Actual data is most recent of 2006 or 2007. The health expenditure indicator rate of change for 2004–2008 is 6.72%.
Period (Year)	**Actual Value–Threshold**	**Notes**
2004	2.69	Actual data is from 2002.
2006	2.92	Actual data is from 2004. The health expenditure indicator rate of change for 2004–2006 is 5.90%.
2007	3.04	Actual data is from 2005. The health expenditure indicator rate of change for 2004–2007 is 9.15%.
2008	3.08	Actual data is most recent of 2006 or 2007. The health expenditure indicator rate of change for 2004–2008 is 10.15%.
Period (Year)	**Actual Value–Other Candidate**	**Notes**
2004	2.00	Actual data is from 2002.
2006	1.73	Actual data is from 2004. The health expenditure indicator rate of change for 2004–2006 is -7.16%.
2007	1.68	Actual data is from 2005. The health expenditure indicator rate of change for 2004–2007 is -8.52%.
2008	1.77	Actual data is most recent of 2006 or 2007. The health expenditure indicator rate of change for 2004–2008 is -6.03%.

Supplemental Indicator: Immunization Rates

The Immunization Rate indicator measures the percentage of population that has received DPT3 and measles immunizations in a year. Exhibit 29 details this indicator's performance, including for prior years, as applicable.

Exhibit 29: Immunization Rates

Period (Year)	Actual Value–Compact Eligible	Notes
2003	80.5	Actual data is from 2002.
2006	84	Actual data is from 2005. The immunization indicator rate of change for 2003–2006 is 7.37%.
2007	89	Actual data is from 2006. The immunization indicator rate of change for 2003–2007 is 17.89%.
2008	89	Actual data is from 2007. The immunization indicator rate of change for 2003–2008 is 17.89%.
Period (Year)	**Actual Value–Threshold**	**Notes**
2003	76.25	Actual data is from 2002.
2006	85	Actual data is from 2005. The immunization indicator rate of change for 2003–2006 is 18.42%.
2007	86.25	Actual data is from 2006. The immunization indicator rate of change for 2003–2007 is 21.05%.
2008	83.75	Actual data is from 2007. The immunization indicator rate of change for 2003–2008 is 15.79%.
Period (Year)	**Actual Value–Other Candidate**	**Notes**
2003	71	Actual data is from 2002.
2006	74.5	Actual data is from 2005. The immunization indicator rate of change for 2003–2006 is 7.37%.
2007	77	Actual data is from 2006. The immunization indicator rate of change for 2003–2007 is 12.63%.
2008	81.5	Actual data is from 2007. The immunization indicator rate of change for 2003–2008 is 22.11%.

Supplemental Indicator: Girls Primary Education Completion Rate

The Girls' Primary Education Completion Rate indicator measures gross intake ratio of female students into their last year of primary school. Exhibit 30 details this indicator's performance, including for prior years, as applicable.

Exhibit 30: Girls Primary Education Completion Rate

Period (Year)	Actual Value–Compact Eligible	Notes
2003	58.98	Actual data is the most recent of 2001 or 2002.
2006	71.45	Actual data is the most recent of 2003 or 2004. The girls' primary education completion indicator rate of change for 2003–2006 is 16.68%.
2007	76.69	Actual data is the most recent of 2005 or 2006. The girls' primary education completion indicator rate of change for 2003–2007 is 23.69%.
2008	NA	At the time of this report, the number of countries with updated data for 2007 and/or 2008 was insufficient to allow for a large enough sample size to be meaningful.
Period (Year)	**Actual Value–Threshold**	**Notes**
2003	62.63	Actual data is the most recent of 2001 or 2002.
2006	62.43	Actual data is the most recent of 2003 or 2004. The girls' primary education completion indicator rate of change for 2003–2006 is -0.27%.
2007	74.54	Actual data is the most recent of 2005 or 2006. The girls' primary education completion indicator rate of change for 2003–2007 is 15.93%.
2008	NA	At the time of this report, the number of countries with updated data for 2007 and/or 2008 was insufficient to allow for a large enough sample size to be meaningful.
Period (Year)	**Actual Value–Other Candidate**	**Notes**
2003	59.45	Actual data is the most recent of 2001 or 2002.
2006	65.53	Actual data is the most recent of 2003 or 2004. The girls' primary education completion indicator rate of change for 2003–2006 is 8.13%.
2007	69.60	Actual data is the most recent of 2005 or 2006. The girls' primary education completion indicator rate of change for 2003–2007 is 13.59%.

2008	NA	At the time of this report, the number of countries with updated data for 2007 and/or 2008 was insufficient to allow for a large enough sample size to be meaningful.

Objective 2.3: Improve Policy Performance in Economic Freedom
Supplemental Indicator: Fiscal Policy

The Fiscal Policy indicator measures the percent rate of change based on the percentage change of the budget deficit divided by GDP as a three year average. Exhibit 31 details this indicator's performance, including for prior years, as applicable.

Exhibit 31: Fiscal Policy

Period (Year)	Actual Value–Compact Eligible	Notes
2003	-0.042	Actual data is the average of 2000-2002.
2006	-0.024	Actual data is the average of 2003-2005. The fiscal policy indicator rate of change for 2003–2006 is 23.89%.
2007	-0.019	Actual data is the average of 2004-2006. The fiscal policy indicator rate of change for 2003–2007 is 30.09%.
2008	-0.011	Actual data is the average of 2005-2007. The fiscal policy indicator rate of change for 2003–2008 is 41.20%.
Period (Year)	**Actual Value–Threshold**	**Notes**
2003	-0.043	Actual data is the average of 2000-2002.
2006	-0.025	Actual data is the average of 2003-2005. The fiscal policy indicator rate of change for 2003–2006 is 23.23%.
2007	-0.008	Actual data is the average of 2004-2006. The fiscal policy indicator rate of change for 2003–2007 is 45.14%.
2008	-0.006	Actual data is the average of 2005-2007. The fiscal policy indicator rate of change for 2003–2008 is 47.60%.
Period (Year)	**Actual Value–Other Candidate**	**Notes**
2003	-0.030	Actual data is the average of 2000-2002.
2006	-0.024	Actual data is the average of 2003-2005. The fiscal policy indicator rate of change for 2003–2006 is 8.03%.
2007	-0.013	Actual data is the average of 2004-2006. The fiscal policy indicator rate of change for 2003–2007 is 22.32%.
2008	-0.014	Actual data is the average of 2005-2007. The fiscal policy indicator rate of change for 2003–2008 is 21.28%.

Supplemental Indicator: Cost of Starting a Business

The Cost of Starting a Business indicator measures the cost incurred in all stages of starting a new business. Cost is expressed as a percentage of the country's Gross National Income per capita. Exhibit 32 details this indicator's performance, including for prior years, as applicable.

Exhibit 32: Cost of Starting a Business

Period (Year)	Actual Value–Compact Eligible	Notes
2003	77	Actual data is from 2003.
2006	49.6	Actual data is from 2006. The cost of starting a business indicator rate of change for 2003–2006 is -8.10%.
2007	37.4	Actual data is from 2007. The cost of starting a business indicator rate of change for 2003–2007 for is -11.71%.
2008	32.7	Actual data is from 2008. The cost of starting a business indicator rate of change for 2003–2008 for is -13.10%.
Period (Year)	**Actual Value–Threshold**	**Notes**
2003	123.2	Actual data is from 2003.
2006	96.0	Actual data is from 2006. The cost of starting a business indicator rate of change for 2003–2006 is -8.05%.
2007	77.6	Actual data is from 2007. The cost of starting a business indicator rate of change for 2003–2007 is -13.49%.
2008	62.3	Actual data is from 2008. The cost of starting a business indicator rate of change for 2003–2008 for is -18.01%.
Period (Year)	**Actual Value–Other Candidate**	**Notes**
2003	139.5	Actual data is from 2003.
2006	78.5	Actual data is from 2006. The cost of starting a business indicator rate of change for 2003–2006 is -18.04%.
2007	74.6	Actual data is from 2007. The cost of starting a business indicator rate of change for 2003–2007 is -19.20%.
2008	70.1	Actual data is from 2008. The cost of starting a business indicator rate of change for 2003–2008 for is -20.53%.

Supplemental Indicator: Time of Starting a Business

The Time of Starting a Business indicator measures the number of days necessary to start a new business. Exhibit 33 details this indicator's performance, including for prior years, as applicable.

Exhibit 33: Time of Starting a Business

Period (Year)	Actual Value–Compact Eligible	Notes
2003	58	Actual data is from 2003.
2006	42	Actual data is from 2006. The days to start a business indicator rate of change for 2003–06 is -19.98%.
2007	29	Actual data is from 2007. The days to start a business indicator rate of change for 2003–2007 is -36.20%.
2008	26	Actual data is from 2008. The days to start a business indicator rate of change for 2003–2008 is -39.95%.
Period (Year)	**Actual Value–Threshold**	**Notes**
2003	43	Actual data is from 2003.
2006	37	Actual data is from 2006. The days to start a business indicator rate of change for 2003–2006 is -7.49%.
2007	35	Actual data is from 2007. The days to start a business indicator rate of change for 2003–2007 is -9.99%.
2008	29	Actual data is from 2008. The days to start a business indicator rate of change for 2003–2008 is -17.48%.
Period (Year)	**Actual Value–Other Candidate**	**Notes**
2003	44	Actual data is from 2003.
2006	43	Actual data is from 2006. The days to start a business indicator rate of change for 2003–2006 is -1.25%.
2007	37	Actual data is from 2007. The days to start a business indicator rate of change is -8.74%.
2008	37	Actual data is from 2008. The days to start a business indicator rate of change for 2003–2008 is -8.74%.

Supplemental Indicator: Regulatory Quality

The Regulatory Quality indicator rates countries on the burden of regulations on business, price controls, the government's involvement in the economy, and foreign investor regulation among other areas. This indicator measures on a scale that from 3 to -3. A higher score indicates a higher level of regulation. Exhibit 34 details this indicator's performance, including for prior years, as applicable.

Exhibit 34: Regulatory Quality

Period (Year)	Actual Value–Compact Eligible	Notes
2003	-0.333	Actual data is from 2002.
2006	-0.375	Actual data is from 2005. The regulatory quality indicator rate of change for 2003–2006 is -2.68%.
2007	-0.303	Actual data is from 2006. The regulatory quality indicator rate of change for 2003–2007 is 1.92%.
2008	-0.337	Actual data is from 2007. The regulatory quality indicator rate of change for 2003–2008 is -0.29%.
Period (Year)	**Actual Value–Threshold**	**Notes**
2003	-0.512	Actual data is from 2002.
2006	-0.509	Actual data is from 2005. The regulatory quality indicator rate of change for 2003–2006 is 0.18%.
2007	-0.498	Actual data is from 2006. The regulatory quality indicator rate of change for 2003–2007 is 0.87%.
2008	-0.469	Actual data is from 2007. The regulatory quality indicator rate of change for 2003–2008 is 2.76%.
Period (Year)	**Actual Value–Other Candidate**	**Notes**
2003	-0.964	Actual data is from 2002.
2006	-0.996	Actual data is from 2005. The regulatory quality indicator rate of change for 2003–2006 is -2.03%.
2007	-0.998	Actual data is from 2006. The regulatory quality indicator rate of change for 2003–2007 is -2.15%.
2008	-0.994	Actual data is from 2007. The regulatory quality indicator rate of change for 2003–2008 is -1.92%.

Threshold Program Performance Results

The Threshold program is closely related to Strategic Goal #2 because the program assists countries in becoming eligible for compact assistance by helping them improve their performance on the policy indicators that fall under Strategic Goal #2. For this reason, Threshold program results are reported in this section. Each Threshold program has performance objectives based on the specifications of the program, so each country has unique objectives and targets. Some performance indicators may have changed from year to year they are no longer applicable, timely, or available.

Exhibit 35 summarizes the performance results for Albania, Burkina Faso, Guyana, Indonesia, Jordan, Kenya, Malawi, Paraguay, Philippines, Tanzania, Ukraine, and Zambia. Tables summarizing performance for each country follow below. Tables for Guyana, Kenya, Jordan, and Zambia are new for this year, while Moldova, Uganda, São Tomé and Principe, Kyrgyz Republic, Niger, Peru, Rwanda, and Albania II are in the early stages of program development and did not report on indicator progress in fiscal year 2008. The indicators provided in each of the country tables were selected as proxies for quality of policy environment in each particular country. An improvement in the indicator is consistent with improvement in the policy environment in this area.

Exhibit 35: Strategic Goal #2 (b) Threshold Program Detailed Results

Threshold Program				
Summary Results				
Country	Number of Objectives	Performance Summary		
		Targets Met	Targets Not Met	Data Lag / NA
Albania	14	3	3	8
Burkina Faso	8	6	2	0
Guyana*	8	0	0	8
Indonesia	14	8	2	4
Jordan*	9	6	0	3
Kenya*	11	3	3	5
Malawi	8	5	2	1
Paraguay	10	7	1	2
Philippines	9	5	2	2
Tanzania	6	4	1	1
Ukraine	13	6	3	4
Zambia*	6	6	0	0
Total	**116**	**59**	**19**	**38**

*New for FY 2008

Exhibit 36: Albania Threshold Program

Albania							
Performance Indicator		Project End Target	Baseline	Target 2007 Q3	Actual 2007 Q3	Target 2008 Q3	Actual 2008 Q3
1	Tax revenues collected from the large taxpayers as a percentage of total tax revenues	50%	30%	30%	50.75%	50%	49.79%
2	Percentage of VAT returns filed electronically by LTO-Tirana taxpayers	15%	0	-	-	15%	32.6%
3	Tax Court established	1	0	-	-	1	NA[15]
4	Percentage of firms stating bribery is frequent in tax collection	35%	42%	-	-	36%	Not Available[16]
5	Average number of tax payments paid per firm per year	25	53	-	-	50%	Not Available[17]
6	Percentage of procurements completed electronically	2.5%	0	-	-	2.5%	0.08%
7	Percentage of PPA staff trained in IT integration using e-procurement software	100%	0	40%	48%	100%	80%
8	Reduction in the cost of government procurements	-20%	0	-	-	-20%	Not Available[18]
9	Value of gift expected to secure government contract as a percentage of contract value	2%	6.15%	-	-	2%	Not Available[19]
10	Total registration cost as percentage of income per capita	13%	31%	-	-	13%	NA
11	Percentage of businesses that paid a bribe to register	5%	19%	-	-	5%	Not Available[20]
12	Number of days to register a business	1	47	-	-	1	NA
13	Number of change applications processed by NRC	5,000	0	-	-	3,000	7,914
14	Number of new businesses registered at NRC	9,000	0	-	-	8,000	16,713
Rating:		**Target Met (3), Not Met (3), NA or Not Applicable (8)**					

Note: All but 2 indicators under this objective were new in fiscal year 2008. For those new indicators an (-) means that the indicator had no targets or actual for fiscal year 2007.

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[15] This is no longer in the work plan for this phase of the project. Ministry of Justice has drafted legislation to establish administrative court with tax function through another project.

[16] There is no new data available. Project is measuring this through a survey – to be updated next quarter.

[17] Ibid

[18] This indicator has proven too difficult to measure as GOA is the data source and complete records are not kept.

[19] Data source is World Bank BEEPS and no new studies have come out since 2005.

[20] Data source is World Bank Doing Business Report which did not measure this indicator in their last report.

Exhibit 37: Burkina Faso Threshold Program

Burkina Faso										
	Performance Indicator	Project End Target	Baseline as of April 2006	Target 2006 Q4	Actual 2006 Q4	Target 2007	Actual 2007	Target 2008 Q3	Actual 2008 Q3
1	Total number of girls recruited (cumulative Year 1 plus Year 2)	3,300	0	-	-	3,300	6,338	9,638	9,224
2	Temporary classrooms in operation	132	0			120	132[21]		
3	Girl-friendly educational complexes: –Completed –Construction in progress	132	0	0	26	132	101 21	132	132[22]
4	Take-home rations provided for each girl	3,300	0			3,300	NA	7,158	7,158
5	Total number of social mobilization campaigns conducted on the benefits of girls' schooling	132 Communities	0	33	33	33	33[23]		
6	Literacy and training provided to mother mentors	7,920	0	0	0	7,920	7,840	7,920	6,426[24]
7	Teachers and outreach staff trained in gender pedagogy	238	0	0	0	238	246[25]		
8	Government employees trained in monitoring and evaluation	30	0	0	0	30	30[26]		
Rating:		**Target Met (6), Not Met (2), NA or Not Applicable (0)**							

Note: This threshold program ended on September 30, 2008. Most targets were met before Q3 2008.

[21] This target was met in 2007
[22] All classrooms have been built.
[23] This target was met in 2007.
[24] Nomadic movements have reduced the number of beneficiaries.
[25] This target was met in 2007.
[26] This target was met in 2007.

Exhibit 38: Guyana Threshold Program

Guyana					
	Performance Indicator	Project End Target	Baseline	Target 2008 Q3	Actual 2008 Q3
1	Tax Revenue as a share of GDP	35.5%	35.3%	Not Available	Not Available
2	Stock of year-end tax arrears as share of tax collections	7%	2%	4%	Not Available
3	CTA Revenues Collected (G$B)	$7.12	$8.91	$1.75	Not Available
4	Stock of refunds outstanding as a share of VAT collections	6.5%	2.5%	4.0%	Not Available
5	Number of Analysis and Forecast Reports produced	NA	NA	1	Not Available [27]
6	Percentage of public surveyed with improved knowledge of e-procurement procedures	To be determined based on baseline survey	To be determined based on baseline survey	NA	NA [28]
7	Percentage of public surveyed with improved understanding of fiduciary oversight role in Parliament	0%	75%	NA	NA [29]
8	Number of days required to start a business	46	30	NA	NA
Rating:		**Target Met (0), Not Met (0), NA or Not Applicable (8)**			

Note: Guyana's threshold agreement was signed on August 23, 2007.

[27] Plan for establishing unit is being finalized.
[28] No quarterly targets have been set yet; updates will be based on follow-up survey.
[29] Ibid

Exhibit 39: Indonesia Threshold Program

Indonesia							
	Performance Objective	**Project End Target**	**Baseline as of May 2007**	**Target 2007 Q4**	**Actual 2007 Q3**	**Target 2008 Q3**	**Actual 2008 Q3**
1	Number of judges trained on judicial code of conduct	2,000	0	72	NA	1,036	901
2	Number of court personnel trained on budget procedures	1,600	0	0	NA	640	1,219
3	Submission of wealth report data as prerequisite for promotion or transfer of high-ranking Supreme Court officials.	NA	NA[30]	-	-	Submission of wealth reports required for transfer or promotion	Yes
4	Establishment of Supreme Court Information Desk to receive and process complaints from public	Establishment of public compliant response system for the Supreme Court	No reponse system in the Supreme Court	-	-	Establish Supreme Court Information Desk	Yes
5	Suspicious Transaction Reports (STRs) filed by non-bank financial institutions as percent of total filings	10%	3.2%	3.2%	NA	7%	22% (2,096)
6	Number of PPATK cases transmitted for investigation	150 per calendar year	40	-	-	150	78
7	Number of trial sessions monitored in Jakarta	400 per annum	0	43	NA	400[31]	212
8	Number of trial sessions monitored outside of Jakarta	160 in 2008	0	-	-	160	Not Available[32]
9	Number of KPK prosecutions of high ranking GoI officials related to corruption	4 in 2007 6 in 2008	2	-	-	NA[33]	8
10	Number of successfully initiated electronic procurements	15 (3 per province)	0	-	-	Hardware and software installed in five provinces	Yes
11	Number of children <1 year of age immunized with DTP3 and measles in seven presence provinces	5,912,298	0	611,998	NA	3,210,000	Not Available[34]
12	Percent of *puskesmas* using Local Area Monitoring (LAM) mapping tools for immunization coverage	>90% in presence districts	49%	10%	NA	>90%	Not Available[35]

[30] The court has yet to agree to the definition of senior court officials for wealth report submissions for the purpose of determining a baseline for this indicator.
[31] Old cumulative target of 350 sessions for 2007 and 2008 has been met. New target is 400 sessions for calendar year 2008.
[32] Target has been revised to 160 trials outside Jakarta in 2008. The equipment has been procured but MOUs must be signed between the KPK and 5 universities before trial monitoring can begin.
[33] Both the 2007 and 2008 annual targets have been exceeded.
[34] There is a time lag for this Ministry of Health indicator.
[35] Ibid

Indonesia							
Performance Objective		Project End Target	Baseline as of May 2007	Target 2007 Q4	Actual 2007 Q3	Target 2008 Q3	Actual 2008 Q3
13	Number of project priority districts' and municipalities' annual EPI Action Plans launched & monitored by local government	64	0	10	NA	68	Not Available[36]
14	Number of individuals trained in Immunization, Supportive Supervision and Vaccine Management	10,000	0	271	NA	8,371	6,847
Rating:		**Target Met (8), Not Met (2), NA or Not Applicable (4)**					

Note: Six indicators under this objective were new in fiscal year 2008. For those new indicators an (-) means that the indicator had no targets or actual for fiscal year 2007.

[36] Ibid

Exhibit 40: Jordan Threshold Program

Jordan					
	Performance Objective	**Project End Target**	**Baseline**	**Target 2008 Q3**	**Actual 2008 Q3**
1	Decisions made and Local Development Plans (LDP) developed in participation with citizen's committees in each of the nine targeted municipalities	9 LDPs	0	9 local development voluntary committees established	Yes
2	One public-private sector development project initiated in each of the nine municipalities	9 projects	0	Institutional capacity assessed and institutional framework agreed in 3 municipalities	Yes
3	Improved financial, fiscal and human resource management systems installed in at least six of the targeted municipalities	6 municipalities	0	Financial and HR Management analysis completed; technical assistance (TA) started	Yes
4	10% increase in voter participation in 2007 elections	10% increase from 2003	Municipal: 479,117 (2003) Parliamentary: 2,352,496 (2003)	NA[37]	NA
5	10% increase in number of women voting in 2007 elections	10% increase from 2003	Municipal: 493,856 (2003) Parliamentary: 1,191,589 (2003)	NA[38]	NA
6	10% increase in number of women registered for 2007 elections	10% increase from 2003	Municipal: 229,863 (2003) Parliamentary: 703,565 (2003)	NA[39]	NA
7	10% increase in the level of citizen satisfaction with the delivery of services in at least 6 of the 9 municipalities	Baseline + 10%	To be measured using selected customer feedback measurement tools	Quality Service Improvement training initiated	Yes
8	10% increase in municipal investments in public services	Baseline + 10%	1,819,881.05 JD	TA activities started and work plans developed	Yes
9	10% increase in tax recovery rates in at least six of the targeted municipalities	Baseline + 10%	428,798.14 JD	Property Tax TA Scope of Work approved	Yes
Rating:		**Target Met (6), Not Met (0), NA or Not Applicable (3)**			

Note: Jordan's threshold agreement was signed on October 17, 2006.

[37] Indicator is not applicable in 2008, as it was used for the 2007 elections.
[38] Ibid
[39] Ibid

Exhibit 41: Kenya Threshold Program

Kenya					
Performance Objective		Project End Target	Baseline	Target 2008 Q3	Actual 2008 Q3
1	Improve transparency, accountability and corruption in the public sector	3.5	3.0 (March 2007)	NA	NA[40]
2	Reduction in undocumented extra payments or bribes connected with the awarding of public contracts	4.3	3.7 (March 2007)	NA	NA[41]
3	Reduction in the extent to which the health sector is affected by corruption	2.4	2.9 (March 2007)	NA	NA[42]
4	Comprehensive procurement reviews on high value procuring entities (PE) and published on Public Procurement Oversight Authority (PPOA) website	6	0 (October 2007)	2	NA
5	Key PEs implement proper procurement record keeping procedures	Six PEs achieve a score of 65 points by the end of the program	6 baselines to be determined by June 2008 survey. MOH: 19 pts. MOE: 21 pts. KEMSA: 34 pts.	NA	NA[43]
6	Use of framework contracts by GoK (4 milestones)	Achieve 4 milestones	-	GoK circular released	No
7	Number of PEs reporting large procurements to PPOA	48 PEs report to the PPOA	16 PEs reported for quarter end 06/2007	32	1 (value $208K)
8	Average percentage of stock records that correspond with physical counts for a set of indicator drugs in the central Kenya Medical Supplies Agency (KEMSA) warehouse	100%	0% (April 2008)	100%	0%
9	Average percentage of time out of stock for a set of indicator drugs in the central KEMSA warehouse	0%	22% (April 2008)	0%	22%
10	Percentage by value of KEMSA medicines purchased through competitive tender	100%	100% (July 2007)	100%	100%
11	Percentage of average international price paid for last regular procurement of a set of indicator drugs	<100%	60.3% (July 2007)	<100%	60.3%
Rating:		**Target Met (3), Not Met (3), NA or Not Applicable (5)**			

Note: Kenya's threshold agreement was signed on March 23, 2007.

[40] This is an annual indicator; it will be available after October 31, 2008.
[41] Ibid
[42] Ibid
[43] Baseline reviews will be completed in the fourth quarter of fiscal year 2008.

Exhibit 42: Malawi Threshold Program

Malawi									
	Performance Objective	Project End Target	Baseline as of July 2006	Target 2006	Actual 2006	Target 2007	Actual 2007	Target 2008 Q3	Actual 2008 Q3
1	Adequate reports for ministries and the National Assembly (NA)	Reports implemented	Reports distributed two years after fiscal year	Computer procurement process initiated	Yes	IFMIS training for capacity to deliver quarterly reports	No	Monthly reports generated and distributed to the NA	Yes
2	Financial Intelligence Unit (FIU) established in accordance with the AML/CFT law	Establish and operate an effective FIU	No FIU	Anti-Money Laundering and Control of Financing Terrorism (AML/CFT) law passed	Yes	Procurement initiated	No	FIU staffed and operational	NA[44]
3	National Assembly has more control over own budget	National Assembly oversight function strengthened	MOF does not fully and regularly fund NA	MOF allocates full budget allowance	Yes	MOF allocates full budget allowance	Yes	MoF allocates full budget allowance	Yes
4	Media Council (MC) established	Media Council established by 2007	No MC in operation	Identify key stakeholders	Yes	MC develops transparent by-laws	Yes	MC fully functioning[45]	Yes
5	Number of civil society groups testifying before the NA triples	Civil society integrated into anti-corruption campaign	0	4	4	9	4	13	3
6	AML/CFT passed by November 2006	Key pieces of reform legislation promulgated	No AML/CFT law	AML/CFT legislation passed by the NA	Yes	AML/CFT legislation passed by the NA	Yes	AML/CFT legislation passed by the NA	Yes
7	More than 500 people trained across all program components	GoM's capacity to combat corruption enhanced	0	85	47	340	718	600	2,879
8	Sovereign credit rating moves from CCC+ to B- (+outlook)	Sovereign credit rating improved	2006: CCC+	Hire Fitch and prepare for GoM/Fitch meeting	Yes	Develop plan to disseminate Fitch report results	Yes	Fitch assessment positive, with ratings reaching B-	No
Rating:				**Target Met (5), Not Met (2), NA or Not Applicable (1)**					

[44] FIU Director not appointed, but Deputy Director is in place.
[45] Includes support for Ethics, Complaints and Disciplinary, and Finance committees.

Exhibit 43: Paraguay Threshold Program

Paraguay							
	Performance Objective	Project End Target	Baseline as of January 2007	Target 2007 Q3	Actual 2007 Q3	Target 2008 Q3	Actual 2008 Q3
1	Number of cases being investigated by newly trained personnel using new forensic laboratory and new criminal investigative techniques	10	0	NA	NA	-	-[46]
2	Average time required to process complaints related to disciplinary cases	4 months	10 months	-	-	4 months	2.5 months
3	Number of government institutions implementing new standards for internal control	5	0	-	-	5	5
4	Number of government institutions exchanging public registry data on-line through information networks	3	0	-	-	3	3
5	Number of public agencies subject to budget execution legislative oversight by Congress	5	0	NA	NA	5	7
6	Reduced Value Added Tax (VAT) Breach	51%	66%	46%	Not available	51%	-[47]
7	Value of seized merchandise and liens on goods for alleged infringement of customs regulations.	$6.5 million	0	$1.3 million	$1.07 million	$6.5	$5.2
8	Corruption cases submitted correctly to the Public Ministry	13	0	1	36	13	142
9	Number of days to start a business	36	74	36	25	36	25
10	Number of *maquilas* (businesses with low cost structures) installed	15	38	4	0	53	62
Rating:		**Target Met (7), Not Met (1), NA or Not Applicable (2)**					

[46] Renovation of lab facility is 98 percent complete.
[47] There was a tax gap in 2007. This indicator will be measured in September 2008 because of unavailability of Central Bank's report.

Exhibit 44: Philippines Threshold Program

Philippines									
Performance Objective		Project End Target	Baseline as of December 2005	Target 2006	Actual 2006	Target 2007	Actual 2007	Target 2008 Q3	Actual 2008 Q3
1	Conviction rate of Office of Ombudsman	40%	33%	33	25	33	35	38	35
2	Cases mediated successfully in the Office of Ombudsman	450	0	0	0	25	10	325	-[48]
3	Revenue integrity protection service (RIPS) cases filed	116	18	13	27	15	16	91	106
4	Number of officials charged by RIPS–Suspended by the Ombudsman	35	6	7	12	7	12	33	33
5	Percentage increase in individual income tax returns filed	+10%	487,594 tax returns	5.0	8.3	7.0	NA	10.0	10.9
6	Percentage increase in corporate tax returns filed	+10%	134,151 tax returns	5.0	6.6	7.0	NA	10.0	29.3
7	Number of Run After Tax Evaders (RATE) cases filed	116	44	44	77	50	87	100	NA[49]
8	Number Run After The Smugglers! (RATS) cases filed at the Department of Justice	61	11	9	17	7	16	51	78
9	RATS cases filed before the Court of Tax Appeals	28	1	2	4	3	4	23	9
Rating:		**Target Met (5), Not Met (2), NA or Not Applicable (2)**							

[48] Partial data as of end of February 2008.
[49] Unchanged due to tax amnesty law.

Exhibit 45: Tanzania Threshold Program

Tanzania										
	Performance Objective	Project End Target	Baseline as of May 2006	Target 2006	Actual 2006	Target 2007	Actual 2007	Target 2008 Q3	Actual 2008 Q3
1	Districts using public expenditure tracking	60	12	18	15	34	31	55	77
2	Anti-corruption investigations brought to court	28	20	21	37	24	144	28	327
3	Media stories exposing corruption	1,300		144	60	576	816	1,152	5,078
4	Media stories of anti-corruption cases brought to court	300	50	--	0	124	109	272	266
5	Financial Intelligence Unit cases opened	30	0	--	0	--	0	-	0[50]
6	Procurement audits conducted on Media Development Associations and Local Government Authorities	40	0	--	0	12	20	36	40
Rating:		Target Met (4), Not Met (1), NA or Not Applicable (1)							

[50] The Financial Intelligence Unit is not operational yet.

Exhibit 46: Ukraine Threshold Program

Ukraine								
	Performance Objective	Project End Target	Baseline as of January 2007	Target 2007 Q3	Actual 2007 Q3	Target 2008 Q3	Actual 2008 Q3
1	Increased public knowledge of corruption reforms and issues	3.73 million	-	1.5 million	1.4 million	3.5	4.10[51]
2	More transparent case assignment	100%	0	--	0	60%	Not Available
3	More transparent and substantive selection of judges	300	0	0	0	100	26
4	Improved transparency in enforcement procedures	100%	0	42	42	60%	87%
5	Opportunity for corrupt licensing practice reduced	100%	0	NA	-	Identify test sites	NA
6	Improved monitoring of professional standards	10%	0	NA	-	MoJ reviews regulations	NA
7	Increase in sanctions and prosecutions for notary violations	9.1%	0	-	-	7.5%	8.0%
8	Implementation of Ethics and Conflict of Interest Code	10 lgsl stages***	0	-	-	5-6	5
9	Systematic monitoring of performance of functions in Ministry/Agency (SBGS) with Pilot IIU	5 per year	0	-	-	Legislation is in force	NA
10	Improved customs and transportation regulatory system	35	0	-	-	20	14
11	Participation in the EU New Computerized Transit System (NCTS)	8/35	0	-	-	4/0	4/0
12	Streamlined regulatory processes	25	247	0	0	15	0
13	Tests securely administered	1.5 million	82,000	240	247	800	1,010
Rating:		**Target Met (6), Not Met (3), NA or Not Applicable (4)**					

Note: Five indicators under this objective were new in fiscal year 2008. For those new indicators an (-) means that the indicator had no targets or actual for fiscal year 2007.

[51] Target and baseline values were adjusted based on the new data collection methodology.

Exhibit 47: Zambia Threshold Program

Zambia					
	Performance Objective	**Project End Target**	**Baseline**	**Target 2008 Q3**	**Actual 2008 Q3**
1	Number of days to register a property in Zambia	35	70	35	35
2	Percentage of households reporting payment of a bribe to the Customs Division of the Zambia Revenue Authority	7%	14%	7%	4%
3	Percentage of households and businesses reporting "high quality" service delivery for business registration	-	41%	60%	60%
4	Number of days to register a business	10	35	10	7
5	Number of days to export products	-	60	30	19
6	Number of days to import products	-	62	30	30
Rating:		**Target Met (6), Not Met (0), NA or Not Applicable (0)**			

STRATEGIC GOAL #3

Advance International Development Assistance Practice by Continually Improving MCC's Operational Effectiveness

The following objectives constitute Strategic Goal #3:
3.1 Enhance MCA model recognition and support within the international community
3.2 Enhance MCC country partnership

MCC's Strategic Plan defines the expected outcome for Strategic Goal #3 to be that MCC will be at the forefront of the development assistance field and viewed as a model of effectiveness by other development practitioners. MCC identifies best practices, internally and externally, and adopts them to improve its operations.

There are two objectives under Strategic Goal # 3. The first objective, to "Enhance MCA model recognition and support within the international community," assesses whether there is recognition of MCC's approach, or a good understanding of the MCA model and whether MCC is recognized for innovative and best practice approaches. This objective is measured by a "Leadership and Development" survey. Although the survey was conducted this year, data will be available at the end of calendar year 2008.

The second objective, "Enhance MCC country partnership," assesses how good a development partner MCC is relative to other donors and to itself over time. This objective is measured by a web-based survey, which was conducted in September and October 2007 of MCA country partners. MCA partners responded that their relationship with MCC is better as compared to other donor agencies. Overall, MCC provides more oversight, more help to move towards sustainability, and does a better job with building country capacity than other donor agencies.

MCC's performance against its two objectives for Strategic Goal #3 is outlined below.

Objective 3.1: Enhance MCA Model Recognition and Support in International Community
Output Indicator: Leadership in Development Practice

MCC conducted a survey for this measure during FY 2008 to establish a baseline. To assess whether MCC is receiving recognition and support for the MCA approach, this indicator measures the extent to which stakeholders in the international development community know about and understand the model and whether MCC is impacting other development actors' behavior. This indicator expects that as MCC demonstrates the effectiveness of the operational approach and, as a result, the recognition of the MCA model increases, MCC will have an increasing impact on others' behavior.

MCC continues to communicate lessons learned through a variety of tools and techniques in its outreach activities, including public speaking engagements, outreach events, the MCC website, and working relationships in donor and recipient countries. MCC also collaborates with other development practitioners to share lessons learned and to determine which practices are most effective. MCC maintains transparency in its operations and disseminates information on its practices and operations in order to facilitate feedback that will strengthen its model.

Objective 3.2: Enhance MCC Country Partnership

Input Indicator: Assessment of MCC Country Partnership

In 2008 MCC conducted a Gallup poll of MCA country partner representatives to evaluate MCC's performance relative to other donors and to MCC itself. The results of the poll will aid in assessing effectiveness and informing efforts to improve performance. MCC expects to repeat the poll every two years. Reported results are based on percentage of respondents who answered with a "4" or "5" on a five point scale, with 5 being highest (i.e., extremely satisfied, strongly agree, etc.).

Exhibit 48: Assessment of MCC Country Partnership

FY 2008 MCA Country Representatives Responses	%
Overall Satisfaction with MCC as partner	73
MCC's approach to country ownership will help achieve development goals	81
MCC's program fits in with their country's overall development strategy	86
MCC fits with existing development systems and institutions	68
Sufficient level of ownership or responsibility over projects	64

STRATEGIC GOAL #4

Build MCC's Capabilities to Achieve Its Primary Strategic Goals

The following objectives constitute Strategic Goal #4:

4.1 Minimize the administrative cost of developing and implementing MCC compacts compared to the total value of compacts

4.2 Address and close Inspector General recommendations within agreed-upon timeframes

4.3 Achieve high level of staff effectiveness and satisfaction

MCC's Strategic Plan defines the expected outcome for Strategic Goal #4 to be the efficient and effective operation of MCC. To enable MCC to achieve its mission, MCC will develop its human resources and financial and administrative capacities; articulate clear processes, policies, and quality standards; and build strong support systems.

In FY 2008, MCC continued to improve its capacity to implement its key programs while simultaneously improving the internal control environment so that it fully complies with federal rules and regulations. Highlights of MCC's FY 2008 efforts include:

- **Development of a highly effective and diverse workforce.** Throughout the fiscal year, MCC continued to recruit a highly qualified and diverse workforce while implementing a comprehensive staff training program.
- **Pay for performance.** MCC continued to enhance its pay-for-performance system.
- **Competitive sourcing of integrated support services.** MCC took maximum advantage of the President's initiative to competitively source administrative support services.
- **Compliance with federal requirements.** MCC is committed to full compliance with all U.S. Government requirements and has continued efforts to achieve unqualified audits and meet other key financial management and internal control requirements, such as those contained in OMB Circular A-123, Management's Responsibility for Internal Control.

The indicators under Strategic Goal #4 help MCC measure its efficiency and effectiveness. Efficiency is defined as the ratio of an effective outcome or output to the total input resources; effectiveness is having an intended or expected effect and can be combined with cost information to show cost-effectiveness. MCC has two indicators that measure efficiency—one expresses efficiency as a function of compact funds committed and the other as a function of compact funds disbursed.

MCC is committed to making the most effective and efficient use of its resources to achieve its primary goal of poverty reduction through economic growth. Now that MCC has moved out of its start-up phase and its programs on the ground are beginning to achieve results, MCC's efficiency will improve as additional compact funds are disbursed.

Exhibit 2-10 details MCC's performance against its objectives for Strategic Goal #4 and summarizes the number of objectives MCC met in FY 2008. Exhibit 2-11 details the specific objective, indicator, and performance, including for prior years.

Objective 4.1: Minimize the Administrative Cost of Developing and Implementing MCC Compacts Compared to the Total Value of Compacts

MCC is taking several steps to improve the compact implementation process, therefore increasing the amount of funds disbursed. For example, MCC has reduced the amount of time between compact signing, entry into force, and the first disbursement. In addition, MCC is putting fiscal and procurement agents in place earlier in the process to reduce delays in initial compact disbursement. Strategies noted under Strategic Goal #1 in the MD&A are expected to bolster MCC's results on this objective in coming years.

Exhibit 49: Input Indicator: Efficiency and Resource Productivity 1

Period (Year)	Target	Actual	Notes
2005 (Baseline)	NA	3.4%	The numerator is the annual total administrative and due diligence obligations and the denominator is the total amount committed under compacts and threshold agreements in the fiscal year.
2006	NA	4.7%	NA
2007	2.7%	2.6%	MCC outperformed its target.
2008	NA	3.46%	

As MCC signs and begins to implement compacts, the workload for MCC staff is shifting from compact development to compact implementation. The Efficiency and Resource Productivity 1 indicator measures efficiency increases as MCC's administrative and due diligence expenses are focused on project implementation and results. A lower percentage indicates improvement in efficiency.

Exhibit 50: Input Indicator: Efficiency and Resource Productivity 2

Period (Year)	Target	Actual	Notes
2005 (Baseline)	NA	1,289.8%	The numerator is the annual total administrative and due diligence disbursements and the denominator is the annual total amount disbursed for compacts, threshold agreements, and 609(g) activities.
2006	NA	151.2%	NA
2007	40.0%	61.5%	MCC outperformed its target.
2008	NA	27.68%	

Objective 4.2: Address and Close Inspector General (IG) Recommendations Within Agreed Upon Timeframes

Input Indicator: Compliance

The MCC IG assesses MCC internal controls and practices through the annual financial audit and other audit reports and program reviews. MCC responds to the vast majority of IG recommendations by issuing a "management decision" to improve its compliance with U.S. Government laws and regulations and implementation of financial management best practices. MCC has a dedicated resource to track OIG recommendations and due dates. MCC did not meet its target for this measure for fiscal year 2008.

Exhibit 51: Address and Close IG Recommendations on Time

Period (Year)	Target	Actual	Comments
2006 (Baseline)	NA	44%	NA
2007	75%	67%	There were a total of 36 recommendations that were closed, 24 of which (67%) were closed on time. MCC had several OIG recommendations that had been completed on time but MCC failed to formally notify the OIG and so they remained open. Had MCC provided the formal notification, the recommendations would have closed before their due dates and MCC would have achieved its performance target of 75%.
2008	75%	66%	There were a total of 32 recommendations in FY 2008. MCC closed 29 recommendations; 21 of the total recommendations (66%) were closed on time. During part of FY08 MCC and the OIG were in discussions over how MCC would manage certain audit recommendations relating to the Corporation's accountable entities. MCC purposely did not formally close these recommendations until MCC and the OIG had reached an agreement which took place in February 2008. These recommendations accounted for the bulk of the 34% that were closed after the due date.

Objective 4.3: Achieve High Level of Staff Engagement

Input Indicator: Gallup Staffing Survey

This is the second year that MCC engaged Gallup Consulting to conduct a staff survey measuring staff effectiveness. The survey was completed by 280 employees who responded to the same twelve questions that were asked in the 2007 survey. There was minimal change between 2007 and 2008 results. The survey indentified MCC's mission and purpose as organizational strengths. MCC's goal in undertaking this survey is to increase staff engagement, performance, and trust. FY 2007 sets the baseline for this indicator. MCC did not meet its target for this measure for fiscal year 2008.

Exhibit 52: Level of MCC Staff Engagement

Period (Year)	Target	Actual	Comments
2007	NA	3.64 Grand Mean	For FY 2007, 300 MCC employees were sent invitations to complete the 2007 Employee Engagement Survey (Gallup's Q12 questions plus the Federal Human Capital Survey questions); 250 employees participated. The Gallup median response rate for their survey is 85%; MCC's response rate of 83% is considered to be good. MCC's Grand Mean for 2007 is 3.64, which puts the organization at the 31st percentile in the Gallup 2007 Overall Q12 database of public and private sector clients and at the 39th percentile in the Gallup 2007 Public Sector Q12 database and 44th percentile for first year clients.
2008	NA	3.59 Grand Mean	For FY 2008, 280 MCC employees participated in the survey, yielding a response rate of 93%, surpassing Gallup's median response rate of 85%. MCC's Grand Mean for 2008 of 3.59 puts the agency at 27^{th} percentile in the Gallup 2008 Overall Q^{12} database, and the 29^{th} percentile for organizations conducting the survey for the second time.

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3. FINANCIAL SECTION

In accordance with the OMB Circular A-136, Financial Reporting Requirements, MCC is presenting its financial statements in the appropriate form and content for FY 2008. The tables below outline the following financial statements:

- Balance Sheets
- Statement of Budgetary Resources
- Statement of Net Cost
- Statement of Changes in Net Position
- Audit of the Millennium Challenge Corporation's Financial Statements, Internal Controls, and Compliance for the Period Ending September 30, 2008 and 2007
- Notes to Financial Statements

BALANCE SHEET

	FY 2008 (in dollars)	FY 2007 (in dollars)
Assets		
Intra-Governmental		
Fund Balance with Treasury *(Note 2)*	**$6,546,857,481**	**$5,549,289,597**
Total Intra-Governmental	6,546,857,481	5,549,289,597
Accounts Receivable *(Note 3)*	54,672	67,798
General Property, Plant, and Equipment *(Note 4)*	8,127,205	7,115,606
Other/Advances *(Note 1O, Note 5)*	42,578,652	32,243,157
Total Assets	**$6,597,618,010**	**$5,588,716,158**
Liabilities		
Intra-Governmental		
Other *(Note 1R)*	$383,270	($588,235)
Total Intra-Governmental	**383,270**	**(588,235)**
Accounts Payable *(Note 1F)*	35,341,439	39,176,698
Other/Accrued Funded Liabilities *(Note 1R)*	6,444,041	6,017,983
Total Liabilities	**$42,168,750**	**$44,606,446**
Net Position		
Unexpended Appropriations – Other Funds	$6,548,610,190	$5,536,714,361
Cumulative Results of Operations – Other Funds	6,839,070	7,395,351
Total Net Position	**$6,555,449,260**	**$5,544,109,712**
Total Liabilities and Net Position	**$6,597,618,010**	**$5,588,716,158**

The notes are an integral part of these financial statements.

STATEMENT OF BUDGETARY RESOURCES

	FY 2008 (in dollars)	FY 2007 (in dollars)
Budgetary Resources		
Unobligated Balance – Beginning of Period	$2,256,142,503	$2,671,372,416
Recoveries of Prior Years Obligations	504,898	15,930,609
Budget Authority:		
Appropriations	1,557,000,000	1,752,300,000
Nonexpenditure Transfers, Net, Anticipated and Actual	(10,810,404)	(9,415,980)
Permanently Not Available *(Note 8)*	(70,611,700)	
Total Budgetary Resources	**$3,732,225,297**	**$4,430,187,045**
Status of Budgetary Resources		
Obligations Incurred		
Direct	$2,769,921,274	$2,174,044,542
Unobligated Balance Available	780,796,905	1,516,900,216
Unobligated Balance Not Available	181,507,118	739,242,287
Total Status of Budgetary Resources	**$3,732,225,297**	**$4,430,187,045**
Change in Obligated Balance		
Obligated Balance, Net – as of October 1, 2008		
Unpaid Obligations, Brought Forward, October 1	$3,287,907,145	$1,408,398,635
Obligations Incurred	$2,769,921,274	2,174,044,542
Gross Outlays	($473,979,346)	(278,605,423)
Recoveries of Prior Year Unpaid Obligations, Actual	($504,898)	(15,930,609)
Obligated Balance, Net – End of Period		
Unpaid obligations	$5,583,344,175	$3,287,907,145
Net Outlays		
Gross Outlays	$473,979,346	$278,605,423

The notes are an integral part of these financial statements.

STATEMENT OF NET COSTS

Program	2008 Total (in dollars)	2007 Total (in dollars)
Program Costs		
Compact		
Gross Costs *(Note 7)*	$226,498,265	$81,079,458
Less: Earned Revenue		
Net Program Costs	226,498,265	81,079,458
609 (g) Programs		
Gross Costs	9,768,972	17,172,113
Less: Earned Revenue		
Net Program Costs	9,768,972	17,172,113
Threshold Programs		
Gross Costs	118,903,902	75,766,215
Less: Earned Revenue		
Net Program Costs	118,903,902	75,766,215
Due Diligence Programs		
Gross Costs	17,338,771	32,789,662
Less: Earned Revenue		
Net Program Costs	17,338,771	32,789,662
Audit		
Gross Costs	2,304,181	2,865,820
Less: Earned Revenue		
Net Program Costs	2,304,181	2,865,820
Administrative		
Gross Costs	85,782,157	77,922,458
Less: Earned Revenue		
Net Program Costs	85,782,157	77,922,458
Program Costs – Net of All Programs	**$460,596,248**	**$287,595,725**
Net Costs of Operations	**$460,596,248**	**$287,595,725**

The notes are an integral part of these financial statements.

STATEMENT OF CHANGES IN NET POSITION

	FY 2008 (in dollars)	FY 2007 (in dollars)
Cumulative Results of Operations		
Beginning Balances	$7,395,351	$4,694,987
Adjustments *(Note 1l)*	(1,671,357)	0
Beginning Balance, as Adjusted	$5,723,994	$4,694,987
Budgetary Financing Sources		
Appropriations Used	$460,060,774	$288,359,297
Other Financing Sources		
Donations and Forfeitures of Property	0	$123,750
Imputed Financing	1,650,550	1,813,042
Total Financing Sources	461,711,324	290,296,089
Net Cost of Operations	(460,596,248)	(287,595,725)
Net Change	1,115,076	2,700,364
Cumulative Results of Operations	**$6,839,070**	**$7,395,351**
Unexpended Appropriations		
Beginning Balance	$5,536,714,361	$4,082,189,638
Adjustments *(Note 8)*	(3,621,292)	
Beginning Balance, as Adjusted	$5,533,093,069	$4,082,189,638
Budgetary Financing Sources		
Appropriations Received	$1,557,000,000	$1,752,300,000
Appropriations Transferred In/Out	(10,810,404)	(9,415,980)
Other adjustments *(Note 8)*	(70,611,700)	0
Appropriations Used	(460,060,774)	(288,359,297)
Total Budgetary Financing Sources	1,015,517,122	1,454,524,723
Total Unexpended Appropriations	**$6,548,610,190**	**$5,536,714,361**
Net Position	**$6,555,449,260**	**$5,544,109,712**

The notes are an integral part of these financial statements.

AUDIT OF THE MILLENNIUM CHALLENGE CORPORATION'S FINANCIAL STATEMENTS, INTERNAL CONTROLS, AND COMPLIANCE FOR THE PERIOD ENDING SEPTEMBER 30, 2008 AND SEPTEMBER 30, 2007

USAID FROM THE AMERICAN PEOPLE

Office of Inspector General for the Millennium Challenge Corporation

November 17, 2008

Ambassador John J. Danilovich
Chief Executive Officer
Millennium Challenge Corporation
875 15th Street, N.W.
Washington, DC 20005-2203

Subject: Audit of the Millennium Challenge Corporation's Financial Statements, Internal Controls, and Compliance for the Period Ending September 30, 2008 and 2007
Report No. M-000-09-001-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 Cotton & Company LLP to audit the financial statements of the Millennium Challenge Corporation (MCC) for the period ending September 30, 2008. 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, 2008 the auditors found:

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

- four significant deficiencies in the internal controls over financial reporting and its operation, one of which is considered a material weakness.

- no instances of material noncompliance with laws and regulations.

Significant deficiencies increase the risk of improper recording, unauthorized transactions, omissions, potential funds control violations and noncompliance with laws, regulations, contracts and grant agreements. Cotton & Company LLP reported the following internal control significant deficiencies:

1. Absence of quality controls over financial reporting (material weakness)

2. Authorization for personnel actions inconsistent with stated policies and procedures.

3. Transactions not recorded in the period they occurred, and

4. Lack of adequate review for accuracy and duplication prior to processing and recording transactions in General Ledger.

In carrying out its oversight responsibilities, the OIG reviewed Cotton & 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; or on MCC's compliance with applicable laws and regulations. Cotton & Company, LLP is responsible for the attached auditor's report, dated November 14, 2008, and the conclusions expressed in the report. However, our review disclosed no instances that Cotton & Company, LLP did not comply, in all material respects, with applicable standards.

To address the internal control deficiencies reported by Cotton & Company, LLP, we are making the following recommendations to MCC's management:

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

1.1. Perform detailed quality control reviews to ensure compliance with accounting standards and reporting guidance.

1.2. Review and revise written policies and procedures regarding the preparation of the financial statements and related footnote disclosures to ensure that all financial statement line items are reported accurately and properly supported, and that any adjustments are reviewed and approved before recording in the GL by NBC. Document the above processes to ensure that an audit trail is available for all line items and amounts reported.

1.3. Effectively coordinate with its service providers (USAID and NBC) to ensure timely and accurate receipt of final trial balance information sufficient to prepare complete financial statements in accordance with OMB Circular A-136.

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

Review and revise its process for requesting, authorizing, and certifying its personnel actions to ensure all actions are properly authorized, documented, and retained prior to the action being processed into the personnel database.

Recommendation No. 3: We recommend that the Millennium Challenge Corporation management:

Develop and adhere to all policies and procedures related to quarterly and yearend reporting to ensure that all appropriate transactions are reviewed and a determination is made as to the amounts to accrue for the current period; and the accrual amount is properly prepared, clearly documented, and supported and that it is reviewed by both the service provider, NBC, and MCC for completeness and accuracy prior to and subsequently after posting to the GL.

Recommendation No. 4: We recommend that the Millennium Challenge Corporation management:

4.1. Ensure that procedures for reviewing accruals and adjustments recorded by NBC are effectively performed to ensure each is valid and has been properly recorded.

4.2. Require documentation to support the entry of a JV to avoid duplication of the transactions. In addition, use of a consistent naming convention when entering JVs should be required to avoid duplication.

4.3. Ensure that PP&E reconciliations are effectively performed each quarter and that amortization schedules are accurate and complete.

In finalizing the report, we received and considered MCC's response to the draft audit report and the recommendations included therein. In its comments, MCC concurred with all of the recommendations. We acknowledge that management decisions have occurred for the audit recommendations. Please inform us when final action has been taken.

The OIG appreciates the cooperation and courtesies extended to our staff and to the staff of Cotton & 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,

Alvin A. Brown /s/
Assistant Inspector General
Millennium Challenge Corporation

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Inspector General
United States Agency for International Development

Board of Directors
Millennium Challenge Corporation

INDEPENDENT AUDITOR'S REPORT

We have audited the Balance Sheet of the Millennium Challenge Corporation (MCC) as of September 30, 2008, and the related Statements of Net Cost, Changes in Net Position, and Budgetary Resources for the year then ended. These financial statements are the responsibility of MCC management. Our responsibility is to express an opinion on the financial statements based on our audit. The financial statements of MCC as of September 30, 2007, were audited by other auditors whose report dated October 23, 2007, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin 07-04, *Audit Requirements for Federal Financial Statements*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting amounts and disclosures in the financial statements. An audit also includes assessing accounting principles used and significant estimates made by management, as well as evaluating overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of MCC as of September 30, 2008, and its net costs, changes in net position, and budgetary resources for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis (MD&A) and other accompanying information are not required as part of MCC's basic financial statements. For MD&A, which is required by OMB Circular A-136, *Financial Reporting Requirements*, and the Federal Accounting Standards Advisory Board's Statement of Federal Financial Accounting Standards No. 15, *Management's Discussion and Analysis*, we made certain inquiries of management and compared information for consistency with MCC's audited financial statements and against other knowledge we obtained during our audit. For other accompanying information, we compared information with the financial statements. On the basis of this limited work, we found no material inconsistencies with the financial statements, U.S. generally accepted accounting principles, or OMB guidance. We did not audit the MD&A or other accompanying information and therefore express no opinion on them.

In accordance with *Government Auditing Standards*, we have also issued separate reports dated November 4, 2008, on our consideration of MCC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws and regulations. The purpose of these reports is to describe the scope of our testing of internal control over financial reporting and compliance and results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. These reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing results of our audit.

COTTON & COMPANY LLP

Colette Y. Wilson, CPA
Partner

November 14, 2008
Alexandria, Virginia

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United States Agency for International Development

Board of Directors
Millennium Challenge Corporation

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL

We have audited the Balance Sheet of the Millennium Challenge Corporation (MCC) as of September 30, 2008, and the related Statements of Net Cost, Changes in Net Position, and Budgetary Resources for the year then ended. We have issued our report thereon dated November 4, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin 07-04, *Audit Requirements for Federal Financial Statements*.

In planning and performing our audit, we considered MCC's internal control over financial reporting as a basis for designing audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the MCC's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of MCC's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements in a timely manner. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements, that is more than inconsequential, will not be prevented or detected by the entity's internal control.

We noted four matters involving internal control and its operation that we consider to be significant deficiencies. These matters are listed below and are detailed in the report.

- Quality Control over Financial Reporting
- Authorization for Personnel Actions
- Proper Reporting Period
- Postings to the General Ledger

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described above and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, we consider the significant deficiency related to Quality Control over Financial Reporting to be a material weakness as defined above.

QUALITY CONTROL OVER FINANCIAL REPORTING

MCC's quality control over quarterly and yearend financial reporting is not sufficient to enable the agency to detect errors and misstatements and to make corrections in a timely manner. During our interim test work and review of quarterly statements and trial balances, we identified several control deficiencies in financial reporting that contributed to a significant deficiency. We brought these deficiencies to the attention of management.

At the conclusion of yearend test work and after having received final statements and notes, we noted that deficiencies previously brought to management's attention remained uncorrected. It is the combination and continuous nature of identified significant deficiencies that raised this finding to the level of a material weakness. Specifically we found that:

- Despite frequent communications and early coordination with the United States Agency for International Development (USAID), MCC was unable to ensure timely submission of complete and accurate trial balance information and adjustments for reporting Threshold Program balances in its final financial statements, and lacked adequate cooperation from USAID. We noted the following:

  - MCC prepared final FY 2007 statements with preliminary trial balance information from USAID. USAID's FY 2007 Federal Agencies' Centralized Trial Balance System II (FACTS II) transmission was not completed in a timely manner sufficient for MCC reporting. Subsequent adjustments for FACTS II reporting were included in FY 2008 beginning balances, thus creating differences in beginning and ending balances.

  - MCC, in conjunction with its auditors, discussed the timing of final adjustments necessary for accurate and complete FY 2008 yearend reporting with USAID. Final trial balances were due by October 20, and USAID submitted the final trial balance when due. On November 6, however, USAID informed MCC that an additional budgetary adjustment of $5.2 million was being posted during the FACTS II revision period. MCC had submitted final statements for audit on November 5.

- MCC did not prepare comparable FYs 2008 and 2007 quarterly statements and FYs 2007 and 2006 audited statements. These statements contained prior-year ending balances that did not tie to beginning balances for the current year. We noted the following discrepancies.

- FY 2006 ending balances did not agree to FY 2007 beginning balances for the following line items:

  - Unobligated Balance differed by $25,114,174.
  - Obligated Balance differed by $135,345,240.
  - Cumulative Results of Operations (CRO) differed by $834.

- FY 2007 ending balances did not tie to beginning FY 2008 balances for the following line items:

  - Unobligated Balance differed by $4,324 in the first- and second-quarter statements and by $3,437,077 in the third-quarter statements due to formula errors.

  - Obligated Balances (Unpaid) differed by $1,213,646 in the first- and second-quarter statements and by $4,646,399 in the third-quarter statements due to formula errors.

  - Unexpended Appropriations differed by $3,621,292.

- In addition, the following ending FY 2007 account balances did not tie to beginning FY 2008 balances.

  - FBWT differed by 3,969,761.
  - Advances differed by $72,105.
  - Accounts Payable 420,574.

MCC restated FY 2006 ending balances, and audit adjustments were proposed to correct FY 2008 balances in the current year.

- MCC does not perform detailed quality control reviews over quarterly and yearend MCC trial balances and financial statements submitted for review and audit. We noted the following:

  - The Excel file prepared by MCC's service provider, the National Business Center (NBC), and used to prepare FY 2008 third-quarter financial statements, contained errors in formulas and cell references. According to MCC personnel, these errors were made when combining the MCC and USAID trial balances. These errors were not detected by NBC personnel and were not detected or corrected by MCC personnel prior to submission to the auditors. As a result of these errors, third-quarter statements contained incorrect and missing line item balances, and the trial balance showing the beginning balances did not net to zero. Specifically:

    - The Appropriations Used line items on the Statement of Changes in Net Position (SCNP) for CRO and Unexpended appropriations did not agree.

  - Rescissions of $12,611,700 at third quarter were recorded in the general ledger (GL), however it was not reported on the SCNP as a part of Unexpended Appropriations.

- MCC does not conduct a thorough review or analysis of USAID-prepared trial balances for MCC's Threshold Program before including these in the financial statements.

- The trial balance for the financial statement package submitted for audit on November 10 did not balance to zero for all program funds. The balance of all GL accounts for Due Diligence funds totaled $156,399. The balance of GL accounts related to Program funds totaled $(126,214). Even with these differences, which net to $30,185, the total of all GL accounts for all funds was recorded as zero. Proposed audit adjustments were not fully posted. MCC did not post audit adjustments related to GL account 4610, *Allotments – Realized Resources*, and thus the trial balance did not balance.

- While the statements are prepared electronically using Excel, the preparation lacks edit checks to ensure proper relationships exist among line items. MCC and NBC do not perform sufficient reconciliations, analyses, and reviews to ensure that appropriate and/or reasonable relationships exist within GL accounts and financial statement line items, and that all footnote disclosures are complete and accurate per the financial statement line items. For example:

  - Reporting of UDOs in MCC's footnotes only included amounts from GL account 4801, *UDO, Unpaid*, and thus was incomplete. Balances in GL accounts 4802, *UDO, Paid*, 4871, *Downward Adjustments*, and 4881, *Upward Adjustments*, were omitted, thus causing the footnote amount to be understated by more than $42 million.

  - Testing related to the proper relationship existing between budgetary accounts payable and proprietary accounts payable at third quarter showed a difference of $5,117,519. Testing related to the proper relationship existing between budgetary expended authority and proprietary expenses at third quarter showed a difference of $149,836.

  - The Statement of Financing (SOF) footnote did not properly reconcile MCC's Net Cost of Operations to its budgetary resources, because Gross Obligations did not agree with the amount reported on the Statement of Budgetary Resources.

OMB Circular A-136, *Form and Content of Performance and Accountability Report (PAR),* states:

> Reporting entities should ensure that information in the financial statements is presented in accordance with GAAP for Federal entities and the requirements of this Circular….

> Preparation of the annual financial statement is the responsibility of agency management….
>
> With an allocation transfer….All costs are then consolidated in the parent's financial statements in order to provide a complete cost of the parent's program. Effective FY2007, the parent must report all budgetary and proprietary activity in its financial statements, whether material to the child, or not….Receiving agencies with transfer appropriation accounts must submit a full USSGL trial balance with attributes to the parent no later than 12 calendar days following the end of the reporting period or a date required by the parent to meet its reporting and auditing deadlines, whichever comes first….

By not reviewing components comprising the financial statement line items, MCC may present statements that are not comparative, accurate, or in compliance with applicable requirements. In addition, by not performing such reviews, MCC is not taking full ownership and responsibility of its financial statements.

Recommendation

We recommend that MCC management:

- Perform detailed quality control reviews to ensure compliance with accounting standards and reporting guidance.
- Review and revise written policies and procedures regarding the preparation of the financial statements and related footnote disclosures to ensure that all financial statement line items are reported accurately and properly supported, and that any adjustments are reviewed and approved before recording in the GL by NBC. Document the above processes to ensure that an audit trail is available for all line items and amounts reported.
- Effectively coordinate with its service providers (USAID and NBC) to ensure timely and accurate receipt of final trial balance information sufficient to prepare complete financial statements in accordance with OMB Circular A-136.

Management Response

MCC concurs with the recommendations. MCC has published, in its FMPP Manual on Financial Reporting, Financial Audits, and Performance and Accountability Reports, FMPP 420, procedures regarding the preparation of financial statements and footnote disclosures to ensure that financial statement items are reported accurately and are properly supported. MCC will revise/expand its written procedures to include procedures to perform detailed quality control reviews to include reviewing adjustments recorded by NBC to ensure each is valid and has been properly recorded. Further, MCC will develop and implement procedures and documentation that provides an "audit trail" supporting management review and approval. Estimated completion date: No later than March 31, 2008.

MCC has made painstaking efforts to mitigate the reporting difficulties with USAID in its capacity as a service provider. During the last fiscal year MCC has met with USAID on four different occasions to discuss, among other things, the timing of delivery of its deliverables.

Our meetings took place between September 2007 and October 23, 2008. Our most recent meeting, held in conjunction with the OIG, demonstrated that while USAID makes an effort to meet the requirements of OMB Circular A-136 and our Memorandum of Understanding, their system of controls prevents them from ensuring we receive final deliverables timely. MCC will continue its efforts to work with USAID to eliminate this major source of financial statement errors and misstatements.

MCC believes it has taken full ownership and responsibility for its financial statements. MCC converted its statements to comply with OMB Circular A-136 in advance of the OMB mandated date of September 30, 2007. In conjunction with this change MCC assumed responsibility for the preparation of all of its footnote disclosures and associated exhibits. As stated above, MCC will be implementing measures to improve quality control in accordance with the auditors' recommendations.

AUTHORIZATION FOR PERSONNEL ACTIONS

MCC's process of documenting requests and authorizations for personnel actions (SF-52s) is inconsistent with stated policies and procedures. In lieu of authorizing signatures on the SF-52, MCC relies on emails for requests and approvals. MCC also relies on systematic notifications from its performance management and staffing system, Avue, for requests and approvals related to promotions or internal transfers of its employees.

During our testing of a sample of 45 employees, we noted:

- Twelve instances where SF-52s were not signed by the requesting official and/or the certifying official, nor was email documentation present in the Official Personnel File (OPF) or subsequently provided;

- Four instances where the OPF did not have either the SF-52 or email documentation authorizing the personnel action; and

- One instance where an employee was not systematically selected for hire in the Avue system at the time the SF-52 was created and processed.

During our testing of a sample of 10 newly hired employees, we noted:

- Two instances where SF-52s were not signed by the requesting, authorizing, and/or certifying officials, nor were email documentation or Avue screenprints documented in the OPF or subsequently provided; and

- Three instances where SF-52s were not signed by the certifying official nor was email documentation present in the OPF or subsequently provided.

Office of Personnel Management's (OPM), *The Guide to Processing Personnel Actions*, Chapter 4, *Requesting and Documenting Personnel Actions*, Section 4c, *Approval of Personnel Actions*, states:

> Personnel actions must be approved by the appointing officer on or before their effective dates. An appointment officer is an individual in whom the power of appointment is vested by law or to whom it has been legally delegated. Only an appointment officer may sign and date the certification in

> Part C-2 of the Standard Form 52 ... the appointing officer is responsible for ensuring that each personnel action meets all legal and regulatory requirements.

For personnel action requests, we noted that the requesting officials, authorizing officials, and approving officials did not sign in their designated area to document as validation and approval of for the action. In cases where SF-52s are not signed or are not drafted, MCC's process is to rely on email authorizations from appropriate officials to serve as supporting documentation for actions to be processed. Per our interview conducted with Human Resources (HR) personnel, email authorizations are placed in the employees' OPF as supporting documentation for processed personnel actions. However, as noted above, email authorizations were not located in all OPFs nor were they maintained in a centralized location for subsequent access and retrieval.

By not properly completing and processing personnel action requests with appropriately documented authorizations, there is increased risk that personnel actions could be falsely created and processed, or that personnel actions could be processed with incorrect legal and regulatory actions.

Recommendation

We recommend that MCC review and revise its process for requesting, authorizing, and certifying its personnel actions to ensure all actions are properly authorized, documented, and retained prior to the action being processed into the personnel database.

Management Response

MCC concurs with this recommendation. The Human Resources Division (HRD) has recognized the deficiency in documentation/SF-52s in the OPF's. Since MCC's conversion to the competitive hiring process and as part of our Delegating Examining Authority, HRD's staffing specialists have established an electronic work flow/approval authorization process within Avue to include all personnel actions. All staffing actions will be electronically signed-off on and apparent on all SF-52s within the Avue system. Once an action is complete and signed-off on by the Vice President, Manager, Supervisor, HRD, and Finance and Budget Division, the hard copy (coded) SF-52 is now printed and filed in each employees' OPF. We have taken the formal approval process one step further to include the MCC Vice President, Administration and Finance, and the MCC Chief of Staff, to our current electronic process. This will be updated in the current Avue system by December 31, 2008.

- *The Recruit to Fill and Promotions/Reassignments/Retention Request Process outlines the Avue/Personnel Action Request (PAR) process that will record electronic approvals and lead to a hard coded SF-52 for filing in the employees' OPFs.*

- *Through the Avue system, HRD will be able to generate reports for the Delegated Examining Unit Audit requests. HRD has also established and will continue to update our internal standard operating procedures (SOPs) for staffing and SF-52s processing.*

PROPER REPORTING PERIOD

During our testing of expenses, we noted transactions that were reported in Fiscal Year (FY) 2008, for several expenses that were actually incurred in FY 2007. Out of a sample of 61 expense transactions, we noted the following:

- One vendor payment to USAID did not have an accrual recorded in FY 2007 before payment was made in November 2007 (FY 2008). This resulted in an understatement of FY 2007 expenses and an overstatement of FY 2008 expenses of $1,176,360.

- Purchase card transactions for August 2007 were not posted to the general ledger until March 2008, and an accrual was not posted to the General Ledger (GL) in FY 2007. This resulted in an understatement of FY 2007 expenses and an overstatement of FY 2008 expenses of $36,554.

- Miscellaneous expenses related to refunds for expenses incurred in FY 2007, were posted in October 2007 (FY 2008). An accrual was not posted in FY 2007 to match the expense resulting in an overstatement of FY 2007 and an understatement of FY 2008 expenses in the amount of $18,214.

- An accrual for a compact country utilizing the Common Payment System (CPS) was not posted in FY 2007; instead expenses that were incurred in FY 2007 were reported in FY 2008. We estimate that $383,332 of expenses recorded for Mali during the first two weeks of October 2007 (FY 2008) actually related to FY 2007 expenses.

In addition, during our testing of subsequent disbursements, we found 7 out of 24 sampled transactions that were paid in FY 2009, related to FY 2008 and did not have accruals posted. Expenses were therefore understated by $1,597,587.

Statements of Federal Financial Accounting Standards (SFFAS) No. 5, *Accounting for Liabilities of the Federal Government*, (p. 22 and 23) requires that "a liability be recognized when one party receives goods or services in return for a promise to provide money or other resources in the future… The expense is recognized in the period that the exchange occurs."

Office of Management and Budget (OMB) Circular A-136, *Form and Content of the Performance and Accountability Report (PAR), Balance Sheet,* Section III.4.3.4 *Liabilities,* states that "liabilities shall be recognized when they are incurred regardless of whether they are covered by available budgetary resources."

Although MCC does have a process in place for recording accruals on a quarterly and yearend basis, it did not adequately perform this review at yearend for interagency agreements and vendor contracts. In addition, MCC did not have a process by which it reviewed amounts due from vendors for services already rendered in order to accrue for the refund and reduce the appropriate period's expenses.

In FY 2007, MCC did not have a system in place to compute amounts owed, but not paid, for services rendered or goods accepted by MCC for countries utilizing CPS, as this was the first year of implementation and only one country (Mali) was using it.

FY 2008 expenses were overstated by $1,578,032 due to lack of accruals in FY 2007 and understated by $1,597,586 due to lack of FY 2008 accruals.

Recommendation

We recommend MCC management develop and adhere to policies and procedures related to quarterly and yearend reporting to ensure:

- All appropriate transactions are reviewed and a determination is made as to the amount to accrue for the current period; and

- The accrual amount is properly prepared, clearly documented, and supported and that it is reviewed by both the service provider, NBC, and MCC for completeness and accuracy prior to and subsequently after posting to the GL.

Management Response

MCC concurs with the recommendation. In both FY 2007 and 2008, MCC developed and utilized comprehensive Yearend Closing and Opening Policies and Procedures that, among other items, detailed MCC accrual procedures. These policies and procedures are published and disseminated each year. Incorporating these recommendations results in an expanded scope that includes updated procedures that ensure all appropriate transactions are reviewed, and a determination is made as to the amount to accrue for the current period. Additionally, accruals will be reviewed and approved by MCC prior to posting and will be reviewed for accuracy and completeness after posting as well.

POSTING TO THE GENERAL LEDGER

Internal controls are not adequate to ensure that invoices, purchase orders, and journal vouchers (JV) are correct, accurate, and properly entered into MCC's GL. During our testing we noted the following:

- Two travel related accruals were posted twice in the GL. NBC Accounting Technicians posted two accruals (MCC-2008-045 and MCC-2008-046 in the amounts of $302,384 and $72,187, respectively) on April 7, 2008; these two accruals were posted again on April 12th. The first two entries were subsequently reversed in the next period. In addition, a JV related to accruing expenses for MCC's Threshold program was posted twice in the amount of $739,817. NBC was unable to provide documentation or a reason as to why the JV accruals were posted twice. MCC surmised that NBC did not realize or verify that the entries had already been posted.

- Airfare for one trip was erroneously posted twice at different amounts. Documentation provided for airfare posted on the centrally billed account showed that an initial amount of $13,640 was recorded but not reversed when the trip was changed to a subsequent day. New airfare in the amount of $14,025 was charged when the trip was rebooked. Based on inquiries with the Travel Coordinator regarding the airfare, it was determined that the duplication was not known until brought to management's attention by the auditors. The erroneous amount was credited on a subsequent credit card statement.

- Property, Plant and Equipment (PP&E) transactions were incorrectly recorded in the GL and were not corrected in a timely manner, as follows:

    - Accountable equipment purchases in the amount of $51,862 were recorded in BOCs for capitalized assets.

    - A $7,875 invoice for capitalized leasehold improvements (LHI) was incorrectly recorded as an expense.

    - Accumulated amortization on LHI was understated by $251,992 in the third-quarter financial statements. The transactions to record amortization expense and accumulated amortization were posted as accruals instead of expenses; thus the amortization expense was systematically reversed, reducing accumulated amortization at June 30, 2008.

    - A $1,033,429 invoice was recorded in the capitalized LHI account but was not recorded on the amortization schedule. This resulted in amortization expense and accumulated amortization not being accounted for during the first three quarters of FY 2008.

Government Accountability Office (GAO) Internal Control Standards for the Federal Government, GAO/AIMD-00-21.3.1 (11/90) states:

> Control activities occur at all levels and functions of the entity. They include a wide range of diverse activities such as approvals, authorizations, verifications, reconciliations, performance reviews, maintenance of security, and the creation and maintenance of related records which provide evidence of execution of these activities as well as appropriate documentation. Control activities may be applied in a computerized information system environment or through manual processes.

> Internal control and all transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination…All documentation and records should be properly managed and maintained.

While some of the discrepancies in property were discovered and known by MCC management, corrections were not made timely. Transactions that are erroneously posted and not corrected in a timely manner increase the risk of financial misstatements. As a result of erroneous postings, expenses and equipment balances were overstated in the second and third quarter financial statements. All transactions were corrected by management in the 4th quarter.

Recommendation

We recommend MCC management:

- Ensure that procedures for reviewing accruals and adjustments recorded by NBC are effectively performed to ensure each is valid and has been properly recorded.

- Require documentation to support the entry of a JV to avoid duplication of the transaction. In addition, use of a consistent naming convention when entering JVs should be required to avoid duplication.

- Ensure that PP&E reconciliations are effectively performed each quarter and that amortization schedules are accurate and complete.

Management Response

MCC concurs with the recommendation. MCC has a section published in its Financial Management Policies and Procedures (FMPP) Manual on Expense Accruals, FMPP 220. Closer scrutiny of the existing policy and procedures indicated a need to "tighten" the controls surrounding these processes. MCC will adopt procedures to review accruals and adjustments recorded by NBC to ensure each is valid and has been properly recorded. Additionally, MCC and NBC will jointly develop procedures to eliminate the possibility of recording duplicate transactions. Lastly, MCC's FMPP 350, Policies and Procedures on Property, Plant and Equipment (PP&E), clearly defines MCC's policies on PP&E but is silent on specific control procedures. MCC will develop and implement detailed procedures by no later than March 31, 2009.

We noted certain matters involving internal control and its operation that we will report to MCC management in a separate letter.

This report is intended solely for the information and use of USAID, MCC management, others within MCC, OMB, and Congress. It is not intended to be and should not be used by anyone other than these specified parties.

COTTON & COMPANY LLP

Colette Y. Wilson, CPA
Partner

Colette Y. Wilson

November 14, 2008
Alexandria, Virginia

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Inspector General
United States Agency for International Development

Board of Directors
Millennium Challenge Corporation

**INDEPENDENT AUDITOR'S REPORT ON
COMPLIANCE WITH LAWS AND REGULATIONS**

We have audited the Balance Sheet of the Millennium Challenge Corporation (MCC) as of September 30, 2008, and the related Statements of Net Cost, Changes in Net Position, and Budgetary Resources for the year then ended. We have issued our report thereon dated November 4, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin 07-04, *Audit Requirements for Federal Financial Statements*.

MCC management is responsible for complying with laws and regulations applicable to the agency. As part of obtaining reasonable assurance about whether MCC's financial statements are free of material misstatement, 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 07-04. 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 of compliance disclosed no instances of noncompliance that we are required to report under *Government Auditing Standards* and OMB Bulletin 07-04.

This report is intended solely for the information and use of USAID, MCC management, others within MCC and USAID, OMB, and Congress. It is not intended to be and should not be used by anyone other than these specified parties.

COTTON & COMPANY LLP

Colette Y. Wilson, CPA
Partner

Colette Y. Wilson

November 14, 2008
Alexandria, Virginia

MILLENNIUM
CHALLENGE CORPORATION
UNITED STATES OF AMERICA

Memorandum

TO:	Alvin A. Brown Assistant Inspector General
FROM:	Michael Casella /s/ Acting Vice President, Administration and Finance
DATE:	November 17, 2008
SUBJECT:	Management Response to Draft Independent Auditor's Report on MCC's Financial Statements for Fiscal Years Ended September 30, 2008 and 2007, Respectively

We have received the subject draft report and are pleased to note that the independent auditors, Cotton & 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 Millennium Challenge Corporation's (MCC) management recognizes the importance of accountability, effective stewardship and public disclosures 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 Cotton & 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 Cotton & Company's audit recommendations.

Material Weakness

Quality Control over Financial Reporting

MCC's quality control over quarterly and yearend financial reporting is not sufficient to enable the agency to detect errors and misstatements and to make corrections in a timely manner.

Recommendation No. 1
We recommend that MCC management:

1.1 Perform detailed quality control reviews to ensure compliance with accounting standards and reporting guidance.

1.2 Review and revise written policies and procedures regarding the preparation of the financial statements and related footnote disclosures to ensure that all financial statement line items are reported accurately and properly supported, and that any adjustments are reviewed and approved before recording in the GL by NBC. Document the above processes to ensure that an audit trail is available for all line items and amounts reported.

1.3 Effectively coordinate with its service providers (USAID and NBC) to ensure timely and accurate receipt of final trial balance information sufficient to prepare complete financial statements in accordance with OMB Circular A-136.

Management Response
MCC concurs with the recommendations. MCC has published, in its FMPP Manual on Financial Reporting, Financial Audits, and Performance and Accountability Reports, FMPP 420, procedures regarding the preparation of financial statements and footnote disclosures to ensure that financial statement items are reported accurately and are properly supported. MCC will revise/expand its written procedures to include procedures to perform detailed quality control reviews to include reviewing adjustments recorded by NBC to ensure each is valid and has been properly recorded. Further, MCC will develop and implement procedures and documentation that provides an "audit trail" supporting management review and approval. Estimated completion date: No later than March 31, 2008.

MCC has made painstaking efforts to mitigate the reporting difficulties with USAID in its capacity as a service provider. During the last fiscal year MCC has met with USAID on four different occasions to discuss, among other things, the timing of delivery of its deliverables. Our meetings took place between September 2007 and October 23, 2008. Our most recent meeting, held in conjunction with the OIG, demonstrated that while USAID makes an effort to meet the requirements of OMB Circular A-136 and our Memorandum of Understanding, their system of controls prevents them from ensuring we receive final deliverables timely. MCC will continue its efforts to work with USAID to eliminate this major source of financial statement errors and misstatements.

MCC believes it has taken full ownership and responsibility for its financial statements. MCC converted its statements to comply with OMB Circular A-136 in advance of the OMB mandated date of September 30, 2007. In conjunction with this change MCC assumed responsibility for the preparation of all of its footnote disclosures and associated exhibits. As stated above, MCC will be implementing measures to improve quality control in accordance with the auditors' recommendations.

Significant Deficiency 1: Authorization for Personnel Actions
MCC's process of documenting requests and authorizations for personnel actions (SF-52s) is inconsistent with stated policies and procedures.

Recommendation No. 2
We recommend that MCC review and revise its process for requesting, authorizing, and certifying its personnel actions to ensure all actions are properly authorized, documented, and retained prior to the action being processed into the personnel database.

Management Response

MCC concurs with this recommendation. The Human Resources Division (HRD) has recognized the deficiency in documentation/SF-52s in the OPF's. Since MCC's conversion to the competitive hiring process and as part of our Delegating Examining Authority, HRD's staffing specialists have established an electronic work flow/approval authorization process within Avue to include all personnel actions. All staffing actions will be electronically signed-off on and apparent on all SF-52s within the Avue system. Once an action is complete and signed-off on by the Vice President, Manager, Supervisor, HRD, and Finance and Budget Division, the hard copy (coded) SF-52 is now printed and filed in each employees' OPF. We have taken the formal approval process one step further to include the MCC Vice President, Administration and Finance, and the MCC Chief of Staff, to our current electronic process. This will be updated in the current Avue system by December 31, 2008.

- *The Recruit to Fill and Promotions/Reassignments/Retention Request Process outlines the Avue/Personnel Action Request (PAR) process that will record electronic approvals and lead to a hard coded SF-52 for filing in the employees' OPFs.*

- *Through the Avue system, HRD will be able to generate reports for the Delegated Examining Unit Audit requests. HRD has also established and will continue to update our internal standard operating procedures (SOPs) for staffing and SF-52s processing.*

Significant Deficiency 2: Proper Reporting Period

During our testing of expenses, we noted transactions that were reported in Fiscal Year (FY) 2008, for several expenses that were actually incurred in FY 2007.

Recommendation No. 3

We recommend MCC management develop and adhere to policies and procedures related to quarterly and yearend reporting to ensure:

3.1 All appropriate transactions are reviewed and a determination is made as to the amount to accrue for the current period; and
3.2 The accrual amount is properly prepared, clearly documented, and supported and that it is reviewed by both the service provider, NBC, and MCC for completeness and accuracy prior to and subsequently after posting to the GL.

Management Response

MCC concurs with the recommendation. In both FY 2007 and 2008, MCC developed and utilized comprehensive Yearend Closing and Opening Policies and Procedures that, among other items, detailed MCC accrual procedures. These policies and procedures are published and disseminated each year. Incorporating these recommendations results in an expanded scope that includes updated procedures that ensure all appropriate transactions are reviewed, and a determination is made as to the amount to accrue for the current period. Additionally, accruals will be reviewed and approved by MCC prior to posting and will be reviewed for accuracy and completeness after posting as well.

Significant Deficiency 3: Posting to the General Ledger

MCC's internal controls are not adequate to ensure that invoices, purchase orders, and journal vouchers (JV) are correct, accurate, and properly entered into MCC's GL.

<u>Recommendation No. 4</u>
We recommend MCC management:

4.1 Ensure that procedures for reviewing accruals and adjustments recorded by NBC are effectively performed to ensure each is valid and has been properly recorded.

4.2 Require documentation to support the entry of a JV to avoid duplication of the transaction. In addition, use of a consistent naming convention when entering JVs should be required to avoid duplication.

4.3 Ensure that PP&E reconciliations are effectively performed each quarter and that amortization schedules are accurate and complete.

<u>Management Response</u>
MCC concurs with the recommendation. MCC has a section published in its Financial Management Policies and Procedures (FMPP) Manual on Expense Accruals, FMPP 220. Closer scrutiny of the existing policy and procedures indicated a need to "tighten" the controls surrounding these processes. MCC will adopt procedures to review accruals and adjustments recorded by NBC to ensure each is valid and has been properly recorded. Additionally, MCC and NBC will jointly develop procedures to eliminate the possibility of recording duplicate transactions. Lastly, MCC's FMPP 350, Policies and Procedures on Property, Plant and Equipment (PP&E), clearly defines MCC's policies on PP&E but is silent on specific control procedures. MCC will develop and implement detailed procedures by no later than March 31, 2009.

NOTES TO FINANCIAL STATEMENTS (AS OF SEPTEMBER 30, 2008)

Note 1—Summary of Significant Accounting Policies

A. Basis of Presentation

The accompanying financial statements have been prepared to report the financial position, results of operations and budgetary resources for MCC, as required by OMB Circular A-136, *Financial Reporting Requirements* for form and content and in accordance with Section 613 of the Millennium Challenge Act of 2003 and the Government Corporation Control Act (31 U.S.C. §9106). These financial statements have been prepared from MCC's books and records and are presented in accordance with the applicable requirements of OMB, the Secretary of the Treasury, and the Government Management and Reform Act of 1994.

MCC's accounting policies conform to and are consistent with generally accepted accounting principles for the Federal Government, as promulgated by OMB and prescribed by the Federal Accounting Standards Advisory Board (FASAB).

MCC's principle financial statements are:

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

Financial statement footnotes are also included and 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 which create and maintain sound policy environments. The assistance is intended to provide economic growth and the alleviation 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 $1.557 billion and $1.752

billion in FY 2008 and FY 2007, respectively. OMB apportions MCC administrative funds on an annual basis pursuant to statutory limitations in the appropriations bill. In addition, MCC receives from OMB a separate apportionment of funds for administrative (SAE) and audit oversight, compact programs, due diligence programs, 609(g) programs and threshold programs. Because of the no-year status of MCC appropriations, unobligated administrative, audit, and due diligence funds (apportioned on annual bases) 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.

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 are prepared on the accrual basis. The Statement of Budgetary Resources is 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. 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 2008 and FY 2007 were $35.3 million and $39.2 million, respectively. A significant portion of accounts payable reported ($24.4 million) for FY 2008 was from the USAID reported balances for Threshold programs.

G. 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 Corporation 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 is not funded by current appropriations.

MCC incurred no FECA liabilities during FY 2008 and FY 2007.

H. 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.

I. 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 since MCC's inception.

MCC made an adjustment to the FY 2008 beginning balance for cumulative results of operations to account for FY 2007 prior period adjustments. These adjustments were identified as expense accruals for payments that were not properly accrued in FY 2007.

J. Financing Sources

Per 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.

K. 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 Corporation 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.

At the end of FY 2008, MCC made retirement contributions of $142,000 to CSRS, $2.66 million to FERS, and $998,130 to TSP.

L. 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.

M. 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.

N. 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.

O. Custodial Receivables and Liabilities

Under current policy and procedures, MCC funds all 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 financing (Compact, Due Diligence and 609(g) funding) of approximately $32.6 million and $30.8 million on September 30, 2008 and 2007, respectively. MCC received and deposited $1.61 million and $1.93 million in interest remittances on September 30, 2008 and 2007, respectively.

P. Donated Services

MCC may on occasion utilize donated services from other Federal agencies and private firms in the course of business operations. MCC did not utilize donated services for FY 2008. The approximate fair market value of donated services for September 30, 2007 was $123,750.

Q. Transfers with Other Federal Agencies

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

Generally, all financial activity related to these allocation transfers (e.g., budget authority, obligations, outlays) is reported in the financial statements of the parent entity, from which the underlying legislative authority, appropriations, budget appointments are derived. MCC allocates funds, as the parent, to the United States Agency for International Development (USAID). In FY 2008 and 2007, MCC transferred budgetary authority of $110 million and $201 million, respectively to USAID for Threshold programs.

R. Liabilities

MCC reclassified FY 2007 balances ($2.046 million) from Intragovernmental Liabilities to non-Intragovernmental liabilities in the column titled "Other/Accrued Funded Liabilities" for proper reporting with FY 2008 balances. MCC noted that expense accruals reported in FY 2007 should not have been displayed as "Intragovernmental" and should have been denoted as liabilities from the "Public." In order to ensure the FY 2007 expense accruals were properly reported in comparison with FY 2008 expense accruals, MCC reclassified this portion of the FY 2007 balance.

Note 2—Fund Balance with Treasury

The U.S. Treasury accounts for all U.S. Government cash on an overall consolidated basis. MCC is appropriated "general" funds only and maintains theses balances in the Fund Balance with Treasury. The general fund line items on the Balance Sheet for September 30, 2008 and 2007 consisted of the amounts presented in Exhibit 53. The status of the general fund balances is summarized by obligated and unobligated balances in Exhibit 54.

Exhibit 53: Fund Balance with Treasury

	September 30, 2008 (in thousands)	September 30, 2007 (in thousands)
Fund Balances		
General Funds	$6,546,857	$5,549,290
Total	**$6,546,857**	**$5,549,290**

Exhibit 54: Status of Fund Balance with Treasury

	September 30, 2008 (in thousands)	September 30, 2007 (in thousands)
Status of Fund Balances with Treasury		
Unobligated Balance		
Available	$782,006	$1,520,927
Unavailable	181,507	739,242
Obligated Balance	$5,583,344	$3,289,121
Total	**$6,546,857**	**$5,549,290**

Note 3—Accounts Receivable, Net

Accounts receivable reflects overpayments of payroll, travel and other MCC current and former employee expenses. MCC does not record an allowance for doubtful accounts as these expenses are deemed wholly collectible. Total receivables at the end of FY 2008 and 2007 were approximately $55,000 and $68,000, respectively.

MCC reclassified its FY 2007 balances for Accounts Receivable from Intragovernmental Assets to non-Intragovernmental Assets for proper reporting with the FY 2008 balances. MCC, in its previous A-136 financial statement reporting, has incorrectly classified its Accounts Receivable balances as "Intragovermental." These balances were reviewed during FY 2008 and determined to be Accounts Receivable due from the "Public."

Note 4—General Property, Plant and Equipment (PP&E), Net

MCC's PP&E costs are the associated leasehold improvements made to its leased office space. MCC has made significant leasehold improvements to its office space and amortizes the improvements based on the in-service (invoice) date of the improvement. Amortization on that in-service improvement is calculated on a quarterly basis. The cost of these improvements at September 30, 2008 and 2007 was $10.9 million and $8.7 million, respectively. Accumulated depreciation was $2.8 million and $1.5 million, respectively. The current book value is valued at $8.1 million and $7.1 million for the periods ending September 30, 2008 and 2007, respectively. The useful life of the improvements is based on the lease terms; 10 years for the Bowen building lease and 8 years for the City Center building lease.

MCC's capitalization threshold for all other general property, plant and equipment must have an original cost of $50,000 or more and an estimated useful life of 5 or more years. MCC's software capitalization threshold defines a capitalized asset that has an original cost of $200,000 or more and an estimated useful life of 5 years or more and the information technology infrastructure capitalization threshold defines a capitalized asset as having an original cost of $200,000 or more and an estimated useful life of 3 years or more. These thresholds reduce MCC's administrative costs associated with accounting for PP&E, and result in increased operational efficiency.

Note 5—Other Assets

Advances reflect amounts provided to MCA compact countries and other federal agencies in accordance with formal compacts or inter-agency agreements. MCC reported $42.6 million and $32.2 million in advances as of September 30, 2008 and 2007, respectively.

Note 6—Leases

MCC leases office space in two adjacent locations in Washington, D.C. These leases are on 10 year (Bowen) and 8 year (City Center) lease terms that terminate on May 25 and May 26, 2015, respectively. The Bowen building lease increases approximately 1 percent each year of the lease term. The City Center building lease increases every three years through the lease term. The increases for both buildings are depicted in Exhibit 55 below.

Exhibit 55: Operating Leases

Future Lease Payments Due			
Fiscal Year	**Bowen**	**City Center**	**Total**
FY 2009	5,502,517	1,889,524	7,392,041
FY 2010	5,557,542	1,889,524	7,447,006
FY 2011	5,613,117	1,942,376	7,555,493
FY 2012	5,669,249	1,942,376	7,611,625
FY 2013	5,725,941	1,942,376	7,668,317
After 5 Years	11,624,232	3,990,458	15,614,690
Total Future Lease Payments (in dollars)	**$39,692,598**	**$13,596,634**	**$53,289,232**

Note 7—Intragovernmental Costs and Exchange Revenue

The Statement of Net Cost reports the MCC's gross cost less earned revenues to arrive at net cost of operations. Costs have been illustrated by MCC specific programs. Exhibit 56 shows the value of exchange transactions between the Corporation and other Federal entities, as well as non-Federal entities. Intra-governmental costs relate to transactions between the MCC and other Federal entities. Public costs, on the other hand, relate to transactions between the MCC and non-Federal entities. MCC does not have any exchange revenues.

Exhibit 56: Intra-governmental Costs and Exchange Revenue

	Compact	609(g)	Threshold	Due Diligence	Audit	Administrative	FY 2008 Total (in thousands)	FY 2007 Total (in thousands)
Intra-Governmental	-	-	3,006	2,680	2,118	11,285	19,089	14,156
Public	226,498	9,769	115,898	14,659	186	74,497	441,507	273,439
Total - Program	**$226,498**	**$9,769**	**$118,904**	**$17,339**	**$2,304**	**$85,782**	**$460,596**	**$287,595**

Note 8—Adjustments to Beginning Balance of Budgetary Resources

At the beginning of FY 2008, $12.6 million of amounts appropriated under the Foreign Operations, Export Financing and Related Programs Appropriations Act were rescinded. The rescission was part of the Across-the-Board rescission enacted for FY 2008. MCC was also subject to a mid fiscal year 2008 rescission of $58 million.

MCC also made adjustments to its Unexpended Appropriations beginning balance to reflect the ending balance from FY 2007. This adjustment was due to untimely reporting of final FY 2007 ending balances from USAID for the Threshold program. At the end of FY 2007, USAID made an additional adjustment to its account balances that was never reported and incorporated into MCC's consolidated financial statements. This oversight was identified in FY 2008 and recorded as an adjustment to ensure that FY 2007 ending balances for Unexpended Appropriations equaled FY 2008 beginning balances for Unexpended Appropriations.

Note 9—Explanation of Differences between the Statement of Budgetary Resources (SBR) and the Budget of the U.S. Government

MCC ensures that the information reported in its books is reflected within the Budget of the U.S. Government. Since MCC's financial statements are published before the President's Budget, this reconciliation is based on the Statement of Budgetary Resources (SBR) for FY 2007 and the 2007 actual data reported in the President's 2009 budget submission. Fiscal year 2008 actual data will be published in February 2009 within the 2010 Budget of the United States. Material differences reported in the budgetary resources column ($2,679) represent unobligated balances reported on MCC's SBR and SF133, but not in the Budget of the U.S. Government. See Exhibit 57.

Exhibit 57: Material Differences Between the SBR and the President's Budget

	Budgetary Resources (in millions)	Obligations Incurred (in millions)	Distributed Offsetting Receipts (in millions)	Total Outlays (in millions)
Statement of Budgetary Resources	4,430	2,174		277
Unobligated Balance Carry forward from FY 2006	(2,679)			
Budget of the U.S. Government	1,751		(3)	277

Note 10—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 58 presents Undelivered Orders as of September 30, 2008 and 2007.

Exhibit 58: Undelivered Orders

Undelivered Orders	2008	2007
Administrative	27,302,437	27,939,653
Audit	2,180,340	1,466,325
609(g)	25,349,832	25,781,640
Due Diligence	49,203,177	33,829,978
Compact/CIF	5,242,750,204	2,956,809,299
Threshold	238,174,754	234,952,661
Total	**$5,584,960,744**	**$3,280,779,556**

Note 11—Reconciliation of Net Cost of Operations to Budget

Exhibit 59 reconciles the 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 59: Reconciliation of Net Cost of Operations to Budget

Resources Used to Finance Activities		Program Costs	
Budgetary Resources Obligated			
Gross obligations	2,769,921,274	**Gross Costs**	460,596,248
Recoveries of prior year unpaid obligations	(504,898)		
Other financing resources	1,650,550		
Total resources used to finance activities	2,771,066,926		
Total resources used to finance items not part of the net cost of operations	(2,306,454,323)	**Less: Earned Revenue**	-
Total components of net cost of operations that will not require or generate resources	1,147,968		
Other expenses not requiring budgetary resources	(5,164,323)		
Net Cost of Operations	**460,596,248**	**Net Cost of Operations**	**460,596,248**

4. OTHER ACCOMPANYING INFORMATION

SUMMARY OF FINANCIAL STATEMENT AUDIT

In accordance with the requirements of OMB Circular A-136, MCC is required to prepare a summary of its financial statement audit. The FY 2008 Independent Auditor's Report cited only one material weakness in MCC's controls over financial reporting. See Exhibit 60 below.

Exhibit 60: Summary of Financial Statement Audit Table

Audit Opinion	**Unqualified**				
Restatement	**No**				
Material Weaknesses	**Beginning Balance**	**New**	**Resolved**	**Consolidated**	**Ending Balance**
Quality Control Over Financial Reporting	0	1	-	-	1
Total Material Weaknesses	**0**	**1**	**-**	**-**	**1**

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