MILLENNIUM CHALLENGE CORPORATION

UNITED STATES OF AMERICA

MCC

MILLENNIUM
CHALLENGE
CORPORATION

REDUCING POVERTY THROUGH GROWTH

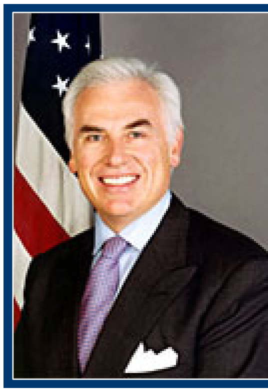
2006

PERFORMANCE AND ACCOUNTABILITY REPORT

MISSION STATEMENT

MCC's MISSION IS TO REDUCE POVERTY BY SUPPORTING SUSTAINABLE, TRANSFORMATIVE ECONOMIC GROWTH IN DEVELOPING COUNTRIES WHICH CREATE AND MAINTAIN SOUND POLICY ENVIRONMENTS.

MESSAGE FROM THE CHIEF EXECUTIVE OFFICER



I am pleased to present the 2006 Performance and Accountability Report for the Millennium Challenge Corporation. We have come a long way in just two and a half years since MCC's creation, under President Bush's leadership and with the bipartisan support of Congress. We have grown significantly as an organization, based on our belief that a workforce that is diverse in knowledge, background, and talents can make a world of difference. Our progress is due, in large measure, to our emphasis on working with partner countries that have sound policies, a genuine sense of ownership, and a willingness to be accountable for results contributing to real improvements for their citizens. MCC's partnership with these countries is helping to strengthen democratic, stable, and prosperous societies around the world. With 9 compacts already in place, we look forward to continued engagement with the 13 additional countries that are eligible to submit compact proposals and the 17 other countries eligible for the Threshold program.

I am equally proud to note the collateral benefits of our approach to aid with accountability, which we call "The MCC Effect." Based on our focus on good policies, MCC has become a catalyst for reform in countries that are working independently to assess their legislative and regulatory structures to meet MCC qualifications. The promise of MCC compact support is a powerful incentive for governments to enact reforms that will contribute to their eligibility for funding—while promoting sound governance, strengthening political and economic freedoms, and attacking corruption. Our eligible and threshold countries have consistently demonstrated higher rates of reform than others in their income bracket.

In addition to our programmatic accomplishments, I am pleased to address the state of MCC's management controls, which protect our resources from risk of mismanagement and ensure proper investment of taxpayer dollars in support of MCC's mission. 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 (FMFIA). I have also 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.*

MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

Finally, I have determined that MCC is currently in substantial compliance with pertinent requirements of the Federal Financial Management Improvement Act (FFMIA). The FFMIA report of the National Business Center (our financial services provider) indicates that compliance was achieved in the final quarter of FY 2006.

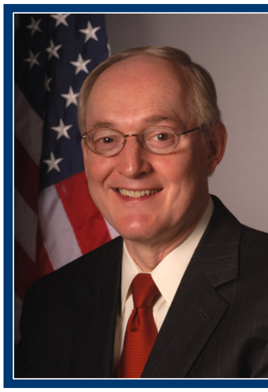
We are enthusiastic about MCC's prospects for the future and pledge to build on this year's achievements, fortifying existing partnerships and forging new ones in the years to come.

John J. Danilovich
Chief Executive Officer

MILLENNIUM CHALLENGE CORPORATION

REDUCING POVERTY THROUGH GROWTH

MESSAGE FROM THE CHIEF FINANCIAL OFFICER



The 2006 Performance and Accountability Report of the Millennium Challenge Corporation reflects our commitment to the highest principles of federal management.

Although MCC, as a small federal corporation, is not subject to the requirements of the Chief Financial Officers Act, we choose to follow the professional standards it incorporates along with other good government reforms applicable to the Executive Branch. In a similar vein, we are always mindful of the President's Management Agenda for a government that is citizen-centered, results-oriented, and market-based, and seek to adopt model practices in financial improvement, budget and performance integration, human capital innovation, e-government, and the principles of competitive sourcing.

This has been a year of growth for the Corporation in terms of program expansion and reinforcement of staff expertise, and we have worked to match our administrative and financial capabilities to the task. We have established a vigorous program of compliance with Office and Management and Budget Circular A-123, joining senior-level expertise in accounting and financial management with the best private-sector thinking on issues of governance. We have continued to work closely with the National Business Center of the Department of the Interior as our service center for payroll and financial reporting. The clean audit opinion on our annual financial statements for the past fiscal year demonstrates a valuable endorsement of the Corporation's fiscal health.

As more countries embrace the ideals of program ownership and accountability for results, we will employ a new system of managerial cost accounting to relate their successes to our efforts and the use of MCC resources. Our aim is to meet the highest standards for effective and transparent internal decision-making and describe more clearly the practical impacts of MCC's innovative assistance model. We are inspired by our partners' efforts to adopt best practices in transforming the lives of their poorest citizens, and we look forward to recounting their successes in greater detail in future Performance and Accountability Reports.

Michael W. S. Ryan

Vice President
Administration & Finance

TABLE OF CONTENTS

LIST OF EXHIBITS

1. Management Discussion and Analysis

Our Mission and History

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

In March 2002 in Monterrey, Mexico, President Bush called for a "new compact for global development," which links greater contributions from developed nations to greater responsibility from developing nations. The President proposed a concrete mechanism to implement this compact—the Millennium Challenge Account (MCA)—in which development assistance would be provided to those countries that rule justly, invest in their people, and encourage economic freedom. With strong bipartisan support, MCC was established on January 23, 2004, to administer the MCA. Congress provided nearly $1 billion in initial funding for fiscal year (FY) 2004, $1.5 billion for FY 2005, and $1.8 billion for FY 2006. The FY 2007 President's budget request for the MCA is $3 billion. The President also pledged to increase annual funding for the MCA to $5 billion in the future.

The MCC is unlike any other organization in America's history of foreign assistance. MCC specifically focuses on promoting sustainable economic growth that reduces poverty through investments in areas such as agriculture, education, private sector development, and infrastructure. MCC is designed to support innovative strategies and to ensure accountability with measurable results.

GUIDING PRINCIPLES

MCC incorporates lessons learned from decades of U.S. Government and other bilateral and multilateral donor agencies' development experience. The following principles form the foundation for MCC operations:

- **Good policies support growth, reduce poverty, and make assistance more effective.** Development assistance has a greater impact when it reinforces sound political, economic, and social policies, which are key to encouraging inflows of private capital and increased trade—the real "engines" of economic growth. Through a transparent process, MCC selects countries that have already demonstrated they perform better than their peers in three broad categories: ruling justly, investing in their citizens' health and education, and encouraging economic freedom. Performance is measured by a broad range of independent, non-U.S. Government indicators, which are reassessed periodically.
- **Success is not measured by inputs but by results.** Integrating monitoring and evaluation into the design of activities greatly enhances the probability of successful outcomes and boosts the effectiveness, accountability, and transparency with which taxpayer resources are used. MCC, therefore, integrates concrete, quantified results and methods for monitoring and evaluating into each Compact so that progress can be measured against targets agreed at the start of the program.
- **Country ownership is crucial for development.** Recognizing that development is achieved by a country's own efforts, policies, and people, MCC gives selected countries the opportunity to identify their own priorities for achieving sustainable economic growth and poverty reduction. Countries develop their MCA proposals in broad consultation with their own society, engendering country ownership that increases the likelihood of sustainability and ultimate success of the development programs.

ORGANIZATIONAL STRUCTURE

Millennium Challenge Corporation's Organization

MCC is governed by a Board of Directors composed of the Secretary of State, the Secretary of the Treasury, the U.S. Trade Representative, the Administrator of the United States Agency for International Development (USAID), the Chief Executive Officer (CEO) of MCC, and four public members appointed by the President and confirmed by the Senate.[1] The Secretary of State is the Chair of the Board and the Secretary of the Treasury is the Vice Chair. A CEO, appointed by the President and confirmed by the Senate, manages MCC. MCC is designed to make maximum use of flexible authorities to optimize efficiency in contracting, program implementation, and personnel. MCC is committed to hiring and retaining a small but highly talented workforce from diverse backgrounds.

MCC carries out its work in accordance with the following organizational structure:

- **Office of the Chief Executive Officer.** The Office of the CEO is responsible for managing MCC operations in a manner that reflects the policies of the Board of Directors and achieves MCC's objectives in accordance with applicable laws and regulations and Congressional directives.
- **Department of Accountability.** The Department of Accountability is responsible for overseeing the assessment of economic logic and growth impact of country proposals, the establishment of monitoring and evaluation plans and the collection and analysis of performance measurement data, and for conducting assessments related to environmental and social impacts and compliance with fiscal accountability and procurement procedures.
- **Department of Administration and Finance (A&F).** A&F is responsible for planning and directing all activities related to financial management and budgeting, human resources management, information technology infrastructure, website management, procurement and acquisition, personal security, facilities management, administrative services, and corporate records management. In keeping with the principles laid out in the President's Management Agenda, the majority of these services are outsourced to other federal agencies and the private sector, and the MCC staff working in these areas is responsible for effectively managing the contractual and inter-agency agreements that are put in place.
- **Department of Congressional and Public Affairs (CPA).** CPA is responsible for managing MCC's relationship with Congress, the Press, and Non-Governmental Organizations (NGOs) and working on issues relevant to MCC and other key groups that share in MCC's mission. CPA coordinates all informal and formal Congressional consultation in addition to providing

[1] Two public members were confirmed by the Senate in July 2004. The other two public Board member positions remain open.

updates on MCC developments to Members of Congress and their staffs. This office also handles all media inquiries and interview requests and disseminates information to the public via statements and press releases.

- **Department of Operations.** The Department of Operations manages MCC's relationship with eligible countries; is responsible for providing technical expertise in specific sectors, such as education, finance, infrastructure, agriculture, and health; and maintains continuous contact with eligible countries for all phases of the relationship: proposal development, proposal due diligence, compact negotiation, and compact implementation. In particular, the Department manages contacts with the eligible countries as they undertake the process of identifying their constraints to poverty reduction and economic growth, prioritizing interventions to address these constraints, and developing their MCC program proposals.

  The Department provides the subject matter experts and acts as the coordinator for MCC's due diligence activities relating to eligible country proposals, working closely as a team with MCC staff from the Department of Accountability and Office of General Counsel in carrying out such due diligence. After completion of due diligence, the Department participates in compact negotiation and works closely with the country during the program's implementation. Department members travel frequently to eligible countries. MCC will generally maintain an Operations presence in compact countries during the program implementation phase.

- **Department of Policy and International Relations (PIR).** PIR oversees MCC's relations with all non-MCA-eligible countries. PIR is responsible for policy analysis and recommendations to improve MCC effectiveness, donor coordination, and administration of MCC's selection process and Threshold Program. PIR coordinates MCC positions on international development initiatives and represents MCC on multilateral and donor issues. PIR maintains relationships with experts in the development community, donor organizations, and international organizations to inform them of MCC policies, programs, and approach to development and to learn about innovative ideas and best practices that can be integrated into MCC's policies and practices. Working with the Department of Operations, PIR ensures overall coordination with other donors in MCA countries.

- **Office of General Counsel (OGC).** OGC is responsible for providing advice to MCC's Board of Directors and MCC staff on all legal issues affecting MCC. OGC assists teams from the Departments of Operations and Accountability by addressing and resolving legal issues associated with MCA program development, including in the areas of evaluating and conducting diligence on country proposals, compact negotiation, and compact implementation. OGC uses a team of in-house attorneys as well as outside counsel, where appropriate, to fulfill its mission. OGC provides advice to A&F on all issues affecting the internal operation of MCC, including personnel law, government contracts, fiscal law, information technology, and corporate records management. OGC also performs the function of Secretary to the MCC Board and manages MCC's ethics program.

Staffing

As of September 30, 2006, MCC had 264 full-time employees, an increase of 86 percent during FY 2006. MCC established an aggressive hiring plan to keep pace with the substantive and organizational needs of the Corporation as it continues to provide funding to more countries. It is expected not only that staffing numbers will stabilize in calendar year (CY) 2007, but also that workload issues—determining what activities are kept as core competencies within MCC and what activities can be performed by outside entities—will be a key challenge in coming years. MCC continues to rely on a number of personal service and other contractors or contract vehicles to address its mission-related needs.

Fiscal Year 2006 Highlights— October 1, 2005 to September 30, 2006

MCC provides assistance through the MCA to eligible countries for development projects that remove barriers to poverty reduction and economic growth. MCC assists each country it selects in developing and implementing a Compact. These Compacts reflect a broad consultative process undertaken by the countries themselves to identify and prioritize their development needs. They include measurable objectives by which success is evaluated. MCC assistance rewards and reinforces good policies, asks countries to take full ownership of their own development needs, and demands that countries be held accountable for the aid they receive—accountable not only to U.S. taxpayers who are providing the aid but also to their own people who expect nothing less than tangible results from that aid to lift them from poverty and toward economic prosperity.

In November 2005, MCC's Board of Directors selected a total of 23 countries as eligible to apply for MCA assistance in FY 2006 from a pool of candidate countries that met per capita income levels.

Twenty countries were selected from the Low Income Country (LIC) category that measures annual per capita income at equal to or less than $1,575. These countries are Armenia, Benin, Bolivia, Burkina Faso, East Timor, The Gambia, Georgia, Ghana, Honduras, Lesotho, Madagascar, Mali, Mongolia, Morocco, Mozambique, Nicaragua, Senegal, Sri Lanka, Tanzania, and Vanuatu. All but Burkina Faso, East Timor, The Gambia, and Tanzania had been selected as MCA-eligible in previous years. Three additional countries, Cape Verde, El Salvador, and Namibia, were selected from the new Lower Middle Income Country (LMIC) category in FY 2006. These LMIC countries have per capita annual incomes between $1,576 and $3,255. Cape Verde was previously selected as MCA-eligible in the "low income" category and is currently implementing a Compact with MCC.

Per the MCC selection process, the Board of Directors evaluates the policy performance of all candidate countries in the areas of Ruling Justly, Investing in People, and Encouraging Economic Freedom. In addition to evaluating whether countries perform above the median in relation to their peers on at least half of the indicators in each of these three policy categories and on the corruption indicator, the Board also considers appropriate supplemental materials.[2] Lastly, the Board of Directors critically evaluates whether a country's policy environment is suited to lead to transformational growth and poverty reduction with funding through an MCC Compact.

Of the 23 MCA-eligible countries, Compacts totaling nearly $2.1 billion have been signed to date with Armenia, Benin, Cape Verde, Georgia, Ghana, Honduras, Madagascar, Nicaragua, and Vanuatu. The Compacts with Armenia, Benin, Ghana, and Vanuatu were signed in FY 2006. These Compacts provide funding for a variety of programs, including infrastructure projects, agricultural and rural development, land tenure changes, and private sector initiatives that lead to poverty reduction and economic growth.

Countries partnering with MCC are making great strides in stimulating private investment, promoting trade, and creating jobs. Consider the impact underway in MCC compact partner countries:

- **Armenia.** Through rural road rehabilitation and irrigated agriculture projects, 75 percent of Armenia's rural population is expected to increase annual incomes by 2010.
- **Benin.** By improving land tenure, access to financial services, the Port of Cotonou's operations and infrastructure, and the judicial system's ability to resolve claims, an estimated 250,000 Beninese will be lifted out of poverty by the year 2015 and another 5 million citizens will reap benefits as well.
- **Cape Verde.** More than a quarter of the population will benefit from increased annual incomes totaling $10 million over 5 years through investments in water resources, agricultural productivity, port and road improvements, and private sector initiatives.
- **Georgia.** Nearly 1.5 million people will be served, particularly in rural regions, through projects focusing on rehabilitating regional infrastructure and enterprise development.
- **Ghana.** With projects aimed at reducing transportation costs and expanding the availability of basic community services such as access to education, water and sanitation, and electricity in rural areas, more than 1 million Ghanaians will experience increased incomes as a result of private sector-led agri-business development.

[2] Policy performance indicators are defined in the Performance Section.

- **Honduras.** The incomes of thousands of farmers will increase by transitioning from corn and basic grains to higher-profit crops and through road improvements that will enable these farmers to reach regional and international markets.
- **Madagascar.** The lives of the poorest farmers will be transformed and annual household incomes will increase by focusing on property rights, the financial sector, and agricultural business investment.
- **Nicaragua.** Reduced transportation costs and improved access to markets will result in increased incomes of rural farmers and entrepreneurs living in the Leon and Chinandega regions.
- **Vanuatu.** In transforming the country's unreliable transportation network through 11 infrastructure projects, average per capita income will increase by 15 percent within 5 years and improve the lives of more than 65,000 of the rural poor.

As these Compacts proceed through full implementation, stories of success will provide further indication of MCC's role in poverty reduction and economic growth. MCC's success is already evident in accelerating homegrown interest and capacity-building among eligible countries to participate in their own development, galvanize the support of their own people, create their own proposals for funding, implement these projects themselves, and measure and monitor their own progress toward poverty reduction and economic growth.

This is a tremendous development in the MCC story because it demonstrates the organization's role—even at this early stage—as a formidable catalyst for policy reform. MCC's CEO Ambassador John J. Danilovich noted, "The incentive of becoming MCC eligible has prompted many countries to reevaluate their policies, regulations, and legislation related to good governance, health and education, and their business climate. This is a welcome result I call the MCC Effect." The "MCC Effect" is driving political, social, and economic policy reforms in countries around the world that wish to qualify for funding to accelerate their own development goals.

MCC also administers a Threshold Program designed to assist countries on the verge or "threshold" of qualifying for MCC compact funding. As a precursor to qualifying for compact funding, these countries must first improve their performance on certain eligibility criteria and demonstrate a significant commitment to undertaking the necessary reforms. For FY 2006, the Board of Directors selected 13 countries to participate in the Threshold Program: Guyana, Indonesia, Jordan, Kenya, Kyrgyz Republic, Malawi, Moldova, Paraguay, the Philippines, São Tomé and Principe, Ukraine, Uganda, and Zambia.

As of September 30, 2006, MCC's Board had approved some $200 million in Threshold Program funding to Albania, Burkina Faso, Jordan, Malawi, Paraguay, the Philippines, Tanzania, Ukraine, and Zambia.

Looking ahead, MCC is actively negotiating additional compact and threshold agreements. Moreover, two new indicators, a Natural Resources Management Index and a Land Rights and Access Index, will be proposed for approval by the Board of Directors for use in selecting eligible countries. The use of these indicators will be gradually integrated into MCC's selection framework as supplemental information prior to proposed full adoption.

MILLENNIUM CHALLENGE CORPORATION STRATEGIC GOALS AND RESULTS

The Government Performance and Results Act (GPRA) requires federal agencies to have a strategic plan that includes a comprehensive statement of mission and outcome-related goals and objectives to fulfill that mission. The MCC Board approved MCC's Strategic Plan covering the years 2006 to 2011 in November 2005. The Strategic Plan has four goals that focus on achieving sustainable, transformative changes in developing countries; supporting development of sound policy environments for economic growth and poverty reduction; advancing the international development assistance practice; and building MCC capabilities to achieve these goals. MCC also developed a Performance Plan for FY 2006, which it shared with the Office of Management and Budget (OMB) in March 2006. The Performance Plan identifies inputs, outputs, and outcomes that facilitate accomplishment of these goals, and they are discussed in greater detail in the Performance Section of this report.

Performance Plan outcomes include sustainable economic growth and poverty reduction and positive policy changes with long-term, transformative effects in developing countries. Outputs include quality Compacts that support poverty reduction, economic growth, and improved policies as well as recognition and support of the MCC approach to foreign aid. Inputs include execution of quality Compacts, partnerships with developing countries, efficiency and resource productivity, compliance with Compacts and due diligence activities, and effective staffing of MCC.

Results for FY 2006

While implementation of MCC Compacts began only in late FY 2005, initial results are promising:

- The rate of growth in per capita Gross Domestic Product (GDP) for countries that were eligible for MCC compact assistance in 2005 increased compared to 2004, while the per capita GDP growth rate for all LICs fell during the same period.
- Rates of reform since 2002 for MCC eligible and threshold countries exceeded those for MCC candidate countries in all three reform categories (Ruling Justly, Investing in People, and Economic Freedom).

Anecdotal information also points to a strong "MCC Effect" that encourages countries to implement reforms needed to qualify for MCC assistance:

- Officials from the World Bank, International Finance Corporation (IFC), and Heritage Foundation have all attributed observed performance improvements to the "MCC Effect."
- Two Harvard economists released a report earlier this year concluding that countries are responding to MCC's clear and actionable incentives.

MCC has also taken a number of critical steps to improve its capabilities to implement the steadily increasing number of Compacts and Threshold Programs it is responsible for, including:

- Increasing MCC's staff from 142 at the beginning of FY 2006 to 264 at the end of the fiscal year, only 36 below MCC's planned corporate headquarters staffing level of 300.
- Improving the internal control environment by implementing 26 new and 7 revised key policies or procedures.

- Streamlining MCC's procurement procedures and conducting procurements that fully comply with the Federal Acquisition Regulation while routinely beating federal norms for procurement lead times.
- Opening new overseas offices in five countries and streamlining the process of placing MCC Resident Country Directors so that they are on the ground to support the initial implementation of Compacts.

In some areas, MCC hopes to improve on the initial performance recorded for FY 2006 as we gather sufficient data to lead to more meaningful results and implement lessons learned in order to do our work more effectively and efficiently:

- The ratio of administrative expenses to compact programs in implementation increased in FY 2006 as MCC nearly doubled its staff and undertook other significant investments in its operating capabilities. MCC expects this ratio to decrease significantly in FY 2007 as a number of new Compacts begin implementation.
- While MCC was able to successfully implement a significant number of recommendations from the Inspector General (IG) in FY 2006, we expect to do even better in FY 2007 as we implement a comprehensive set of internal controls.

Challenges in Measuring MCC Performance

Development of measures that show the impact of MCC programs is challenging for a number of reasons:

- While total funding for Compacts is obligated up front, funding is not disbursed to the recipient country until a country is actually ready to implement the programs agreed to in the Compact. For this reason, even initial results are not likely to occur in the year in which funding is obligated. In addition, because Compacts are normally implemented over a 5-year period, outcome data is often not available until well into this implementation period. To address this, compact countries are now formulating activity level monitoring plans that will enable them to report on output and process level results.

- Wherever possible, MCC uses third-party sources for outcome data in order to remove any possibility of reporting bias. However, the types of outcome measures used to determine whether programs funded through a Compact are leading to economic growth and poverty reduction often rely on data that is not measured every year or for which there is a time lag. For other measures, such as the percentage of people who live on less than $2 per day, it is difficult to establish a baseline from which to measure because data is determined by national surveys that are conducted inconsistently.
- Many of MCC's partner countries also have limited capacity to measure outcome or output results. Because countries are the primary implementers of MCC compact projects, this lack of capacity can make it more difficult to measure results within the ambitious timeframes built into MCC monitoring and evaluation plans. MCC has provided technical assistance to a number of our partner countries in order to help them improve their technical capacity in these areas. As noted above, we are also helping them identify and track activity level indicators and incorporate them into activity monitoring plans.

MCC is constantly reviewing its performance metrics to look for improvements in the way we measure our outcome, output, and input performance. For example, MCC is investigating measuring economic growth and poverty reduction at a level tailored more specifically to our programs. We are also planning to develop more explicit measures in areas such as recognition and support, country partnership, and staff effectiveness and satisfaction, where an independent survey will be conducted to measure results.

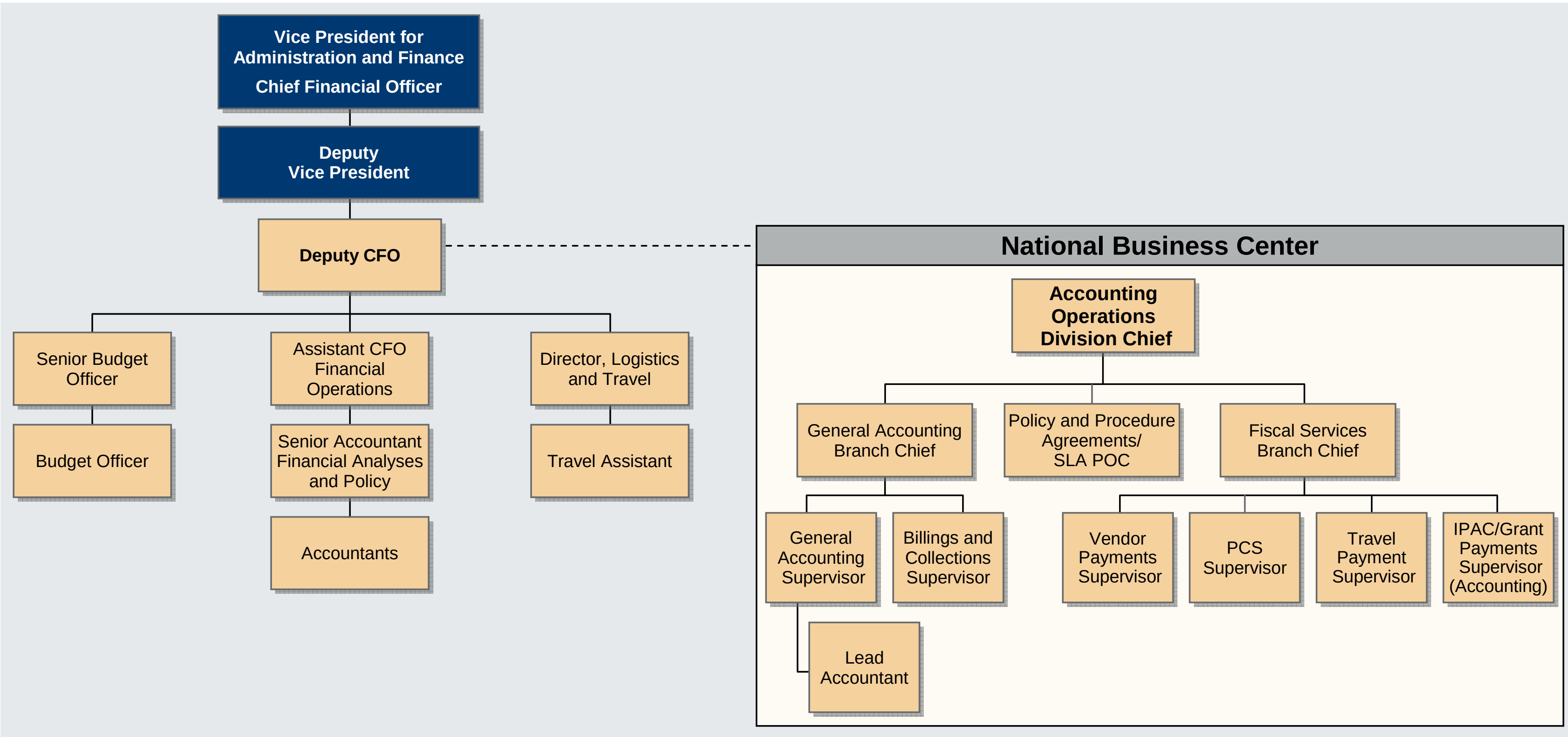
FINANCIAL PERFORMANCE AND ANALYSIS

MCC's financial management operations are managed and controlled by the Division of Finance, Department of Administration and Finance. The Division is headed by the Deputy Chief Financial Officer. The Division is responsible for implementing financial management policies, controls and financial systems; and providing a full range of financial management and budget services to MCC organizations and staff. The Division also oversees and manages the Corporation's internal control implementation and assessments.

The Division is composed of three functional teams: (1) accounting and financial operations, (2) budget formulation and execution, and (3) travel management and logistics. During FY 2006, MCC increased the Division's staffing level from two full-time staff persons to eight persons. The Division's strategy is to create an operating environment that accentuates the delivery of high-value and timely services to MCC employees and other stakeholders through the effective management of financial, personnel, and technological resources.

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) under an inter-agency agreement. NBC, one of the Federal Government's financial management centers of excellence under OMB's financial management line of business, performs MCC's day-to-day financial transaction processing and internal and external financial reporting. The Division of Finance provides oversight and guidance to NBC accounting personnel on an interactive basis. Exhibit 1 illustrates the Division of Finance and NBC's organizational structure.

Exhibit 1. Division of Finance and National Business Center



For the Division of Finance, FY 2006 was a year of "ramp up," with a focus on clearly defining the strategic direction for MCC's financial operations. MCC, in existence for less than 3 years, began more firmly to institutionalize financial processes, controls, and operations in order to better ensure the propriety and viability of financial management operations as well as to provide routine and reliable financial management data to corporate decision-makers and other stakeholders. In addition to significantly increasing the number of financial staff members and the resulting functional capabilities, the Division of Finance also undertook several key initiatives to enhance financial management and internal controls and provide long-term benefits. For example, the Division of Finance:

- Undertook a focused effort, with the assistance of a reputable international professional services firm, to develop and implement a comprehensive financial management policies and procedures manual for the use and guidance of all MCC employees. The inaugural edition of the manual is slated to be completed by December 31, 2006.
- Instituted a comprehensive internal control assessment, evaluation, documentation, and testing program pursuant to requirements mandated by OMB Circular A-123, Management Responsibility for Internal Controls.
- Initiated and completed a defined budget formulation process, consisting of cooperation and interaction with all other corporate organizations.
- Further initiated a viable budget execution and performance monitoring process in which routine reporting and feedback is to be provided to corporate organizations regarding the use and status of funds.
- Began strategic planning for implementation of a corporate-wide managerial cost accounting and performance monitoring and reporting capability.

During FY 2006, MCC's financial operations intensified with the signing of four Compacts with eligible countries resulting in cumulative commitments during the year of more than $1.1 billion.[3] The Corporation's cumulative level of compact funding increased significantly during the year and will continue to trend upward substantially as MCC formally enters into additional Compacts

[3] MCC entered into Compacts with the following countries during FY 2006: Armenia, Benin, Vanuatu, and Ghana.

with eligible countries in future years. The following sections present the Corporation's overall perspectives and highlights of MCC's financial performance through the end of FY 2006.

Financial Statements Highlights

For FY 2006, MCC received an unqualified ("clean") opinion from its auditors on its annual financial statements. While the Corporation's auditors rendered an unqualified opinion on the financial statements, they also reported several material weaknesses and deficiencies necessitating resolution (see the auditor's report at the end of this document).

While MCC is not a Chief Financial Officers (CFO) Act agency, the Corporation 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.

The Corporation's financial statements present MCC's financial position, results of operations, functional expenses, cash flows, and budgetary resources for the fiscal years ending September 30, 2006, and September 30, 2005. As of the end of FY 2006, the Corporation's financial position was highly favorable with available assets more than sufficient to satisfy current and future liabilities and demands.

Statement of Financial Position

The Statement of Financial Position is a presentation of MCC's financial condition at the end of a fiscal year. The statement shows the resources that the Corporation holds with which to meet its statutory requirements, the amounts it owes to other parties, and the difference between the two (net position).

Assets and Unexpended Appropriations

As of September 30, 2006, MCC reported total assets of almost $4.0 billion, an increase of $1.6 billion from September 30, 2005. This increase is primarily the result of funds appropriated by the Congress to carry out the Corporation's programs that had not been expended as of the end of the year. At fiscal year-end, MCC held $3.9 billion in unexpended appropriations, of which $1.8 billion were unobligated and uncommitted.

The Corporation's fund balances with the Treasury constitute the vast majority (99.4 percent) of total assets. Because MCC does not own any facilities or other real property and leases office space and certain information technology equipment, the Corporation has comparatively little fixed or capital assets in relation to total assets. As of September 30, 2006, the Corporation reported fixed assets of $4.6 million, composed of leasehold improvements and capitalized equipment. The leasehold improvements are for enhancements made to office space and communications technology within the leased facility.

Liabilities and Net Position

As of September 30, 2006, MCC owed approximately $7.8 million to its vendors, contractors, and employees. The Corporation's ratio of assets to liabilities as of September 30, 2006, was highly favorable—509 to 1.

Due to the substantial value of assets in excess of liabilities, the Corporation's overall net position as of September 30, 2006, was $3.9 billion. During FY 2006, MCC's net position improved by $1.6 billion, or 67 percent from September 30, 2005. In summary, during the year, MCC received $1.77 billion in appropriated funds of which $17.7 million was rescinded and about $109 million was expended. Obviously, the available appropriations and highly positive net position is necessary to fund future Compacts that are to be covered from funds appropriated as of the end of the year. As of the end of FY 2006, MCC was working with 13 countries in developing Compacts for eventual implementation.

Statement of Operations and Net Position and Statement of Functional Expenses

The Statement of Operations and Net Position presents the Corporation's operating results for a fiscal year and is similar to a private sector entity's income statement. The statement reports expenses incurred by MCC and financing sources recognized to finance the expenses as well as the change in the Corporation's end-of-year net position as a result of its operations (financing sources less expenses). The Statement of Functional Expenses is a supplemental statement that presents MCC's annual expenses in more detail than presented in the Statement of Operations and Net Position.

Financing Sources and Expenses

During FY 2006, MCC recognized $92.5 million in financing sources (appropriations used) and incurred $92 million in operating expenses. As of the end of FY 2006, the Corporation had cumulatively provided $34 million to MCA accountable entities to cover anticipated compact expenses and related disbursements.

Statement of Budgetary Resources

The Statement of Budgetary Resources presents the sources of MCC's budgetary resources, their status at the end of the year, and the relationship between budgetary resources and the outlays (disbursements) made against them. During FY 2006, a total of $3.8 billion in budgetary resources was available to MCC through appropriations. Appropriations are funding sources resulting from specific acts of the Congress that authorize a federal agency to incur obligations and make payments for specified purposes. As noted previously, MCC's appropriations fund the full realm of the Corporation's programs and activities. The following section provides additional details pertaining to MCC's use of the funds appropriated to it by the Congress.

Status and Use of Funds

MCC's programs and activities are funded by the Congress through annual no-year appropriations. No-year appropriations are generally available until expended. In short, this means that MCC can incur obligations against the appropriations indefinitely. Since its establishment, MCC has received total funding of more than $4.2 billion, including almost $1.8 billion in FY 2006 (see Exhibit 2).

Exhibit 2. Annual Funding by Fiscal Year (in thousands)

Fiscal Year	Annual Funding (in thousands)
2004	$ 994,000
2005	1,488,100
2006	1,752,300
Total	**$4,234,400**

As of September 30, 2006, $1.8 billion of MCC's realized resources remained available for commitment, obligation, or both.

While MCC receives no-year funding, OMB apportions, per Congressional limits, the amount of funds that the Corporation may obligate for administrative purposes. Administrative costs include personnel salaries and benefits, leases, rentals, travel, and other miscellaneous expenses. For FY 2006, OMB apportioned $75 million for MCC to use for administrative purposes. During FY 2006, MCC obligated $71.1 million in administrative funds, or almost 95 percent of the total amount apportioned by OMB. The obligated amount represented about 4 percent of the total amount of funds appropriated to MCC by the Congress for the operating period. As noted in Exhibit 3, administrative funds represent a small proportion of the total funds provided by the Congress, while about 96 percent of MCC's funds go toward program operations. Should MCC not obligate the total amount of administrative funds apportioned by OMB during the budget year, then the excess (unobligated) amount is no longer available for administrative purposes but "rolls over" and is subsequently available for program purposes.

MCC and OMB have established several categories of "program funds," as follows:

- **Compacts.** Funds apportioned by OMB and obligated by MCC in the form of grants to cover programs through formal agreements, that is, Compacts, entered into between the Corporation and partner countries.
- **609(g).** Funds apportioned by OMB and used by MCC and MCA countries for compact development in the form of grants pursuant to Section 609(g) of the Millennium Challenge Act.[4]
- **Due diligence.** Funds apportioned by OMB and used by MCC to cover costs to assess Compact proposals, as well as costs incurred by MCC in providing oversight and monitoring of Compacts being developed and implemented by eligible countries.
- **Threshold.** Funds apportioned by OMB and used by MCC (through USAID) to assist countries in meeting governance, economic, and social investment criteria for MCA

4 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.

eligibility. (Such countries are considered "on the threshold" of qualifying for eligibility for an MCC Compact.)

- **Audit.** Funds apportioned by OMB for the purpose of having audits conducted of MCC operations and programs. (The USAID Office of Inspector General [OIG] is responsible for MCC audits.)

During FY 2006, MCC incurred total obligations of $1.0 billion for all program fund categories. Total obligations incurred by MCC since its inception (lifetime) exceed $1.5 billion. Exhibit 3 presents total FY 2006 and lifetime obligations by fund categories.

Exhibit 3. Obligations by Fund Category (in thousands)

Funds Category	FY 2006 Obligations (in thousands)	Lifetime Obligations (in thousands)
Administrative	$ 71,111	$ 119,382
Compacts	880,536	1,205,309
609(g)	29,636	41,460
Due diligence	42,850	49,194
Threshold	83,230	117,930
Audit	2,172	4,477
Total	**$1,109,535**	**$1,537,707**

As noted in Exhibit 3, as of September 30, 2006, MCC had incurred total lifetime compact obligations of $1.2 billion. These obligations represent the total value of funding that the Corporation is formally required to provide to the MCA accountable entities during the lives of the associated Compacts. In short, at the time that MCC signs a Compact with a country, the Corporation commits the total amount of funds needed for the Compact and its constituent projects and activities. Once MCC and the country have completed necessary pre-compact activities and it is determined that the MCA accountable entity is ready to begin executing the projects in accordance with the formal document, the Compact "enters into force." At this point, MCC obligates the total funding for the duration of the Compact (and reduces or "liquidates" the previously recorded commitment). As of the end of FY 2006, MCC had obligated funds for signed Compacts as shown in Exhibit 4.

Exhibit 4. Compact Obligations
(in thousands)

MCA/Country	Total Compact Obligations (in thousands)
Madagascar	$ 109,773
Honduras	215,000
Cape Verde	110,078
Nicaragua	174,925
Georgia	294,693
Vanuatu	65,690
Armenia	235,150
Total	**$1,205,309**

MCC had also recorded commitments in the amount of about $843 million for signed Compacts with Benin ($306 million) and Ghana ($537 million) that had not entered into force during FY 2006.

Obviously, the vast majority of MCC's appropriated funds are slated for programmatic functions. Funding received for any given fiscal year may not be obligated during that year due to the lead time necessary to plan and prepare for the formal implementation of Compacts. At any given time, a number of eligible countries are in the process of preparing necessary submissions and relevant proposals to receive approval from MCC for compact funding.

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

As noted above, the Corporation uses NBC as a financial management shared-services provider for financial and selected program (feeder) systems. While NBC provides much of MCC's day-to-day financial processes and related activities, Corporation management is still 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 summary information regarding MCC's financial systems, controls, and compliance with key laws and regulations.

Financial Management Systems

MCC leadership holds the view that a key to enhanced financial and program management in the future is improved and reliable financial management systems. Corporation managers require timely and reliable financial information in order to make informed and defendable programmatic decisions within limitations established by the Congress and OMB. As such, MCC management is committed to ensuring that the financial management systems used for the entity's financial operations fulfill the requirements stipulated by OMB in Circular A-127, Financial Management Systems. In short, the circular requires each federal entity to implement a single, integrated financial management system that meets specified functional and technical requirements.[5]

During FY 2006, the NBC core financial system used for MCC's financial functions was not fully electronically integrated with the various feeder systems.[6] For example, the travel management system[7] was not integrated with the core financial system to provide routine and controlled processing updates of financial impacts in the general ledger based upon official travel documents (authorizations, amendments, and vouchers). As such, NBC staff routinely made manual data entries and updates to MCC's financial transactions and balances.

Exhibit 5 illustrates at a high level NBC's current financial management systems used for MCC financial management operations.

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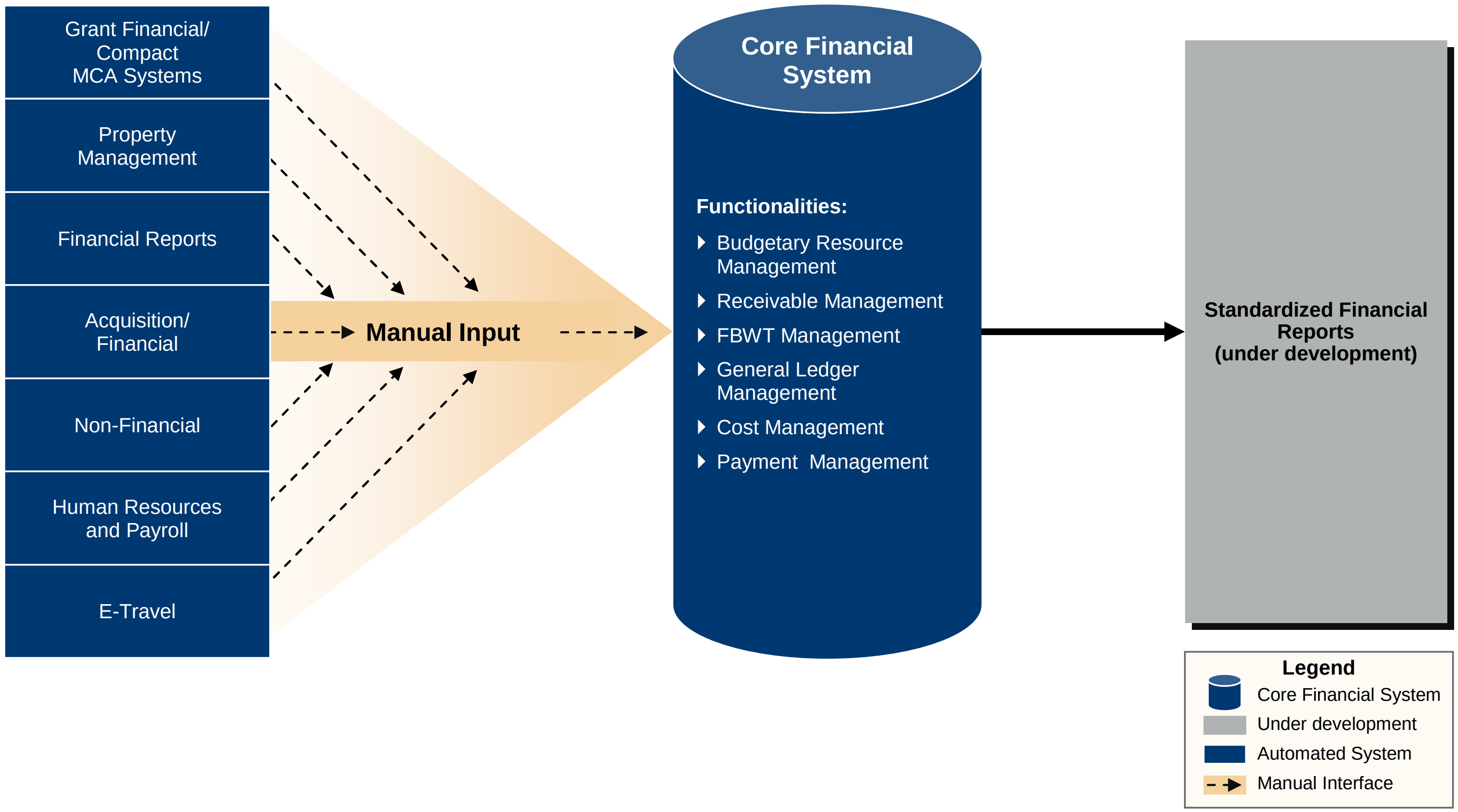
5 OMB Circular A-127, Section 7(a – l), prescribes requirements. The circular is available at: www.whitehouse.gov/omb/circulars.

6 NBC uses Oracle Federal Financials as the core system software for the MCC suite of financial systems.

7 NBC uses the Carlson-Wagonlit E-travel solution for MCC's operations.

Exhibit 5. Financial Systems Architecture



During FY 2006, NBC's financial systems used for MCC's financial operations were not in full compliance with requirements mandated by the Federal Financial Management Improvement Act (FFMIA) of 1996. Specifically, during the year the subject systems did not comply with selected federal financial management systems requirements related to systems security. However, during the year NBC undertook various corrective actions to address the deficiencies. As of September 30, 2006, NBC management asserted that the corrective actions that the Center had taken during the year had resolved the conditions causing the deficiencies and that the systems were FFMIA-compliant.

MCC's goal is to continue to improve its financial transaction processing and reporting by working with NBC to plan, design, and institute required tools and functionalities to meet the Corporation's managers' information requirements. Department of A&F managers are discussing a number of options to further enhance the suite of financial management systems used by the Corporation including:

- Financial reporting software that will readily integrate with the NBC core financial system to permit timely and reliable financial reports, both standard reports and ad hoc queries/reports
- Managerial cost accounting functionality
- Budgetary planning and performance capabilities

MCC desires that all its financial systems effectively interface or integrate with program and other systems, such as the federal travel and purchase card systems it uses. In deciding the specific systems architecture and functions to be planned and implemented, MCC management will follow sound investment principles by evaluating and selecting systems, software, and processes that fulfill managers' needs within the Corporation's portfolio of affordable capital assets.

Internal Controls

As with all federal agencies, MCC's management is responsible for establishing and maintaining strong internal controls that provide reasonable assurance that the integrity of its programs and operations are protected. Specifically, Section 2 of the Federal Managers' Financial Integrity Act of 1982 (FMFIA) requires the head of an agency to provide an annual statement of assurance regarding the agency's internal controls and financial systems. Internal controls are the organization, policies, and procedures used to reasonably ensure that (i) programs achieve their intended results; (ii) resources are used consistent with agency mission; (iii) programs and resources are protected from waste, fraud, and mismanagement; (iv) laws and regulations are followed; and (v) reliable and timely information is obtained, maintained, reported, and used for decision-making. MCC's management is responsible for ensuring that proper internal controls over financial reporting and systems are in place and are functioning effectively.

In December 2004, OMB revised Circular A-123, Management's Responsibility for Internal Control, to improve federal managers' accountability and the effectiveness of federal programs by establishing, assessing, correcting, and reporting on internal control. Appendix A of the Internal Control Over Financial Reporting circular provides requirements and a methodology for agency management to assess, document, and report on internal control over financial reporting. The revised circular was effective for FY 2006 (and thereafter).

During FY 2006, MCC instituted a focused internal control program in accordance with OMB Circular A-123. A key component of the Corporation's program was the establishment of a Senior Assessment Board (SAB) to provide oversight of the internal control assessment process. The SAB's responsibilities include:

- Determining the scope of internal control assessments
- Ensuring that internal control and assessment objectives are clearly communicated throughout the agency
- Ensuring that internal control assessments are carried out in a thorough, effective, and timely manner
- Determining assessment design and methodology
- Analyzing the results of internal control testing and assessments
- Reporting on the assessments results

MCC developed an assessment plan that included assessing and reporting on entity and process level controls over financial functions performed at MCC headquarters and NBC. Controls over financial reporting for the MCA countries (i.e., countries for which formal Compacts between MCC and the countries had been signed during FY 2006 and which had entered into force) were not included in the assessment because all the countries were in the early stages of compact implementation.[8]

In accordance with MCC's Circular A-123 implementation plan and the requirements contained in Appendix A of the circular, MCC conducted an assessment of the effectiveness of its internal controls over financial reporting. The assessment covered 11 key MCC business processes:

- Acquisition Management
- Program Assistance
- Travel Management
- Funds Management
- Financial Reporting
- Budget Formulation and Execution
- Human Capital Management
- Information Technology
- Personnel Salary and Benefits
- Reimbursable Agreement Management
- Property, Plant, and Equipment

MCC also obtained and considered the results of NBC's Circular A-123 assessments and its statement of assurance related thereto.

On the basis of the Corporation's assessment and other relevant information (such as the Government Accountability Office [GAO] and OIG audit reports), the CEO concluded with reasonable assurance that MCC's internal controls are in compliance with the provisions of FMFIA, Section 2, and that MCC is in compliance with the internal control objectives stipulated by OMB in Circular A-123.

[8] Department of A&F leadership apprised pertinent OMB officials of the scope of the FY 2006 internal control assessment. The SAB concurred with the scope (exclusion of controls for MCA accountable entities' financial reporting).

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 the Corporation's compliance with other relevant financial management laws and regulations. Principal among these are:

- FFMIA
- Prompt Payment Act
- Debt Collection Improvement Act of 1996 (DCIA)
- Improper Payments Information Act of 2002
- Federal Information Security Management Act (FISMA)

Federal Financial Management Improvement Act of 1996

FFMIA requires federal agencies to implement and maintain financial management systems that are in substantial compliance with (i) federal financial management systems requirements, (ii) federal accounting standards, and (iii) the United States Standard General Ledger at the transaction level. Because the Corporation 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.

During FY 2006, NBC's systems were not in substantial compliance with FFMIA requirements. In its assurance statement as of June 30, 2006, NBC asserted that its systems "were in substantial non-compliance with FFMIA requirements" because NBC had not completed all planned corrective actions to address system security issues previously identified by the Department of Interior's Inspector General. However, as of September 30, 2006, NBC indicated that it had accomplished planned corrective actions and that the effectiveness of the actions was confirmed by the Department of Interior's IG in a report issued on August 28, 2006. Therefore, NBC asserted that as of the end of FY 2006, the financial management systems that it uses for MCC's financial management and reporting functions substantially comply with the three categories of FFMIA requirements.

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. For FY 2006, MCC's "prompt payment" performance was 95.6 percent. During the year, MCC paid $10,490 in late payment interest to vendors.

Also, during the year, NBC made 96.4 percent of MCC's vendor and compact payments via electronic funds transfer.

Debt Collection Improvement Act 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 2006, MCC referred no debts to FMS for collection.

Improper Payments Information Act 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. The 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

In preparation for MCC's annual FISMA review and OMB filing in October 2006, MCC engaged an outside expert to perform an independent security audit and to work collaboratively with the OIG to prepare all necessary documentation for the review. The contractor also completed some of the work necessary for the Certification and Accreditation (C&A) of MCCnet, MCC's internal LAN/WAN network, and developed several policy and procedure statements. The IG's audit indicates MCC is in partial compliance with the FISMA requirements and has made improvements in addressing security weaknesses.

After reviewing the audit report, MCC agreed with the IG's finding that seven of eight IG recommendations made in its previous audit (for FY 2005) remain open. MCC, however, had recommended they be closed based on actions taken in response to those recommendations and had received preliminary approval from the IG to do so. Three new recommendations were made. The new recommendations include completing the C&A process on MCCnet, holding NBC accountable for its own FISMA compliance, and providing other quarterly FISMA filings to OMB. The original recommendations were on issues related to risk assessments and security audits, having documented policies and procedures, security training for the staff, and establishing a comprehensive Continuity of Operations Plan (COOP). MCC agreed with the OIG's findings and has committed to completing all the work necessary in order to be able to close six of the seven original open recommendations and two of the three new recommendations by December 2006. The remaining two recommendations will be closed in FY 2007.

Future Financial Management Challenges

MCC is a young agency with a highly important and visible mission, and it has made substantial progress in its short existence in establishing a sound foundation upon which to continue improving its financial management systems, processes, and controls. As conveyed earlier, the

Division of Finance strives to deliver high-value and timely services to MCC employees and stakeholders through the effective management of available resources.

While the Corporation has received unqualified opinions on its annual financial statements, improvements and refinements are warranted in its financial management operations to further enhance efficiencies and effectively resolve identified deficiencies. Following are brief summaries of a number of challenges that the Division of Finance will address in future fiscal periods:

- **Financial management systems.** We will continue to work interactively with the financial services provider to maximize the electronic integration of the suite of systems used for MCC's financial management functions. Also, we will pursue additional automated capabilities for procurement, budget formulation, performance monitoring and reporting, managerial cost accounting, and financial reporting.
- **Internal controls.** We will continue to devise, enhance, implement, and maintain strong internal controls over all aspects of the Corporation's financial management operations. We will establish viable and effective processes and mechanisms to better ensure the consistency and reconcilability of financial data in the NBC suite of financial systems with related financial data recorded and reported by the MCAs relative to Compacts.
- **Financial reports and feedback to managers.** We will further develop and routinely disseminate to MCC's managers viable and pertinent information on funds status and other attributes to assist in decision-making and monitoring financial performance.
- **Integration of budgetary, financial, and performance information.** We will develop and implement effective financial and business models that use and integrate budget plans, financial results, and performance data so that program and financial managers have the necessary data views to run a world-class organization.

2. PERFORMANCE SECTION

MCC PERFORMANCE IN FY 2006

In accordance with the GPRA, MCC's Board of Directors approved its Strategic Plan on November 8, 2005, covering the years 2006 to 2011. The Strategic Plan defines MCC's mission as follows:

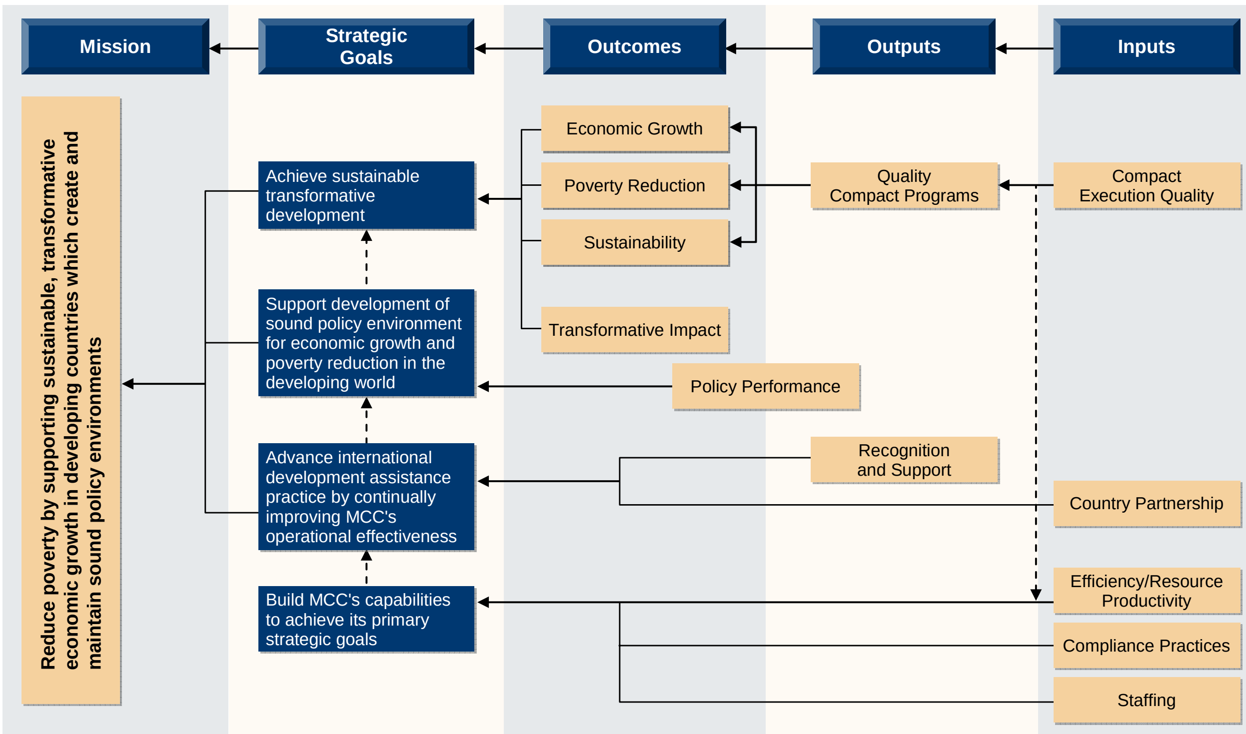
> MCC'S MISSION IS TO REDUCE POVERTY BY SUPPORTING SUSTAINABLE, TRANSFORMATIVE ECONOMIC GROWTH IN DEVELOPING COUNTRIES WHICH CREATE AND MAINTAIN SOUND POLICY ENVIRONMENTS.

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.

MCC developed and shared a FY 2006 Performance Plan with OMB in March 2006. The Performance Plan includes a number of outcome, output, and input measures that track back to the Strategic Plan. Exhibit 6 shows the mapping between measures in the FY 2006 MCC Performance Plan and MCC's strategic goals.

Exhibit 6. MCC's Corporate Performance Plan



Outcome Measures

MCC signed its first Compacts in FY 2005. These first Compacts will not be completed and evaluated until FY 2010. As a result, there is limited outcome data available to report for FY 2006. Accordingly, the Performance Plan weights outcome measures at a relatively low 5 percent in FY 2006. This weight will increase significantly to more than 50 percent by FY 2010 when we expect to have significant outcome data to evaluate.

Despite the current lack of data on most outcome measures, we have provided results for one measure, the change in per capita GDP for countries that were eligible for MCC assistance in FY 2004 and FY 2005. MCC has developed a robust data set about performance on country selection indicators, and we have provided assessments of the relative improvement in MCC country selection indicators for MCC eligible, threshold, and candidate countries.

Output Measures

MCC has designed a number of output measures to assess the shorter term impacts of MCC programs. These measures include assessments of the relative improvement in MCC country selection indicators for MCC eligible, threshold, and candidate countries as well as performance by MCC compact countries on specific performance targets. MCC has developed a robust data set about performance on country selection indicators. However, compact implementation only began in a number of countries in FY 2006, and with the exception of the policy performance measures the performance data on specific targets is still very limited.

Input Measures

MCC has defined a number of measures to assess how effectively and efficiently we are managing compact development and implementation as well as our Threshold and other programs. Key measures include:

- The percentage of Conditions Precedent (CP) that had to be waived or delayed for a compact project disbursement to occur. CPs are actions that a compact country needs to take before MCC will release a specific disbursement of funds. CPs can include such actions as appointing key personnel, completing feasibility studies or environmental impact assessments, or reaching specific implementation milestones.
- A comparison of administrative expenses and due diligence resources to the amount of funding that has been committed under Compacts. Administrative expenses are those costs associated with the routine operations of MCC, such as salaries and benefits, rent, and travel. Due diligence expenses are expenses incurred while determining whether projects proposed by MCA-eligible countries meet MCC standards in areas such as technical feasibility, economic growth and poverty reduction, environmental impact, and financial management and whether projects in implementation continue to meet these standards.
- A measurement of the number of recommendations by the IG that MCC has fully implemented.

Strategic Goal 1—Achieve Sustainable, Transformative Development

The MCC Strategic Plan defines the expected outcome for this strategic goal to be 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. In the coming year, MCC will consider further refinements to these measures, including the possibility of measuring criteria relative to trend, dealing with the problem of infrequently measured data, and considering alternative data sources. MCC will also investigate measuring economic growth and poverty reduction at a level tailored more specifically to our programs:

- **Outcome Measure 1**—The ratio of the Economic Rate of Return (ERR) before compact implementation begins compared to that after compact implementation is completed (The ex-ante and ex-post measurements used for this ratio will normally be separated by at least 5 years.)

  Description of metric and targets: Because of the short period of time that MCC projects have been in implementation in compact countries, it is premature for MCC to measure results against this outcome measure. MCC will not set specific targets for this measure until FY 2010 or later.

- **Outcome Measure 2**—Change in the percentage of the population below the poverty line at $2 per day

  Description of metric and targets: MCC originally planned to begin to measure results against this outcome measure in FY 2006. However, it has proven to be very difficult to set a baseline for this measure. The number of people who live on less than $2 per day is measured through national surveys that are done inconsistently, but typically every 3 years. As a result, there is little recent data to use as a baseline, and in the case of one MCC-eligible country, the most recent available data is from 1995.

  Because of this difficulty, MCC will reassess this measure and may choose a different metric, such as one that has more consistent data availability and can be measured more consistently for its FY 2007 Performance Plan.

- **Outcome Measure 3**—Organizational capacity

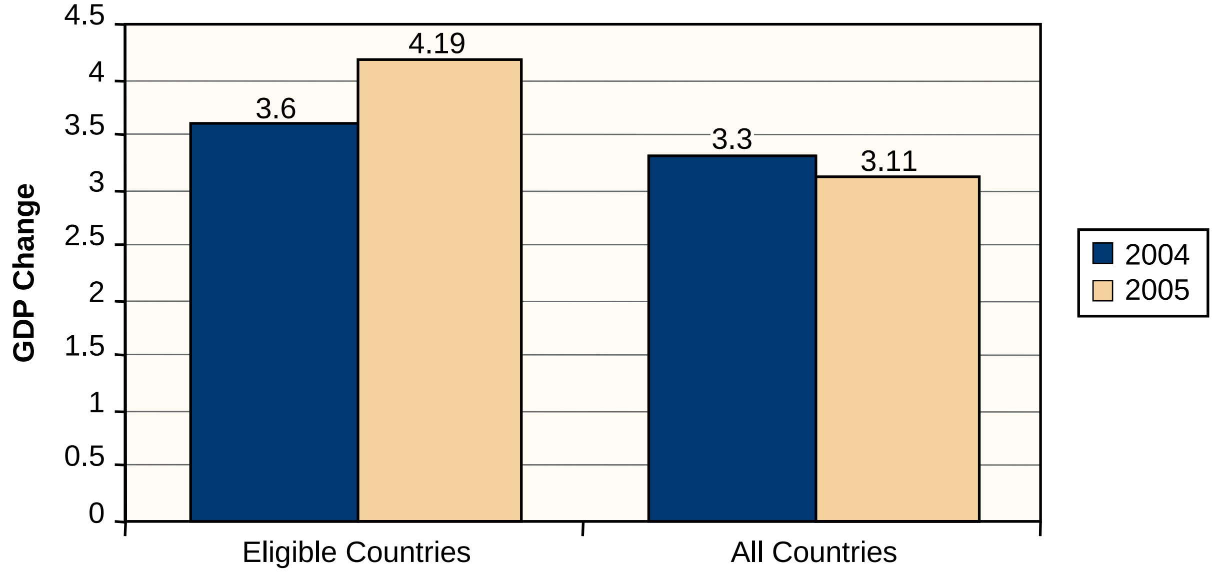
  Description of metric and targets: MCC has not yet developed a metric to measure the organizational capacity of our counterpart entities accountable in compact countries. MCC will develop this measure in the coming year, but will not set specific targets for this metric until FY 2008 or later.

- **Outcome Measure 4**—Change in per capita GDP relative to other countries in low or lower-middle income groups

  Description of metric and targets: MCC has begun to measure the change in per capita GDP for compact countries, comparing the latest available per capita GDP data (from CY 2005) to a baseline level of CY 2004. For FY 2006, MCC will not measure impacts of MCA-funded projects on per capita GDP because compact programs will not have been in place long enough to have such an impact. However, the measure will help us determine whether countries selected as eligible for MCC assistance demonstrate on average a greater increase in per capita GDP due to their adoption of key economic and other reforms in response to the incentives created by MCC's selection process.

  Results: For the 17 countries that were eligible for compact assistance in FY 2005, the rate of growth of per capita GDP increased from 3.60 percent in 2004 to 4.19 percent in 2005 (see Exhibit 7). The rate of growth in per capita GDP for all LICs during that same period fell from 3.30 percent in 2004 to 3.11 percent in 2005.

**Exhibit 7. All LICs/Eligible Countries
Percent GDP Change**



- **Outcome Measure 5**—Change in the United Nations' Human Development Index (HDI) relative to other countries in low or low-middle income groups

Description of metric and targets: MCC will begin to measure the change in the HDI of compact countries when sufficient data is available. The 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 HDI in the most recent UN Human Development Report is based on 2003 data and is therefore not usable either as a measure of results or as a baseline. MCC will use HDI information based on 2004 data as a baseline and will begin measuring results for this measure when 2005 data is available.

- **Output Measure 1**—Percentage of compact performance targets met on time

Description of metric and targets: MCC defines annual performance targets for specific projects in its Compacts and measures the results of these targets on an annual basis. While

MCC has begun to measure the results of this metric for FY 2006, the only country for which MCC has performance data for all four quarters is Madagascar. MCC expects that a much more robust measurement of this metric will be able to be made for FY 2007 when additional progress will have been made on implementation and more results are available.

Results: Madagascar had four performance targets set for the first year of implementation, of which one was deferred. Of the three remaining targets, two, or 67 percent of the total applicable targets, were met on time.

- **Input Measure 1**—Percentage of performance benchmarks met for a given disbursement

MCC has begun to measure results for this metric in FY 2006, based on 13 disbursements in six countries. While the metric in the FY 2006 performance plan refers to performance benchmarks, this metric in fact is based on the number of CPs met by the country prior to each disbursement and how many have to be waived or deferred. Subsequent performance plans will reflect this clarification.

Results: For the 13 disbursements made during FY 2006, 250 CPs, or 73 percent of the total, were met on time and 92 CPs, or 27 percent, were deferred. No CPs were waived.

Strategic Goal 2—Support Development of a Sound Policy Environment for Economic Growth and Poverty Reduction in the Developing World

One of MCC's main strategic objectives is to create incentives for countries to adopt good policies that create a foundation for poverty reduction and economic growth. The MCC Strategic Plan defines the expected outcome for this strategic goal to be measurable policy reform in three policy areas: Ruling Justly, Encouraging Economic Freedom, and Investing in People. Sound policies in these areas have been shown to contribute to a sound environment for economic growth and poverty reduction. MCC uses 16 objective, transparent, and broadly available policy indicators produced by independent, non-government institutions to evaluate the policy environment.

Assumptions

To calculate rates of reform for various indicators and comparison groups we made a number of assumptions. First, we chose to calculate proportional changes in the median performance of individual peer groups. We divided all LICs and LMICs into three categories: eligible countries, threshold countries, and the remaining candidate countries.

To calculate rates of reform, we first measured absolute changes in median performance, using 2002 as the base year and the most recent year for which data is available as the end year. We then divided the absolute change in a particular peer group's median performance by the data range. We define the data range as the difference between the 90th percentile and the 10th percentile. We chose to include the data range in the denominator, rather than the base year value, in order to improve comparability across indicators and peer groups. So, for example, the median for eligible LICs and LMICs improved from 63 days to start a business in 2002 to 39 days in 2006. Therefore, the absolute change in their median performance is 24 days. The 24 days is then divided by the difference between the 90th percentile (98 days) and the 10th percentile (18 days), yielding a "rate of reform" of 30.77 percent.

Categorical rates of reform (Ruling Justly, Investing in People, and Economic Freedom) were calculated as the simple average of the rates of reform on all indicators in that category. The only exception is Economic Freedom, where we excluded the rate of reform data for inflation due to the exogenous influence of rising oil prices, which led to large declines across all peer groups. Finally, we note that this is our first effort to measure rates of reform and that we will likely refine our approach over time.

Outcome Measure 1—Rate of Reform for Ruling Justly

Description of metric and targets: The six indicators in this category are: Civil Liberties, Political Rights, Voice and Accountability, Government Effectiveness, Rule of Law, and Control of Corruption. These indicators measure just and democratic governance, including a country's demonstrated commitment to promote political pluralism, equality, and the rule of law; respect human and civil rights, including the rights of people with disabilities; protect private property rights; encourage transparency and accountability of government; and combat corruption.

Results: Threshold countries are registering a higher rate of reform on the Ruling Justly indicators than eligible countries and remaining candidate countries:

- Since 2002, threshold countries have registered an average rate of reform of 7.26 percent on the Ruling Justly indicators. By contrast, eligible countries registered a 5.36 percent rate of reform, and the remaining candidate countries registered a 5.1 percent erosion of performance.

- Since 2002, threshold countries have registered a 12.64 percent rate of reform on the Control of Corruption index, while eligible countries have registered a 7.5 percent rate of reform and the remaining candidate countries have registered a 4.21 percent erosion of performance.

  For example:

  - Ukraine improved from the 40th percentile to the 72nd percentile.
  - Moldova improved from the 46th percentile to the 55th percentile.
  - Indonesia improved from the 39th percentile to the 45th percentile.

- Since 2002, threshold countries have registered a positive rate of reform on all three of the democracy indicators. Eligible countries registered a positive rate of reform on two of the democracy indicators and the remaining candidate countries turned in a positive rate of reform on only one of the democracy indicators.

- On the Government Effectiveness and Rule of Law indicators, eligible countries have outperformed threshold countries and the remaining candidate countries. Since 2002, eligible countries have registered a 7.36 percent rate of reform on Government Effectiveness and a 13.27 percent rate of reform on Rule of Law. By contrast, threshold countries have shown a 10.22 percent erosion of performance on Government Effectiveness and a 2.72 percent improvement on Rule of Law.

Outcome Measure 2—Rate of Reform for Economic Freedom

Description of metric and targets: This category measures the extent to which a government encourages economic freedom, including a demonstrated commitment to economic policies that encourage individuals and firms to participate in global trade and international capital markets, promote private sector growth and the sustainable management of natural resources, strengthen market forces in the economy, and respect worker rights including the right to form labor unions.

The six indicators in this category are: Regulatory Quality, Cost of Starting a Business, Inflation, Fiscal Policy, Days to Starting a Business, and Trade Policy. The Economic Freedom rate of reform was calculated using the same methodology used for the Ruling Justly category. The only exception is that inflation was excluded because of the exogenous influence of rising oil prices, which led to large declines across all peer groups.

Results: Threshold countries are registering a higher rate of reform on the Economic Freedom indicators than eligible countries and the remaining candidate countries:

- Over the last year threshold countries registered an average rate of reform of 14.8 percent on the Economic Freedom indicators. Eligible countries registered an average rate of reform of 11.3 percent. The remaining candidate countries registered a 5.78 percent average rate of reform.
- This year eligible countries improved their median performance on the Cost of Starting a Business indicator by 14.6 percent. Threshold countries registered a 13.8 percent improvement. The remaining candidate countries also reformed, but at a slower pace of 0.57 percent.
- This year threshold countries were the only countries to register a positive rate of reform on the Regulatory Quality indicator (1.01 percent). Eligible countries and the remaining candidate countries registered negative rates of change: −6.55 percent and −0.64 percent, respectively.

Outcome Measure 3—Rate of Reform on Investing in People

Description of metric and targets: This category measures the investments in the people of each country, particularly women and children, including programs that promote broad-based primary education and strengthen and build capacity to provide quality public health and reduce child mortality.

The four indicators in this category are: Total Public Expenditure on Health, Total Public Expenditure on Primary Education, Immunization Rates, and Girls' Primary Education Completion Rate. The Investing in People rate of reform was calculated using the same methodology used for the Ruling Justly category.

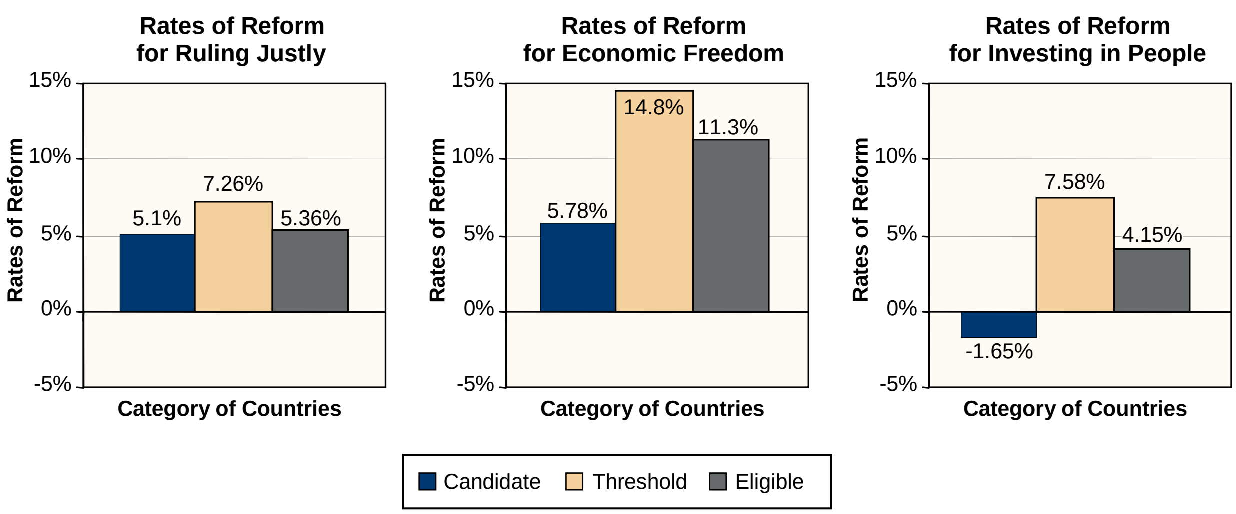
Results: MCA eligible and threshold countries are registering a significantly higher rate of reform on the Investing in People indicators than the remaining candidate countries:

- Since 2002, eligible countries registered an average rate of reform of 7.58 percent on the Investing in People indicators. Threshold countries registered an average rate of reform of 4.15 percent. The remaining candidate countries registered a −1.65 percent rate of change.

- Since 2002, Immunization Rates have risen by 8.18 percent among eligible countries, 8.7 percent among threshold countries, and 2.5 percent among the remaining candidate countries.
- Since 2002, Primary Education Expenditures have risen by 32.1 percent among eligible countries and 7.8 percent among threshold countries. Primary Education Expenditures have declined by 2.1 percent among the remaining candidate countries.

Exhibit 8 illustrates the Strategic Goal 2 policy rates of reform.

Exhibit 8. Policy Rates of Reform



Strategic Goal 3—Advance International Development Assistance Practice by Continually Improving MCC's Operational Effectiveness

MCC identifies best practices, internally and externally, and adopts them to improve its operations. According to MCC's Strategic Plan, the expected outcome of this strategic goal is that MCC will be at the forefront of providers of development assistance and viewed as a model of effectiveness by other development practitioners:

Output Measure 1—Recognition and Support

Description of metric and targets: MCC's goal is to have broad domestic and international support to further strengthen our model. Our outreach efforts will help garner support from domestic and international constituencies for MCC's approach. These constituencies will provide constructive feedback and support for adequate resources for MCC to achieve its goals. MCC does not currently have metrics for measuring recognition and support. However, there is significant evidence indicating a positive result for this goal.

Results: MCC has actively sought broad input from think-tank organizations, NGOs, scholars, Congress, various U.S. Government offices, and key stakeholders in developing more robust indicators. At the same time, other organizations working in or studying international development have used MCC's approach to improve their own measurements:

- To strengthen MCC's model by improving its policy indicators, after issuing a public "call for ideas" and assembling a group of economists and natural resources management experts MCC identified two indicators to assess a country's economic policies promoting the sustainable management of natural resources. The indicators are a Natural Resource Management Index from Columbia University's Center for International Earth Science Information Network and the Center for Environmental Law and Policy, and an Access to Land indicator from the International Fund for Agricultural Development (IFAD).
- Freedom House has re-scaled its Political Rights and Civil Liberties measures to provide greater differentiation, which will help MCC to better discriminate between high- and low-performing countries.
- The Heritage Foundation has also re-scaled its Trade Policy indicator to help MCC better differentiate between high and low performers.

- The World Bank Institute, which previously released its data every other year, has decided that it will now update the Control of Corruption, Rule of Law, Government Effectiveness, Voice and Accountability, and Regulatory Quality indices annually. The World Bank Institute has also made each of the sub-component indicators that make up its indices publicly available, which will be an extremely valuable tool for MCA candidate countries interested in diagnosing and improving their performance.
- Due in part to MCA candidate country interest in the MCA, the IFC has expanded the coverage of its "Doing Business" report from 155 to 175 countries in 2006. When the MCA was first created, the IFC covered 120 countries.[9]
- Many countries, such as Tanzania, São Tomé and Principe, East Timor, Bhutan, and Cape Verde, have specifically requested that they be measured by the "Doing Business" team in order to increase their chances of being selected for MCA eligibility.

Input Measure 1—Country Partnership

Description of metric and targets: MCC will have a stronger operating model based on lessons learned and shared experiences. MCC will operate more efficiently, and its development assistance will be more effective in achieving results. MCC currently does not have metrics for this goal.

Results: MCC's competitive country selection process is creating incentives that have prompted many countries to reevaluate their policies, regulations, and legislation related to good governance, health and education, and their business climate:

- According to the IFC Doing Business 2007 report, Georgia led the world last year in its reform efforts. Its government streamlined customs procedures, reduced the time and cost of business registration, and made it easier for employers to hire new workers. In FY 2005, MCC signed a $298 million development Compact with Georgia.[10]
- According to the IFC, 24 candidate countries have specifically cited the MCA as the primary motivation for their business start-up reform efforts. For example, the Government of El Salvador, which was inspired by the MCA to reduce the time it takes

9 World Bank. 2006. *Doing Business 2007: How to Reform*. Washington, DC: World Bank and International Finance Corporation.
10 World Bank. 2006. *Doing Business 2007: How to Reform*. Washington, DC: World Bank and International Finance Corporation.

to start a business from 115 days to 26 days, has seen a 500 percent increase in business registrations and a sharp spike in customer satisfaction: from 32 percent to 87 percent. The IFC has found that these reforms "can add between a quarter and half a percentage point to growth rates in the average developing economy."

- MCC signed a 2-year, $21 million Threshold Program with the Republic of the Philippines this past July to improve revenue administration and fight corruption. In an unprecedented move, President Gloria Macapagal-Arroyo matched MCC's Threshold Program with an additional $19 million of her country's own money to fight corruption. This is an impressive commitment, and it complements MCC's efforts.
- Simeon Djankov, the manager of the World Bank's Doing Business project, reports, "We have … seen a number of reforms around the world in both rich and poor countries, but … in many of the developing countries the reform has actually been primarily as a result of the inclusion in the Millennium Challenge Account."
- The Heritage Foundation has said that "another example [of the MCA incentive effect] is the interest MCA candidate countries have expressed in how the Index of Economic Freedom measures trade policy (another MCA measure) and how they could improve their score. This interest has arisen among MCA-eligible countries and those hoping to qualify in the future."
- The IFC's latest annual report highlights MCC's incentive effect as a catalyst for reform. The report says, "Since the Millennium Challenge Corporation introduced conditions for grant eligibility based on performance in the time and cost of business start-up, 13 countries have started reforms aimed at meeting the criteria."
- Two Harvard economists studied "The MCC Effect." The report they released earlier this year concluded that countries are responding to MCC's clear and actionable incentives.

Strategic Goal 4—Build MCC's Capabilities to Achieve Its Primary Strategic Goals

The Strategic Plan defines the key outcome for this strategic goal to be the efficient and effective operation of MCC. The CEO has stressed the importance of this goal and meets weekly with the Vice President for the Department of A&F to review progress.

In FY 2006, MCC undertook a multi-pronged approach to improve its capacity to implement its key programs while simultaneously improving the internal control environment so that MCC fully complies with federal rules and regulations. Highlights of this effort include:

- Increasing MCC's staff from 142 at the beginning of FY 2006 to 264 at the end of the fiscal year, only 36 below MCC's planned corporate headquarters staffing level of 300. As part of this effort, MCC made steady progress toward the goal of a diverse workforce at all levels and instituted a diversity-focused outreach and recruitment program.
- Improving the internal control environment by implementing 26 new and 7 revised key policies or procedures, including a comprehensive procurement manual and a new set of travel policies and procedures that fully comply with Federal Travel Regulations.
- Streamlining MCC's procurement procedures and conducting procurements that fully comply with the Federal Acquisition Regulation while routinely beating federal norms for procurement lead times.
- Opening new overseas offices in five countries—Madagascar, Cape Verde, Georgia, Armenia, and Benin—and streamlining the process of placing MCC Resident Country Directors so that they are on the ground to support the initial implementation of Compacts.

The FY 2006 MCC Performance Plan defined three input measures for this strategic goal:

- **Input Measure 1—**The ratio of total administrative and due diligence obligations to total funds committed under current Compacts

  Description of metric and targets: MCC began to measure results for this metric in FY 2006 and compared it to the FY 2006-to-FY 2005 data. The purpose of this measure is to capture the comprehensive program development costs for the year, defined as obligations of administrative expenses and due diligence funds, as a percentage of the amounts committed to Compacts that are signed and being implemented during the year. Because MCC commits and obligates compact funding up-front for 5 years of program implementation, this measure most accurately captures the cost of managing a portfolio of Compacts.

Results: In FY 2006 the ratio of total administrative and due diligence obligations to total funds committed under current Compacts increased to 5.1 percent, from 3.4 percent in FY 2005. While funds committed under Compacts more than doubled, from $938 million to $2.16 billion, total obligations for administrative expenses and due diligence more than tripled, from $32 million to an estimated $110 million.

The rapid increase in administrative and due diligence expenses is due primarily to the start-up costs that MCC continued to incur in FY 2006, most notably for the significant increase in staffing, obtaining and building out additional office space, and opening overseas offices. MCC expects administrative and due diligence costs to increase much more modestly in FY 2007 and expects the ratio of these costs to funds committed under Compacts to fall to under 3.0 percent.

- **Input Measure 2—**The number of outstanding issues from IG annual financial statement audit and interim performance reviews satisfactorily resolved within agreed-upon timetables

Description of metric and targets: The USAID IG, who also serves as MCC's IG, publishes a number of audit reports and performance reviews each year on various aspects of MCC operations. When the IG publishes an audit, review, or risk assessment, MCC provides written comments that are included with the report. In those cases where MCC concurs with the recommendation, the IG records a "management decision" and assigns a target date for final action. When MCC determines that final action has been taken to implement a recommendation, it considers the recommendation closed, although the IG retains the right to reopen a recommendation if it disagrees that the final action taken was satisfactory:

– In FY 2006, the IG completed nine audits, reviews, and risk assessments that contained 39 recommendations. Four of these reports, accounting for 20 of the recommendations, have passed the target dates for final action on the recommendations, while the target dates for final action have not yet been reached for the other five reports, which account for the remaining 19 recommendations. In addition, 12 recommendations from previous fiscal years were carried into FY 2006.

– In February 2006, MCC designated the Deputy Vice President for the Department of A&F as the central point of contact for the IG and made this position responsible for coordinating all MCC activities on IG recommendations. MCC also agreed to use the IG tracking system as the basis for its own internal tracking system for IG recommendations.

Results: Of the 12 recommendations that carried over from previous years into FY 2006, six have been closed, although none by the original target dates. Of the 20 recommendations from FY 2006 that have passed the target dates for final action, 14 have been closed, all of them on time. Therefore, of the 32 total recommendations that have passed the date for final action, 20 of them (or 63 percent of total) have been closed. Fourteen of these (or 44 percent of total) were closed by the original target dates.

Of the remaining 19 recommendations that have not yet reached target dates for final action, MCC has concurred with 17 and has closed two.

MCC has set revised target dates during FY 2007 for all 12 of the recommendations from FY 2006 or prior years that have passed the target dates but have not yet been closed.

Input Measure 3—Staff survey of effectiveness and satisfaction

Description of metric and targets: MCC participated in FY 2006 in the Office of Personnel Management's (OPM) Federal Human Capital Survey that is conducted across the Federal Government. Unfortunately, while the survey was completed in June 2006, the results will not be available until at least December 2006, and therefore cannot be included in this report. In addition, the OPM survey is conducted only for permanent, full-time federal staff and does not apply to limited-term appointments, who account for approximately one-third of MCC's direct hire staff.

Because of these limitations, MCC plans for an independent survey of staff effectiveness and satisfaction to be conducted in the second quarter of FY 2007. This survey will be conducted for all MCC staff regardless of their type of appointment and will address a broader range of issues than the OPM survey. The results will be included in MCC's FY 2007 Performance and Accountability Report.

3. Financial Section

Exhibits 9 through 13 outline the following financial statements:

- Statements of Financial Position
- Statements of Operations and Changes in Net Position
- Statements of Functional Expenses
- Statements of Cash Flows
- Statements of Budgetary Resources

Columns may not add due to rounding.

Further details are provided in the Notes to Financial Statements section that follows.

Exhibit 9

Statements of Financial Position

(As of September 30, 2006 with Summary Totals for 2005)

	2006 Total	Compacts	609(g) Funding	Threshold	Evaluation and Support	Administrative	Audit	2005 Total
Assets								
Current Assets								
Fund Balance With Treasury (Note 2)	$3,931,404,752	$3,610,671,774	$55,951,660	$193,230,000	$32,200,504	$37,567,478	$1,783,336	$2,358,547,000
Receivables/Advances/ Prepayments (Note 3)	18,893,478	16,587,952	511,426	–	1,731,899	62,202	–	4,338,698
Fixed Assets								
Leasehold Improvements and Capital Equipment (Note 4)	4,632,785	–	–	–	–	4,632,785	–	4,244,059
Total Assets	**$3,954,931,016**	**$3,627,259,725**	**$56,463,086**	**$193,230,000**	**$33,932,403**	**$42,262,466**	**$1,783,336**	**$2,367,129,757**
Liabilities								
Accounts Payable	2,552,277	–	774,246	–	731,258	1,046,773	–	1,319,467
Other Liabilities (Note 5)	2,516,786	–	–	–	(461,774)	2,978,560	–	2,522,803
Accrued Funded Annual Leave	2,698,070	–	–	–	–	2,698,070	–	1,386,644
Total Liabilities	**$ 7,767,133**	**$ –**	**$ 774,246**	**$ –**	**$ 269,484**	**$ 6,723,404**	**$ –**	**$ 5,228,914**
Net Position								
Unexpended Appropriations								
Obligated	1,283,003,459	1,187,867,694	43,098,943	0	23,298,781	26,954,705	1,783,336	349,153,392
Commitments	856,804,163	842,399,600	5,052,595	0	8,495,391	856,576	0	606,634,745

MILLENNIUM CHALLENGE CORPORATION
REDUCING POVERTY THROUGH GROWTH

Exhibit 9 (continued)

Statements of Financial Position

(As of September 30, 2006 with Summary Totals for 2005)

	2006Total	Compacts	609(g) Funding	Threshold	Evaluation and Support	Administrative	Audit	2005Total
Allotments—Realized Resources	1,802,661,274	1,596,992,431	7,537,301	193,230,000	1,868,748	3,032,794	–	1,401,835,873
Cumulative Results of Operations	4,694,987	–	–	–	–	4,694,987	–	4,276,833
Total Net Position (Note 6)	**$3,947,163,882**	**$3,627,259,725**	**$55,688,839**	**$193,230,000**	**$33,662,920**	**$35,539,063**	**$1,783,336**	**$2,361,900,843**
Total Liabilities and Net Position	**$3,954,931,016**	**$3,627,259,725**	**$56,463,086**	**$193,230,000**	**$33,932,403**	**$42,262,466**	**$1,783,336**	**$2,367,129,757**

* The notes are an integral part of these financial statements.

Exhibit 10

Statements of Operations and Changes in Net Position

(For the Year Ended September 30, 2006 with Summary Totals for 2005)

	2006 Total	Compacts	609(g) Funding	Threshold	Evaluation and Support	Administrative	Audit	2005 Total
Financing Sources								
Appropriations Used	$ 92,455,115	$ 16,747,194	$ 5,895,167	$ –	$15,137,340	$ 54,055,700	$ 619,714	$ 39,312,758
Expenses	**92,036,960**	**16,747,194**	**5,895,167**	**–**	**15,137,340**	**53,637,545**	**619,714**	**35,035,926**
Excess of Financing Sources Over Expenses	**$ 418,155**	**$ –**	**$ (0)**	**$ –**	**$ 0**	**$ 418,155**	**$ –**	**$ 4,276,832**
Net Position								
Excess of Financing Sources Over Expenses	418,155	–	(0)	–	0	418,155	–	4,276,832
Increase in Unexpended Appropriations								
Appropriated	–							–
Obligated	933,850,069	863,789,695	36,954,637	–	14,498,521	17,054,930	1,552,286	346,388,202
Commitments	856,804,163	842,399,600	5,052,595	0	8,495,391	856,576	0	626,634,744
Allotments—Realized Resources	(168,109,345)	(358,233,833)	(8,007,054)	193,230,000	1,868,748	3,032,794	–	407,664,296
Transfers In/(Out)	(20,000,000)	–	–	(20,000,000)	–	–	–	–
Permanent Rescission	(17,700,000)	(17,700,000)	–	–	–	–	–	(12,000,000)
Total Increase in Unexpended Appropriations	**1,585,263,041**	**1,330,255,462**	**34,000,178**	**173,230,000**	**24,862,660**	**21,362,455**	**1,552,286**	**1,372,964,074**
Beginning Net Position	2,361,900,842	2,297,004,263	21,688,661	20,000,000	8,800,260	14,176,608	231,050	988,936,768
Ending Net Position	**$3,947,163,882**	**$3,627,259,725**	**$ 55,688,839**	**$ 193,230,000**	**$33,662,920**	**$ 35,539,063**	**$ 1,783,336**	**$2,361,900,842**

* The notes are an integral part of these financial statements.

MILLENNIUM CHALLENGE CORPORATION
REDUCING POVERTY THROUGH GROWTH

Exhibit 11

Statements of Functional Expenses

(For the Year Ended September 30, 2006 with Summary Totals for 2005)

	2006 Total	Compacts	609(g) Funding	Threshold	Evaluation and Support	Administrative	Audit	2005 Total
Salary and Benefits	$27,587,426	$ –	$ –	$ –	$ –	$27,587,426	$ –	$13,343,440
Travel	6,362,880	–	–	–	317,509	6,045,371	–	3,980,087
Rent/Lease	4,404,013	–	–	–	–	4,404,013	–	718,546
Utilities	766,206	–	–	–	–	766,206	–	207,704
Information Technology Services	2,562,575	–	–	–	–	2,562,575	–	2,065,657
Accounting Services	4,244,677	–	–	–	–	3,624,963	619,714	3,186,484
Inter-Agency Agreements	4,636,977	–	–	–	4,636,977	–	–	564,654
Other Services	13,563,769	–	–	–	9,755,703	3,808,066	–	6,082,697
Supplies and Equipment	2,211,918	–	–	–	–	2,211,918	–	2,671,882
Grants	22,642,361	16,747,194	5,895,167	–	–	–	–	1,024,133
Miscellaneous	3,054,158	–	–	–	427,151	2,627,007	–	1,190,642
Total Expenses	**$92,036,960**	**$16,747,194**	**$5,895,167**	**$ –**	**$15,137,340**	**$53,637,545**	**$619,714**	**$35,035,926**

* The notes are an integral part of these financial statements.

Exhibit 12

Statements of Cash Flows

(For the Year Ended September 30, 2006 with Summary Totals for 2005)

	2006Total	Compacts	609(g) Funding	Threshold	Evaluation and Support	Administrative	Audit	2005 Total
Cash Flows From Operating Activities								
Excess of Financing Sources Over Expenses	$ 418,155	$ –	$ (1)	$ –	$ 0	$ 418,155	$ –	$ 4,276,832
Adjustments Affecting Cash Flow:								
Appropriated Capital Used	(92,455,115)	(16,747,194)	(5,895,167)	–	(15,137,340)	(54,055,700)	(619,714)	(39,312,758)
Increase in Advances/ Receivables/Prepayments	(14,554,780)	(14,782,028)	(511,426)		768,101	(29,428)	–	(4,170,099)
Increase in Accounts Payable	2,251,560	–	774,246	–	659,128	818,186	–	1,295,584
Decrease in Other Liabilities	(1,024,769)	–	(154,528)	–	(1,459,696)	1,040,263	(450,809)	1,668,178
Increase in Annual Funded Leave Liabilities	1,311,427	–	–	–	–	1,311,427	–	1,216,743
Total Adjustments	**(104,471,677)**	**(31,529,222)**	**(5,786,874)**	**–**	**(15,169,807)**	**(50,915,252)**	**(1,070,523)**	**(39,302,352)**
Net Cash Used in Operating Activities	**$(104,053,522)**	**$ (31,529,222)**	**$(5,786,874)**	**$ –**	**$ (15,169,806)**	**$(50,497,097)**	**$(1,070,523)**	**$(35,025,520)**
Cash Flows From Investing Activities								
Purchase of Property	$ (388,727)	$ –	$ –	$ –	$ –	$ (388,727)	$ –	$(4,244,059)
Net Cash Used in Investing Activities	**$ (388,727)**	**$ –**	**$ –**	**$ –**	**$ –**	**$ (388,727)**	**$ –**	**$(4,244,059)**

Exhibit 12 (continued)

Statements of Cash Flows

(For the Year Ended September 30, 2006 with Summary Totals for 2005)

	2006Total	Compacts	609(g) Funding	Threshold	Evaluation and Support	Administrative	Audit	2005 Total
Cash Flows From Financing Activities								
Appropriations Received Net of Rescissions	$1,752,300,000	$1,347,002,655	$39,895,345	$248,230,000	$ 40,000,000	$ 75,000,000	$ 2,172,000	$1,488,000,000
Transfers Out	(75,000,000)			(75,000,000)				(80,000,000)
Net Cash Provided by Financing Activities	**1,677,300,000**	**1,347,002,655**	**39,895,345**	**173,230,000**	**40,000,000**	**75,000,000**	**2,172,000**	**1,408,000,000**
Net Increase in Cash	**1,572,857,752**	**1,315,473,433**	34,108,471	173,230,000	24,830,194	24,114,176	**1,101,477**	**1,368,730,421**
Fund Balance With Treasury, Beginning	2,358,547,000	2,295,198,340	21,843,188	20,000,000	7,370,311	13,453,302	681,859	989,816,579
Fund Balance With Treasury, Ending	**$3,931,404,752**	**$3,610,671,774**	**$55,951,660**	**$193,230,000**	**$32,200,504**	**$ 37,567,478**	**$1,783,336**	**$2,358,547,000**

* The notes are an integral part of these financial statements.

Exhibit 13

Statements of Budgetary Resources

(For the Year Ended September 30, 2006 with Summary Totals for 2005)

	2006 Total	Compacts	609(g) Funding	Threshold	Evaluation and Support	Administrative	Audit	2005 Total
Budgetary Resources:								
Budget Authority:								
Appropriations	1,770,000,000	1,364,702,655	39,895,345	248,230,000	40,000,000	75,000,000	2,172,000	1,500,000,000
Net Transfer, Current Year Authority								
Unobligated Balance—Beginning of Period	2,053,722,184	1,972,926,264	15,544,354	65,251,566				986,171,577
Unobligated Balance—Transferred								
Spending Authority From Offsetting Collections	–							
Advances Received	–							
Adjustments:								
Recoveries of Prior Years Obligations	–							
Permanently Not Available (Note 7)	(17,700,000)	(17,700,000)	–	–	–	–	–	(12,000,000)
Total Budgetary Resources	**$ 3,806,022,184**	**$ 3,319,928,919**	**$ 55,439,699**	**$ 313,481,566**	**$ 40,000,000**	**$ 75,000,000**	**$ 2,172,000**	**$ 2,474,171,577**

Exhibit 13 (continued)

Statements of Budgetary Resources

(For the Year Ended September 30, 2006 with Summary Totals for 2005)

	2006 Total	Compacts	609(g) Funding	Threshold	Evaluation and Support	Administrative	Audit	2005 Total
Status of Budgetary Resources:								
Obligations Incurred	$ 1,109,535,594	$ 880,536,888	$ 42,849,803	$ 83,230,412	$ 29,635,861	$ 71,110,630	$ 2,172,000	$ 420,449,393
Unobligated Balance Available:								
Apportioned	877,383,424	842,399,600	10,644,896	10,085,419	10,364,139	3,889,370	–	683,006,839
Unobligated Balance Not Available:	1,819,103,166	1,596,992,431	1,945,000	220,165,735	–	–	–	1,370,715,345
Total Status of Budgetary Resources	**$ 3,806,022,184**	**$ 3,319,928,919**	**$ 55,439,699**	**$313,481,566**	**$ 40,000,000**	**$ 75,000,000**	**$ 2,172,000**	**$2,474,171,577**
Relationship of Obligations to Outlays:								
Obligated Balance, Net—as of October 1, 2005	$ 384,862,005	$ 322,272,076	$ 6,298,834	$ 34,699,991	$ 7,370,311	$ 13,538,935	$ 681,859	$ 3,645,002
Obligations Incurred	1,109,535,594	$ 880,536,888	$ 42,849,803	$ 83,230,412	$ 29,635,861	$ 71,110,630	$ 2,172,000	$ 420,449,393
Recoveries of Prior Years Obligations	–							
Adjustments								
Obligated Balance, Net—End of Period								
Accounts Payable	(8,881,212)	0	(774,246)	0	(1,670,526)	(6,436,440)	0	(5,335,899)
Obligations	(1,376,397,315)	(1,171,279,742)	(42,587,517)	(112,225,132)	(21,566,882)	(26,954,705)	(1,783,336)	(379,526,106)
Total Outlays	**$ 109,119,072**	**$ 31,529,222**	**$ 5,786,873**	**$ 5,705,271**	**$ 13,768,764**	**$ 51,258,420**	**$ 1,070,523**	**$ 39,232,390**

Exhibit 13 (continued)

Statements of Budgetary Resources

(For the Year Ended September 30, 2006 with Summary Totals for 2005)

	2006 Total	Compacts	609(g) Funding	Threshold	Evaluation and Support	Administrative	Audit	2005 Total
Outlays:								
Disbursements	109,119,072	31,529,222	5,786,873	5,705,271	13,768,764	51,258,420	1,070,523	39,232,390
Collections/Refunds	–							–
Net Outlays	$ 109,119,072	$ 31,529,222	$ 5,786,873	$ 5,705,271	$ 13,768,764	$ 51,258,420	$ 1,070,523	$ 39,232,390

* The notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS (AS OF SEPTEMBER 30, 2006)

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, cash flows, and budgetary resources for MCC (the Corporation), as required by 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 the Corporation'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.

The Corporation'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).

The Corporation's principal financial statements are:

- Statements of Financial Position
- Statements of Operations and Changes in Net Position
- Statements of Functional Expenses
- Statements of Cash Flows
- Statements of Budgetary Resources

MCC has presented comprehensive statements for FY 2006, with summary totals for FY 2005 for comparative purposes. These notes are considered an integral part of the financial statements.

B. Reporting Entity

The Corporation was formed in January 2004 pursuant to the Millennium Challenge Act of 2003 (Public Law 108-199). The Corporation'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 elimination of extreme poverty, strengthen good governance, encourage economic freedom, and promote investments in people.

C. Budgets and Budgetary Accounting

The Corporation's programs and activities are funded through no-year appropriations. Such funds are available for obligation without fiscal year limitation and remain available until expended. MCC was provided total appropriations of almost $1.8 billion and $1.5 billion in FY 2006 and FY 2005, 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 for due diligence funds, which MCC uses for compact evaluations and support, compact programs, 609(g) funds, the Threshold Program, and audit funds. Because of the no-year status of MCC appropriations, unobligated administrative, audit, and due diligence funds (apportioned on annual bases) are not returned to the Treasury. MCC's policy is to transfer any unobligated balances as of September 30 for these three categories of funds to compact funds 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 the Corporation's compliance with legal constraints and controls over the use of federal funds.

The accompanying Statements of Financial Position, Operations and Changes in Net Position, Cash Flows, and Functional Expenses have been prepared on the accrual basis. The Statement of Budgetary Resources has been prepared in accordance with budgetary accounting rules. The Statement of Cash Flows has been prepared to reconcile budgetary to financial (proprietary) accounting information.

E. Fund Balance with Treasury

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

F. Advances to Others

The Corporation advances funds in response to compact countries and federal agency drawdown requests in order to implement compact projects in an MCA country or inter-agency agreements. Funds advanced to compact countries are used to pay legitimate costs and expenses incurred per the formal Compacts entered into by MCC and the countries.

G. Property and Equipment

The Corporation's accounting policies require that property and equipment with original cost of $25,000 or more and an estimated useful life of 2 or more years to be capitalized. Such assets include leasehold improvements, telephone equipment, computer systems equipment, copiers, computer software, furniture, and assets under capital leases. The assets are to be depreciated (or amortized) over their estimated useful lives.

H. Compact and Pre-Compact (609(g)) Funding Payable

Compact funding, including 609(g) funds, are made to eligible countries with approved compact or pre-compact funding agreements. Upon formally entering into a Compact with a country, the Corporation records a commitment of funds (i.e., administrative reservation) in its financial records for the total value of the Compact. Once a Compact enters into force, the value of the Compact is obligated on MCC's financial books (and the related commitment reduced/liquidated). At the end of the fiscal year, the Corporation records the total estimated amount of compact expenses incurred for work performed but not paid as liquidations of the advances. The estimated amount of such expenses at September 30, 2006, and September 30, 2005, were $1.956 million and $0, respectively.

I. Accounts Payable

The Corporation 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 the Corporation, but not paid at the end of the fiscal year.

J. 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 the Corporation. The Corporation'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.

The Corporation incurred no FECA liabilities during FY 2006 and FY 2005.

K. Other Liabilities

Other liabilities include amounts owed, but not paid, at the end of the fiscal year for employee payroll and benefits and FECA charges (see Exhibit 15).

L. Accrued Annual Leave

The value of employees' unused annual leave at the end of the fiscal year is accrued as a liability. At the end of each fiscal year, the balance in the accrued annual leave account is adjusted to reflect current year 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.

M. Net Position

Net position is composed of unexpended appropriations and cumulative results of operations. Unexpended appropriations are funds appropriated by the Congress to the Corporation that are still available for expenditure at the end of the fiscal year. Cumulative results of operations represent the net differences between financing sources and expenses from the Corporation's inception.

N. Financing Sources

Per note 1.C, the Corporation 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.

O. Retirement Benefits

The Corporation'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, the Corporation contributes 7 percent of their gross pay toward their retirement benefits. For those employees covered by FERS, the Corporation 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, the Corporation 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 the Corporation's automatic or matching contributions.

During FY 2006, the Corporation made retirement contributions of $761,000 to CSRS, $1.977 million to FERS, and $620,700 to TSP. In FY 2005, the Corporation made contributions of $30,000 to CSRS, $876,000 to FERS, and $226,000 to TSP.

P. 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.

Q. Contingencies

The Corporation 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 the Corporation. In the opinion of the Corporation's management and legal counsel, there are no proceedings, actions, or claims outstanding or threatened that would materially impact the Corporation's financial statements.

R. Judgment Fund

Certain legal matters to which the Corporation 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 the Corporation's financial statements.

S. Custodial Receivables and Liabilities

Under current policy and procedures, the Corporation 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 the Corporation and deposited into an account at the U.S. Treasury. Such interest may not be retained or used by the Corporation, but periodically is returned to the Treasury's general funds. As of September 30, 2006, receivables for amounts of interest to be remitted by the countries and the related liabilities are not reflected in these financial statements. As of September 30, 2006, the Corporation had outstanding advances related to compact financing of approximately $16.6 million. During FY 2006, the Corporation received and deposited $304,000 in interest remittances. At the end of FY 2006, approximately $174,000 of interest earned on compact advances to the MCAs was due to be remitted to MCC. At the end of FY 2005, the Corporation had advances of $1.8 million and received interest remittances of approximately $17,000 during the year.

Note 2—Fund Balance with Treasury

The U.S. Treasury accounts for all U.S. Government funds on an overall consolidated basis. The Fund Balance with Treasury line items on the Statements of Financial Position for FY 2006 and FY 2005 consisted of amounts presented in Exhibit 14.

Exhibit 14. Fund Balances with Treasury (in thousands)

Appropriated Funds	2006	2005
Unobligated	$ 2,546,127	$ 1,973,685
Obligated	1,385,278	384,862
Total	**$ 3,931,405**	**$ 2,358,547**

Note 3—Advances/Accounts Receivable

Advances reflect amounts provided to MCA compact countries and other federal agencies in accordance with formal Compacts or inter-agency agreements, respectively. Accounts receivable reflect overpayments of payroll and travel expenses to current employees of the Corporation. As such, no allowance for doubtful accounts is necessary. As of September 30, 2006, the Corporation reported $18.9 million in advances and receivables, of which $18.8 million related to advances for compact implementation and approximately $62,000 for receivables.

Note 4—Fixed Assets

The Corporation's fixed (capital) assets are predominantly composed of leasehold improvements related to the MCC headquarters offices located in Washington, D.C. As of September 30, 2006, the Corporation reported $5.1 million of which $4.8 million represented leasehold improvements and $280,000 represented capitalized equipment. At the end of the fiscal year, $483,000 of amortization and depreciation had been recorded for the two categories of assets.

Note 5—Other Liabilities

The Corporation is liable for amounts owed to other parties, including employees and other federal groups. Exhibit 15 presents the amounts of such liabilities as of September 30, 2006, and September 30, 2005.

Exhibit 15. Other Liabilities
(in dollars)

Type	2006	2005
Evaluation and Support	$ (461,744)*	$ 997,921
Travel	300,000	747,143
Office of the Inspector General	0	450,809
Miscellaneous	1,566,695	326,935
Payroll	1,111,865	0
Total	**$ 2,516,786**	**$ 2,522,808**

** This amount represents the difference in funds drawn from MCC's accounts by other federal parties per inter-agency agreements (through the Department of the Treasury's Intra-Governmental Payment and Collection System [IPAC]) and the liability amounts recorded by MCC. In short, as of September 30, 2006, other federal entities had drawn approximately $1.401 million from MCC's accounts with Treasury. MCC had recorded liabilities of $.939 million for the pertinent charges—$.462 million less than the amounts "drawn" by the entities. At the end of the fiscal year, MCC and its financial services provider (the Department of Interior's National Business Center) were researching the differences and reconciling supporting records.*

Note 6—Net Position

The reported net position consists of unexpended appropriations and cumulative results of operations, which reflects the difference between financing sources and expenses since the Corporation's inception.

Exhibit 16 presents total obligated and unobligated compact and 609(g) funds as of September 30, 2006, and September 30, 2005.

Exhibit 16. Total Obligated and Committed Compact and 609(g) Funds (in dollars)

	2006	Compacts	609(g) Funding	2005
Obligations				
Armenia	$235,646,174	$ 235,150,000	$ 496,174	
Benin	1,062,985		1,062,985	
Cape Verde	106,077,520	106,014,782	62,738	$ 84,617
Georgia	296,178,084	292,802,057	3,376,027	4,111,000
Ghana	13,584,891		13,584,891	48,688
Honduras	213,166,147	213,166,147		215,000,000
Lesotho	902,934		902,934	600,000
Madagascar	103,290,130	101,990,130	1,300,000	110,378,000
Mali	4,421,534		4,421,534	
Mozambique	12,956,078		12,956,078	
Nicaragua	173,583,320	173,529,975	53,345	
Senegal	4,882,237		4,882,237	
Vanuatu	65,214,603	65,214,603		
Total Obligations	$1,230,966,637	$1,187,867,694	$43,098,943	**$330,222,305**
Commitments				
Benin	$305,781,626	$ 305,761,550	$ 20,076	
Cape Verde	–			$110,078,488
Georgia	–			295,300,000
Ghana	536,638,050	536,638,050		2,870,502
Mali	4,606,861		4,606,861	
Mozambique	–			6,000,000
Nicaragua	–			175,000,000
Senegal	425,658		425,658	6,528,299
Total Commitments	**$847,452,195**	**$ 842,399,600**	**$ 5,052,595**	**$595,777,289**

Note 7—Permanent Rescission

In FY 2006 and FY 2005, respectively, $17.7 million and $12 million of amounts previously appropriated under the FY 2006 and FY 2005 Foreign Operations, Export Financing, and Related Programs Appropriations Acts (Public Law 109-148 and Public Law 108-447, respectively) were rescinded. The rescissions were part of the Across-the-Board Rescissions enacted for FY 2006 and FY 2005, respectively.

Note 8—Inter-Agency Agreements

MCC is party to various inter-agency agreements (IAAs) with other federal agencies for services to be provided by those entities. Such services include financial and travel management and other administrative functions, technical and engineering services, personnel background records checks, and information technology services. During FY 2006, MCC executed 20 IAAs with other federal agencies totaling almost $9.1 million. At the end of the year, approximately $6.8 million remained available for paying future services to be provided under the subject IAAs. Exhibit 17 provides a summary of the IAAs by federal entity.

Exhibit 17. FY 2006 Inter-Agency Agreements (in dollars)

Agency	Number of IAAs	Dollar Value	Remaining Funds—End of FY
NBC, Department of Interior	6	$1,216,313	$ 0
State Department	4	437,668	242,160
U.S. Agency for International Development	1	140,000	140,000
Department of Agriculture	1	228,478	44,820
U.S. Army Corps of Engineers	3	5,441,379	5,004,390
Department of Transportation	1	109,083	83,794
Department of Health and Human Services	1	1,500,000	1,241,422
Department of Labor	1	2,912	0
Government Printing Office	1	3,000	3,000
Office of Personnel Management	1	5,000	220
Total	**20**	$9,083,833	$6,759,806

MCC PAR GLOSSARY

Term	Description
A&F	Administration and Finance, Department of
C&A	Certification & Accreditation
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CSRS	Civil Service Retirement System
CP	Conditions Precedent
CPA	Congressional and Public Affairs, Department of
COOP	Continuity of Operations
CY	Calendar Year
DCIA	Debt Collection Improvement Act
DOL	Department of Labor
ERR	Economic Rate of Return
FASAB	Federal Accounting Standards Advisory Board
FBWT	Fund Balance With Treasury
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 of 1982
FMS	Financial Management Service
FY	Fiscal Year
GAO	Government Accountability Office
GDP	Gross Domestic Product
GPRA	Government Performance and Results Act
HDI	Human Development Index
IAA	Inter-Agency Agreement

Term	Description
IFC	International Finance Corporation
IFAD	International Fund for Agricultural Development
IPAC	Intra-Governmental Payment and Collection System
LIC	Low Income Countries
LMIC	Lower Middle Income Countries
MCA	Millennium Challenge Account
MCC	Millennium Challenge Corporation
NBC	National Business Center
NGO	Non-Governmental Organization
OGC	Office of General Counsel
OIG	Office of Inspector General
OMB	Office of Management and Budget
OPM	Office of Personnel Management
PCS	Permanent Change of Station
PIR	Policy and International Relations, Department of
POC	Point of Contact
SAB	Senior Assessment Board
SLA	Service Level Agreement
TSP	Thrift Savings Plan
USAID	United States Agency for International Development

4. AUDIT OF THE MILLENNIUM CHALLENGE CORPORATION'S FINANCIAL STATEMENTS, INTERNAL CONTROLS, AND COMPLIANCE FOR THE PERIOD ENDING SEPTEMBER 30, 2006 AND 2005 (M-000-07-001-F, NOV. 14, 2006) – OFFICE OF INSPECTOR GENERAL FOR THE MILLENNIUM CHALLENGE CORPORATION

USAID
FROM THE AMERICAN PEOPLE

OFFICE OF INSPECTOR GENERAL
for the Millennium Challenge Corporation

AUDIT OF THE MILLENNIUM CHALLENGE CORPORATION'S FINANCIAL STATEMENTS, INTERNAL CONTROLS, AND COMPLIANCE FOR THE PERIOD ENDING SEPTEMBER 30, 2006 AND 2005

AUDIT REPORT NO. M-000-07-001-F
November 14, 2006

WASHINGTON, DC

Office of Inspector General
for the
Millennium Challenge Corporation

November 14, 2006

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

Subject: Audit of the Millennium Challenge Corporation's Financial Statements, Internal Controls, and Compliance for the Period Ending September 30, 2006 and 2005
Report No. M-000-07-001-F

Dear Mr. Ambassador:

Enclosed is the final report on the subject audit. The Office of Inspector General (OIG) contracted with the independent certified public accounting firm of Williams, Adley & Company, LLP to audit the financial statements of the Millennium Challenge Corporation (MCC) for the period ending September 30, 2006. The contract required that the audit be performed in accordance with generally accepted government auditing standards (GAGAS), Office of Management and Budget (OMB) Bulletin 06-03, *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, 2006 the auditors found:

- that the financial statements were fairly presented in conformity with generally accepted accounting principals (GAAP),

- six reportable conditions in the internal controls over financial reporting and its operation. Five of the six reportable conditions are material weaknesses, and

- three instances of material noncompliance with laws, regulations, contracts, and agreements.

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

1. MCC's policies and procedures were not always complete and consistent. (material weaknesses)

2. MCC's policies for disbursing advances to grantees do not accommodate effective cash management. (material weakness and noncompliance)

3. MCC does not have a property management system. (material weakness)

4. MCC did not properly record compact expenses during the fiscal year. (material weakness)

5. MCC's Chief Financial Officer was not an integral part of the compact/grant processes. (material weakness).

6. MCC's travel disbursement controls and procedures do not permit effective and efficient management of travel.

Williams, Adley & Company, LLP also reported instances of noncompliance with laws, regulations, contracts, and grant agreements, inclusive of those referred to in the Federal Financial Management Improvement Act of 1996 (FFMIA) and disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Bulletin 06-03, *Audit Requirements for Federal Financial Statements*. The instances of noncompliance are:

1. MCC did not fully comply with FFMIA and the Government Performance Results Act (GPRA). (material noncompliance)

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

3. MCC's policies for disbursing advances to grantees do not accommodate effective cash management. (material noncompliance)

In carrying out its oversight responsibilities, the OIG reviewed Williams, Adley & Company, LLP's report and related audit documentation. This review, as differentiated from an audit in accordance with GAGAS was not intended to enable the OIG to express, and we do not express, opinions on MCC's financial statements, or internal control; on whether MCC's financial management systems substantially complied with FFMIA; or on MCC's compliance with other laws and regulations. Williams, Adley & Company, LLP is responsible for the attached auditor's report, dated November 14, 2006, and the conclusions expressed in the report. However, our review disclosed no instances on where Williams, Adley & Company, LLP did not comply, in all material respects, with applicable standards.

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

Recommendation No. 1: We recommend that the Millennium Challenge Corporation's Department of Administration and Finance complete the Financial Management Policies and Procedures (FMPP) manual and implement the written policies and procedures for all areas that result in a financial event.

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

2.1 Develop and implement policies and procedures to ensure that the payment schedules and other agreements entered into with grantees are reflective of the U. S. Treasury requirements concerning advances and immediate cash advances.

2.2 Develop and implement policies and procedures to ensure that disbursement requests from the accountable entity of the recipient countries follow the official format that documents the cash requirements for each month of the quarterly period.

2.3 Make and document all payments to the recipient countries on a monthly basis instead of a quarterly basis.

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

Recommendation No. 3: We recommend that the Millennium Challenge Corporation develop and maintain appropriate fixed asset records to ensure accurate reporting and physical control.

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

4.1 Require that the final quarterly disbursement requests received from the accountable entity of the recipient countries be made available to the Department of Administration and Finance and the Fiscal Accountability Office.

4.2 Develop and implement policies and procedures that require compact expenses are properly and accurately recorded and reported on a quarterly basis.

4.3 **Implement written procedures requiring that appropriate and timely follow-up measures are performed and recorded on late and/or outstanding fund disbursements and/or advances requests.**

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

Recommendation No. 5: We recommend that the Millennium Challenge Corporation's management revise their policies and procedures to invest the Office of the Chief Financial Officer with the level of responsibility, including role and all levels of authority established by the Chief Financial Officer Act.

Recommendation No. 6: We recommend that Millennium Challenge Corporation management develop and implement internal controls to reject travel expense reimbursement requests that exceed the allowable country per diem limits unless additional electronic authorization is provided.

Recommendation No. 7: We recommend that the Millennium Challenge Corporation's management:

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

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

In finalizing the report, we have received and considered MCC's response to the draft report and the recommendations included therein.

In its comments, MCC accepted all of the report's recommendations <u>except for 2.1</u>.

At the time of this report, MCC had not accepted recommendation 2.1 and no management decision has been made. Essential elements of a management decision include specific actions, estimated completion dates for implementation, or an explanation and justification regarding why a recommendation is not considered valid by MCC management officials. For recommendation 2.1, MCC has not clearly stated why the recommendation is not valid.

MCC has agreed with recommendations 4 and 6 and has taken actions that implement the recommendation. Accordingly, we are closing these two recommendations upon issuance of the report.

Based on MCC's response to the remaining recommendations, we consider that a management decision has been reached on recommendation no. 1. However, we believe a management decision has not been reached on recommendations nos. 2.2, 2.3, 2.4, 3, 5, 7.1 and 7.2 because the decisions did not specifically identify the activities that MCC plans to conduct to implement the recommendation and/or the decision did not specify a target implementation date by which the recommendation will be implemented. Specifically:

Recommendation: 2.2 --not specific and no target implementation date
Recommendation: 2.3 --no target implementation date
Recommendation: 2.4 --not specific and no target implementation date
Recommendation: 3 --no target implementation date
Recommendation: 5 --no target implementation date
Recommendation: 7.1 --not specific and no target implementation date
Recommendation: 7.2.--no target implementation date

We discussed the lack of specificity and target dates in the management decisions with the MCC staff and they stated that they will study these decisions and revise them accordingly.

Please forward to us within 30 days your revised management decisions for the above recommendations.

Please inform us when you have taken final action on the recommendations.

The OIG appreciates the cooperation and courtesies extended to our staff and the staff of Williams, Adley & Company, LLP during the audit. Please contact me or Mr. Manuel S. Avila, IG/MCC/FA at (202) 712-1897, if you have any questions concerning this report.

Sincerely,

John M. Phee /s/
Assistant Inspector General/MCC

TABLE OF CONTENTS

Williams Adley & Company, LLP

Certified Public Accountants/Financial Management Consultants

Independent Auditors' Report

Inspector General
United States Agency for International Development

Board of Directors
Millennium Challenge Corporation

We have audited the accompanying Statements of Financial Position of the Millennium Challenge Corporation (MCC or Corporation) as of September 30, 2006 with summary totals for September 30, 2005, and the related Statements of Operations and Changes in Net Position, Cash Flows, and Budgetary Resources for the year ended September 30, 2006 with summary totals for September 30, 2005. These financial statements are the responsibility of Corporation management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

SUMMARY

As stated in our opinion, we concluded that the MCC's financial statements as of and for the year ended September 30, 2006 with summary totals for September 30, 2005 are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America.

Our consideration of internal control over financial reporting and its operation resulted in six matters that we consider to be reportable conditions. We believe that five of the six reportable conditions are material weaknesses.

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

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

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

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

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

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

The results of our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements, inclusive of those referred to in the *Federal Financial Management Improvement Act of* 1996 (FFMIA), disclosed three instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 06-03, *Audit Requirements for Federal Financial Statements*:

1. MCC did not fully comply with FFMIA and Government Performance and Results Act (GPRA) (material noncompliance)

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

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

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

OPINION ON THE FINANCIAL STATEMENTS

We have audited the accompanying Statements of Financial Position of the Corporation as of September 30, 2006 with summary totals for September 30, 2005, and the related Statements of Operations and Changes in Net Position, Cash Flows, and Budgetary Resources for the year ended September 30, 2006 with summary totals for September 30, 2005. These financial statements are the responsibility of Corporation management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial statement audits contained in

Government Auditing Standards, issued by the Comptroller General of the United States, and the Office of Management and Budget (OMB) Bulletin No. 06-03, *Audit Requirements for Federal Financial Statements*. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial positions of the Corporation as of September 30, 2006 with summary totals for September 30, 2005, and changes in net position, cash flows and budgetary resources for the year ended September 30, 2006 with summary totals for September 30, 2005, in conformity with accounting principles generally accepted in the United States of America.

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

The accompanying Statements of Functional Expenses for the year ended September 30, 2006, and as summarized for year ended September 30, 2005, are presented for purposes of additional analysis and are not a required part of the basic financial statements. This statement is the responsibility of the management of the Corporation. The information in this statement has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our fiscal year 2006 audit, we considered MCC's internal control over financial reporting by obtaining an understanding of MCC's internal control, determined whether internal controls had been placed into operation, assessed control risk, and performed tests of controls in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 06-03 and *Government Auditing Standards*. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982* (FMFIA), such as those controls relevant to ensuring efficient operations. The objective of our audit was not to provide assurance on internal control; accordingly, we do not provide an opinion on internal control.

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

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

We noted six matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. We believe that five reportable conditions are material weaknesses. All material weakness and the reportable condition are described on pages 4–15.

MATERIAL WEAKNESSES

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

Condition:

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

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

Criteria:

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

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

Cause:

Division of Finance (within the Department of A&F) management stated that they have not had the available personnel to sufficiently dedicate to the development and issuance of final policies and procedures during the year.

Effect:

The lack of sufficient detail and accountability in the procedures produced inconsistent application of controls and processes, and increased the risk of errors, improper recording, unauthorized transactions, omissions and potential funds control violations. Furthermore, the lack of formal procedures can result in noncompliance with laws and regulations. Also, the effective and efficient processing of financial transactions is diminished. Examples of the effect of the lack of final MCC policies and procedures include:

- The policy established for the proper recording of fixed assets was not followed during the year, thereby resulting in potentially incorrect posting of asset transactions.
- Employees travel claims were greater than the approved per diem rates.
- Compact expenses were not reported in the third quarter financial statements.

Recommendation #06-01:

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

Management Response:

MCC accepts the recommendation and is currently implementing relevant corrective action. Specifically, the Division of Finance (within the Department of Administration and Finance) initiated an effort during the summer 2006 to develop and implement a comprehensive corporate Financial Management Policies and Procedures (FMPP) manual. The Division is utilizing contractor support in this endeavor. The initial version of the FMPP manual is slated to be completed and formally institutionalized by December 31, 2006.

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

Condition:

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

Country	Date of Disbursement	Amount of Disbursement	Projected Cash Balance at September 30, 2006	Date when disbursement was completely expended
Madagascar	July 28, 2005	$ 2,500,924	-	March 30, 2006
	December 13, 2005	$ 1,755,506	-	June 30, 2006
	May 31, 2006	$ 5,391,665	$ 2,311,342	Not expected to be expended by September 30, 2006
Georgia	May 2, 2006	$ 3,603,404	$ 221,594	Not expected to be expended by September 30, 2006
	September 15, 2006	$ 6,509,706	6,509,706	
Honduras	February 28, 2006	$ 1,646,545	$ 138,840	Not expected to be expended by September 30, 2006
	September 29, 2006	$ 1,369,849	$ 1,369,849	
Cape Verde	February 1, 2006	$ 7,526,864	$ 3,913,663	Not expected to be expended by September 30, 2006
Vanuatu	June 30, 2006	$ 1,127,055	$ 1,023,658	Not expected to be expended by September 30, 2006
	August 9, 2006	$ 219,504	$ 219,504	
	September 6, 2006	$ 111,688	$ 111,688	
	September 18, 2006	$ 116,377	$ 116,377	
Nicaragua	June 30, 2006	$ 1,483,399	433,889	Not expected to be expended by September 30, 2006
	August 28, 2006	$ 378,550	378,550	
	August 31, 2006	$ 289,110	289,110	

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

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

Criteria:

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

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

Cause:

The approved agreements entered into by MCC with MCA Madagascar and other compact grantees indicate that quarterly advances will be provided based upon their estimated costs. Although, MCC's management has changed the policy, it has not been effectively implemented and monitored to ensure that it occurs.

Effect:

MCC received a total of $304,000 in interest from compact countries during the first three quarters of FY 2006 and remitted this amount to Treasury. As of the end of FY 2006 the additional $174,402 of interest is due to MCC. MCC has not adopted an approach that provides funds only for a grantee's immediate cash needs and reduces the risk of misappropriation.

Recommendation # 06-02:

We recommend that Millennium Challenge Corporation:

(1) Develop and implement policies and procedures to ensure that the payment schedules and other agreements entered into with grantees are reflective of the U.S. Treasury requirements concerning advances and immediate cash needs.

(2) Develop and implement policies and procedures to ensure that all disbursement requests from the accountable entity of the recipient countries follow the official format that documents the cash requirements for each month of the quarterly period.

(3) Make and document all payments to the recipient countries on a monthly basis instead of a quarterly basis.

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

Management Response:

MCC Management accepts recommendations 2.2, 2.3, and 2.4. Regarding recommendation 2.1, MCC intends to follow sound cash management practices, will disburse funds consistent with the GAO policy based upon what is needed to meet grant purposes in any given quarter, though the funds will be released in tranches following a monthly schedule.

MCC has begun implementing needed corrective actions. The MCC FMPP manual (currently being developed – see above management response to recommendation 1) will contain definitive documentation and disbursement requirements for transferring funds to compact countries. Furthermore, the Division of Finance, in coordination with the National Business Center (MCC's financial services provider) has already implemented procedures to disburse funds to compact countries monthly in accordance with identified funding needs per pertinent quarterly disbursement requests.

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

Condition:

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

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

Criteria:

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

The Joint Financial Management Improvement Program (JFMIP) standards require that property management systems assist managers in collecting and maintaining information for financial reporting in accordance with generally accepted accounting principles and managing the various types of property. Additionally, they should assist managers in ensuring that assets are safeguarded against improper use or disposition.

Cause:

MCC did not create a property management system to support its property financial policy nor did management ensure that an accountable employee was assigned to ensure its implementation.

Effect:

The quarterly financial statements may be misstated due to the inaccurate recording and reporting of property and depreciation expense. In the June 30, 2006 financial statements, no depreciation expense was recorded. Lack of sufficient controls over property can result in loss, waste and abuse of federal resources.

Recommendation #06-03:

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

Management Response:

MCC management accepts the recommendation. The Department of Administration and Finance has begun planning and defining requirements for implementing a viable property management system and associated controls and processes, including periodic physical counts to verify the Corporation's property holdings and ensure the propriety of perpetual property records and related financial balances.

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

Condition:

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

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

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

Criteria:

OMB Circular A-136 "*Financial Reporting Requirements*", Section II.4.4.3, Program Costs, states that the reporting entity should report the full cost of each program's output, which consists of (a) direct cost and indirect costs of the output, and (b) the costs of identifiable supporting services provided by other segments within the reporting entity and by other reporting entities. The reporting entity should accumulate and assign costs in accordance with the costing methodology in Statement of Federal Financial Accounting Standard (SFFAS) No. 4.

In Section 3.2 of the disbursement agreements, it states that the MCA shall deliver to MCC a completed MCC disbursement request in the form attached hereto as Exhibit A, and otherwise satisfactory to MCC in content. Exhibit A section E, commitment and expenditure report provides for the reporting of cumulative actual redisbursements and projected redisbursements.

Cause:

The Fiscal Accountability Office is responsible for the collection of the required quarterly expense/disbursement requests, and they have encountered many problems recovering the reports from the various MCAs. The requests are not sent directly to the Division of Finance and must be provided by the Fiscal Accountability Office. Additionally, MCC is not enforcing the requirement and the compact and disbursement agreements appear to lack sufficient strictures for noncompliance.

MCC did not perform a sufficient review of the financial statements to address the omission of the compact expenses.

Effect:

As a result of the nonrecording of compact expense, the MCC quarterly financial statements were inaccurate and MCC management's ability to rely on the financial statements to make informed decisions was impaired.

Recommendation #06-04:

We recommend that Millennium Challenge Corporation's management:

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

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

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

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

Management Response:

MCC management accepts the recommendations. The Division of Finance has already implemented quality assurance and review procedures to help ensure that compact disbursement requests/reports, which are to include compact expense information, are received timely, are complete, and that relevant financial information from such requests are properly included in quarterly financial statements and reports prepared by NBC. In the event of missing or late reports/requests, Division of Finance personnel will contact the pertinent accountable officials to obtain the reports/requests, and document such. Relevant policies and procedures will be included in the FMPP manual.

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

Condition:

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

1. establishment of the compact amount to ensure that there is sufficient appropriations available,

2. development of grant policies and procedures to ensure that they are in compliance with Federal government laws and regulations and to ensure that sufficient financial information is provided to MCC to accomplish its responsibilities,

3. review of compacts in order to initiate accounting transactions in the system and budget transactions with OMB, and

4. establishment of the reporting structure to ensure that financial information is provided timely and in the format necessary for required financial reporting.

Criteria:

According to the CFO Act of 1990, "An agency Chief Financial Officer shall oversee all financial management activities relating to the programs and operations of the agency." Under the Act, an agency CFO's responsibility will extend to every aspect of financial management related to operating agency programs. Government wide organizational change is needed to vest the CFOs with authority related to accounting, budget execution, and other financial management operations. This will ensure that one person, who is part of top management, has overall responsibility for establishing and implementing effective financial management policies, internal controls, and financial management systems.

Cause:

During fiscal year 2005, MCC management developed the selected compacts based on informal procedures. Therefore, the Chief Financial Officer's involvement was based on an informal basis, and was not included in the official procedures that were developed during fiscal year 2006.

Effect:

This condition can result in the lack of (1) control over pertinent financial management activities, (2) sufficient information to accurately report on compact expenses and advances, and (3) control over disbursement to ensure compliance with Treasury cash management requirements. Additionally, it can result in confusion over the financial reporting required and the timeframe required.

Recommendation #06-05:

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

Management Response:

MCC management accepts the recommendation and will take necessary steps to establish and implement required policies, procedures, and organizational protocol to ensure that the Corporation's CFO is appropriately involved with the financial management operations entity-wide.

REPORTABLE CONDITION

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

Condition:

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

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

1. Eleven of 115 (10%) travel vouchers totaling $869 exceeded per diem rates;

2. Six of 115 (5%) vouchers equaling $557 consisted of expenses in excess of $75 and were not supported; and

3. Four of 115 (3%) vouchers totaling $35,663 were not approved by the travel manager within E-Travel.

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

Criteria:

U.S. General Services Administration (GSA) Federal Travel Regulations Chapter 301 "Temporary Duty (TDY) Travel Allowances" states that traveler is responsible for expenses over the reimbursement limits established in this chapter. The traveler's agency will not pay for excess costs resulting from circuitous routes, delays, or luxury accommodations or services unnecessary or unjustified in the performance of official business. Also, receipts shall be required to support all lodging costs for which an allowance is claimed under the lodgings-plus per diem system except that a statement instead of a receipt may be accepted for the fee or service charge incurred for the use of Government quarters.

Federal Travel Regulations Chapter 301-7.2 states that it is the responsibility of the head of each agency, or his/her designee, to authorize or approve only those per diem allowances that are justified by the circumstances affecting the travel and are allowable under the specific rules in this part.

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

Cause:

Prior to the finalized procedures distributed in August 2006, management worked from incomplete draft travel procedures. Additionally, the travel manager did not approve the online vouchers in E-travel consistently. Employees are required to retain all receipts that are $75 or greater and thus, are not required to submit their receipts to the agency. Therefore, for employees on travel during the time of testing, their receipts were unavailable for audit.

Effect:

The lack of sufficient detail and accountability in the procedures can produce inconsistent application of the travel policies and increase the risk of errors, improper recording, unauthorized transactions, omissions, potential funds control violations due to the lack of obligations and noncompliance with laws and regulations. This also diminished the effectiveness and efficiency with which the financial transactions were being processed.

Recommendation #06-06:

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

Management Response:

MCC management accepts the recommendation. The Deputy Chief Financial Officer has instructed the Division of Finance staff not to approve any claimed travel expenses that exceed established limitations as defined by the Federal Travel Regulation (FTR). Furthermore, the Division has instituted procedures to require that a traveler's responsible manger/supervisor be apprised of claimed expenses that are not in compliance with the FTR and/or MCC requirements, and that the manager/supervisor explicitly approve such expenses, but only if allowable per the FTR.

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

As required by OMB Bulletin No. 06-03, with respect to internal controls related to performance measures determined by management to be key and reported in the Management's Discussion and Analysis, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions. Our procedures were not designed to provide assurance on internal control over performance measures and, accordingly, we do not provide an opinion thereon.

COMPLIANCE WITH LAWS AND REGULATIONS

MCC's management is responsible for complying with laws and regulations applicable to MCC. As part of obtaining reasonable assurance that MCC's balance sheet is free of material misstatements, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain other laws and regulations specified in OMB Bulletin No. 06-03, including the requirements referred to in the FFMIA. We limited our tests of compliance to these provisions and we did not test compliance with all laws, regulations, contracts, and agreements applicable to MCC. Providing an opinion on compliance with laws, regulations, contracts, and grant agreements was not an objective of our audit and, accordingly, we do not express such an opinion.

Under OMB Bulletin No. 06-03 and FFMIA, we are required to report whether MCC's financial management systems substantially comply with: (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level. To meet this requirement, we relied on the results of a SAS 70 review of the Department of Interior's Oracle Federal Financial System performed by an Independent Audit Firm. The results of that review have been presented to

MCC in a separate report. Providing an opinion on compliance with those provisions was not, however, an objective of our audit and, accordingly, we do not express such an opinion.

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

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

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

MATERIAL NONCOMPLIANCE

MCC Did Not Fully Comply with FFMIA and GPRA

Condition:

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

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

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

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

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

Criteria:

The GPRA under United States Code Title 5, Chapter 3, section 306(a)(3) states that strategic plans shall contain, "a description of how the goals and objectives are to be achieved, including a description of the operational processes, skills and technology, and the human, capital, information, and other resources required to meet those goals and objectives." In addition, under section 306(a)(4), it also requires "a description of how the performance goals included in the plan required by section 1115(a) of Title 31 shall be related to the general goals and objectives in the strategic plan." Under section 4(b), "Annual Performance Plans and Reports," it amends section 1115 of Title 31 to, "express such goals in an objective, quantifiable, and measurable form unless authorized to be in an alternative form under subsection (b)." Also, the performance report should evaluate the performance plan for the current fiscal year relative to the performance achieved toward the performance goals in the fiscal year covered by the report.

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

Cause:

MCC is still developing the GPRA process and has not developed system-wide strategic plan implementation standards, formats or procedures at the departmental level. Also, performance measures baseline data is incomplete and as such, in some instances there are no indicators available to measure progress made.

The MCC does not have its own financial system. The Corporation has contracted with NBC to provide accounting and IT services including usage of its OFF application. The MCC is required by government regulations to use Federal Centers of Excellence, of which NBC is one. According to MCC officials, the Corporation has been directed to use the systems available through NBC. MCC believes that in fiscal year 2006, it used the only options available. NBC is working with MCC to provide enhancement to the system to accommodate MCC's needs within the context of the OMB requirements for Centers of Excellence.

Effect:

Without a performance plan that meets key GPRA requirements MCC management may not have meaningful performance data linked to the strategic objectives and goals of the MCC. The reader of the financial statements is not provided with a clear picture of the accountability and achievements of the Corporation.

Furthermore, because MCC does not have an integrated financial management system, the users may not receive complete, accurate, and timely financial information needed for decision-making purposes because of the inefficiencies caused by the manual processes.

Recommendation #06-07:

We recommend that MCC management:

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

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

Management Decision:

MCC accepts the recommendations. Relative to GPRA, the Department of Administration and Finance management is working with various corporate organizations to help ensure that strategic and operational performance goals, including financial management performance, and inter-related and resulting performance data is reliable and consistent.

In regards to system integration, the Department of Administration and Finance is currently considering various potential options and alternatives for increasing the electronic integration, responsiveness, and efficiency of the financial management systems used by the Corporation. The Division of Finance is working with NBC to identify potential opportunities for various financial management systems functions, including enhanced automated financial reporting and cost accumulation. Since MCC outsources its financial management and administrative functions, the Corporation is highly dependent upon its financial and administrative services provider (NBC) to help ensure operation of effective financial systems.

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

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

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

MCC Policies for Disbursing Advances to Grantees Does Not Accommodate Effective Cash Management

The internal control finding "MCC Policies for Disbursing Advances to Grantees Does Not Accommodate Effective Cash Management" is also a noncompliance with laws and regulations.

The complete finding and recommendation for this finding is presented in the internal control section of this report. We are not making any recommendations for this finding because we reported and made recommendations for corrective actions in the internal control section.

DISTRIBUTION

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

Williams, Adley & Company, LLP /s/
October 25, 2006
Washington, D.C.

STATUS OF PRIOR YEAR FINDINGS

Review of Oracle Federal Financial System

The Millennium Challenge Corporation (Corporation) does not have its own financial system. The Corporation contracted with the Department of Interior, National Business Center (NBC) to provide accounting and IT services including usage of its Oracle Federal Financial (OFF) System application. The NBC has not conducted an internal control review, such as a Statement of Auditing Standards (SAS) 70 review of the Oracle Federal Financials System nor has MCC directed NBC as its third-party servicer to have a review conducted in accordance with the federal system requirements.

Recommendation

We recommend that MCC direct the National Business Center to conduct an internal control review, such as a SAS 70 review to assess the control environment of the Oracle Federal Financial System.

Status

The NBC performed a SAS 70 review of the Oracle Federal Financial System for the period March 1, 2005 to July 31, 2005. The independent auditors reported that the relevant aspects of the NBC's controls that had been placed in operation are suitably designed to provide reasonable assurance that the specified control objectives would be achieved, except for the following two items:

- OFF requires transactions exceeding a dollar threshold to be approved by certifying officers. The electronic workflow in OFF currently does not require the approval by certifying officers of all such transactions.
- NBC is responsible for monitoring budgetary accounts for MCC. However, OFF limit edits are not designed to prevent obligations from exceeding the allotment.

NBC provided a self-certification asserting no change in the system controls from August 1 to September 30, 2005. No system review was performed for the period October 1, 2004 to February28, 2005 to assess operational efficiency, effectiveness and transparency

In fiscal year 2006, NBC performed a SAS 70 review for the period October 1, 2005 to July 31, 2006. The independent auditors reported that the relevant aspects of the NBC's controls that had been placed in operation are suitably designed to provide reasonable assurance that the specified control objectives would be achieved, except for the following item:

- OFF requires transactions exceeding a dollar threshold to be approved by certifying officers. The electronic workflow in OFF currently does not require the approval by certifying officers of all such transactions.

MCC's Policies and Procedures Were Not Always Complete and Consistent

During the fiscal year, the Millennium Challenge Corporation (MCC) has used various processes to address the financial aspects of their operations. These processes have evolved during the year as the organization has grown in personnel and operations. In this growth, however, the development of written policies and procedures to guide MCC's streamlined operational structure has not been a high priority for MCC in several areas. However, written policies and procedures must be in place to ensure operational efficiencies, risk reduction, and consistent application.

Recommendation 05-1:

We recommend that MCC's Office of Finance and Administration revise and reissue written policies and procedures that provide additional specificity in the areas noted above including the Fund Balance with Treasury, financial reporting, payroll processing, accrual generation and reporting, interagency reporting, fixed assets, travel, monitoring and internal grant processes. These policies and procedures should provide the following information at a minimum:

- Position accountable for each step in the process,
- Position responsible for approving/reviewing the information,
- The acceptable internal and external timelines for each step in the process, and
- The specific documentation required determining the authorization, timeliness and review of transaction.

Status

MCC had not issued final policies and procedures in several areas. Therefore, the finding is repeated but revised as finding # 06-1.

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

According to MCC's management, MCC has adopted the Federal Travel Regulations as its overall policy related to travel. MCC's internal travel policies and procedures do not permit the effective and efficient management of travel. These procedures do not ensure that travel is adequately planned and managed. Because a blanket travel authorization is used, there is no record that individual travel has taken place and that accounting has occurred for each instance. Additionally, the policy does not require that appropriate coordination include the Office of Finance. For example, the Office of Finance should have knowledge of planned trips, the timing, exceptions to the standard travel policy, and the estimated costs in order to ensure that sufficient obligations have been recorded to cover expenses incurred by MCC travelers. Currently, an initial estimate is prepared annually to fund the blanket travel authorization and the estimate is adjusted quarterly by the controller based upon expense patterns. There are, however, no automated processes in place to ensure that the estimate is sufficient to cover the travel expenses incurred. This problem is compounded by the untimely filing of travel vouchers thereby increasing the difficulty and reducing the accuracy of the estimation process performed by the controller.

Recommendation #05-2:

We recommend that MCC management:

(1) Develop and disseminate explicit policies to ensure that employees are aware of and follow the Federal Travel Regulations. Any exception should be documented and approved by a manager/supervisor in writing.

(2) Institute policies and procedures to ensure proper authorizations and approvals are obtained and coordination with the Office of Finance has occurred for each planned trip prior to travel to ensure that the information is properly captured in the financial management system.

(3) Develop and institute controls to reject those expenses claimed that exceed the allowable country per diem unless explicit written authorization is provided prior to travel.

Status:

MCC issued a revised policies and procedures in fiscal year 2006. However, we found additional exceptions in fiscal year 2006 related to travel expenses that exceed per diem, and lacked documentation. Also, we noted that no obligations are recorded prior to processing the travel voucher for reimbursement. The finding has been revised. Recommendations 2 and 3 were retained and a new recommendation was added. See recommendation #06-06

MCC Policies for Disbursing Advances to Grantees Does Not Accommodate Effective Cash Management Nor the Appropriate Recording of Custodial Interest Receivable and Payable

MCC entered into a compact with Madagascar in April 2005. The Compact became effective in July 2005, and an immediate advance was provided to MCA Madagascar amounting to $2,500,924. Based upon information obtained at year-end, MCA Madagascar has expended $650,000 of the initial advance.

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

Recommendation #05-3:

We recommend that management:

(1) Develop policies and procedures to ensure that the payment schedules and other agreements entered into with grantees are reflective of the Treasury requirements concerning advances and immediate cash needs.

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

Status:

MCC's policies and procedures have not changed in this area. In fiscal year 2006 more funds have been provided to various MCAs and the timelines between requesting the funds and their use has not improved but worsened. The finding was revised with additional data and recommendations. See recommendation #06-02.

MCC's Human Resources Responsible for Managing Its Financial Operations are Inadequate

During our internal control and substantive testing, we noted that the MCC relies solely on the Controller, with contract assistance, to perform the substantial duties of the Office of Financial Management (OFM). The current range of Controller responsibilities include, but are not limited to, the approval of miscellaneous obligations; monthly, quarterly and yearly financial information review; development of financial policies and procedures; financial statement review; audit coordination; coordination with other agencies including OMB, USAID/OIG, and NBC; and approval of funds availability.

Recommendation #05-4:

We recommend that MCC evaluate and document the need for additional employees in OFM to ensure that proper internal controls are in place to meet the agency's objective and thus, providing the Controller with adequate delegation of authority. Additionally, the roles and responsibilities of the current Controller position and the new positions in OFM should be clearly delineated and communicated.

Status:

MCC took significant steps to improve their human resources in the Office of Finance. They hired an additional five employees including a Chief Financial Officer, Deputy Chief Financial Officers and several accountants. The delineation of their roles and responsibilities will be outlined clearly in the newly revised policies and procedures.

MCC Did Not Fully Comply with FFMIA and GPRA

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

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

MCC has not developed performance goals and objectives that comply with the requirements of the GPRA. Although MCC has several guiding objectives, they do not meet the requirements of GPRA. The information in Management's Discussion and Analysis are not sufficient to meet GPRA requirements and the goals presented are on a calendar year basis rather than a fiscal year.

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

Recommendation #05-5:

We recommend that MCC management:

(1) Implement their intended corrective actions for preparation of a GPRA based performance goals and objectives by March 2006, as specified in its FMFIA assessment, specifically:

- Complete the development of a strategic plan for the next six fiscal years that meets OMB requirements.
- Involve MCC staff in the determination of corporate performance goals.
- Articulate operational performance goals for FY 2006, that align with the defined strategic goals and submit to the Board and OMB.

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

Status:

MCC has made improvements in these areas. However, there are remaining issues and thus the finding has been repeated with a revision to the finding for GPRA. See recommendation # 06-07.

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

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

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

The OIG continues the report significant noncompliances with FISMA requirements in fiscal year 2006.

Management Comments and Our Evaluation

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

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

Based on MCC's comments, we consider that a management decision has been reached on recommendations 1, 4, and 6 provided in this report but not on recommendations 2, 3, 5, and 7. These recommendations do not provide defined timelines for the corrective action implementation. Also, the corrective actions for recommendation 2.4 and 7.1 require additional details to ensure that the recommendations are appropriately addressed. On recommendation 2.1, management agreed to "the spirit" of the recommendation but has not agreed to the usage of the US Treasury requirements. MCC should report to the OIG when management decision has been reached on the four recommendations and when final action has been taken on the recommendations. The following is a brief summary of MCC's management comments on the seven recommendations included in this report and our evaluation on those comments.

Recommendation No. 1

MCC accepts the recommendation and is currently implementing relevant corrective action. Specifically, the Division of Finance (within the Department of Administration and Finance) initiated an effort during the summer 2006 to develop and implement a comprehensive corporate Financial Management Policies and Procedures (FMPP) manual. The Division is utilizing contractor support in this endeavor. The initial version of the FMPP manual is slated to be completed and formally institutionalized by December 31, 2006.

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

Recommendation No. 2

MCC Management accepts recommendations 2.2, 2.3, and 2.4. Regarding recommendation 2.1, MCC intends to follow sound cash management practices, will disburse funds consistent with the GAO policy based upon what is needed to meet grant purposes in any given quarter, though the funds will be released in tranches following a monthly schedule.

MCC has begun implementing needed corrective actions. The MCC FMPP manual (currently being developed – see above management response to recommendation 1) will contain definitive documentation and disbursement requirements for transferring funds to compact countries. Furthermore, the Division of Finance, in coordination with the National Business Center (MCC's financial services provider) has already implemented procedures to disburse funds to compact countries monthly in accordance with identified funding needs per pertinent quarterly disbursement requests.

Auditor Evaluation: We conclude that management has not adequately addressed this issue because the response does not address recommendation 2.4; and does not discuss the implementation of recommendation 2.2. Also, the management response does not specify an implementation date for any of the subparts of recommendation 2.

Recommendation No. 3

MCC management accepts the recommendation. The Department of Administration and Finance has begun planning and defining requirements for implementing a viable property management system and associated controls and processes, including periodic physical counts to verify the Corporation's property holdings and ensure the propriety of perpetual property records and related financial balances.

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

Recommendation No. 4

MCC management accepts the recommendations. The Division of Finance has already implemented quality assurance and review procedures to help ensure that compact disbursement requests/reports, which are to include compact expense information, are received timely, are complete, and that relevant financial information from such requests are properly included in quarterly financial statements and reports prepared by NBC. In the event of missing or late reports/requests, Division of Finance personnel will contact the pertinent accountable officials to obtain the reports/requests, and document such. Relevant policies and procedures will be included in the FMPP manual.

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

Recommendation No. 5

MCC management accepts the recommendation and will take necessary steps to establish and implement required policies, procedures, and organizational protocol to ensure that the Corporation's CFO is appropriately involved with the financial management operations entity-wide.

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

Recommendation No. 6

MCC management accepts the recommendation. The Deputy Chief Financial Officer has instructed the Division of Finance staff not to approve any claimed travel expenses that exceed established limitations as defined by the Federal Travel Regulation (FTR). Furthermore, the Division has instituted procedures to require that a traveler's responsible manger/supervisor be apprised of claimed expenses that are not in compliance with the FTR and/or MCC requirements, and that the manager/supervisor explicitly approve such expenses, but only if allowable per the FTR.

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

Recommendation No. 7

MCC accepts the recommendations. Relative to GPRA, the Department of Administration and Finance management is working with various corporate organizations to help ensure that strategic and operational performance goals, including financial management performance, and inter-related and resulting performance data is reliable and consistent.

In regards to system integration, the Department of Administration and Finance is currently considering various potential options and alternatives for increasing the electronic integration, responsiveness, and efficiency of the financial management systems used by the Corporation. The Division of Finance is working with NBC to identify potential opportunities for various financial management systems functions, including enhanced automated financial reporting and cost accumulation. Since MCC outsources its financial management and administrative functions, the Corporation is highly dependent upon its financial and administrative services provider (NBC) to help ensure operation of effective financial systems.

Auditor Evaluation: We conclude that management has not adequately addressed this issue because no defined timetable has been stated for the corrective action. Also, the response to recommendation 7.1 does not provide enough detail information to conclude that the finalization of baseline data, review of performance indicators, the development of templates, or performance of follow-up training is part of the corrective action plan.

MILLENNIUM CHALLENGE CORPORATION
REDUCING POVERTY THROUGH GROWTH

November 6, 2006

TO: John Phee
Assistant Inspector General

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

SUBJECT: Management Response to Draft Independent Auditor's Report on MCC's Financial Statements for Fiscal Years Ended September 30, 2006 and 2005, Respectively

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

- Financial Position;
- Operations and Changes in Net Position;
- Cash flows;
- Functional Expenses; and
- Budgetary Resources.

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

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

We wish to recognize and thank you, your team and Williams, Adley & Company for working closely with us during the audit process. We look forward to working with you and your staff on the fiscal year (FY) 2007 financial audit. Any questions may be addressed to Mr. Gerald Thomas, Deputy Chief Financial Officer, or to me.

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

Material Weakness 1: MCC's policies and procedures were not always complete and consistent.

Recommendation 1: Williams, Adley & Company recommends that MCC's Department of Administration and Finance complete the Financial Management Policies and Procedures (FMPP) manual and implement the written policies and procedures for all areas that result in a financial event.

Management Decision: MCC management accepts the recommendation and is currently implementing relevant corrective actions. Specifically, the Division of Finance (within the Department of Administration and Finance) initiated an effort during the summer, 2006 to develop and implement a comprehensive corporate Financial Management Policies and Procedures (FMPP) manual. The Division is utilizing contractor support in this endeavor. The initial version of the FMPP manual is slated to be completed and formally institutionalized by December 31, 2006.

* * * * *

Material Weakness 2: MCC policies for disbursing advances to grantees do not accommodate effective cash management.

Recommendations: Williams, Adley & Company recommends that MCC management:

- **2.1:** Develop and implement policies and procedures to ensure that payment schedules and other agreements entered into with grantees are reflective of U.S. Treasury requirements concerning advances and immediate cash needs.

- **2.2:** Develop and implement policies and procedures to ensure that all disbursement requests from the accountable entity of the recipient countries follow the official format that documents the cash requirements for each month of the quarterly period.

- **2.3:** Make and document all payments to the recipient countries on a monthly basis instead of a quarterly basis.

- **2.4:** Establish and implement policies and procedures to ensure that any custodial liabilities, e.g. interest owed to the U.S. Government resulting from the grantee advances, are properly recorded.

Management Decision: MCC management accepts recommendations 2.2, 2.3 and 2.4. Regarding recommendation 2.1, MCC intends to follow sound cash management practices, will disburse funds consistent with GAO policy based on an evaluation of what is needed to meet grant purposes in any given quarter, though the funds will be released in tranches following a monthly schedule.

MCC has begun implementing needed corrective actions. The MCC FMPP manual (currently being developed – see above management response to recommendation 1) will contain definitive documentation and disbursement requirements for transferring funds to compact countries. Furthermore, the Division of Finance, in coordination with the National Business Center (MCC's financial services provider) has already implemented procedures to disburse funds to compact countries monthly in accordance with identified funding needs per pertinent quarterly disbursement requests.

* * * * *

Material Weakness 3: MCC does not have a property management system.

Recommendation 3: Williams, Adley & Company recommends that MCC develop and maintain appropriate fixed asset records to ensure accurate reporting and physical control.

Management Decision: MCC management accepts the recommendation. The Department of Administration and Finance has begun planning and defining requirements for implementing a viable property management system and associated controls and processes, including periodic physical counts to verify the Corporation's property holdings and ensure the propriety of perpetual property records and related financial balances.

* * * * *

Material Weakness 4: MCC did not properly record compact expenses during the fiscal year.

Recommendations: Williams, Adley & Company recommends that MCC management:

- **4.1:** Require that the final quarterly disbursement requests received from the accountable entity of the recipient countries be made available to the Department of Administration and Finance and the Fiscal Accountability Office.

- **4.2:** Develop and implement policies and procedures that require compact expenses are properly and accurately recorded and reported on a quarterly basis.

- **4.3:** Implement written procedures requiring that appropriate and timely follow-up actions are performed and documented on late and/or outstanding fund disbursements and/or advance requests.

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

Management Decision: MCC management accepts the recommendations. The Division of Finance has already implemented quality assurance and review procedures to help ensure that compact disbursement requests/reports, which are to include compact expense information, are received timely, are complete, and that relevant financial information from such requests are properly included in quarterly financial statements and reports prepared by NBC. In the event of missing or late reports/requests, Division of Finance personnel will contact the pertinent accountable officials to obtain the reports/requests, and document such. Relevant policies and procedures will be included in the FMPP manual.

* * * * *

Material Weakness 5: MCC's Chief Financial Officer was not an integral part of the compact/grant processes.

Recommendation 5: Williams, Adley & Company recommends that MCC management revise its policies and procedures to invest the Office of the Chief Financial Officer (CFO) with the level of responsibility, including role and all levels of authority established by the Chief Financial Officers Act.

Management Decision: MCC management accepts the recommendation and will take the necessary steps to establish and implement required policies, procedures and organizational protocol to ensure that the Corporation's CFO is appropriately involved with financial management operations entity-wide.

* * * * *

Reportable Condition 1: MCC's travel disbursement controls and procedures do not permit the effective and efficient management of travel.

Recommendation 6: Williams, Adley & Company recommends that MCC management develop and implement controls to reject travel expense reimbursement requests that exceed the allowable country per diem limits unless additional electronic authorization is provided.

Management Decision: MCC management accepts the recommendation. The Deputy Chief Financial Officer has instructed the Division of Finance staff not to approve any claimed travel expenses that exceed established limitations as defined by the Federal Travel Regulation (FTR). Furthermore, the Division has instituted procedures to require that a traveler's responsible manager/supervisor be apprised of claimed expenses that are not in compliance with FTR and/or MCC requirements, and that the manager/supervisor explicitly approve such expenses, but only if allowable per the FTR.

* * * * *

Material Noncompliance 1: MCC did not fully comply with the Federal Financial Management Improvement Act (FFMIA) and the Government Performance and Results Act (GPRA).

Recommendations: Williams, Adley & Company recommends that MCC management:

7.1: Develop performance goal templates and follow-up training to ensure that Government Performance and Results Act (GPRA) requirements are adequately addressed and consistent. Williams, Adley & Company and the OIG also recommend that baseline data be finalized or performance indicators reviewed and amended such that they can be measured against obtainable data.

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

Management Decision: MCC accepts the recommendations. Relative to GPRA, Department of Administration and Finance management is working with the various corporate organizations to help ensure that strategic and operational performance goals, including financial management performance, and inter-related and resulting performance data is reliable and consistent.

In regard to systems electronic integration, Department of Administration and Finance management is currently considering various potential options and alternatives for increasing the electronic integration, responsiveness and efficiency of the financial management systems used by the Corporation. The Division of Finance is working with NBC to identify potential automation opportunities for various financial management systems functions, including enhanced automated financial reporting and cost accumulation. Since MCC outsources its financial management and administrative functions, the Corporation is highly dependent upon its financial and administrative services provider (NBC) to help ensure operation of effective financial systems.

* * * * *

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

- acknowledged that it has not fully met FISMA requirements;
- hired an outside expert to perform an independent security audit; and
- proposed a timetable for compliance.

Millennium Challenge Corporation
Statements of Financial Position
As of September 30, 2006 With Summary Totals for 2005

	2006 Total	Compacts	Pre-Compact Funding	Threshold	Evaluation and Support	Administrative	Audit	2005 Total
Assets								
Current Assets								
Fund Balance with Treasury *(Note 2)*	$ 3,931,404,752	$ 3,610,671,774	$ 55,951,660	$ 193,230,000	$ 32,200,504	$ 37,567,478	$ 1,783,336	$ 2,358,547,000
Receivables/Advances/Prepayments *(Note 3)*	18,893,478	16,587,951	511,426	-	1,731,899	62,202	-	4,338,698
Fixed Assets								
Leasehold Improvements and Capital Equipment *(Note 4)*	4,632,785	-	-	-	-	4,632,785	-	4,244,059
Total Assets	$ 3,954,931,015	$ 3,627,259,725	$ 56,463,086	$ 193,230,000	$ 33,932,403	$ 42,262,465	$ 1,783,336	$ 2,367,129,757
Liabilities								
Accounts Payable	2,552,277	-	774,246	-	731,258	1,046,773	-	1,319,467
Other Liabilities *(Note 5)*	2,516,786	-	-	-	(461,774)	2,978,560	-	2,522,803
Accrued Funded Annual Leave	2,698,070	-	-	-	-	2,698,070	-	1,386,644
Total Liabilities	$ 7,767,133	$ -	$ 774,246	$ -	$ 269,484	$ 6,723,403	$ -	$ 5,228,914
Net Position								
Unexpended Appropriations								
Obligated	1,283,003,458	1,187,867,694	43,098,943	0	23,298,780	26,954,705	1,783,336	349,153,392
Commitments	856,804,162	842,399,600	5,052,595	0	8,495,391	856,576	0	606,634,745
Allotments - Realized Resources	1,802,661,275	1,596,992,431	7,537,302	193,230,000	1,868,748	3,032,794	-	1,401,835,873
Cumulative Results of Operations	4,694,987	-	-	-	-	4,694,987	-	4,276,833
Total Net Position *(Note 6)*	$ 3,947,163,882	$ 3,627,259,725	$ 55,688,840	$ 193,230,000	$ 33,662,919	$ 35,539,062	$ 1,783,336	$ 2,361,900,843
Total Liabilities and Net Position	$ 3,954,931,015	$ 3,627,259,725	$ 56,463,086	$ 193,230,000	$ 33,932,403	$ 42,262,465	$ 1,783,336	$ 2,367,129,757

The notes are an integral part of these financial statements

Millennium Challenge Corporation
Statements of Operations and Changes in Net Position
For the Year Ended September 30, 2006 With Summary Totals for 2005

	2006 Total	Compacts	Pre-Compact Funding	Threshold	Evaluation and Support	Administrative	Audit	2005 Total
Financing Sources								
Appropriations Used	$ 92,455,115	$ 16,747,194	$ 5,895,167	$ -	$ 15,137,340	$ 54,055,700	$ 619,714	$ 39,312,758
Expenses	92,036,960	16,747,194	5,895,167	-	15,137,340	53,637,545	619,714	35,035,926
Excess of Financing Sources over Expenses	$ 418,155	$ -	$ (0)	$ -	$ 0	$ 418,155	$ -	$ 4,276,832
Net Position								
Excess of Financing Sources over Expenses	418,155	-	(0)	-	0	418,155	-	4,276,832
Increase in Unexpended Appropriations								
Appropriated	-							-
Obligated	933,850,067	863,789,695	36,954,637	-	14,498,520	17,054,929	1,552,286	346,388,202
Commitments	856,804,162	842,399,600	5,052,595	0	8,495,391	856,576	0	626,634,744
Allotments - Realized Resources	(168,109,344)	(358,233,833)	(8,007,053)	193,230,000	1,868,748	3,032,794	-	407,664,296
Transfers In/(Out)	(20,000,000)	-	-	(20,000,000)	-	-	-	-
Permanent Recission	(17,700,000)	(17,700,000)	-	-	-	-	-	(12,000,000)
Total Increase in Unexpended Appropriations	1,585,263,040	1,330,255,462	34,000,179	173,230,000	24,862,659	21,362,454	1,552,286	1,372,964,074
Beginning Net Position	2,361,900,842	2,297,004,263	21,688,661	20,000,000	8,800,260	14,176,608	231,050	988,936,768
Ending Net Position	$ 3,947,163,882	$ 3,627,259,725	$ 55,688,840	$ 193,230,000	$ 33,662,919	$ 35,539,062	$ 1,783,336	$ 2,361,900,842

The footnotes are an integral part of these financial statements

Millennium Challenge Corporation
Statements of Functional Expenses
For the Year Ended September 30, 2006 With Summary Totals for 2005

	2006 Total	Compacts	Pre-Compact Funding	Threshold	Evaluation and Support	Administrative	Audit	2005 Total
Salary and Benefits	$27,587,426	$ -	$ -	$ -	$ -	$ 27,587,426	$ -	$ 13,343,440
Travel	6,362,880	-	-	-	317,509	6,045,371	-	3,980,087
Rent/Lease	4,404,013	-	-	-	-	4,404,013	-	718,546
Utilities	766,206	-	-	-	-	766,206	-	207,704
Information Technology Services	2,562,575	-	-	-	-	2,562,575	-	2,065,657
Accounting Services	4,244,677	-	-	-	-	3,624,963	619,714	3,186,484
Interagency Agreements	4,636,977	-	-	-	4,636,977	-	-	564,654
Other Services	13,563,769	-	-	-	9,755,703	3,808,066	-	6,082,697
Supplies and Equipment	2,211,918	-	-	-	-	2,211,918	-	2,671,882
Grants	22,642,361	16,747,194	5,895,167	-	-	-	-	1,024,133
Miscellaneous	3,054,158	-	-	-	427,151	2,627,007	-	1,190,642
Total Expenses	$ 92,036,960	$ 16,747,194	$ 5,895,167	$ -	$ 15,137,340	$ 53,637,545	$ 619,714	$ 35,035,926

The footnotes are an integral part of these financial statements

Millennium Challenge Corporation
Statements of Cash Flows
For the Year Ended September 30, 2006 With Summary Totals for 2005

	2006 Total	Compacts	Pre-Compact Funding	Threshold	Evaluation and Support	Administrative	Audit	2005 Total
Cash Flows from Operating Activities								
Excess of Financing Sources over Expenses	$ 418,155	$ -	$ -	$ -	$ -	$ 418,155	$ -	$ 4,276,832
Adjustments Affecting Cash Flow:								
Depreciation Expense	483,000					483,000		$ -
Changes in Assets and Liabilities:								
Appropriated Capital Used	(92,455,115)	(16,747,194)	(5,895,167)	-	(15,137,340)	(54,055,700)	(619,714)	(39,312,758)
Increase in Advances/Receivables/Prepayments	(14,554,780)	(14,782,027)	(511,426)		768,101	(29,428)	-	(4,170,099)
Increase in Accounts Payable	1,232,809	-	774,246	-	659,128	(200,565)	-	1,295,584
Decrease in Other Liabilities	(6,017)	-	(154,526)	-	(1,459,696)	2,059,014	(450,809)	1,668,178
Increase in Annual funded Leave Liabilities	1,311,427	-	-	-	-	1,311,427	-	1,216,743
Total Adjustments	(103,988,676)	(31,529,221)	(5,786,873)	-	(15,169,807)	(50,432,252)	(1,070,523)	(39,302,352)
Net Cash Used in Operating Activities	$ (103,570,521)	$ (31,529,221)	$ (5,786,873)	$ -	$ (15,169,807)	$ (50,014,097)	$ (1,070,523)	$ (35,025,520)
Cash Flows from Investing Activities								
Purchase of Property	$ (871,727)	$ -	$ -	$ -	$ -	$ (871,727)	$ -	$ (4,244,059)
Net Cash Used in Investing Activities	$ (871,727)	$ -	$ -	$ -	$ -	$ (871,727)	$ -	$ (4,244,059)
Cash Flows from Financing Activities								
Appropriations received net of recissions	$ 1,752,300,000	$ 1,347,002,655	$ 39,895,345	$ 248,230,000	$ 40,000,000	$ 75,000,000	$ 2,172,000	$ 1,488,000,000
Transfers Out	(75,000,000)			(75,000,000)				(80,000,000)
Net Cash Provided by Financing Activities	1,677,300,000	1,347,002,655	39,895,345	173,230,000	40,000,000	75,000,000	2,172,000	1,408,000,000
Net Increase in Cash	1,572,857,752	1,315,473,434	34,108,472	173,230,000	24,830,193	24,114,176	1,101,477	1,368,730,421
Fund Balance with Treasury, Beginning	2,358,547,000	2,295,198,340	21,843,188	20,000,000	7,370,311	13,453,302	681,859	989,816,579
Fund Balance with Treasury, Ending	$ 3,931,404,752	$ 3,610,671,774	$ 55,951,660	$ 193,230,000	$ 32,200,504	$ 37,567,478	$ 1,783,336	$ 2,358,547,000

The footnotes are an integral part of these financial statements

Millennium Challenge Corporation
Statements of Budgetary Resources
For the Year Ended September 30, 2006 With Summary Totals for 2005

	2006 Total	Compacts	Pre-Compact Funding	Threshold	Evaluation and Support	Administrative	Audit	2005 Total
Budgetary Resources:								
Budget Authority:								
Appropriations	1,770,000,000	1,364,702,655	39,895,345	248,230,000	40,000,000	75,000,000	2,172,000	1,500,000,000
Net Transfer, Current Year Authority								
Unobligated Balance - Beginning of Period	2,053,722,184	1,972,926,264	15,544,354	65,251,566				986,171,577
Unobligated Balance - Transferred								
Spending Authority from Offsetting Collections	-							
Advances Received	-							
Adjustments:								
Recoveries of Prior Years Obligations	-							
Permanently Not Available *(Note 7)*	(17,700,000)	(17,700,000)	-	-	-	-	-	(12,000,000)
Total Budgetary Resources	$ 3,806,022,184	$ 3,319,928,919	$ 55,439,699	$ 313,481,566	$ 40,000,000	$ 75,000,000	$ 2,172,000	$ 2,474,171,577
Status of Budgetary Resources:								
Obligations Incurred	$ 1,109,535,594	$ 880,536,888	$ 42,849,803	$ 83,230,412	$ 29,635,861	$ 71,110,630	$ 2,172,000	$ 420,449,393
Unobligated Balance Available:								
Apportioned	877,383,424	842,399,600	10,644,896	10,085,419	10,364,139	3,889,370	-	683,006,839
Unobligated Balance Not Available:	1,819,103,166	1,596,992,431	1,945,000	220,165,735	-	-	-	1,370,715,345
Total Status of Budgetary Resources	$ 3,806,022,184	$ 3,319,928,919	$ 55,439,699	$ 313,481,566	$ 40,000,000	$ 75,000,000	$ 2,172,000	$ 2,474,171,577
Relationship of Obligations to Outlays:								
Obligated Balance, Net - as of October 1, 2005	$ 384,862,005	$ 322,272,076	$ 6,298,834	$ 34,699,991	$ 7,370,311	$ 13,538,935	$ 681,859	$ 3,645,002
Obligations Incurred	1,109,535,594	$ 880,536,888	$ 42,849,803	$ 83,230,412	$ 29,635,861	$ 71,110,630	$ 2,172,000	$ 420,449,393
Recoveries of Prior Years Obligations	-							
Adjustments								
Obligated Balance, Net - End of Period								
Accounts Payable	(8,881,212)	0	(774,246)	0	(1,670,526)	(6,436,440)	0	(5,335,899)
Obligations	(1,376,397,315)	(1,171,279,742)	(42,587,517)	(112,225,132)	(21,566,882)	(26,954,705)	(1,783,336)	(379,526,106)
Total Outlays	$ 109,119,072	$ 31,529,222	$ 5,786,873	$ 5,705,271	$ 13,768,764	$ 51,258,420	$ 1,070,523	$ 39,232,390
Outlays:								
Disbursements	109,119,072	31,529,222	5,786,873	5,705,271	13,768,764	51,258,420	1,070,523	39,232,390
Collections / Refunds	-							-
Net Outlays	$ 109,119,072	$ 31,529,222	$ 5,786,873	$ 5,705,271	$ 13,768,764	$ 51,258,420	$ 1,070,523	$ 39,232,390

The footnotes are an integral part of these financial statements

NOTES TO FINANCIAL STATEMENTS
(AS OF SEPTEMBER 30, 2006)

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, cash flows, and budgetary resources for MCC (the Corporation), as required by 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 the books and records of the Corporation 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.

The Corporation'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).

The Corporation's principal financial statements are:

- Statement of Financial Position;
- Statement of Operations and Changes in Net Position;
- Statement of Functional Expenses;
- Statement of Cash Flows; and
- Statement of Budgetary Resources.

MCC has presented comprehensive statements for fiscal year 2006, with summary totals for 2005 for comparative purposes. These notes are considered an integral part of the financial statements.

B. Reporting Entity

The Corporation was formed in January 2004 pursuant to the Millennium Challenge Act of 2003 (Public Law 108-199). The Corporation's mission is to provide United States assistance to eligible countries for global development. The assistance is intended to provide economic growth and the elimination of extreme poverty, strengthen good governance, encourage economic freedom, and promote investments in people.

C. Budgets and Budgetary Accounting

The Corporation's programs and activities are funded through no-year appropriations. Such funds are available for obligation without fiscal year limitation and remain available until expended. MCC was provided total appropriations of almost $1.8 billion and $1.5 billion in FY 2006 and FY 2005, 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 for due diligence funds, which MCC uses for compact evaluations and support, compact programs, 609(g) funds, the Threshold Program, and audit funds. Because of the no-year status of MCC appropriations, unobligated administrative, audit and due diligence funds (apportioned on annual bases) are not returned to Treasury. MCC's policy is to transfer any unobligated balances as of September 30, for these three categories of funds to compact funds 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 the Corporation's compliance with legal constraints and controls over the use of Federal funds.

The accompanying Statements of Financial Position, Operations and Changes in Net Position, Cash Flows, and Functional Expenses have been prepared on the accrual basis. The Statement of Budgetary Resources has been prepared in accordance with budgetary accounting rules. The Statement of Cash Flows has been prepared to reconcile budgetary to financial (proprietary) accounting information.

E. Fund Balance with Treasury

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

F. Advances to Others

The Corporation advances funds in response to compact countries and Federal agency drawdown requests in order to implement compact projects in an MCA country or inter-agency agreements. Funds advanced to compact countries are used to pay legitimate costs and expenses incurred per the formal compacts entered into by MCC and the countries.

G. Property and Equipment

The Corporation's accounting policies require that property and equipment with original cost of $25,000 or more and an estimated useful life of two or more years to be capitalized. Such assets include leasehold improvements, telephone equipment, computer systems equipment, copiers, computer software, furniture, and assets under capital leases. The assets are to be depreciated (or amortized) over their estimated useful lives.

H. Compacts and Pre-Compact (609(g))Funding Payable

Compact funding, including 609(g) funds, are made to eligible countries with approved Compact or pre-Compact funding agreements. Upon formally entering into a compact with a country, the Corporation records a commitment of funds (i.e., administrative reservation) in its financial records for the total value of the compact. Once a compact enters into force, the value of the compact is obligated on MCC's financial books (and the related commitment reduced/liquidated). At the end of the fiscal year, the Corporation records the total estimated amount of compact expenses incurred for work performed but not paid as liquidations of the advances. The estimated amount of such expenses at September 30, 2006 and September 30, 2005, were $1.956 million and $0, respectively.

I. Accounts Payable

The Corporation records as liabilities all amounts to others as a direct result of transactions or events that have occurred. Accounts payable represent amounts due to both Federal and non-federal entities for goods and services received by the Corporation, but not paid at the end of the fiscal year.

J. 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 the Corporation. The Corporation'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.

The Corporation incurred no FECA liabilities during fiscal years 2006 and 2005.

K. Other Liabilities

Other liabilities include amounts owed, but not paid, at the end of the fiscal year for employee payroll and benefits and Federal Employees' Compensation Act charges (see Exhibit 13).

L. Accrued Annual Leave

The value of employees' unused annual leave at the end of the fiscal year is accrued as a liability. At the end of each fiscal year, the balance in the accrued annual leave account is adjusted to reflect current year 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.

M. Net Position

Net position is composed of unexpended appropriations and cumulative results of operations. Unexpended appropriations are funds appropriated by the Congress to the Corporation that are still available for expenditure at the end of the fiscal year. Cumulative results of operations represent the net differences between financing sources and expenses from the Corporation inception.

N. Financing Sources

Per note 1.C, the Corporation 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.

O. Retirement Benefits

The Corporation'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 employees hired after December 31, 1983 are covered by FERS and Social Security. 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, the Corporation contributes seven percent of their gross pay towards their retirement benefits. For those employees covered by FERS, the Corporation contributes 11 percent of their gross pay towards retirement. Employees are also allowed to participate in the Federal Thrift Savings Plan (TSP). For employees under FERS, the Corporation contributes an automatic one percent of basic pay to TSP and matches employee contributions up to an additional four percent of pay, for a maximum Corporation contribution amounting to five percent of pay. Employees under CSRS may participate in the TSP, but will not receive either the Corporation's automatic or matching contributions.

During FY 2006, the Corporation made retirement contributions of $761,000 to CSRS; $1.977 million to FERS; and $620,700 to TSP. In FY 2005 the Corporation made contributions of $30,000 to CSRS, $876,000 to FERS and $226,000 to TSP.

P. 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.

Q. Contingencies

The Corporation 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 the Corporation. In the opinion of the Corporation's management and legal counsel, there are no proceedings, actions or claims outstanding or threatened, which would materially impact the Corporation's financial statements.

R. Judgment Fund

Certain legal matters to which the Corporation 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 Treasury, called the Judgment Fund. Although the ultimate disposition of any potential Judgment Fund proceedings cannot be determined, management does not expect any liability or expense that might ensue would be material to the Corporation's financial statements.

S. Custodial Receivables and Liabilities

Under current policy and procedures, the Corporation funds all Compacts with other countries by advancing funds to cover projected needs, generally for a forthcoming three-month period. 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 the Corporation and deposited into an account at the U.S. Treasury. Such interest may not be retained or used by the Corporation, but periodically is returned to the Treasury's general funds. As of September 30, 2006, receivables for amounts of interest to be remitted by the countries and the related liabilities are not reflected in these financial statements. As of September 30, 2006, the Corporation had outstanding advances related to compact financing of approximately $16.6 million. During FY 2006 the Corporation received and deposited $304,000 in interest remittances. At the end of FY 2006, approximately $174,000 of interest earned on compact advances to the MCAs was due to be remitted to MCC. At the end of FY 2005, the Corporation had advances of $1.8 million and received interest remittances of approximately $17,000 during the year.

Note 2—Fund Balance with Treasury

The U.S. Treasury accounts for all U.S. Government funds on an overall consolidated basis. The Fund Balance with Treasury line items on the Statements of Financial Position for FY 2006 and FY 2005 consisted of amounts presented in the following table.

Fund Balances with Treasury (in thousands)

Appropriated Funds	2006	2005
Unobligated	$ 2,546,127	$ 1,973,685
Obligated	1,385,278	384,862
Total	**$ 3,931,405**	**$ 2,358,547**

Note 3—Advances/Accounts Receivable

Advances reflect amounts provided to MCA compact countries and other Federal agencies, in accordance with formal compacts or inter-agency agreements, respectively. Accounts receivable reflect overpayments of payroll and travel expenses to current employees of the Corporation. As such, no allowance for doubtful accounts is necessary. As of September 30, 2006, the Corporation reported $18.9 million in advances and receivables, of which $18.8 million related to advances for compact implementation and approximately $62,000 for receivables.

Note 4—Fixed Assets

The Corporation's fixed (capital) assets are predominantly comprised of leasehold improvements related to the MCC headquarters offices located in Washington, DC. As of September 30, 2006, the Corporation reported $5.1 million of which $4.8 million represented leasehold improvements and $280,000 represented capitalized equipment. At the end of the fiscal year, $483,000 of amortization and depreciation had been recorded for the two categories of assets.

Note 5—Other Liabilities

The Corporation is liable for amounts owed to other parties, including employees and other Federal groups. The following table presents the amounts of such liabilities as of September 30, 2006 and 2005.

Other Liabilities
(in dollars)

Type	2006	2005
Evaluation and Support	$ (461,744)*	$ 997,921
Travel	300,000	747,143
Office of the Inspector General	0	450,809
Miscellaneous	1,566,695	326,935
Payroll	1,111,865	0
Total	**$ 2,516,786**	**$ 2,522,808**

** This amount represents the difference in funds drawn from MCC's accounts by other Federal parties per inter-agency agreements (through the Department of the Treasury's Intra-governmental Payment and Collection System (IPAC)) and the liability amounts recorded by MCC. In short, as of September 30, 2006, other Federal entities had drawn approximately $1.401 million from MCC's accounts with Treasury. MCC had recorded liabilities of $.939 million for the pertinent charges—$.462 million less than the amounts "drawn" by the entities. At the end of the fiscal year, MCC and its financial services provider (the Department of Interior's National Business Center) were researching the differences and reconciling supporting records.*

Note 6—Net Position

The reported net position consists of unexpended appropriations and cumulative results of operations, which reflects the difference between financing sources and expenses since the Corporation's inception.

The following table presents total obligated and unobligated compact and 609(g) funds as of September 30, 2006 and 2005.

Total Obligated and Unobligated Compact and 609(g) Funds (in dollars)

	2006	Compacts	609(g) Funding	2005
Obligations				
Armenia	$235,646,174	$ 235,150,000	$ 496,174	
Benin	1,062,985		1,062,985	
Cape Verde	106,077,520	106,014,782	62,738	$ 84,617
Georgia	296,178,084	292,802,057	3,376,027	4,111,000
Ghana	13,584,891		13,584,891	48,688
Honduras	213,166,147	213,166,147		215,000,000
Lesotho	902,934		902,934	600,000
Madagascar	103,290,130	101,990,130	1,300,000	110,378,000
Mali	4,421,534		4,421,534	
Mozambique	12,956,078		12,956,078	
Nicaragua	173,583,320	173,529,975	53,345	
Senegal	4,882,237		4,882,237	
Vanuatu	65,214,603	65,214,603		
Total Obligations	**$1,230,966,637**	**$1,187,867,694**	**$43,098,943**	**$330,222,305**
Commitments				
Benin	$305,781,626	$ 305,761,550	$ 20,076	
Cape Verde	–			$110,078,488
Georgia	–			295,300,000
Ghana	536,638,050	536,638,050		2,870,502
Mali	4,606,861		4,606,861	
Mozambique	–			6,000,000
Nicaragua	–			175,000,000
Senegal	425,658		425,658	6,528,299
Total Commitments	**$847,452,195**	**$ 842,399,600**	**$ 5,052,595**	**$595,777,289**

Note 7—Permanent Rescission

In FY 2006 and FY 2005, respectively, $17.7 million and $ 12 million of amounts previously appropriated under the FY 2006 and FY 2005 Foreign Operations, Export Financing, and Related Programs Appropriations Acts (Public Law 109-148 and Public Law 108-447, respectively), were rescinded. The rescissions were part of the Across-the-Board Rescissions enacted for FY 2006 and FY 2005, respectively.

Note 8—Inter-Agency Agreements

MCC is party to various inter-agency agreements (IAA) with other Federal agencies for services to be provided by those entities. Such services include financial, travel management and other administrative functions; technical and engineering services, personnel background records checks; and information technology services. During FY 2006, MCC executed 20 IAAs with other Federal agencies totaling almost $9.1 million. At the end of the year, approximately $6.8

million remained available for paying future services to be provided under the subject IAAs. The following table provides a summary of the IAAs by Federal entity.

Fiscal Year 2006 Inter-agency Agreements

Agency	Number of IAAs	Dollar Value	Remaining Funds – End of FY
NBC, Dept. of Interior	6	$1,216,313	$ 0
State Dept.	4	437,668	242,160
U.S. Agency for International Development	1	140,000	140,000
Dept. of Agriculture	1	228,478	44,820
U.S. Army Corps of Engineers	3	5,441,379	5,004,390
Dept. of Transportation	1	109,083	83,794
Dept. of Health and Human Services	1	1,500,000	1,241,422
Dept. of Labor	1	2,912	0
Government Printing Office	1	3,000	3,000
Office of Personnel Management	1	5,000	220
Total	**20**	**$9,083,833**	**$6,759,806**