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MILLENNIUM
CHALLENGE
CORPORATION

Progress and Challenges with
Compacts in Africa

Statement of David B. Gootnick, Director
International Affairs and Trade



Mr. Chairman and Members of the Subcommittee:

Thank you for the opportunity to discuss GAO's findings and observations regarding the Millennium Challenge Corporation's (MCC) activities and progress in sub-Saharan Africa.¹

In January 2004, Congress established MCC to administer the Millennium Challenge Account (MCA) for foreign assistance.² MCC's mission is to reduce poverty by supporting sustainable, transformative economic growth in partnership with developing countries that create and maintain sound policy environments. In countries where it funds projects or activities, MCC expects to raise incomes and lift thousands out of poverty. For fiscal years 2004 to 2007, MCC received appropriations of almost \$6 billion, about \$5.1 billion of which has been set aside for compact assistance.³ MCC is currently working with 40 countries worldwide—either providing compact assistance or helping them become eligible for compact assistance⁴—and had obligated almost \$3 billion for compacts with 11 of these countries as of May 2007.

In 2006, we reported on MCC's implementation of its first compacts—including compacts with Madagascar and Cape Verde—examining MCC's process for initiating the compacts and its management structures for implementing them.⁵ Today I will discuss MCC's activities in sub-Saharan Africa (Africa), where

¹Sub-Saharan Africa does not include the additional MCC-eligible country of Morocco.

²Millennium Challenge Act of 2003, Public Law 108-199, Division D, Title VI of the Consolidated Appropriations Act, 2004. Title II, Division D of this act established the MCA for MCC appropriations.

³An MCC compact is an agreement between the U.S. government, acting through MCC, and the government of a country eligible for MCC assistance. Other funds are used for MCC's threshold country program, administrative expenses, due diligence, monitoring and evaluation, and other costs.

⁴MCC uses criteria outlined in the Millennium Challenge Act to select countries as eligible for compact assistance. In general, MCC selects as eligible countries that are not barred from receiving U.S. assistance; that meet income criteria; and that also meet criteria for ruling justly, encouraging economic freedom, investing in people, and combating corruption.

⁵GAO, *Millennium Challenge Corporation: Compact Implementation Structures Are Being Established; Framework for Measuring Results Needs Improvement*, [GAO-06-805](#) (Washington, D.C.: July 28, 2006). Previous GAO work summarized MCC's progress in its first year of operations and in making awards for compact assistance. See GAO, *Millennium Challenge Corporation: Progress Made on Key Challenges in First Year of Operations*, [GAO-05-455T](#) (Washington, D.C.: Apr. 26, 2005) and [GAO-05-625T](#) (Washington, D.C.: Apr. 27, 2005); *Analysis of Future Millennium Challenge Corporation Obligations*, [GAO-06-466R](#) (Washington, D.C.: Feb. 21, 2006).

MCC has signed compacts with five countries and identified another six countries as eligible for assistance. Specifically, I will discuss (1) the pace of MCC's initiation of compacts in Africa, (2) MCC projects and management structures in African countries with signed compacts, and (3) MCC's progress in disbursing compact funds.

To address these objectives, we updated our previous reports as needed. We updated and summarized MCC's progress in initiating and implementing programs in Africa, using public documents available from the MCC Web site and the results of our previous reporting. Our analysis of MCC's obligations for compact assistance to African countries is based on a budget analysis that we conducted in February 2007. Our analysis of MCC's disbursements is based on a budget analysis that we conducted in May 2007, comparing MCC data about actual and planned disbursements from July 2005 through March 2007. We conducted our work for this testimony in June 2007 in accordance with generally accepted government auditing standards. (See app. I for further details of our scope and methodology.)

Summary

The pace at which MCC has initiated compacts with African countries has varied. For the five signed compacts—with Madagascar, Cape Verde, Benin, Ghana, and Mali—progressing from eligibility selection to compact signature took between 12 and 31 months. Four of the compacts have entered into force—on average, about 5 months after compact signature. Of the six additional eligible African countries, none has reached compact signature, although three have been compact eligible for more than 3 years. In general, MCC's rate of establishing and obligating funds for new compacts has been slower than projected, with the result that MCC currently has more than \$2 billion in unobligated funds set aside for compacts.

MCC's compact projects in Africa have emphasized transportation and agriculture and are to be implemented through country-run management structures. Approximately three-quarters of the compact funding in Africa has been budgeted for (1) transportation and other infrastructure projects (37 percent) and (2) agriculture and rural development projects (39 percent). To provide oversight and accountability and facilitate stakeholder involvement, the countries have established management structures with common components. The countries' management structures generally include a steering committee, responsible for compact oversight and results; a stakeholder committee, to advise the steering committee on compact implementation; and a management unit, principally responsible for compact management and implementation. As we reported in July 2006, Madagascar and Cape Verde—the first two African countries to sign compacts—did not fill key positions in their management

structures until several months after entry into force, and this delay may limit their achievement of compact objectives. According to MCC, key management officials for subsequent compacts with Benin and Ghana were in place around the time of entry into force. Key positions for Mali, whose compact has not entered into force, have not yet been filled.

MCC has disbursed compact funds in Africa more slowly than planned and, unless it can make future disbursements more quickly, may have large unexpended balances and uncompleted projects when the compacts expire. According to MCC, its unexpectedly slow rates of disbursement have primarily reflected its high standards for program accountability and sustainability as well as its initial overestimation of partner country capacity to meet these standards. As of March 31, 2007, MCC had disbursed \$26 million (23 percent) of the \$113.9 million it had planned to disburse by that date. The slower-than-expected disbursement is most critical for Madagascar and Cape Verde, both in their second year of compact implementation.

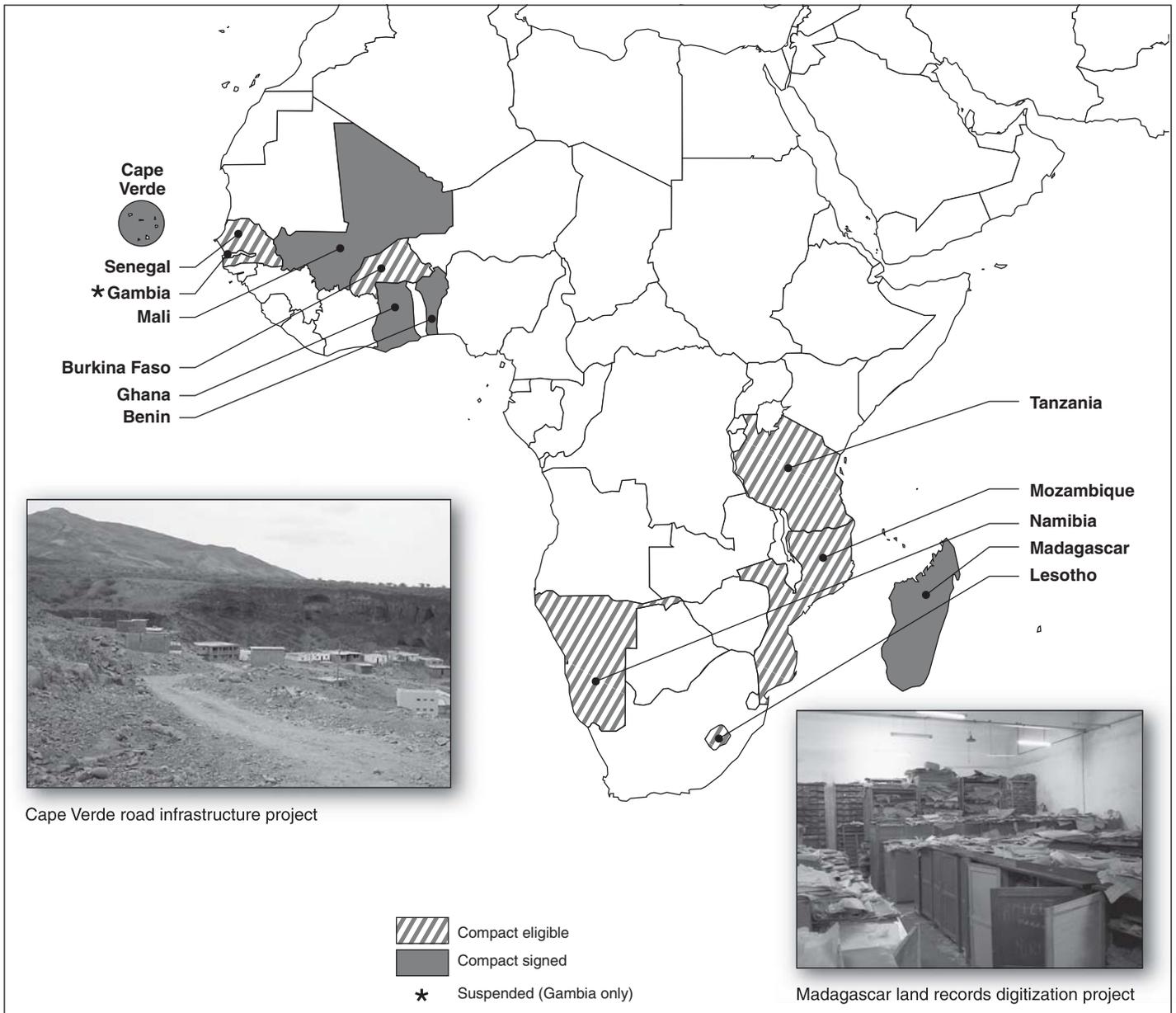
Background

The Millennium Challenge Act of 2003 requires MCC to select countries as eligible for MCA assistance each fiscal year.⁶ Countries with per capita income at or below a set threshold may be selected as eligible if they meet MCC indicator criteria and are not statutorily barred from receiving U.S. assistance.⁷ MCC has signed compacts with five countries in Africa and identified six other African countries as eligible for compact assistance (see fig. 1).

⁶The Millennium Challenge Act also authorizes a limited amount of assistance to certain candidate countries to help them become eligible for MCA assistance; this assistance is referred to as MCC's threshold program. Threshold candidate countries must (1) meet the requirements for MCA candidacy and (2) demonstrate a significant commitment to meeting the act's eligibility criteria but fail to meet those criteria. We have not analyzed MCC's work with threshold countries.

⁷MCC uses 16 indicators divided into three categories: Ruling Justly, Encouraging Economic Freedom, and Investing in People. To be eligible for MCA assistance, countries must score above the median relative to their peers on at least half of the indicators in each category and above the median on the indicator for combating corruption.

Figure 1: African Countries Receiving or Eligible for MCC Compact Assistance, as of June 2007

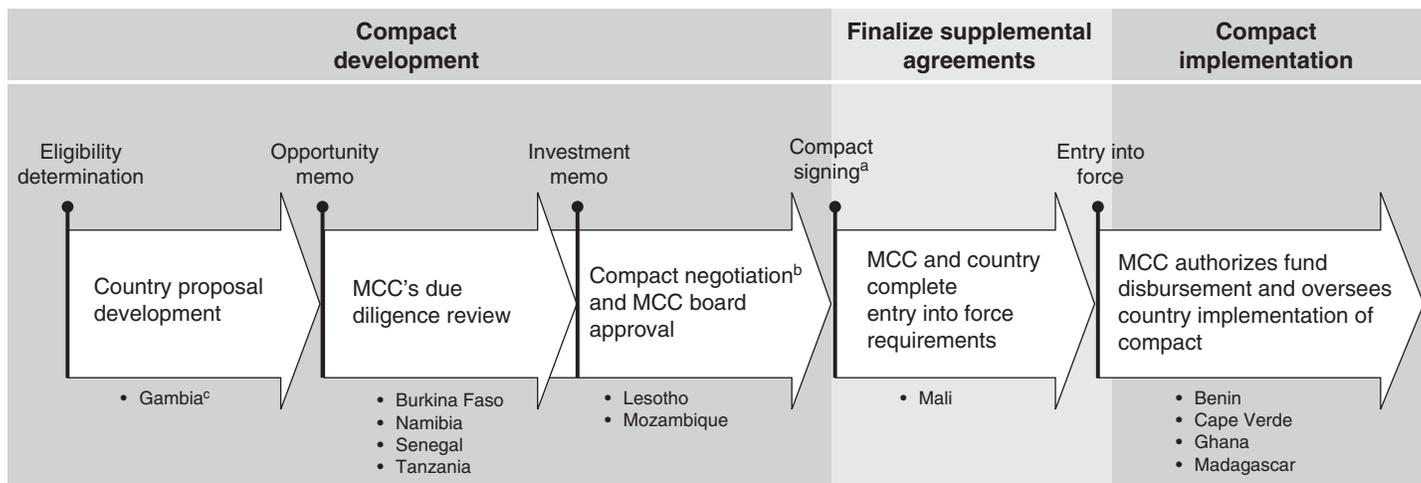


Sources: GAO, based on MCC information; map (Map Resources); photos: GAO.

Note: On June 16, 2006, MCC suspended Gambia from eligibility for assistance, citing a pattern of actions inconsistent with MCC's selection criteria, including documented evidence of human rights abuses and increased restrictions on political rights, civil liberties, and press freedom by the government, as well as worsening economic policies and anticorruption efforts.

After MCC selects a country as compact eligible, the country may begin a four-phase process that can lead to a compact's entry into force (see fig. 2).

Figure 2: Summary of MCC Compact Development and Implementation Process as of June 2007



Source: GAO analysis of MCC data.

^aMCC must notify congressional appropriations committees 15 days prior to obligating funds.

^bCompact negotiations begin after the MCC investment committee approves a consultation memorandum prepared by the MCC transaction team. The memorandum is based on the transaction team's determination that the country proposal has sufficient information to justify entering into negotiations with the country. MCC must consult with and report to the appropriate congressional committees 15 days prior to the start of compact negotiations.

^cThe MCC Board suspended Gambia's eligibility on June 16, 2006, citing a pattern of actions inconsistent with MCC's selection criteria.

Country proposal development. The eligible country is invited to submit a compact proposal, to be developed in consultation with members of civil society, including the private sector and nongovernmental organizations.

MCC due diligence review. In conducting due diligence, MCC evaluates the eligible country's proposal against MCC criteria to ensure that proposed programs will be effective and funds will be well used.

Compact negotiation and MCC approval. Following due diligence, MCC enters into compact negotiations with the eligible country. If compact negotiations are

successful, the MCC Board of Directors⁸ may approve the compact, and MCC and the eligible country may sign it. Each signed compact includes a multiyear Financial Plan Summary that documents MCC's planned projects and disbursements by project in each compact year.

MCC and compact country complete entry-into-force requirements. MCC's compact with each country identifies supplemental agreements that MCC and the country's accountable entity must complete before the compact can enter into force.

After a compact enters into force, MCC may begin disbursements and the country may begin implementing projects. The Millennium Challenge Act stipulates that a compact may last no longer than 5 years and that MCC may have only one compact with a country at a time. The compacts stipulate that, with limited exceptions, all funds must be spent during the term of the compact period.⁹

MCC has obligated a total of about \$1.5 billion as of May 2007 through its five compacts with African countries. The average size of these compacts is about \$307 million, providing per capita assistance ranging from \$6 to \$222, or an average of \$25 (see table 1).¹⁰ Four of MCC's compacts—with Benin, Cape Verde, Ghana, and Madagascar—have entered into force. According to MCC, two additional compacts, with Lesotho and Mozambique, are being brought

⁸MCC is a government corporation, managed by a Chief Executive Officer (CEO) whom the President appoints with the advice and consent of the Senate, and is overseen by a Board of Directors. The Secretary of State serves as board chair, and the Secretary of the Treasury serves as vice-chair. Other board members are the U.S. Trade Representative, the Administrator of the U.S. Agency for International Development (USAID), the CEO of MCC, and up to four Senate-confirmed public members who are appointed by the President from lists of individuals submitted by congressional leadership.

⁹MCC compacts signed as of May 2007 contain language stipulating that all disbursements and redissements shall cease upon expiration, suspension, or termination of a compact provided that reasonable expenditures for goods, services, and works properly incurred under or in furtherance of these compacts before the compact term expires or is terminated may be paid from MCC funding. In addition, signed compacts contain language providing that when a compact expires or is terminated, any funding not disbursed by MCC is automatically released from any obligation in connection with that compact.

¹⁰Overall, MCC's 11 compacts as of May 2007 provide an average of \$34 per capita.

before the MCC board at its meeting on June 27, 2007.¹¹ The proposed amounts of these compacts are \$362 million and \$507 million, respectively.

Table 1: MCC Compacts with African Countries, as of June 25, 2007

Country	Compact amount	Compact amount per capita (2004 population)
Madagascar	\$109.8 million	\$6
Cape Verde	\$110.1 million	\$222
Benin	\$307.3 million	\$38
Ghana	\$547.0 million	\$25
Mali	\$460.8 million	\$35
Total	\$1,535.0 million	
Average	\$307.0 million	\$25

Source: GAO analysis of MCC data.

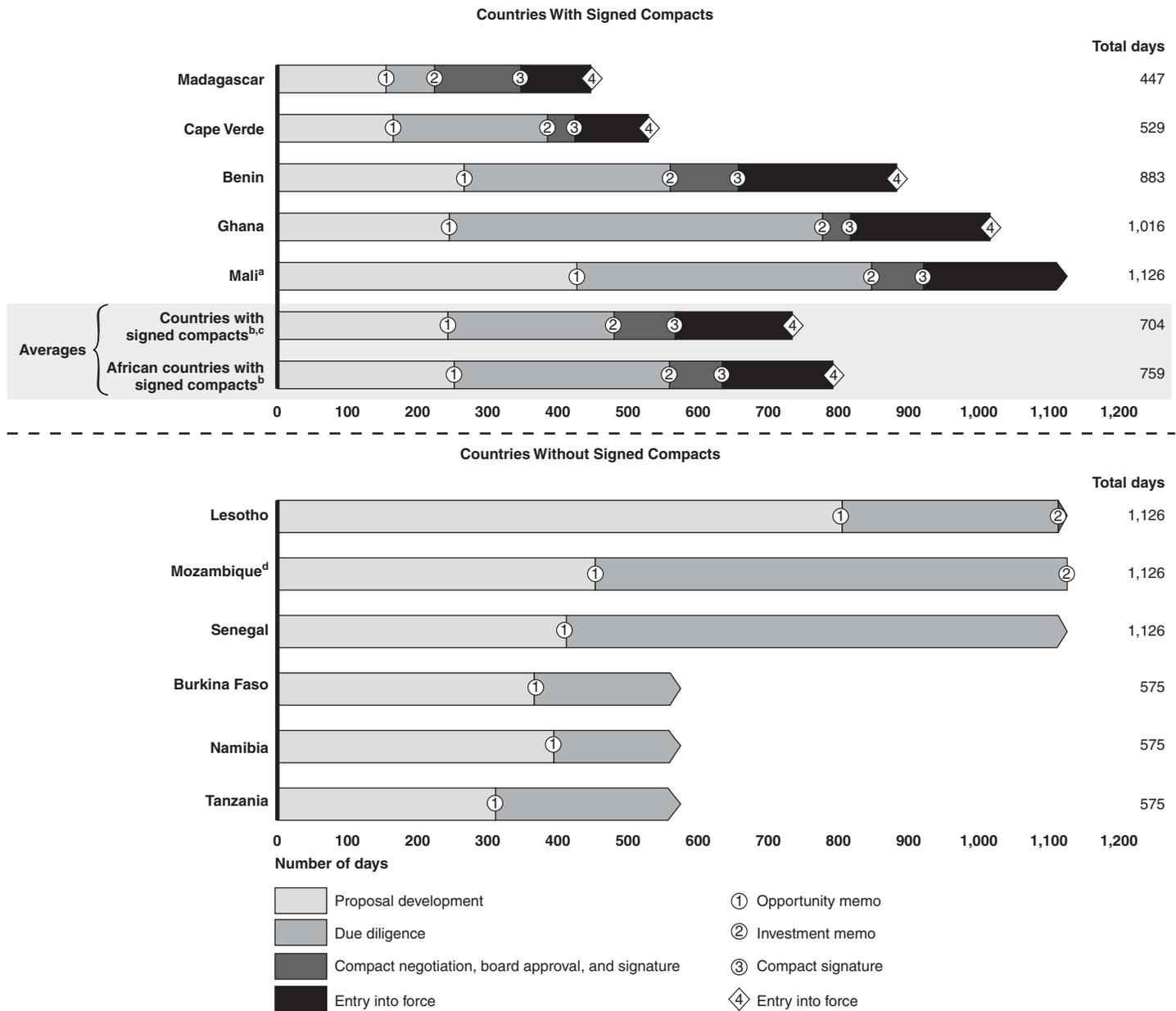
MCC's Pace of Compact Initiation in Africa Has Varied

The time involved in MCC's initiation of compacts with African countries has varied, with three countries remaining in the compact development process for more than 3 years without reaching compact signature. For the five African countries with signed compacts, progressing from eligibility selection to compact signature took from 347 to 921 days, or about 12 to 31 months—an average of 633 days, or about 21 months. For the four compacts that have entered into force, achieving entry into force took an average of 158 days, or about 5 months, from compact signature. For all MCC compacts, the process from eligibility to compact signature has taken an average of 567 days, or approximately 19 months, with an additional 167 days on average to entry into force. (See fig. 3.) MCC has not yet signed compacts with six additional African countries eligible for compact assistance—Burkina Faso, Lesotho, Mozambique, Namibia, Senegal, and Tanzania. MCC completed due diligence for Lesotho and Mozambique on May 24 and June 6, 2007, respectively. As of June 6, 2007, MCC was performing due diligence for the remaining four. Three of these six

¹¹In February 2007, we estimated the rate of MCC's future obligations, including those in Africa, under two scenarios. In the first scenario, using MCC's projected amount and rate of compact awards as stated in its 2008 congressional budget justification (\$485 million at 1.5 compacts per quarter), we estimated that MCC would obligate the balance of its 2004-2007 appropriations set aside for compact assistance (\$2.1 billion) by the fourth quarter of 2007 and the \$3 billion requested for 2008 by the fourth quarter of that year. In the second scenario, using MCC's historical amount and rate of compact awards (\$271 million at about 1.2 compacts per quarter), we estimated that the corporation would obligate the balance of its 2004-2007 appropriations by the fourth quarter of 2008 and the \$3 billion requested for 2008 by the fourth quarter of 2010.

countries—Lesotho, Mozambique, and Senegal—have been eligible since MCC’s initial determination of eligible countries in May 2004.

Figure 3: Duration of Compact Development Process for Eligible African Countries with and without Signed Compacts, as of June 6, 2007



Source: GAO analysis of MCC data.

^aAs of June 6, 2007, the Mali compact had been signed for 205 days without entering into force.

^bAverage time to enter into force does not include countries that have not yet entered into force.

^cTen of the 11 countries with signed compacts became eligible during the first round of MCC country eligibility announcements in May 2004.

^dAccording to MCC, it approved the Mozambique investment memo on June 6, 2007.

Compact development does not operate on a fixed timetable or schedule. However, during 2005-2007, MCC's actual rate of establishing new compacts was slower than the rate projected by the corporation's annual budget requests. As a result, MCC's obligations for compact assistance have been substantially less than projected. MCC currently has more than \$2 billion in unobligated funds set aside for compacts.

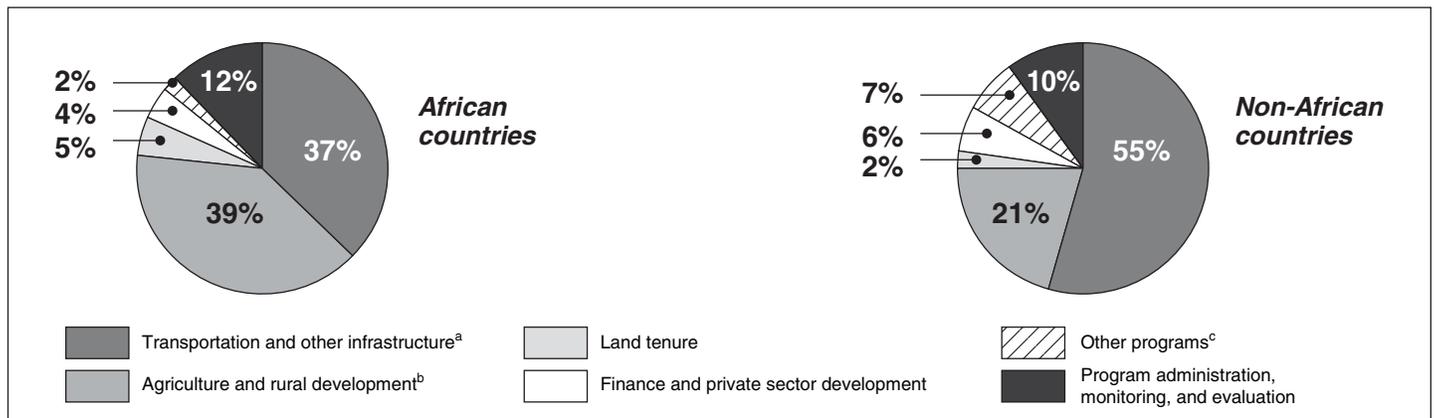
MCC Projects in Africa Emphasize Transportation and Agriculture, and Management Structures Have Been Established

About three-quarters of MCC's compact funding in Africa supports transportation and agriculture projects. To implement and oversee the projects, the countries with compacts in force have established management structures with similar components. For MCC's first two African compacts, key management officials were not in place until months after entry into force, but such positions were filled before, or shortly after, the two subsequent African compacts entered into force.

Approximately 76 percent of MCC compact funding has been budgeted for (1) transportation and other infrastructure projects and (2) agricultural and rural development projects. (See fig. 4.) Specifically, about 37 percent (\$575.2 million) of compact funding in Africa is allocated to transportation and other infrastructure, and about 39 percent (\$605.4 million) is allocated to agriculture and rural development. MCC's six non-African compacts likewise obligate about 76 percent for these two project categories, with 55 percent (\$791.6 million) for transportation and other infrastructure and 21 percent (\$299.1 million) for agriculture and rural development.

Figure 4: Types of MCC Compact Projects in African and Non-African Countries (dollars in millions)

		Transportation and other infrastructure	Agriculture and rural development	Land tenure	Finance and private sector development	Other programs	Program administration, monitoring, and evaluation	Total compact value
African countries	Madagascar	0	17.7	37.8	35.9	0	18.4	109.8
	Cape Verde	78.8	10.8	0	7.2	0	13.3	110.1
	Benin ^a	169.4	0	36	19.7	34.3	47.9	307.3
	Ghana	143.1	342.3	0	0	0	61.6	547.0
	Mali ^{a,b}	183.9	234.6	0	0	0	42.3	460.8
	Sub-total	575.2	605.4	73.8	62.8	34.3	183.5	1,535.0
Non-African countries		791.6	299.1	26.5	87.5	95.1	148.1	1,447.8
Total		\$1,366.8	\$904.5	\$100.3	\$150.3	\$129.4	\$331.6	\$2,982.8



Source: GAO analysis of MCC data.

^aThe Access to Markets Project in Benin is a major construction project at the Port of Cotonou and includes associated studies and institutional strengthening. The Mali compact includes the Bamako-Sénou Airport Improvement Project and an Industrial Park Project.

^bThe Irrigated Agriculture Project in Armenia includes the repair of irrigation infrastructure. The Alatona Irrigation Project in Mali includes planning and infrastructure, land allocation, and resettlement activities, among other items.

^cOther programs include the Justice Program in Benin and the Human Development Project in El Salvador. The Benin program includes institutional strengthening and infrastructure components (construction of new courthouses). The El Salvador program includes Education and Training, and Community Development activities.

Examples of MCC infrastructure and agriculture projects in Africa include the following:

Infrastructure projects. Reconstruction of roads and the Port of Praia in Cape Verde, a major construction project at the Port of Cotonou in Benin, and the Bamako-Sénou Airport Improvement Project and an Industrial Park Project in Mali.

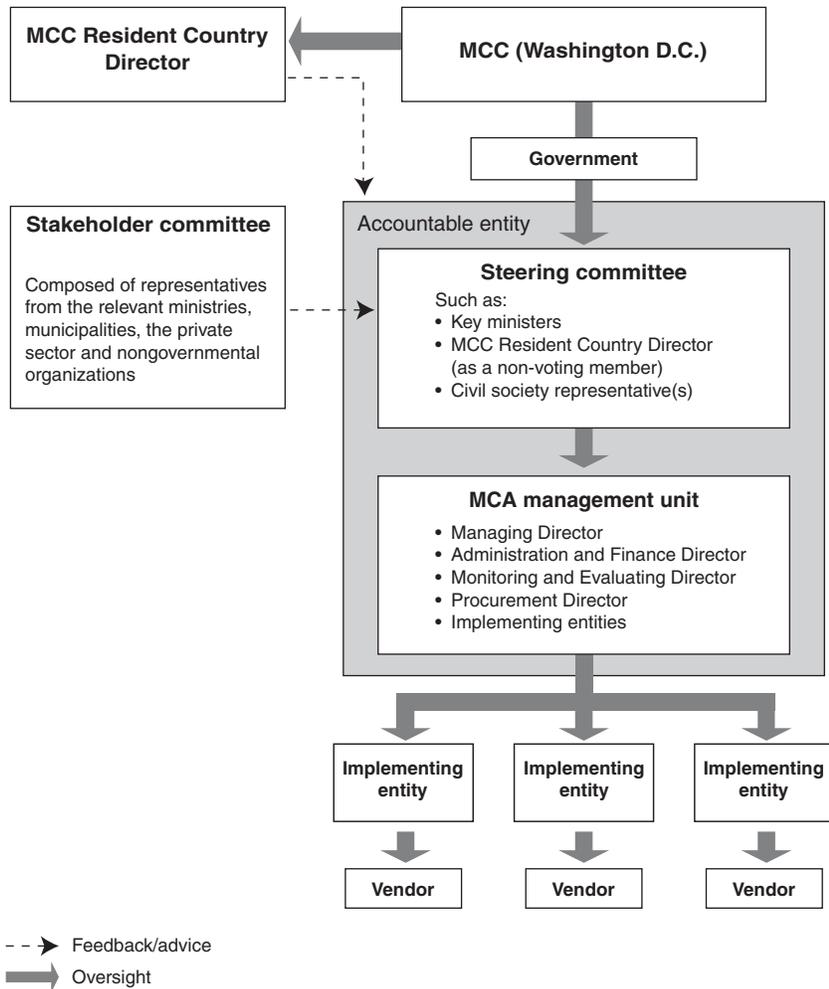
Agriculture projects. Agricultural business centers and technical assistance in Madagascar and training and institutional strengthening programs in Mali and Ghana.

To implement compact projects, MCC directly hires a resident country director and a small staff for each country to serve as MCC's public face and to manage its relationship with the compact country. However, MCC gives the compact countries authority to manage and oversee their compact programs using MCC funds.¹² Figure 5 shows the general structure that MCC's first three compact countries, including two in Africa, have established to provide oversight and management of their compact programs and to facilitate stakeholder input (see fig. 5).¹³

¹²According to MCC, three of MCC's five Resident Country Director positions in Africa are currently filled. The Benin position was filled from March 2006 to May 2007 and MCC is currently seeking to hire a replacement. The Ghana position has not yet been filled, but MCC expects the selected candidate to arrive in country in August 2007.

¹³The countries' oversight structures have most elements in common, but countries have the flexibility to design the structures to fit their needs.

Figure 5: MCC Compact Country Oversight and Management Structure in the First Three Compact Countries



Source: GAO, based on MCC data.

Note: This figure represents a composite of the Madagascar, Cape Verde, and Honduras oversight and management structures. However, in Honduras, stakeholder input is obtained through representatives on the steering committee, rather than through a stakeholder committee.

The three countries have generally included the following oversight and management entities in their structures:

The *steering committee* represents the country government and interfaces directly with MCC. The committee is ultimately responsible for the oversight and results

of the MCC compact, oversees management unit employees, and approves and signs off on key decisions and reporting to MCC.

In Madagascar and Cape Verde, a *stakeholder committee* meets periodically to advise and inform the steering committee regarding compact implementation and to serve as the official liaison between interested parties and the steering committee.

The *management unit* is directed by the steering committee and has principal responsibility for overall compact management and implementation, including financial management and procurement. The financial management and procurement functions may also be handled by an external fiscal agent or procurement agent. Together, the steering committee and the management unit form the “accountable entity.”¹⁴

We reported in July 2006 that key compact management positions remained unfilled after the Madagascar and Cape Verde compacts entered into force; the two countries did not hire key officials until several months after their compacts’ entry into force in July and October 2005, respectively. This incomplete staffing at entry into force may limit the countries’ ability to achieve their compact objectives within the fixed time period of the compacts.¹⁵ According to MCC, key positions at MCC’s subsequent compacts with Benin and Ghana were filled prior to, or shortly after, entry into force. Key positions for the Mali compact, which has not entered into force, are not yet filled, but MCC expects to fill these positions in August 2007.

¹⁴MCC refers to the accountable entity by combining “MCA” and the country’s name—for example, “MCA-Madagascar.”

¹⁵In October 2005, after the signature of its first six compacts, MCC adopted a policy implementing the authority given it by section 609(g) of the Millennium Challenge Act of 2003 to make grants to facilitate the development and implementation of compacts. MCC’s policy includes a provision where, if certain conditions are met, it may fund an eligible country’s request for “management support payments” for salaries, rent, and equipment for the country’s MCA technical team prior to compact signature.

MCC Has Not Achieved Its Planned Rate of Disbursements

MCC has disbursed compact funds in Africa more slowly than planned and, unless the rate of disbursements increases, may have large unexpended balances and uncompleted projects when the compacts expire.¹⁶ To address this challenge, MCC officials report taking several steps to expedite program implementation and better match disbursements with projections.

As of March 31, 2007, MCC had disbursed \$26 million in compact funds to four African countries—23 percent of the \$113.9 million that it intended to disburse by that date.¹⁷ (See table 2.)

Table 2: MCC Disbursements to African Countries through March 31, 2007

(Dollars in millions)

Country	Date compact entered into force	Prorated planned disbursements	Cumulative actual disbursements	Percentage of planned disbursements actually disbursed	Percentage of compact elapsed
Madagascar	Jul. 27, 2005	\$59.40	\$14.47	24	42
Cape Verde	Oct. 17, 2005	\$30.07	\$7.53	25	28
Benin	Oct. 6, 2006	\$15.62	\$3.45	22	8
Ghana	Feb. 16, 2007	\$8.81	\$0.74	8	2
Total		\$113.90	\$26.19	23	

Source: GAO analysis of MCC data.

Note: Planned disbursements are prorated on an annual basis.

As table 2 shows, MCC’s actual disbursement of compact funds has fallen substantially behind its planned disbursement, most critically for its compacts with Madagascar and Cape Verde, both in the second year of implementation. MCC’s disbursement for Madagascar by month 20 of the 4-year implementation accounted for 24 percent of the planned disbursement, and its disbursement for Cape Verde by month 17 of the 5-year implementation accounted for 25 percent of the planned disbursement. Our analysis of MCC’s overall compact disbursements suggests that unless it increases the rate of compact assistance disbursements in Africa and elsewhere, MCC could have significant obligated but undisbursed balances when the compacts expire. This implies that some Africa projects may not be completed by the end of the current compacts. If this

¹⁶MCC disbursements provide funds to the accountable entity of a compact country. The accountable entity then redisperses funds for program activities.

¹⁷Overall, through March 2007, MCC had disbursed 26 percent of the \$257.6 million that it had planned to disburse for the nine compacts that had entered into force by that date.

occurs, MCC will miss opportunities to achieve its mission of poverty reduction through economic growth in compact countries.

According to MCC, its unexpectedly slow rates of disbursement have primarily reflected two factors: the need to maintain high standards for program accountability and sustainability, and its initial overestimation of partner country capacity to meet these standards. The countries' management structures are intended to ensure fiscal accountability; however, at the time of our 2006 report, some required elements of these procurement and fiscal accountability structures in Cape Verde and Madagascar were not yet in place. As of May 2007, MCC did not have mechanisms in place to address significant delays in its planned disbursements. However, MCC reports taking a number of steps to expedite program implementation and better match disbursements with projections, such as providing better guidance on compact development and implementation and improving its initial analysis of country capacity. MCC noted that disbursement rates do not fully capture its progress to date, in part because these rates do not reflect MCC activities such as policy reform and capacity building.

Mr. Chairman, this concludes my statement. I will be happy to answer any questions you or members of the subcommittee may have.

GAO Contacts and Staff Acknowledgments

For questions regarding this testimony, please contact David B. Gootnick at (202) 512-3149. Other key contributors to this statement were Emil Friberg (Assistant Director), Tracy Guerrero, Reid Lowe, Mike Rohrback, Mona Sehgal, and Michael Simon. David Dornisch, C. Etana Finkler, Ernie Jackson, Marc Molino, and Jena Sinkfield provided technical assistance.

Appendix I: Objectives, Scope, and Methodology

This testimony discusses (1) the pace of the Millennium Challenge Corporation's (MCC) initiation of compacts in sub-Saharan Africa (Africa), (2) MCC's projects and management structures in African countries with signed compacts, and (3) MCC's progress in disbursing compact funds.

To determine the status of MCC's initiation of compacts in Africa, we determined the length of the compact development process based on our previous reporting and MCC's status reports on eligible countries, which include the dates these countries completed key milestones in the process. We quantified the duration of the development process for MCC's individual compacts as well as the average length of the process for its compacts in African and non-African countries.

To describe MCC's compact projects, we relied primarily on our previous reporting on MCC,¹ updating it to include more recent compacts. We identified compact project types across broad categories and calculated total funding for each category to determine the general focus of MCC compact assistance in African and non-African countries. In describing MCC's management structures, we summarized our previous reporting on MCC's first three compacts, including those for two countries in Africa. We also summarized an MCC report on the status of its management staffing in Africa.

To analyze the pace of MCC's disbursements for the countries with compacts in force, we compared MCC data for actual and planned disbursements from July 2005 through March 2007. For this analysis, we used MCC's assumption that compact funds are disbursed evenly throughout the compact implementation year. Because MCC's compacts are at varying stages of implementation, we prorated planned disbursements on an annual basis for each country based on the number of months the compact was in force.²

MCC provided technical comments on a draft of this testimony and we have incorporated their comments as appropriate.

We conducted our work for this testimony during June 2007 in accordance with generally accepted government auditing standards. We also followed generally accepted government auditing standards for the published GAO reports on which this testimony is partly based.

¹[GAO-06-805](#)

²In practice, MCC approves disbursements on a quarterly basis and disburses compact funds in monthly payments according to the terms of the quarterly approval.

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