



USAID
FROM THE AMERICAN PEOPLE

AGENCY FINANCIAL REPORT FISCAL YEAR 2007



(Cover Photo) Students smile during First Lady Laura Bush's visit to Lusaka, Zambia, in June, 2007. Mrs. Bush's trip to Africa highlighted USAID's leading role in Presidential Initiatives to increase literacy and reduce malaria. PHOTO: CHRIS THOMAS / USAID



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A MESSAGE FROM THE ADMINISTRATOR

The U.S. Agency for International Development (USAID) was formally created in 1961 by executive order after President John F. Kennedy signed the Foreign Assistance Act into law. The Agency's origins, however, date back to the Marshall Plan and its reconstruction of Europe after World War II. Since that time, USAID has managed foreign assistance resources in some of the world's most challenging environments.

USAID serves as the U.S. government's primary instrument in promoting security and reducing poverty in the developing world. We do this by catalyzing the full range of America's public and private capabilities and resources, and linking those resources effectively with the governments and people we serve, through world-class, on-the-ground presence. Our efforts are aligned with the activities carried out by the Department of State, as presented in the joint State-USAID Strategic Plan for fiscal years 2007-2012.

For the fifth consecutive year, USAID has earned unqualified opinions on its financial statements, a representation that these statements fairly present the financial condition of the Agency. For the first time, no material weaknesses were identified under the Government Management Reform Act (GMRA) audit. It is also significant to note that USAID scored green in both status and progress under



Henrietta H. Fore
USAID Administrator and
Director of U.S. Foreign Assistance

the Financial Performance initiative on the President's Management Agenda (PMA) scorecard, which is a major milestone for the Agency.

The men and women of USAID continued their fine performance during this reporting period at headquarters in Washington, D.C. and at over 80 missions around the world. Some of this year's major management accomplishments are outlined below:

- Realigned the workforce structure with the new foreign assistance framework.
- Developed and used a workforce planning model to project staffing needs for the FY 2009 budget process.
- Implemented a Manage-to-Budget initiative to help control costs, reduce overhead, and reduce the use of program funds for administrative purposes.
- Reduced the number of facilities that did not meet physical security standards.
- Piloted a new Web-based procurement tool, Global Acquisition System (GLAS).
- Piloted the electronic travel system (E2 solutions) to reduce travel expenses and provide paperless processing.

- Established an Upward Mobility program to provide career development opportunities for employees in positions at the GS-9 level and below.
- Expanded diversity awareness training for new employees, managers, and supervisors.

Overall, the Agency is seeing improvements in its PMA initiatives scores (<http://www.results.gov>). Four years ago, all of USAID's PMA initiatives had "red" status. But as of September 30, 2007, Financial Performance and Faith-based and Community initiatives scored "green"; Human Capital, E-Government, Real Property, and Performance Improvement initiatives scored "yellow"; and Competitive Sourcing remained "red." For progress, USAID achieved "green" for Competitive Sourcing, Financial Performance, Real Property, and Performance Improvement initiatives; and "yellow" for Human Capital, E-Government, and Faith-based and Community initiatives. USAID is demonstrating continued progress on all of these initiatives.

This Administration, with the support of Congress, has made an enormous commitment to development through appropriated funding that has more than doubled since 2001. These increased resources have come with new responsibilities: intensified efforts to combat HIV/AIDS and malaria; rebuilding following conflict in Afghanistan, Iraq, and Lebanon and parts of Africa; education initiatives and advancing democracy. USAID also continues to be the world's lead agency in responding to natural disasters. In doing so, it carries out a humanitarian mission that reflects the generosity of the American people and helps the lives of millions worldwide.

During the past year, USAID continued to implement, in close collaboration with the Department of State's Office of the Director of U.S. Foreign Assistance, Secretary of

State Condoleezza Rice's reforms for government-wide foreign assistance programs. To further these reforms and to meet the challenge of working within the evolving network I like to call the Global Development Commons, we at USAID will lead new ways of doing business in the international community.

This year, the Agency has elected to prepare this alternative Agency Financial Report (AFR) that includes a high level discussion of performance information. More comprehensive performance information, including major performance accomplishments, will be reported in the FY 2009 Congressional Budget Justification (CBJ) and the joint State-USAID Highlights document that will be available February 2008. I hereby certify that the financial and performance data in the FY 2007 AFR are reliable and complete.

The Independent Auditor's Report, including the reports on internal control and compliance with laws and regulations, is located in the Financial Section. Issues on internal control, identified by management and the auditors, including planned corrective actions and timeframes, are discussed in the Management's Discussion and Analysis (MD&A) section of this report.



Henrietta H. Fore
 USAID Administrator and
 Director of U.S. Foreign Assistance
 November 15, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS



ABOUT THIS REPORT

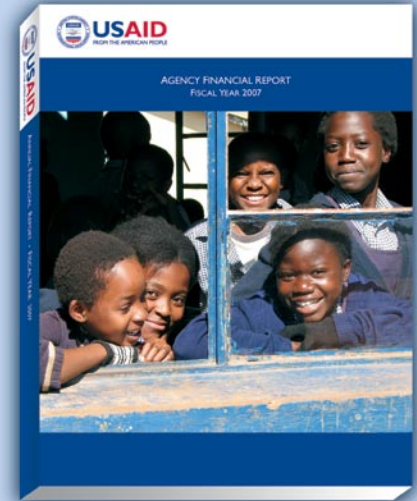
The U.S. Agency for International Development's (USAID) Agency Financial Report (AFR) for FY 2007 provides financial and related information to help Congress, the President, and the public assess the Agency's performance relative to its mission and stewardship of financial resources. It consists of the following major sections: Agency Head Message, Management's Discussion and Analysis (MD&A), Financial Section, and Other Accompanying Information. The AFR satisfies the reporting requirements of the following legislation:

- Inspector General (IG) Act of 1978
- Federal Managers' Financial Integrity Act (FMFIA) of 1982
- Chief Financial Officer's (CFO) Act of 1990
- Government Management Reform Act (GMRA) of 1994
- Federal Financial Management Improvement Act (FFMIA) of 1996
- Reports Consolidation Act of 2000
- Improper Payments Information Act (IPIA) of 2002

USAID has chosen to participate in the FY 2007 pilot pursuant to Office of Management and Budget (OMB) Circular A-136, Financial Reporting Requirements, and produce an alternative to the consolidated Performance and Accountability Report (PAR) called an Agency Financial Report. The Agency will include its performance information in the FY 2009 Congressional Budget Justification (CBJ) which will be posted to the USAID Web site at www.usaid.gov/policy/budget/cbj2009 by February 4, 2008. In addition, USAID and the Department of State will produce a joint State-USAID Highlights document which will also be posted to the USAID Web site at www.usaid.gov/policy/afr07/ by February 1, 2008.

The pilot was offered for FY 2007 reporting to give the federal government an opportunity to find the best way to present complete and candid financial and performance information that is useful to many of its stakeholders. Because the traditional consolidated PAR was published before the release of the President's Budget, discussion of future resource allocations was somewhat limited. Including detailed performance information in the CBJ allows the Agency to discuss future programmatic resources directed at improving performance more fully. The Agency anticipates that this approach will enhance the presentation of financial and performance information and make the information more meaningful and transparent to the public.

(Preceding page) In Afghanistan, USAID-supported educational programs have renovated classrooms and provided new textbooks and supplies. Girls are now learning to read, write and prepare to become strong contributors to their country's future. PHOTO: USAID/BEN BARBER



MISSION AND ORGANIZATIONAL STRUCTURE

MISSION STATEMENT

To serve as the U.S. government's primary instrument for human advancement in promoting security and reducing poverty in the developing world—by catalyzing the full range of America's public and private capabilities and resources, and linking those resources effectively with the governments and people we serve, through world-class, on-the-ground presence.

VALUES

Loyalty: Commitment to the United States and the American people.

Character: Maintenance of the highest ethical standards and integrity.

Service: Excellence in the formulation of policy and management with room for creative dissent. Implementation of policy and management practices, regardless of personal views.

Accountability: Responsibility for meeting the highest performance standards.

Community: Dedication to teamwork, professionalism, and the customer perspective.

Diversity: Commitment to having a workforce that represents the diversity of America.

USAID HISTORY

The Foreign Assistance Act of 1961 effectively reorganized U.S. government foreign assistance programs, including the separation of military and non-military aid. The act placed primary emphasis on long-range economic and social development assistance efforts and mandated the creation of an agency to administer programs in support of these efforts. Two months after passage of the act, President John F. Kennedy established USAID.

USAID unified pre-existing U.S. government assistance programs, combining the economic and technical assistance operations of the International Cooperation Agency, the loan activities of the Development Loan Fund, the local currency functions of the Export-Import Bank, and the agricultural surplus distribution activities of the Food for Peace program of the U.S. Department of Agriculture (USDA).

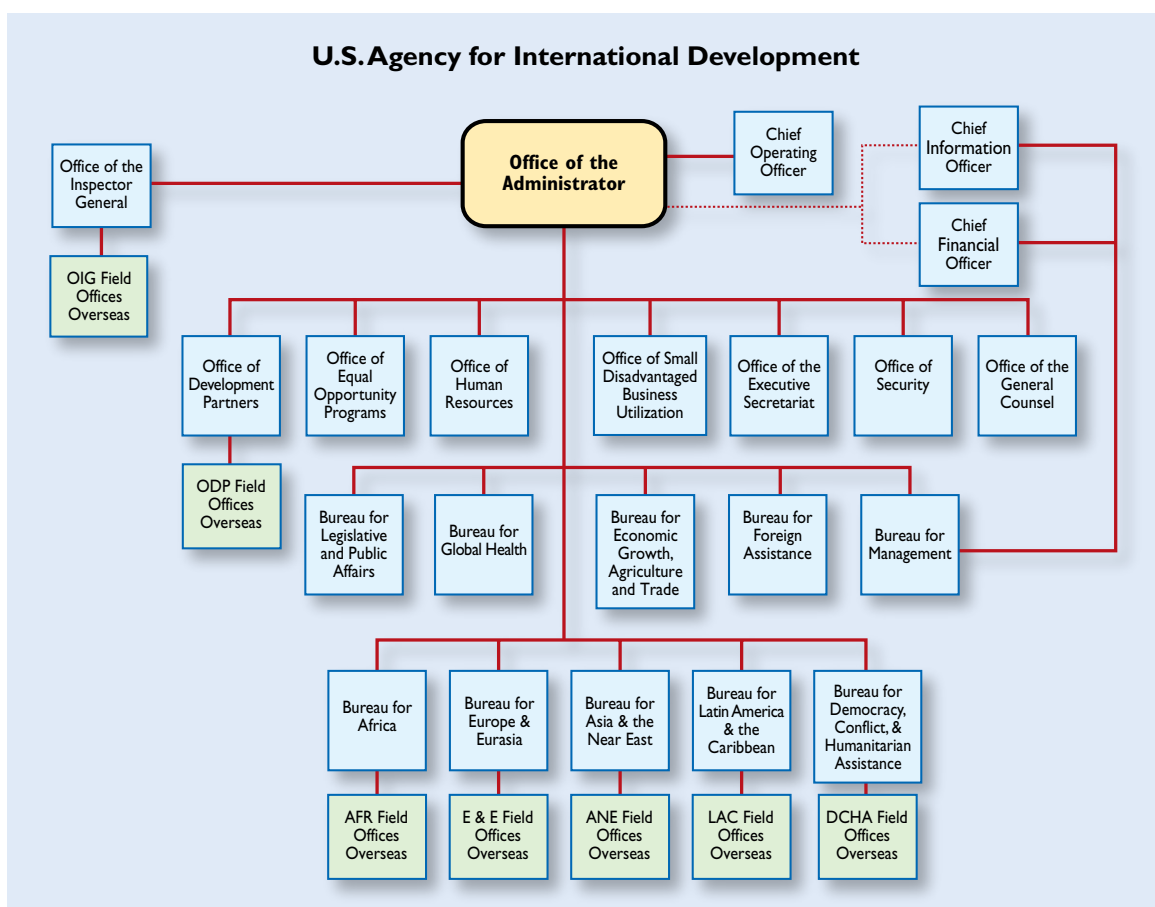
USAID has undergone a number of restructurings over the years to improve its performance, but the foreign assistance reforms announced by Secretary of State Condoleezza Rice in January 2006 reflect major changes in the way that the Agency will plan and execute its programs. With implementation commencing in FY 2007, the reforms will more fully align foreign assistance activities carried out by USAID and the Department of State. They will bring USAID into the 21st century and increase its capacity to be the leader in the development field.

OUR ORGANIZATION

ORGANIZATIONAL STRUCTURE IN WASHINGTON, D.C.

As part of the foreign assistance reforms announced in January 2006, Secretary Rice created the Office of the Director of U.S. Foreign Assistance within the Department of State (State/F). The Director of this Office, Henrietta Fore, serves concurrently as the USAID Administrator. The Director of U.S. Foreign Assistance (DFA) has authority over USAID and Department of State foreign assistance funding and programs, bringing together various bureaus and offices within the two agencies to participate in joint program planning, implementation, and oversight. To facilitate this consolidation of policies and procedures, staff from USAID's former Bureau for Policy and Program Coordination (PPC) were first deployed to State/F. The Bureau for Foreign Assistance has been created to house the USAID employees now working in State/F. An Office of the Chief Operating Officer (COO), within the USAID Administrator's Office, has been created to improve organizational management. Additionally, a new program office, the Office of Management Policy, Budget and Performance in the Management Bureau has been established.

The Office of Development Partners was created to combine several functions from other offices and the Office of Human Resources (HR) was removed from the Bureau of Management and established as an independent office to provide a direct link from the Chief Human Capital Officer (CHCO) to the Administrator. USAID's mission is carried out through four regional bureaus in Washington: Africa (AFR), Asia and the Near East (ANE), Latin America and the Caribbean (LAC), and Europe and Eurasia (E&E). The regional bureaus are supported by three functional or pillar bureaus: the Bureau for Democracy (DCHA), which provides expertise in democracy and governance, conflict management and mitigation, and humanitarian assistance; the Bureau for Economic Growth, Agriculture, and Trade (EGAT), which provides expertise in economic growth, trade opportunities, agricultural productivity and technology, and education; and the Bureau for Global Health (GH), which provides expertise in global health challenges, such as maternal and child health and HIV/AIDS.



USAID's Bureau for Management administers a centralized support services program for the Agency's worldwide operations. The Bureau for Legislative and Public Affairs develops and implements outreach programs to promote understanding of USAID's missions and programs. USAID also includes seven other independent offices that support the Administrator's Office and the Agency's security, small and disadvantaged business, compliance, regulatory, and diversity programs.

ORGANIZATIONAL STRUCTURE OVERSEAS

USAID implements programs in 88 countries overseas and its organizational units are known as "field missions." The U.S. Ambassador serves as the Chief of Mission for all U.S. government agencies in a given country and the USAID Director reports to the Ambassador. The USAID Director or Representative is responsible for USAID's operations in a given country or region and also serves as a key member of the U.S. government's "country team." The Director or Representative is often called upon to stand in for the Ambassador or the Deputy Chief of Mission during their absences.

USAID missions operate under decentralized program authorities, allowing them to design and implement programs and negotiate and execute agreements. The Director of USAID's Office of Acquisitions and Assistance issues warrants to field-based contracting officers, authorizing them to negotiate, execute, amend, and modify contracts, grants, and cooperative agreements. Mission directors and principal officers are also delegated authority to:

- coordinate with other U.S. government agencies
- waive source, origin, and nationality requirements for procurement of goods and services
- negotiate, execute, and implement food aid agreements
- implement grant, loan, and credit programs.

Full USAID missions usually consist of nine to 15 U.S. direct-hire (USDH) employees (with a few full missions having more than 15). These missions conduct USAID's major programs worldwide, managing a program of four or more strategic goals on average.

Medium-sized missions (five to eight USDH) manage programs of two to three goals, and small missions (three to four USDH) manage one or two strategic goals. These missions provide assistance based on an integrated strategy that includes clearly defined program objectives and performance targets.

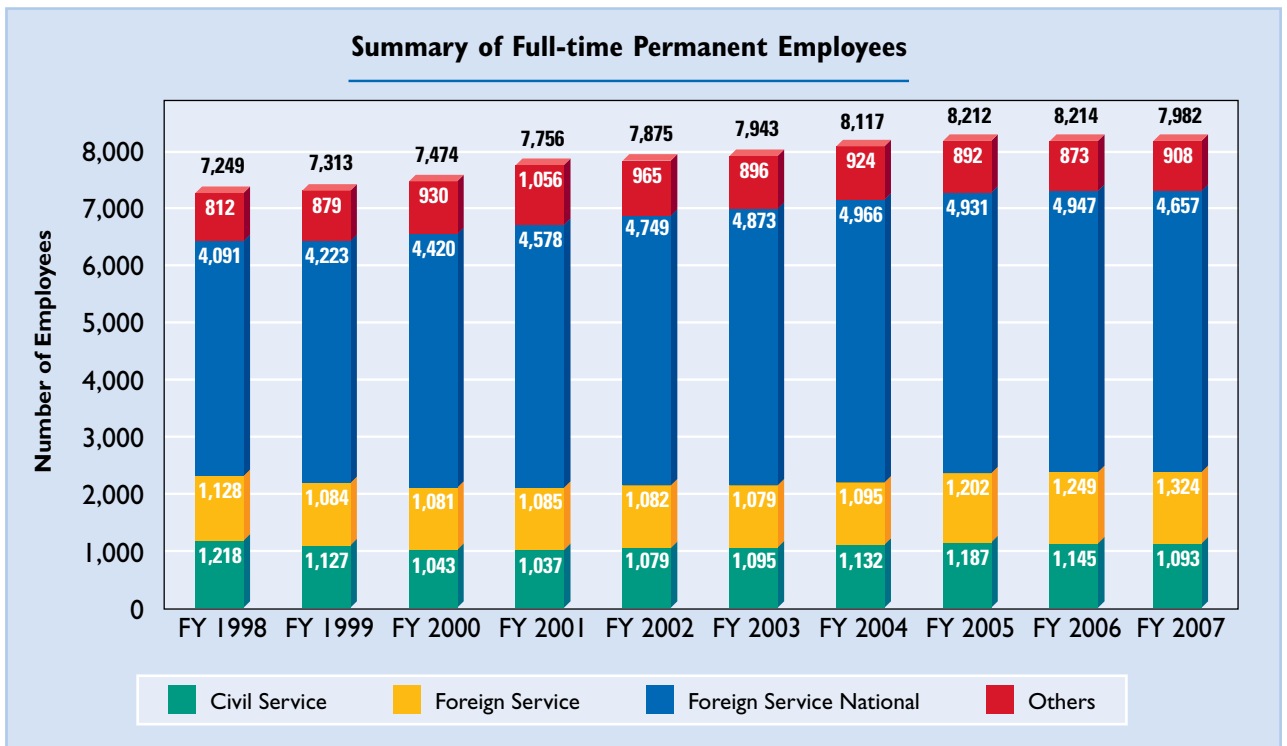
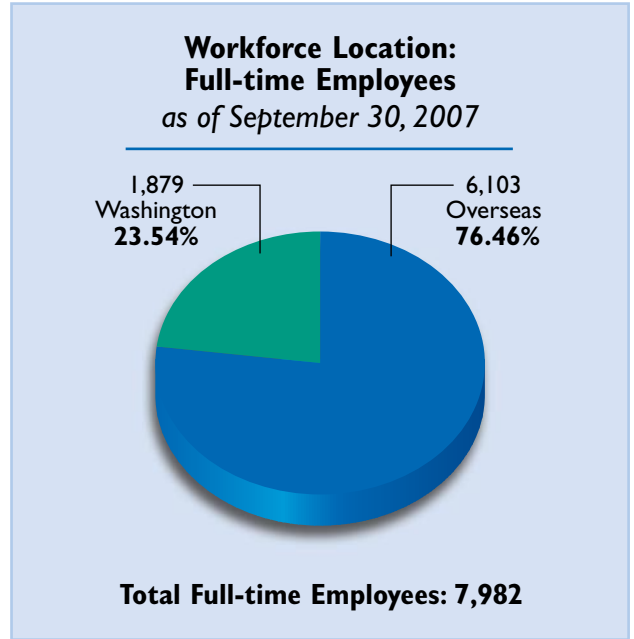
Full-support missions (typically 16 to 22 USDH), also known as regional hubs, provide a variety of services. The hubs retain a team of legal advisors, contracting and project design officers, financial services managers, and sometimes technical officers to support small and medium-sized missions and non-presence countries which receive USAID funding. In countries without integrated strategies but where aid is necessary, full-support missions work with non-governmental organizations (NGO) or other partner organizations to facilitate the emergence of civil society, help alleviate repression, meet basic human needs, mitigate conflict, and/or enhance food security. These missions may also have their own bilateral programs to manage.

The field mission workforce is typically composed of three major categories of personnel: USDH employees (including program-funded foreign service limited [FSL] appointments), U.S. personal services contractors (USPSC), and foreign service nationals (FSN). USDHs are career foreign service employees assigned to missions for two to four-year tours. Program-funded FSLs are hired under a special authority granted by Congress to replace contracted personnel, such as USPSCs. USPSCs are contractors hired for up to five years to carry out a scope of work specified by USAID. FSNs, professionals recruited in their host countries by USAID, make up the core of the USAID workforce. Many FSNs are recognized leaders and experts in their fields and devote their careers to USAID. FSNs are the bridge to effective contacts with key host country officials and decisionmakers, and they provide the institutional memory for and continuity of USAID's country programs. They are the backbone of USAID's overseas workforce.

USAID also stations officers where opportunities exist to leverage policy and resources in support of high priority strategic issues; the Agency currently has officers stationed in Paris, Tokyo, Brussels, Geneva, and Rome.

USAID'S PEOPLE

USAID's workforce consists of just less than 8,000 employees in the foreign service and civil service, as well as FSNs and those in other categories, including employees detailed from other U.S. government agencies, personal service contractors, and Fellows. As the chart below indicates, FSNs make up just under 60 percent of USAID's workforce. Approximately 76 percent of the total USAID workforce serves overseas.



PROGRAM PERFORMANCE

USAID AND DEPARTMENT OF STATE: JOINT STRATEGIC PLANNING AND REPORTING

Given the close coordination and complementary efforts and goals of USAID and the Department of State's foreign assistance programs, the agencies issued their second joint State-USAID Strategic Plan for FY 2007-2012 (http://www.usaid.gov/policy/coordination/stratplan_fy07-12.html), which supports the policy positions set forth by President Bush in his National Security Strategy. The Strategic Plan not only outlines five strategic goals that define the priorities and goals of U.S. foreign policy globally and regionally, but it also identifies key U.S. government

partners and external factors that support or hinder the achievement of the goals. The Foreign Assistance Framework chart can be found in Appendix A.

Consistent with the Strategic Plan, in February 2008 the two agencies are presenting a joint Highlights document with summary budget, performance, and financial information, and a joint Congressional Budget Justification (CBJ) regarding the FY 2009 foreign assistance accounts.

PERFORMANCE MANAGEMENT

Performance management represents the commitment of USAID to increase accountability of programs working towards the most advantageous development outcomes. Performance management is a four-part process: (1) planning to monitor results, (2) collecting and analyzing performance information, (3) using performance information to influence program decision-making and resource allocation, and (4) communicating results achieved. Operating Units are responsible for establishing systems to measure progress towards intended objectives in their Performance Management Plans, as well as reporting on key indicators in their annual performance reports. In USAID, the tools of assessing, learning, and sharing are interrelated through the concept of performance management. Performance management informs decisions from funding, program development, and implementation.

This year, an interagency working group comprised of USAID, the Office of the Director of U.S. Foreign Assistance within the Department of State (State/F), and the Department of State Office of Resource Management selected a representative set of about 50 indicators to illustrate the FY 2007 performance of U.S. foreign assistance. The indicators were validated by technical experts from the two agencies and vetted with the Office of Management and Budget (OMB). The indicators reflect major areas of U.S. government funding, earmarks/initiatives, and foreign policy priorities; link to foreign assistance objectives and areas; include medium-term indicators that reflect progress

toward longer-term outcome/impact indicators. The data sources include the Operational Plans for annual output data and third-party sources, such as the World Bank, Freedom House, World Health Organization (WHO), Demographic and Health Surveys, etc., for higher level outcome data.

Data is only useful if the information collected is of high quality. As indicated in USAID's Automated Directive System (ADS) Chapter 203.3.5, (<http://www.usaid.gov/policy/ads/200/203.pdf>), all USAID Operating Units are required to conduct Data Quality Assessments for any performance data reported to Washington, and also to verify the quality of data against the five standards of validity, integrity, precision, reliability, and timeliness. USAID has three data source categories: (1) *primary data* (data collected by USAID or where collection is funded by USAID), (2) *partner data* (data compiled by USAID implementing partners but collected from other sources), and (3) data from *other secondary sources* (data from other government agencies or development organizations). Overall, the more control USAID has over the data collection, the more requirements exist for the technical teams to ensure that the data meets data quality requirements. While data for some of the representative set of indicators come from secondary sources and therefore do not go through such USAID quality assessments, the sources utilized are carefully chosen based on the organization's experience, expertise, and credibility.

ILLUSTRATIVE ACCOMPLISHMENTS

The Agency's Operating Units will not submit their annual performance reports until November 16, 2007, which is after the submission of this document. Therefore, major accomplishments will be reported in the joint State-USAID Highlights document and the CBJ in February 2008. Below, we present illustrative accomplishments achieved in FY 2007 in each of our five strategic goal areas and the indicators that represent these results.

STRATEGIC GOAL #1: PEACE AND SECURITY

USAID and other U.S. government agencies and international organizations seek to achieve peace and security through diplomatic engagements and by providing development assistance to international partners. To date, 180 partner countries have been mobilized to help identify, disrupt, and destroy international terrorist organizations. Through our international diplomatic and assistance programs, we: (1) promote good governance and sustainable civil institutions; (2) fight terrorism and the proliferation of dangerous weapons; (3) combat criminal activities that undermine legitimate governments, (4) remove landmines and unexploded ordnances; and (5) protect American citizens and our legitimate national interests overseas.

Contributing to the indicator on the number of U.S. trained people in conflict mitigation, resolution skills, and leadership, the USAID/Indonesia's Aceh Community Empowerment and Ownership (ACEO) training program empowers local leaders by helping them envision a shared future with their people and communities. ACEO conducted personal empowerment and awareness training courses, followed by leadership and conflict resolution training courses in 63 villages in eastern Aceh with more than 1,800 participants. As attested by Thaib, a participant of the ACEO program, the courses had a clear and tangible impact on participants.

Thaib, a former Free Aceh Movement combatant felt that, during the trainings, he was able to personally experience what he previously only had the opportunity to read in the books of philosophers John C. Maxwell and Zig Ziglar. According to him, "Everyone should attend this training because it broadens their minds. Through this course, I learned to know myself and gained valuable skills that I can use to help my community. I am now perceived to be a good leader." The course prepares communities throughout Aceh to develop their own Community Action Plans, blueprints for peaceful social and economic change designed by communities, for communities.

STRATEGIC GOAL #2:

GOVERNING JUSTLY AND DEMOCRATICALLY

Nations that respect human rights, respond to the needs of their people, and govern by rule of law, are the same nations who are our allies and partners in the international community. Therefore, protecting human rights and building democracy are cornerstones of U.S. foreign policy, which seeks to end tyranny, combat terrorism, champion human dignity, and enhance homeland security. In order for democratization to be successful and sustainable, it must be a process driven by the people. USAID creates better lives by promoting democratic practices, free elections, a strong and independent judicial system, media freedom, and enhanced transparency and accountability of elected officials.

Egypt is a strategic and key partner of U.S. government (USG) in the Middle East. Political reform and modernization of the Egyptian judiciary is critical to promoting good governance and the expansion of civil liberties in Egypt as well as in the region. Unequal access to government forums restrains women and their potential contributions to good governance, economic and social development. Contributing to the indicator on the number of justice sector personnel who received U.S. government training, Egypt's appointment of 30 women judges is a major accomplishment for USAID's Administration of Justice Support II program (AOJS II). The program began in 2004, and is the second phase in a broad-based effort to improve the efficiency and effectiveness of civil and commercial courts in Egypt.

Women's exclusion from judgeships severely undermined Egypt's efforts to modernize its court system. Building on the confidence gained from the earlier AOJS I, USAID/Egypt: (1) engaged the Alliance for Arab Women and the Ministry of Justice in dialogue about the issues related to women serving as judges; (2) organized a Ministry visit to Morocco to observe women serving as judges in an Islamic country; and (3) facilitated women's participation in professional training programs. All of this contributed to

the historic appointment of 30 women to the judiciary, and reinforced the judiciary's reputation as one of the most trusted democratic institutions in Egypt.

STRATEGIC GOAL #3:

INVESTING IN PEOPLE

Disease, poverty, displacement, irregular migration, and lack of education destroy lives, ravage societies, destabilize regions, and cheat future generations of prosperity. We are extending the basic values American citizens hold dear: prosperity, good health, and a knowledge-based society. U.S. investments have stimulated a rapid expansion of treatment, prevention, and care in high-priority countries. To ensure the future development of countries, USAID is creating and maintaining strong educational programs, from primary education and literacy programs, to strengthening institutional capacities of higher educational institutions. By managing risks and developing and reforming country safety nets, we help establish frameworks to track and provide assistance for those especially vulnerable.

According to UNICEF, insecticide-treated net (ITN) coverage at least tripled between 2000 and 2005 in 16 of the 20 African countries where data were available. Since 2006 and contributing to the indicator on the percentage of households in malaria-endemic areas with at least one ITN, the USAID-led President's Malaria Initiative (PMI) significantly expanded ITN programs, and accelerated the transition from regular ITNs to long-lasting nets. By the end of next year, over half of PMI focus countries will likely have achieved 70 percent household net ownership. In Mozambique, Senegal and Uganda, the PMI has supported campaigns that will retreat over 1 million conventional nets with insecticide. In total, PMI has procured and supported the distribution of over 2 million ITNs and helped attract other donor contributions of more than 1 million nets.

STRATEGIC GOAL #4: PROMOTING

ECONOMIC GROWTH AND PROSPERITY

Continued economic prosperity for the U.S. depends on the expansion of prosperity, freedom, and economic opportunity worldwide. We seek to promote prosperity at home and abroad by opening markets through ambitious trade and investment agendas, strengthening development efforts through private sector participation and recipient country accountability, and supporting U.S. businesses through outreach and advocacy. We work closely with other agencies, businesses, labor groups, and non-governmental organizations (NGO) to build a strong and dynamic international economic system that creates new opportunities for U.S. businesses, workers, and farmers.

Contributing to the indicator on percent of U.S. government micro-finance institutions that have reached operational sustainability, USAID is helping Nicaragua take advantage of the opportunities offered through the Central America-Dominican Republic Free Trade Agreement (CAFTA-DR) through an emphasis on rural economic diversification and trade capacity building. Through the market-led assistance program by USAID and its partners, some 5,200 micro-farmers graduated from being food aid recipients and subsistence farmers to producing their own food needs and supplying goods for international fresh produce markets.

The trade agreement now covers seven activities and 59 products. In many cases, annual incomes doubled or tripled; for the first time, these farmers can count on a stable monthly income for their families. USAID programs are providing technical and financial support to more than 20,000 producers throughout the country. In just the first year since CAFTA-DR took effect, from April 2006 to March 2007, USAID-assisted producers had \$24.2 million in sales. For the three years preceding, the same producers only had \$47.2 million in accumulated sales.

STRATEGIC GOAL #5:

PROVIDING HUMANITARIAN ASSISTANCE

The United States' commitment to humanitarian response demonstrates the country's compassion for victims of natural disasters, armed conflict, forced migration, human rights violations, widespread health and food insecurity, and other threats. The strength of this commitment derives from both our common humanity and our responsibility as a global leader. When responding to displacement and human-made disasters, the United States complements efforts to promote democracy and human rights. The U.S. provides substantial resources and guidance through international and NGOs for worldwide humanitarian programs with the objectives of saving lives and minimizing suffering in the midst of crises, increasing access to protection, promoting responsibility-sharing, and coordinating funding and implementation strategies.

Contributing to the indicator on the percent of targeted disaster-affected households provided with basic inputs for survival, recovery, or restoration of productive capacity, in FY 2007, USAID emergency humanitarian assistance programs responded to more than 70 disasters in 56 countries, providing over \$368 million to help those in need. In addition to responding to disasters, USAID works to build local capacity and expertise that prepares for disasters, mitigates and responds to the impact of disasters and rebuilds after disasters. Since 1998, USAID has funded more than \$102 million in preparedness and mitigation programs around the world.

ANALYSIS OF USAID'S FINANCIAL STATEMENTS

OVERVIEW OF FINANCIAL POSITION

USAID's financial statements and footnotes are shown on pages 61 through 101 of this report. The financial statements received an unqualified audit opinion from the USAID Office of the Inspector General for the fifth consecutive year. The principal statements include a Consolidated Balance Sheet, a Consolidated Statement of Net Cost, a Consolidated Statement of Changes in Net Position, and a Combined Statement of Budgetary Resources. These statements summarize the financial activity and net position of the Agency. The table below presents the resources available to use (assets) against the amounts owed (liabilities) and the amounts that comprise the difference (net position). The net cost represents the gross cost of operating USAID's lines of business less earned revenue. Budgetary resources represent funds made available to the Agency.

CHANGES IN FINANCIAL POSITION IN 2007 (Dollars in Thousands)			
NET FINANCIAL CONDITION	2007	2006	% CHANGE
Assets	\$ 24,639,955	\$ 25,151,100	-2.0%
Liabilities	\$ 9,434,180	\$ 9,450,715	-0.17%
Net Position	\$ 15,202,835	\$ 15,697,385	-3.2%
Net Cost	\$ 9,295,894	\$ 10,353,724	-10.2%
Budgetary Resources	\$ 16,806,779	\$ 14,508,742	15.8%

BALANCE SHEET SUMMARY

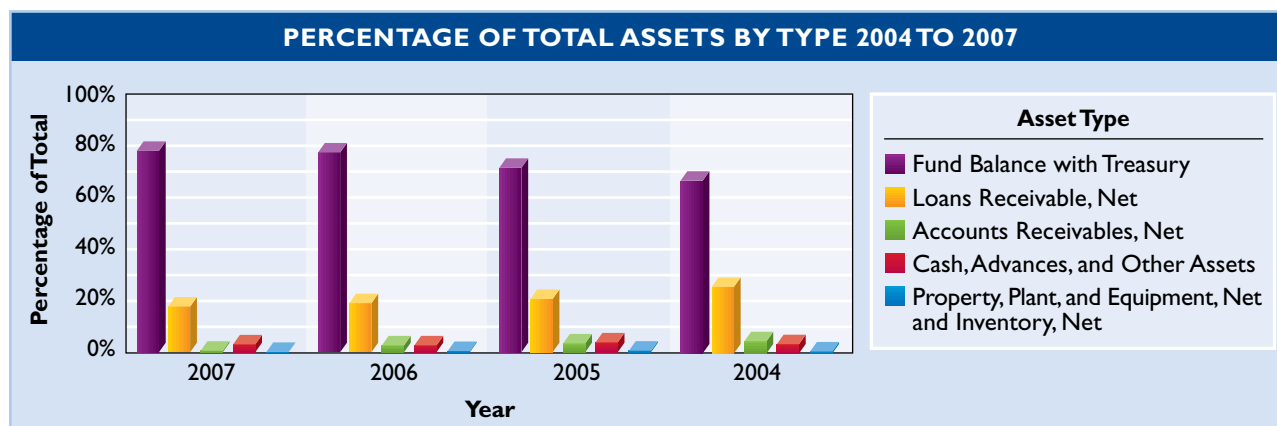
ASSETS. The Consolidated Balance Sheet reflects total assets of \$24.6 billion, a 2.0 percent decrease from the previous year. Approximately 78 percent of assets are Fund Balance with Treasury. These funds decreased 1.0 percent (\$202.0 million) from 2006 and allow the Agency to pay accrued liabilities and finance authorized commitments relative to goods, services, and benefits. Approximately 18 percent of assets are Loans Receivable. Loans Receivable decreased 8.3 percent (\$399.9 million) from the previous year due to normal loan collection operations during the year, in addition to year-end changes to allowances against loans receivable amounts. The overall decrease in total assets is primarily the result of the Agency not reporting on its statements financial activity related to budget authority allocations from other federal agencies (commonly called parent agencies), pursuant to the Office of Management and Budget's (OMB) financial reporting requirement effective this year. USAID received budget authority from three parent agencies: Millennium Challenge Corporation (MCC), U.S. Department of Agriculture (USDA) Commodity Credit Corporation (CCC), and the Department of State. USAID is only required to submit a full U.S. Standard General Ledger (USSGL) trial balance to these parents to enable them to include the Agency's activity in its financial statements.

Table I below provides the dollar amount of USAID's asset types between 2004 and 2007. Chart I accompanies the table and displays the percentage of total assets that each asset type represents. As the data shows, each asset type has maintained a similar proportion of total assets over the past four years with Fund Balance with Treasury consistently representing the largest share.

Table I: USAID's amount of assets by type between 2004 and 2007 (dollars in thousands):

	2007	2006	2005	2004
Fund Balance with Treasury	\$ 19,131,357	\$19,333,383	\$ 17,503,843	\$ 15,854,926
Loans Receivable, Net	4,410,638	4,810,615	5,100,249	6,108,252
Accounts Receivable, Net	179,567	91,393	902,863	1,100,968
Cash, Advances, and Other Assets	794,142	758,370	1,063,570	847,807
Property, Plant and Equipment, Net and Inventory, Net	124,251	157,339	140,294	117,718
Total	\$ 24,639,955	\$25,151,100	\$24,710,819	\$24,029,671

Chart I: USAID's percentage of total assets by type between 2004 and 2007

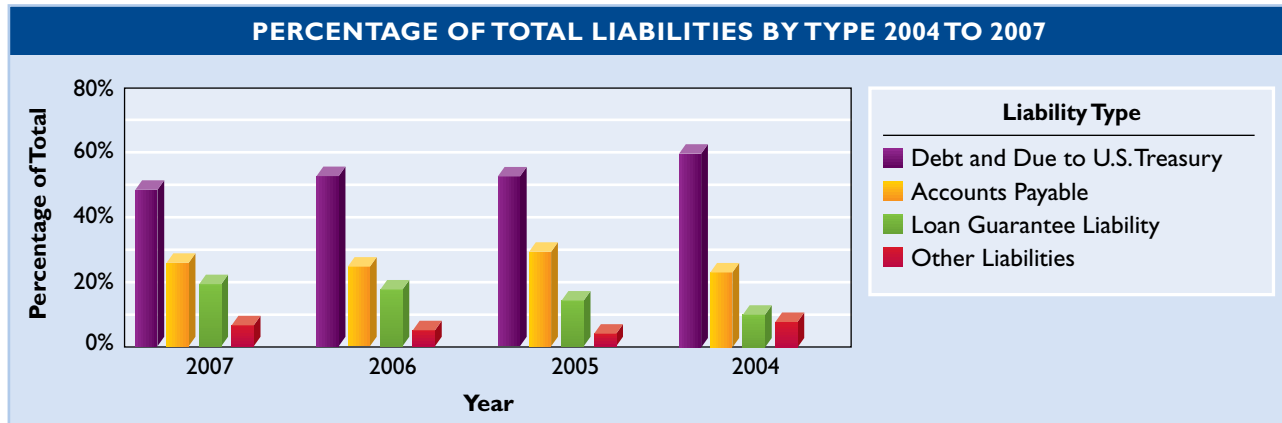


LIABILITIES. The Consolidated Balance Sheet reflects total liabilities of \$9.4 billion, a less than 1 percent decrease from the previous year. Liabilities reduced marginally in 2007 mainly because of increases in liabilities with other federal agencies offset by decreases in benefits due and amounts owed to Treasury. Almost half of our liabilities, \$4.5 billion (48.2 percent), are reported as Debt and Due to Treasury and represent funds borrowed from Treasury to carry out the Agency's Credit Reform program activities. Table 2 below presents the dollar amount of USAID's liability types between 2004 and 2007, while Chart 2 depicts the share of total liabilities that each type represents. The data reveals a trend that Debt and Due to U.S. Treasury combine to share about half of the total liabilities for each of the past four years.

Table 2: USAID's amount of liabilities by type between 2004 and 2007 (dollars in thousands):

	2007	2006	2005	2004
Debt and Due to U.S. Treasury	\$ 4,543,881	\$ 4,965,132	\$ 5,734,263	\$ 6,145,006
Accounts Payable	2,430,058	2,329,797	3,204,824	2,373,146
Loan Guarantee Liability	1,823,332	1,660,909	1,562,485	1,039,937
Other Liabilities	636,909	494,877	444,571	798,847
Total	\$ 9,434,180	\$ 9,450,715	\$10,946,143	\$10,356,936

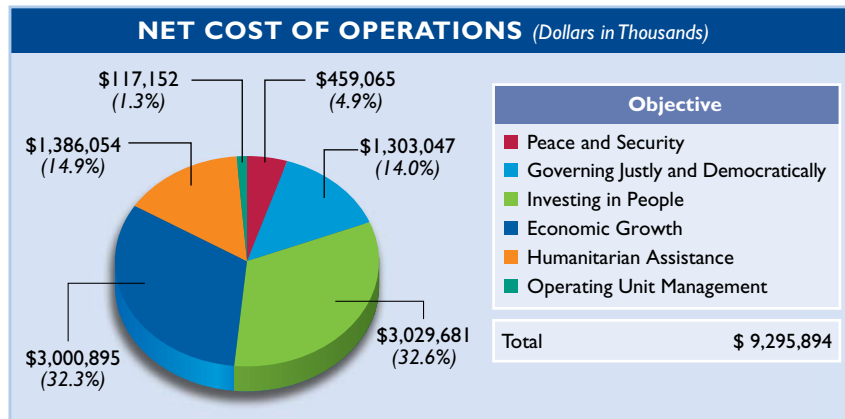
Chart 2: USAID's percentage of total liabilities by type between 2004 and 2007



NET POSITION. Net Position as shown on the Consolidated Balance sheet decreased \$494.5 million (3.2 percent) from the previous year as a result of a \$452.4 million (3.2 percent) increase in Unexpended Appropriations and a \$946.9 billion (69.5 percent) decrease in Cumulative Results of Operations. The overall decrease in net position is mostly attributable to the Agency not reporting on its statements the financial activity related to the budget authority it received from its parent agencies. Specifically, the increase in Unexpended Appropriations reflects the increase in funds appropriated by Congress that the Agency did not use by the end of the year. The decrease in Cumulative Results of Operations is a result of a change in accounting treatment for budgetary authority transferred from the Agency's reciprocal trading partner, USDA CCC. Prior to 2007, the Agency recorded budgetary authority received from USDA CCC as an accounts receivable. In 2007, we recorded the receipt of this authority as a non-reimbursable transfer and reported it as a component of net position. We will continue this new accounting practice in the future.

NET COST SUMMARY

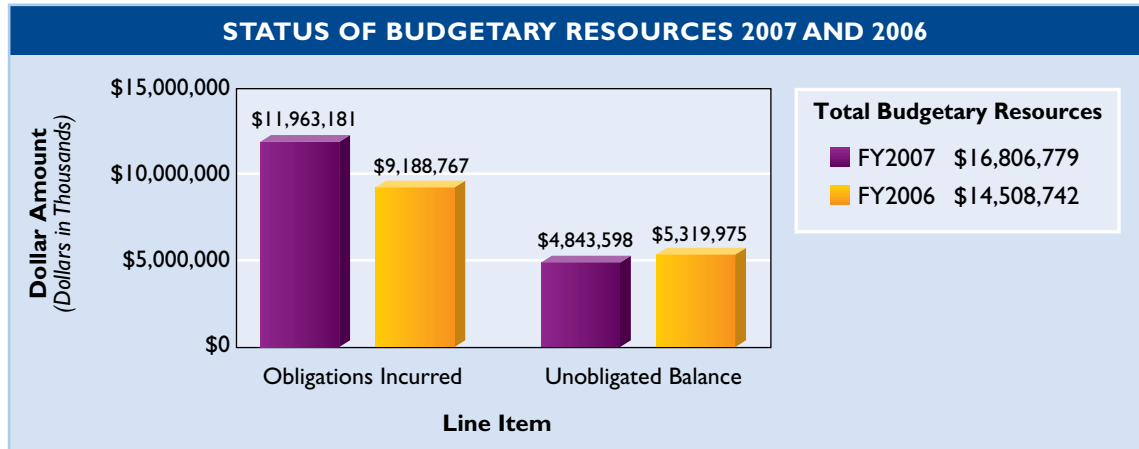
As shown on the Consolidated Statement of Net Cost, net costs of operations decreased 10.2 percent or \$1.1 billion from \$10.4 billion in 2006 to \$9.3 billion in 2007. For the most part, this decrease is because USAID excluded reporting the net cost of operations related to budget authority transferred from its parent agencies. The chart to the right shows the total cost incurred to carry out each of the Agency's six objectives. The objectives *Investing in People* and *Economic Growth* represent the largest investments at 32.6 percent and 32.3 percent of net cost of operations, respectively. The Agency invested between 1.3 percent and 14.9 percent of its net cost of operations in the remaining four objectives.



In 2007, USAID and the Department of State developed and implemented a new Foreign Assistance Framework to standardize reporting of net cost of operations. As a result, net cost data for 2006 was recast to enable 2006 and 2007 data to be equally compared. The recast amounts are presented in the 2006 column of the Consolidated Statement of Net Cost.

BUDGETARY RESOURCES SUMMARY

The Combined Statement of Budgetary Resources shows that USAID had \$16.8 billion in budgetary resources of which \$4.8 billion remained unobligated at year-end. USAID recorded total net outlays of \$7.8 billion by the end of the year, and 99.4 percent of its outlays were disbursed on time according to contracted terms. Budgetary resources grew \$2.3 billion, or 15.8 percent, from 2006, while net outlays increased \$1.1 billion, or 16.5 percent. The chart below presents the status of budgetary resources comparatively between 2006 and 2007.



LIMITATIONS TO THE FINANCIAL STATEMENTS

The principal financial statements have been prepared to report the financial position and results of operations of USAID, pursuant to the requirements of 31 U.S.C. 3515(b). While the statements have been prepared from the books and records of USAID, in accordance with generally accepted accounting principles (GAAP) for federal entities and the formats prescribed by the OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records.

The statements should be read with the realization that USAID is a component of the U.S. government, a sovereign entity.

ANALYSIS OF USAID'S SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

MANAGEMENT ASSURANCES

FISCAL YEAR 2007—ANNUAL FMFIA ASSURANCE STATEMENT

I have directed an evaluation of the system of management controls of the U.S. Agency for International Development (USAID) in effect during the year ending September 30, 2007. I have taken the necessary measures to assure that the evaluation was conducted in a thorough and conscientious manner, taking into consideration the cost of implementing and maintaining appropriate controls in relation to the benefits derived from them.

USAID's management is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the Federal Managers' Financial Integrity Act (FMFIA). USAID is able to provide a qualified statement of assurance that the internal control and financial management systems meet the objectives of FMFIA, with the exception of one material weakness and no instances of non-conformance. Details of the exception are provided in Exhibit A.

USAID conducted its assessment of the effectiveness of internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations in accordance with OMB Circular A-123, *Management's Responsibility for Internal Control*. Based on the results of this evaluation, USAID maintains one material weakness in its internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations as of September 30, 2007. Other than the exception noted in Exhibit A, the internal controls were operating effectively and no other material weaknesses were found in the design or operation of the internal controls.

In addition, USAID conducted a limited scope assessment of the effectiveness of internal control over financial reporting, which includes safeguarding of assets and compliance with applicable laws and regulations, in accordance with the requirements of Appendix A of OMB Circular A-123. USAID is reporting a scope limitation due to its three-year implementation of Appendix A. USAID identified 12 key business processes that are material to financial reporting and have tested eight of these key business processes through FY 2007. The remaining four key business processes will be assessed in FY 2008 as described in our OMB-approved implementation plan. Based on the results of the limited scope evaluation, USAID can provide reasonable assurance that its internal control over financial reporting as of June 30, 2007 was operating effectively and no material weaknesses were found in the design or operation of the internal control over financial reporting.

USAID also conducts its reviews of its financial management systems in accordance with OMB Circular A-127, *Financial Management Systems*. Based on the results of these reviews, USAID can provide reasonable assurance that its financial management systems are in compliance with the applicable provisions as of September 30, 2007.



Henrietta H. Fore
Administrator
U.S. Agency for International Development
November 15, 2007

FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT (FMFIA)

FMFIA requires agencies to establish internal controls and financial systems which provide reasonable assurance that the integrity of federal programs and operations are protected. It also requires that the Agency head, based on an evaluation, provides an annual FMFIA assurance statement on whether USAID has met this requirement.

MANAGEMENT OPERATIONS

USAID managers successfully completed management control reviews of the Agency's financial, program, and administrative policies, procedures, and operations. After the assessment results from the Assessable Units were consolidated and discussed by the Management Control Review Committee (MCRC), no new material weaknesses were identified. One of the two FY 2006 material weaknesses was reduced to a control deficiency (see Appendix B). The remaining material weakness forms the basis for the qualified FMFIA assurance statement.

FINANCIAL REPORTING

The FMFIA assurance statement includes a separate assessment of the effectiveness of the Agency's internal controls over financial reporting as a subset of the overall FMFIA assurance statement. The following key business processes were assessed at USAID/Washington as of June 30, 2007: (1) Accounts Receivable, (2) Accounts Payable, (3) Advances, (4) Obligations, and (5) Financial Reporting—Year End. No new or repeat material weaknesses were identified. Two material weaknesses, identified in the FY 2006 assessment, were reduced to reportable conditions based on corrective actions taken. The OMB Circular A-123, Appendix A, scope limitation, in which only nine of the 12 key business processes have been assessed, also forms the basis for the qualified FMFIA assurance statement.

INTERNAL CONTROL OVER MANAGEMENT OPERATIONS

The MCRC oversees the Agency's internal control program over management operations. It is chaired by the Deputy Administrator and is composed of USAID senior managers. Individual annual certification statements from Mission Directors located overseas and Assistant Administrators (AA) and Independent Office Directors in Washington, D.C. serve as the primary basis for the Agency's certification that management controls are adequate or that control deficiencies exist. The certification statements are based on information gathered from various sources, including the managers' personal knowledge of day-to-day operations and existing controls, program reviews, and other management-initiated evaluations. In addition, the Office of the Inspector General (OIG) and the Government Accountability Office (GAO) conduct reviews, audits, inspections, and investigations.

FMFIA REVIEW CRITERIA

Under the FMFIA, a material weakness is a deficiency of such significance that it should be reported to the President and Congress. A weakness of this nature might:

- impair the fulfillment of the Agency's mission
- significantly weaken safeguards against waste, loss, unauthorized use, or misappropriation of funds, property, or other assets
- violate statutory or regulatory requirements
- result in a conflict of interest
- impair the Agency's ability to use reliable and timely information for decision-making.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In December 2004, OMB Circular A-123, Management’s Responsibility for Internal Control was revised to include a new appendix, Appendix A, Internal Control Over Financial Reporting, which requires agencies to assess, document, and report on internal control over financial reporting. USAID is committed to strengthening internal control over financial reporting and is implementing a program to continuously assess, document, and report on these controls. The Agency began working toward the implementation of this program in FY 2005. The remaining work to fully implement Appendix A will be performed through FY 2008. USAID initially identified 12 key business processes in FY 2006 and devised a plan that includes the assessment of four each year. The timeline for the assessment of key business processes is as follows:

USAID KEY PROCESSES		
YEAR ONE – FY 2006	YEARTWO – FY 2007	YEAR THREE – FY 2008
<ul style="list-style-type: none"> ■ <i>Accruals</i> – high risk and FY 2006 Government Management Reform Act (GMRA) material weakness ■ <i>Financial Reporting</i> – high risk ■ <i>Fund Balance with Treasury</i> – high risk ■ <i>Credit Program</i> – medium risk and best baseline documentation 	<ul style="list-style-type: none"> ■ <i>Accounts Payable</i> – low risk and high visibility ■ <i>Accounts Receivable</i> – medium risk ■ <i>Advances</i> – low risk ■ <i>Obligations</i> – medium risk, high impact ■ <i>Financial Reporting (Year End)</i> – high risk 	<ul style="list-style-type: none"> ■ <i>Budget</i> – medium risk ■ <i>Statement of Net Cost</i> – medium risk ■ <i>Financial Analysis and Audits</i> – low risk ■ <i>Miscellaneous</i> – low risk

Internal control over financial reporting should assure the safeguarding of assets from waste, loss, unauthorized use, or misappropriation, as well as assure compliance with laws and regulations pertaining to financial reporting. Financial reporting includes the annual financial statements as well as other significant internal or external financial reports. Other significant financial reports are defined as any financial reports that could have a material effect on a significant spending, budgetary, or other financial decision

of the Agency or that is used to determine compliance with laws and regulations on the part of the Agency. In addition to the annual financial statements, significant reports include quarterly financial statements, financial statements at the operating division or program level, budget execution reports, reports used to monitor specific activities, and reports used to monitor compliance with laws and regulations.

FMFIA Material Weakness and Corrective Action Plan

USAID’s material weakness and the corrective action plan is outlined in Exhibit A.

EXHIBIT A — FMFIA MATERIAL WEAKNESS FOR MANAGEMENT OPERATIONS	
Material Weakness	Corrective Action Plan
<p>Limited Ability to Implement and Monitor Activity in the ANE Region, Most Notably in Iraq, Afghanistan, Pakistan, and West Bank/Gaza. High threat environments, and USAID’s adherence to the U.S. government’s “No Contact” policy which continues to have selected impact in the West Bank/Gaza, continue to restrain travel to project sites to monitor implementation and to meet with USAID partners. Meanwhile, there is a continuing challenge of attracting appropriately qualified staff to Missions in high threat countries. Together, these weaknesses continue to limit, to some extent, USAID’s ability to implement and monitor programs. USAID needs to do a better job of sharing information and best practices on implementation and monitoring among country programs and to update its guidance to managers responsible for such programs.</p>	<p>During 2007, Missions in these countries continued to take steps within their management control to implement and monitor activities as well as possible. Completed and ongoing steps include increased reliance on FSNs, who can travel more freely, as well as third-party contractors for monitoring purposes. Increased coordination with Provincial Reconstruction Teams (PRT) and embedding of USAID staff with PRTs, has also strengthened monitoring and field reporting capabilities. Within the first quarter of FY 2008, USAID will coordinate closely with U.S. Diplomatic Security and the Department of Defense (DOD) to seek increased access to security convoys to increase the number of site visits in Iraq and Afghanistan. In addition, USAID will operate in close coordination with Diplomatic Security to update emergency procedures and communication systems. In 2007, the ANE bureau completed design concept work for a spatially enabled management information system which will allow Missions to remotely monitor progress of construction activities in real time. The Agency will immediately develop a plan for determining future funding to develop such a distance monitoring system and will evaluate the potential for other distance monitoring tools. USAID also began development of a flexible-delivery training program for planning and implementing foreign assistance programs in high threat environments that will be implemented.</p> <p>Similarly, USAID continues to strengthen recruitment of appropriately skilled staff for Critical Priority Countries (CPCs) in ANE. USAID is currently on track to have all 2008 Direct Hire CPC positions filled by December 2007. With assignments of only one year, it is a continuous challenge to keep positions filled with appropriately qualified staff. It must also be recognized that additional resources will be needed to support staffing incentives and other selected efforts to address this material weakness.</p> <p>As noted, USAID is employing a variety of methods to implement and monitor programs in high-threat environments and will continue to pursue additional implementation and oversight approaches tailored to these circumstances. By March 31, 2008, USAID will compile an inventory of the implementation and oversight approaches and mechanisms currently employed in Iraq, Afghanistan, Pakistan, West Bank/Gaza and other high-threat countries; share this information among program managers in such countries; and prepare updated implementation and monitoring guidance specifically for managing and monitoring activities in these circumstances. USAID also will assess the feasibility of specific implementation and monitoring enhancements in these countries including, for instance, electronic telecommunication mechanisms for real-time video interaction between USAID officers at secure facilities and USAID’s contractors, grantees, beneficiaries, and counterparts located in difficult-to-reach, more insecure areas; and the possible use of third-party monitoring by other U.S. government entities.</p> <p>Adequate and effective program implementation and oversight in insecure environments will continue to be a challenge for USAID. Sharing of best practices, encouraging innovative approaches, and issuing updated guidance specifically for these circumstances will ensure that USAID is taking all necessary steps within its management control.</p> <p>Target Completion Date: March 31, 2008</p>

FMFIA Reportable Conditions and Corrective Action Plans

In keeping with the Agency’s core concept of increasing transparency, USAID is voluntarily disclosing its reportable conditions in the AFR. See Exhibit B below.

EXHIBIT B — FMFIA REPORTABLE CONDITIONS FOR MANAGEMENT OPERATIONS	
Reportable Condition	Corrective Action Plan
<p>Information Technology (IT): Governance and EA Issues Persist. Based on internal discussions with staff and other stakeholders, several deficiencies have been noted that pertain to lowering risk and increasing efficiency in the following key IT practice areas: IT strategic planning, enterprise architecture (EA), IT policy and practice standardization, and the full establishment of IT governance and best practices. There is general agreement that funding the correction of these process control areas is in the best interest of the Agency.</p>	<p>Governance: Internal assessments have pointed out that the Chief Information Officer (CIO) needs sufficient resources to provide effective IT governance. The lack of adequate funding, due to Agency budget cutbacks and the assignment of limited resources to higher priority tasks, is the major factor for the Office of the CIO’s slow progress in resolving these issues. However, over the last year, progress has been made in several areas. Along with the assignment of a new CIO and the realignment of the CIO’s organization, the Office: (1) documented and conducted initial internal review of the Agency independent IT strategic plan, (2) developed initial EA-related drawings, (3) developed an IT Project Life Cycle Methodology and provided initial training, (4) drafted a standardized Work Breakdown Structure (WBS) for IT projects, (5) documented the complete list of functional activities by CIO organization, and (6) successfully completed the transition/integration of the former Capital Planning and Investment Control (CPI) Committee with the Business Systems Modernization Committee into the new IT Steering Subcommittee under the Business Transformation Executive Committee (BTEC). Within the next six months, the Office of the CIO expects to close all governance reportable conditions.</p> <p>Target Completion Date (Governance): March 31, 2008</p> <p>EA: EA will be a focus of attention during the next 12 months. Creating and staffing a new EA Division is a primary goal to satisfying this reportable condition. An ad hoc team is developing some initial artifacts in the meantime. The funding/staffing will hopefully be resolved in the near future to allow a team of professionals to address the initial development and future core maintenance of an EA program. This is a multi-year effort. It is reportable because the Agency does not have the long-term funding/staffing in place and is behind schedule.</p> <p>Target Completion Date (EA): (1) Hire a direct-hire to be the EA Manager (March 2008); (2) Hire contractor staff to support a “core” EA Office (ASAP, FY 2008 OE funding decision); (3) Prepare USAID EA Implementation Plan (three months after staffing is provided); (4) Develop initial artifacts and governance processes during 2008 and for completion during 2009.</p>
<p>Risk of Inability to Meet Statutory and Accountability Requirements. On behalf of the Office of Acquisition and Assistance (OAA) and the Office of the Chief Financial Officer (OCFO), the Management Bureau has identified resource constraints as an area of significant concern to USAID. Since 2001 the overall budget resources of the Agency have nearly doubled to approximately \$13 billion while statutory and regulatory requirements have increased on both the OAA and the OCFO, thereby increasing workload and activity. Despite these increased demands, resources (particularly human) have decreased and staff turnover is impinging on effective operations.</p>	<p>As a result of the increased work volumes while administrative resources have not kept pace, operational risks have increased. The potential for significant operational failures has reached unreasonable levels of risk. By identifying this issue as a reportable condition it is the intent of the Agency to assess operations in these offices, and others, to determine appropriate levels of staffing. In October 2007, the Management Bureau initiated an independent assessment of the Bureau with the expectation of a fair analysis of human resources and recommendations to improve overall performance and compliance.</p> <p>Target Completion Date: March 31, 2008</p>

(continued)

EXHIBIT B — FMFIA REPORTABLE CONDITIONS FOR MANAGEMENT OPERATIONS <i>(continued)</i>	
Reportable Condition	Corrective Action Plan
<p>Untimely Issuance of Funds. Issuance of funding for USAID operating units was not timely in FY 2007. It stemmed primarily from the late passing and signing of the FY 2007 appropriations bill (February) combined with the long time it now seems to take to reach closure with congressional committees on the 653(a) report. While the length of time spent in FY 2007 on the 653(a) consultations was less than in FY 2006, it nevertheless took nearly six months. In FY 2006, the consultations took longer, but since the appropriations bill was passed four months earlier, the problem was less acute. In addition to the delay stemming from the lengthy 653(a) consultations, considerable confusion on process resulted from the Director of Foreign Assistance's (DFA) first year of operation. In particular, there was confusion on the process USAID would be using to submit congressional notices in FY 2007. Finally, the creation of the DFA resulted in new clearance procedures for obtaining the DFA's approval on the use (and release) of funds before the 653(a) was approved. Near the end of the fiscal year, the DFA began to delegate limited authorities to AAs and Mission Directors.</p>	<p>The DFA and USAID will obtain congressional approval on the process for notifying FY 2008 funds early in the fiscal year, including a shared understanding on how the Framework and Program Hierarchy will be used in preparing congressional notices. The DFA will build on the FY 2007 delegations and seek to expand them. The DFA and USAID will engage the congressional committees to establish a shared understanding on steps that would reduce the length of the 653(a) consultations process. In addition, the DFA will work with USAID and OMB on reviewing the OMB apportionment process to develop acceptable service standards that will simplify and reduce the time spent on this step in the release of funds process. These steps can improve the timely release of funds with the proviso that, ultimately, the passage of an appropriations bills and reaching closure on the 653(a) report involve decisions by parties outside of the DFA or USAID.</p> <p>Target Completion Date: April 30, 2008</p>

EXHIBIT B — FMFIA REPORTABLE CONDITIONS FOR FINANCIAL REPORTING	
Reportable Condition	Corrective Action Plan
<p>Accruals Reconciliations. The reconciliation between the Accruals Reporting System (ARS) and Phoenix was not performed when data were initially transferred from one database to the other.</p>	<p>USAID implemented a reconciliation process and periodic management monitoring to ensure the data are transferred correctly from ARS to Phoenix. The reconciliation identifies any errors in the posting of accruals, allowing time for corrections prior to closing the general ledger. This process also highlights interface problems to be corrected prior to the next quarterly accrual exercise. USAID created a Business Objects Enterprise (BOE) report that contains all accrual entries posted in the accrual query in Phoenix. It also contains all of the corresponding accrual voucher (AV) documents and amounts that post to the general ledger. This is an "audit train" report.</p> <p>USAID reviewed the third quarter Accrual Reconciliation Report, BOE R0665. For the third quarter, this report contained all of the accruals posted in the Phoenix accrual query, 21,916 items, plus two AV documents processed manually. This report contained 869 items where the expected AV document did not equal the actual AV document. For all of these documents however, the posted AV amount did equal the current outstanding balance for the obligation. This indicates that the accrual document script is functioning as intended. The script causes modified accrual amounts to be reduced for payments and deobligations that occurred during the accrual cycle. Based on the above analysis, this deficiency is reduced to a reportable condition. Management believes that it can produce the same quality R0665 in future accruals cycles and expects to close this issue after reviewing the report for two more accrual cycles.</p> <p>Target Completion Date: January 31, 2008</p>

(continued)

EXHIBIT B — FMFIA REPORTABLE CONDITIONS FOR FINANCIAL REPORTING (continued)

Reportable Condition	Corrective Action Plan
<p>Inadequate Accruals Training for Agency Cognizant Technical Officers (CTO). Personnel preparing the quarterly accruals have not received adequate training on how to properly document and calculate quarterly accruals.</p>	<p>USAID identified and implemented several actions during FY 2007 to enhance its accruals training to ensure that obligation managers, in particular CTOs, are adequately trained and can make reasonable accrual estimates. USAID updated its existing accruals training material for CTO Acquisition and Assistance (A&A) classes. The development of standardized forms that compute the accrual offline using Excel formulas was introduced as an additional help tool. USAID also identified a pool of subject matter experts to provide hands-on support for the accruals module in the CTO A&A courses. In addition, USAID developed a web-based CTO accruals course that is a mandatory requirement for all obligation managers and is a part of the existing CTO certification requirements. This web-based course is worldwide and is available on demand. This course also serves as a prerequisite to future CTO designations and as a refresher course. USAID has also taken measures to better advertise the availability of its Phoenix accruals instructor-led classroom course. To ensure that all personnel requiring accruals training are targeted, USAID improved the quality of its CTO database to better identify CTO training needs. USAID will continue to enhance accruals training for CTOs by providing tailored training to specific bureaus. Based on the implementation of these actions, this deficiency is reduced to a reportable condition.</p> <p>Target Completion Date: January 31, 2008</p>
<p>Excessive Held/Rejected HHS/LOC Transactions. Advances and expenditures for USAID awards under the letter of credit (LOC) payment mechanism are processed through the Health and Human Services (HHS) Payment Management System (PMS). The transaction data is collected by the HHS PMS then downloaded and interfaced in to Phoenix by the Agency's Cash Management and Payments Division (CMP). The interface process produces some documents which remain in a held/reject status due to a variety of reasons but primarily due to award number inconsistencies with the USAID mission awards. These held/rejected items must be manually posted by the CMP and often require assistance from USAID mission staff. The volume of the held/reject items is cyclical with the number of items greatly increasing when the quarterly expenditure reports are required to be filed by the award recipients.</p>	<p>The Agency aggressively pursued the resolution of as many held/rejected documents as possible prior to the end of FY 2007 in order to reduce the materiality of any financial statement adjustments that may need to be recorded by the Agency's Central Accounting and Reporting Division (CAR). The number of held/rejected HHS/LOC transactions on September 17, 2007 was 431 with a value of \$312 million. The number of held/rejected HHS/LOC transactions at the close of business on September 28, 2007 was 192 with a value of \$35 million. As of October 31, 2007, the number of held/rejected transactions continues to decrease. Currently, there are 149 transactions totaling \$31 million.</p> <p>USAID will devise and implement a plan to resolve by December 31, 2007 all held/rejected HHS/LOC transactions with a transaction date prior to September 30, 2007. The Agency is identifying and documenting the cause/discrepancy of each held/rejected transaction for submission and follow-up to the applicable mission for corrective actions. All held/rejected items are tracked on a shared LOC spreadsheet to monitor the timeliness and follow-up of corrective actions taken. This plan includes involving the USAID missions, other bureaus and technical support staff, as necessary, to correct the underlying source of the held/rejected documents versus posting corrective reoccurring actions. Correcting the problems which are causing the held/rejected documents should reduce both the volume of future held/rejected transactions and the time required to manually post these documents.</p> <p>The Agency will continue to work with the Inspector General (IG) in its efforts to move toward a change in accounting principle in which grant expenditures are recognized at the time advances are issued. This change should result in a timelier recording of the expenditure transactions in USAID's accounting records.</p> <p>Target Completion Date: December 31, 2007</p>

FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT (FFMIA) COMPLIANCE ASSESSMENT

FFMIA is designed to improve federal financial management by requiring that financial management systems provide reliable, consistent disclosure of financial data in accordance with generally accepted accounting principles (GAAP) and standards. FFMIA requires USAID to implement and maintain a financial management system that complies substantially with:

- Federal financial management systems requirements
- Standards promulgated by the Federal Accounting Standards Advisory Board (FASAB), and the
- U.S. Standard General Ledger (USSGL) at the transaction level.

USAID management has determined that the Agency is in overall substantial compliance with FFMIA.

The OIG is also required to report on compliance with these requirements as part of the annual audit of USAID's

financial statements. In successive audits prior to FY 2006, the OIG determined that USAID's financial management systems did not substantially comply with FFMIA accounting and systems requirements. The USAID Administrator also reported this instance of noncompliance. In the FY 2006 Government Management Reform Act (GMRA) audit report, the OIG provided positive assurance of FFMIA substantial compliance. As noted in a recent GAO report,¹ USAID is the only CFO Act agency to have achieved compliance with the requirements of FFMIA and to have a positive assurance statement based on the extent of audit work performed against FFMIA. In the FY 2007 GMRA audit report, the OIG noted no instances of overall substantial noncompliance with FFMIA. However, because the OIG did not conduct a full audit, USAID received a negative assurance statement for FFMIA compliance. A detailed discussion of the financial management systems goals, strategies, and framework follows.

FINANCIAL MANAGEMENT SYSTEMS

GOALS AND STRATEGIES

The Agency's core financial system directly supports three of the five government-wide initiatives of the President's Management Agenda (PMA) (<http://www.results.gov>).

These initiatives are:

Improved Financial Performance: USAID's financial management system, Phoenix, is a compliant financial system that meets federal accounting standards. Phoenix supports the Agency in meeting reporting requirements, as well as providing accurate and timely financial information, supporting management operations, and issuing controls to prevent Anti-Deficiency Act violations. Additionally, Phoenix contains a USSGL chart of accounts, allowing financial transactions in Phoenix to be posted immediately to the general ledger.

USAID has been steadily working towards compliance with FFMIA. The Agency's efforts were rewarded in November 2006, when the OIG provided positive assurance that USAID's financial management systems substantially complied with FFMIA.

The completed rollout of Phoenix in June 2006 also addressed the remaining compliance issues that kept the Agency at a yellow score under the PMA. In June 2007, USAID was elevated to "green" for Current Status in Improved Financial Performance, validating that Phoenix drives results in key financial areas. The team's primary focus is to maintain "green" status by making improvements to existing reports, continuing to enhance Phoenix, and implementing new interfaces and systems.

¹ Footnote: August 3, 2007, GAO-07-914 Financial Management: Long-standing Financial Systems Weaknesses Present a Formidable Challenge. USAID was the only CFO Act agency to have achieved compliance with the requirements of FFMIA and to have a positive assurance statement based on the extent of audit work performed against FFMIA. GAO states, "In fiscal year 2006, auditors for one CFO Act agency, the U.S. Agency for International Development (AID), provided positive assurance—which is an opinion based on the nature and extent of audit work performed—that AID's financial management systems substantially complied with the requirements of FFMIA. Auditors for the remaining six CFO Act agencies provided negative assurance of FFMIA compliance."

Expanded Electronic Government: As a Web-based system that is accessible by field offices worldwide, Phoenix supports the E-Government initiative. The system interfaces with other planned Web-based initiatives, such as vendor self-service, e-travel, and worldwide funds reconciliation.

Budget and Performance Integration: USAID implemented the cost allocation module in tandem with the rollout of Phoenix. This allows for assignment of direct and indirect costs to the offices that benefit from them and will provide management a tool for determining full costs at the operating unit level.

Phoenix ops and USAID-State collaboration are not related to Budget and Performance integration. The status of financial management activities is outlined below:

- **Phoenix Operations:** Phoenix is currently operating in Steady State. The Phoenix team continues to release enhancements and upgrades to Phoenix as well as provide continued support to Phoenix users.
- **USAID-State Collaboration:** USAID continues the coordination of E-Government initiatives with the Department of State. The agencies are jointly operating their financial systems from a common platform in the Department of State's Charleston, SC facility.

FINANCIAL MANAGEMENT SYSTEMS FRAMEWORK

With the overseas deployment of Phoenix completed in June 2006, USAID now has a common Agency-wide system for budget execution, accounting, and financial management. The major USAID financial systems and their relationships are discussed below.

Phoenix: Phoenix is the Agency's core financial system. One hundred percent of all USAID financial transactions are processed through Phoenix. Phoenix modules include accounts payable, accounts receivable, automated disbursements, budget execution, general ledger, and project cost accounting.

Global Acquisition System (GLAS): USAID is currently replacing Acquisition and Assistance (A&A) with a system called GLAS. The new system, designed to replace the New Management System (NMS) legacy system for A&A,

is currently being piloted at headquarters and in specific missions worldwide, and is interfaced with Phoenix.

Business Support Services: Many chief business support applications in the Agency's financial management systems inventory relate to travel management, property management, and training. These applications include:

- **Travel Manager:** The GELCO commercial software product, Travel Manager, is currently used in Washington and in Missions to provide travel management support. Travel Manager is being replaced with an e-travel application named E2, which meets GSA and OMB requirements..
- **Non-Expendable Property (NXP):** The NXP program is USAID's custom-developed property management system that is scheduled to be replaced.
- **BAR/SCAN:** A commercial software product used for property management of nonexpendable property in Washington.

Third-Party Service Providers: As part of its strategy, USAID has cross-serviced with other government agencies or outsourced to commercial organizations some of its financial transaction processing. The chief third-party service providers include:

- **USDA National Finance Center (NFC):** USAID has a cross-serving agreement with NFC for personnel and payroll processes for USDH employees.
- **Midland Loan Services:** USAID has outsourced standard credit reform transactions to Midland.
- **Health and Human Services (HHS):** USAID has cross-serviced its letter of credit (LOC) processing of grantee advances and liquidations to the HHS Payment Management System (PMS).

TARGET FINANCIAL MANAGEMENT SYSTEMS STRUCTURE

The primary goal of financial management system modernization at USAID is to support the mission of the Agency, comply with federal requirements and standards, improve the efficiency and effectiveness of Agency operations, and deliver electronic government solutions. The goal will be achieved by architecture planning, capital

investment planning, business process re-engineering, and systems engineering. This will ensure that plans are business-focused rather than technology-driven, results-oriented rather than process-driven, and developed by business managers rather than technology specialists alone.

The target financial management system will:

- Provide complete, reliable, timely, and consistent information.
- Apply consistent internal controls to ensure the integrity and security of information and resources.
- Utilize a common data classification structure to support collection, storage, retrieval, and reporting of information.
- Utilize an open framework and industry standards for data interchange and interoperability.
- Remain flexible and modifiable to business changes.
- Support timely, accurate, and cost-effective electronic exchange of information with customers and external partners.

PLANNED MAJOR SYSTEMS INVESTMENTS

Implementing the target financial management system structure will take several more years. The required major system investments will be identified, planned, and sequenced as part of a business transformation initiative that began in 2002 and will extend through 2010. Projects will be selected on the merit of each business case. The broad categories of system investment will include:

- *Core Financial System:* Phoenix's underlying Momentum software will be upgraded through successive product releases to ensure sustained compliance with changing federal requirements and the evolution of technology in the commercial marketplace. Upgrades will also enhance Phoenix functionality and overall performance.
- *Acquisition and Assistance System:* USAID successfully piloted the GLAS to selected offices in Washington and to four missions in the Latin America and the Caribbean (LAC) region. GLAS is a commercial off-the-shelf Web-based procurement tool that is interfaced with

the Phoenix. It will improve acquisition processing and standardize data and business practices Agency-wide. The timeline for full deployment of GLAS is dependent on funding and decisions regarding the integration of assistance functionality, consistent with OMB guidance on Grants Management Line of Business Offerings.

- *Budget Formulation System:* USAID will implement a set of tools and standard business processes to improve Agency-wide budget planning, formulation, submission, and integration with Phoenix. Part of the Manage-to-Budget initiative, USAID's budget formulation and execution processes will be integrated with its program and performance management processes for collecting information on the performance of Agency programs. This will also address the need to develop a tool to track Operating Year Budget (OYB) data.
- *Data Repositories and Reporting Systems:* USAID will implement an enterprise-wide "data-mart" strategy to link multiple data repositories using common data elements. Web-based reporting tools will be used to extract, consolidate, and generate reports tailored to managers' needs across systems and data repositories.
- *Business Support Systems:* The major initiatives in the administrative service areas will be enterprise-wide deployment of the Agency's travel system, property management system, and Time and Attendance system.
- *Third-party Service Providers:* The Agency is expected to continue to rely on and improve interfaces with its current third-party service providers: NFC, Midland Loan Services, and HHS, for the foreseeable future. Further improvements to electronic interfaces to achieve greater integration are being evaluated.
- *The Unified Foreign Assistance Coordination and Tracking System (FACTS):* FACTS combines all U.S. government agency planning and reporting on foreign assistance activities into one central data system to facilitate country level planning, monitoring, and data management. Country teams will use FACTS to enter and submit information required for the Operational Plans. The goal of the system is to provide one repository for data and a common planning and reporting tool across U.S. government agencies implementing programs with foreign assistance funds.

OTHER MANAGEMENT INFORMATION, INITIATIVES, AND ISSUES

GOVERNMENT MANAGEMENT REFORM ACT – AUDITED FINANCIAL STATEMENTS

There were no material weaknesses cited in the FY 2007 Independent Auditor’s Report. The following table summarizes the significant deficiencies as well as planned actions to resolve them.

SUMMARY OF INDEPENDENT AUDITOR’S REPORT FINDINGS FY 2007 (Refer to Independent Auditor’s Report Section)		
Significant Deficiency	Planned Corrective Actions	Target Completion Date
Controls Over the Interagency Reporting Process	In those cases where other federal agencies whose financial activity is material to USAID’s financial reporting and have not complied with the OMB requirement to provide USAID with correct and timely financial information, USAID will elevate this issue to appropriate levels of management for such agencies to encourage compliance.	March 31, 2008
Accounting for Loans Receivable	USAID will prepare a flow chart of the actions and procedures related to debt restructurings involving loan subsidies and write-offs. These procedures will ensure that USAID’s loan service provider does not write-off or move loans from one Note Type to another prior to subsidy being received, apportionment being approved, and funds being paid from one Treasury symbol to another for the loans being restructured and/or written off. In addition, the transaction codes used by the loan service provider will be updated and validated in USAID transaction table.	March 31, 2008
Reporting on Foreign Currency Information (Repeat Finding)	USAID has worked with missions to reconcile the Foreign Currency (FC) trust fund (TF) data and record the data in Phoenix. FCTF reconciliations have been completed for each mission except one. This reconciliation allows USAID to extract data directly from Phoenix, eliminating the need for data calls from each mission through the quarterly reporting tool.	March 31, 2008
Intragovernmental Reconciliations (Repeat Finding)	USAID typically reconciles and identifies the cause of over 95% of the difference between what it reports and what other federal agencies report for reciprocal transactions such as “transfers to/transfers from”, or “payables to/receivables from”. However, USAID has not been able to significantly resolve and eliminate those differences. USAID will continue to work on reducing these differences consistent with available resources and priorities.	September 30, 2008
Reconciliations of Fund Balance with the U.S. Treasury (Repeat Finding)	USAID’s reconciliation process now reconciles over 99% of its cash balances with Treasury. USAID intends to further improve those processes and significantly reduce the differences between its Fund Balance and its cash balance reported by Treasury by the end of FY 2008. As part of the continuing improvements, the CFO has sponsored and directed the development of an automated CASH Reconciliation Tool (CART). This tool aims at achieving standardization, consistency, internal controls, audit trail and effective reporting of the agency wide processes and results of reconciling fund balance with Treasury. In addition, it ensures identifying, tracking, and addressing any outstanding differences with Treasury on a monthly and cumulative basis. CART was successfully piloted in three missions, and is currently being gradually implemented in all overseas missions and USAID/Washington.	September 30, 2008

PROGRESS MADE ON ISSUES FROM FY 2006 GMRA AUDIT

USAID has taken extensive and aggressive actions during FY 2007 to address the weaknesses from the FY 2006 audit, as indicated in the table below.

SUMMARY OF INDEPENDENT AUDITOR'S REPORT FINDINGS FY 2006 (Refer to Independent Auditor's Report Section)		
Material Weakness	Corrective Actions Taken	Date Closed
Accounting and Reporting of Accruals	USAID developed a Business Objects Enterprise (BOE) report and determined that the accrual document script is functioning as intended and producing an accurate quarterly Accrual Reconciliation Report.	July 18, 2007
	Cognizant Technical Officer training material has been updated, a mandatory Web-based course has been developed, standardized forms are available to compute the accrual, and an improved database better identifies training needs.	September 28, 2007
Reportable Condition	Corrective Actions Taken	Date Closed
Reconciliations of Fund Balance with Treasury	USAID reviewed and updated its Cash Reconciliation procedures for consistency with Treasury guidance. Central Accounting and Reporting and Mission Controllers are now required to certify to the Deputy CFO for Washington Operations that Accounting Stations have completed and maintained file documentation fully supporting monthly Treasury Account reconciliations for the twelve month period ending June 30. As of July 31, 2007, all accounting stations have replied to the OCFO that they are performing and documenting monthly cash reconciliations.	July 31, 2007
Controls Over Treasury Symbol Information	USAID has drafted written procedures for ensuring accuracy and consistency when appropriation tables and for bi-weekly verification of the data in the tables and has implemented a new procedure for manually processing held interface transactions to eliminate discrepancies in postings to the appropriations when Grant Payment and Grant Advance document pairs are manually processed.	June 26, 2007
Management's Discussion and Analysis Data	USAID staff members serve on Department of State teams that are developing guidance to ensure that Operational Plans meet USAID's performance management and reporting needs as fully as possible. State Department teams are also working with USAID offices to identify and address other reporting needs that have not been met.	August 30, 2007
Noncompliance with Laws and Regulations	Corrective Actions Taken	Date Closed
Federal Financial Management Improvement Act	USAID researched differences in Phoenix general ledger accounts closing and corrected all known systemic closing processes. The Phoenix 6.0.10.A upgrade has been installed and includes an enhancement that ensures that all disbursements are posted to open/current accounting periods.	July 31, 2007
The Anti-Deficiency Act	USAID issued a policy reminder conveying the importance of proper funds control, including commitment of funds in Phoenix, before incurring any obligations of USAID funds that will ultimately result in claims for payment.	December 7, 2006
Reportable Condition	Planned Corrective Actions	Target Completion Date
Intragovernmental Reconciliations	USAID cannot implement this recommendation to a greater extent than it does now unless it receives additional resources. Some transactions are entered into Phoenix after processing the SF-224, <i>Statement of Transactions by Appropriation</i> , and these transactions are never reported to Treasury. Some transactions that are not included in the SF-224 reporting should be. However, the amounts of items that are not reported to Treasury on the SF-224 are not material to the financial statements.	March 31, 2008
Accounting for Foreign Currency Transactions	USAID has reconciled the Foreign Currency (FC) trust fund (TF) data and recorded the data in Phoenix for each mission except one. This reconciliation allows USAID's OCFO to extract FCTF data directly from Phoenix, eliminating the need for data calls from each mission through the quarterly reporting tool.	March 31, 2008

AUDIT MANAGEMENT

The OIG uses the audit process to help USAID managers improve the efficiency and effectiveness of operations and programs. USAID management and OIG staff work in partnership to ensure timely and appropriate responses to audit recommendations. The OIG contracts with the Defense Contract Audit Agency (DCAA) to audit U.S.-based contractors and relies on non-federal auditors to audit U.S.-based grant recipients. Overseas, local auditing firms or the supreme audit institutions (SAI) of host countries audit foreign-based organizations. OIG staff conduct audits of USAID programs and operations, including the Agency's financial statements, related systems and procedures, and Agency performance in implementing programs, activities, or functions.

During FY 2007, USAID received 473 audit reports; 408 of these reports covered financial audits of contractors and recipients and 65 covered Agency programs or operations.

During FY 2007, the Agency closed 547 audit recommendations. Of these, 207 were from audits performed by OIG staff and 340 were from financial audits of contractors or grant recipients. USAID took final action on recommendations with \$4.8 million in disallowed costs, and \$10 million was put to better use during the fiscal year.

At the end of FY 2007, there were 534 open audit recommendations, 105 more than at the end of FY 2006. Of the 534 audit recommendations open at the end of FY 2007, only 36 or 6.7 percent have been open for more than one year.

With regard to the 36 recommendations open for more than one year at the end of FY 2007, USAID must collect funds from contractors or recipients to complete actions on six of these recommendations. USAID's Contracting Officers final determinations for 13 of these recommendations are currently in litigations or have been appealed before the Armed Forces Court of Appeals or the USAID's Procurement Executive. One of these recommendations requires a recipient to fully implement an electronic procurement system. The remaining 16 recommendations require improvements in Agency programs and operations. These are tied to USAID's information systems and development activities; compliance with financial audit requirements regarding foreign recipients, and the development of a specific policy related to USAID's President's Emergency Plan for AIDS Relief (PEPFAR) program.

Management Action on Recommendation that Funds be Put to Better Use

	Recommendations	Dollar Value (\$000)
Beginning balance 10/1/06	10	\$ 9,778
Management decisions during the fiscal year	5	233
Final action	8	10,005
Recommendations implemented	8	10,005
Recommendations not implemented	0	–
Ending Balance 9/30/07	7	\$ 6

Management Action on Audits with Disallowed Costs

	Recommendations	Dollar Value (\$000)
Beginning balance 10/1/06	131	\$ 43,386
Management decisions during the fiscal year	162	93,321
Final action	148	4,764
Collections/Offsets/Other	148	4,764
Write-offs	–	–
Ending Balance 9/30/07	145	\$ 131,943

ELIMINATING IMPROPER PAYMENTS

Generally, an improper payment is any payment that should not have been made or that was made in an incorrect amount under statutory, contractual, and administrative or other legally applicable requirement. OMB Circular A-123, Appendix C, defines significant improper payments as annual improper payments in a program that exceed both 2.5 percent of program annual payments and \$10

million. The Improper Payments Information Act (IPIA) of 2002 (Public Law No. 107-300), requires agencies to annually review their programs and activities to identify those susceptible to significant improper payments. For the full report on Improper Payments, please turn to the Other Accompanying Information (OAI) section of this report.

FINANCIAL SECTION





(Above) A Senegalese woman selling fish is taught through a USAID program to avoid HIV/AIDS.

PHOTO: USAID/RICHARD NYBERG

(Preceding page) In Iraq, this Kurdish farmer still returns daily to farm his land although Saddam's troops destroyed his village in 1988. USAID workers helped to form a farmers association which is supporting a new law to give farmers ownership of their land.

PHOTO: USAID/BEN BARBER

A MESSAGE FROM THE CHIEF FINANCIAL OFFICER

The *Agency Financial Report for Fiscal Year 2007* (AFR) is the Agency’s principal publication and report to the President and the American people on our stewardship and management of the public funds to which we have been entrusted. In addition to financial information, this report also includes a high level discussion of performance information.

On October 3, 2007, I was designated as Chief Financial Officer (CFO) for the U.S. Agency for International Development (USAID), making me the sixth USAID CFO since the CFO Act of 1990. I am proud to be named CFO for the Agency after 30 years of financial experiences at USAID.

I am pleased to report that, for the fifth year in a row, USAID received an unqualified or “clean” opinion from our Inspector General (IG) on all four of the Agency’s principal financial statements. In addition, we continue to meet the accelerated financial statement reporting deadlines.

This has been a landmark year for Agency financial operations. For the first time, during the second quarter of FY 2007, USAID advanced from “yellow” to “green” status for financial performance on the President’s Management Agenda (PMA) scorecard. During a series of meetings, we were able to demonstrate to the Office of Management and Budget (OMB) that financial data are leading to informed management decisions on an ongoing and expanding basis.

Significantly, USAID has no auditor-reported internal control material weaknesses nor material weaknesses reported under Section 2 (financial reporting) of the Federal Managers’ Financial Integrity Act (FMFIA). We completed all corrective actions related to the one auditor-reported material weakness—accrual accounting and reporting—identified by the Office of Inspector General (OIG) in the FY 2006 audit. On September 25, 2007, the Management Control Review Committee voted to reduce the two FMFIA financial reporting material weaknesses, both related to accruals, to “reportable condi-



tion” indicating that the internal control deficiencies will remain internal to the Agency but will continue to require corrective action plans. USAID has taken several steps to improve its accrual system, including revamping its electronic processes for producing obligation information, creating a help tool for Cognizant Technical Officers (CTO) to develop accruals offline, improving its existing training, and developing a new Web-based accruals training module. Recently issued Agency policy requires all current and soon-to-be-designated CTOs to take the new accruals training and achieve a passing score.

The Independent Auditor’s Report on USAID’s Consolidated Financial Statements, Internal Controls, and Compliance for FY 2007 contains no material weaknesses related to USAID accounting and operations.

The Independent Auditor’s Report includes five significant deficiencies and several related audit recommendations. We have accepted responsibility for addressing these issues and expect to take final actions by the end of FY 2008. We foresee no major impediments to correcting these weaknesses. Additional details regarding the weaknesses and our specific plans for addressing the audit recommendations can be found in the Management’s Discussion & Analysis (MD&A) Section of the AFR. Actions taken regarding issues from the FY 2006 audit are also included in this report.

In a 2007 Government Accountability Office (GAO) report entitled “Long-standing Financial Systems Weaknesses Present a Formidable Challenge,” USAID was cited as the only CFO Act agency for which its auditors provided positive assurance that its financial management system substantially complied with the requirements of Federal Financial Management Improvement Act (FFMIA) during FY 2006. Although the auditors reduced the scope of their considerable FFMIA efforts between 2006 and 2007, I am pleased to confirm that the auditors again noted no issues affecting substantial compliance with FFMIA.

Another continuing focus for 2007 has been Appendix A to OMB’s Circular A-123, a directive requiring management to guarantee the accuracy and effectiveness of controls over financial reporting. In FY 2006, we exercised the option to break down the compliance burden into a clear plan for full implementation within three years. We focused this year on the following five key business processes: accounts payable, accounts receivable, advances, obligations, and year-end financial reporting. The remaining work to fully implement Appendix A will be performed throughout FY 2008. In the meantime, I have requested additional resources and staff in order to ensure that all key business processes are appropriately verified and the myriad pieces of the system are effectively managed.

Recently, the Agency adopted a new standard set of Expanded Object Class Codes (EOCC) to expand transparency on funding use for administrative costs. USAID also completed mapping all programmatic resources to the new Foreign Assistance Framework and,

during the third quarter, produced its first comparable Statement of Net Costs in this format and established a single mechanism for reporting priority activities to Agency stakeholders.

USAID is committed to minimizing the risk of making erroneous or improper payments to contractors, grantees, and customers. During 2007, our recovery auditors elected to terminate their engagement with USAID because they were unable to detect adequate recoveries for them to economically justify continuation of their work. We have an aggressive system in place to monitor payments, especially for high profile programs, including the Global War on Terror.

While we are pleased with our accomplishments in FY 2007, we will strive to improve all aspects of financial performance and to maintain higher financial management standards in FY 2008. We will continue to promote effective internal controls and focus on implementation of the PMA and other financial management initiatives. USAID will resolve any impediments that could affect the IG’s ability to issue an unqualified audit opinion next year and we will continue to meet the accelerated reporting deadline.



David D. Ostermeyer
Chief Financial Officer
November 15, 2007

FINANCIAL SECTION

INDEPENDENT
AUDITOR'S
REPORT





(Above) A farmer admires a cacao bean. Before a USAID partnership began several years ago, small farmers in this region of Ecuador exported very little processed chocolate. Now the beans are processed in the country and shipped to markets worldwide.

PHOTO: SATRE COMUNICACIONES

(Preceding page) Two young women participated in a USAID-supported Girls Science Camp in Zanzibar, Tanzania. The camp boosts student performance in science, math, and English.

PHOTO: AKDN/ZAHUR RAMJI



USAID
FROM THE AMERICAN PEOPLE

Office of Inspector General

November 14, 2007

MEMORANDUM

TO: David D. Ostermeyer, Chief Financial Officer
FROM: AIG/A, Joseph Farinella *Joseph Farinella*
SUBJECT: Audit of USAID's Financial Statements for Fiscal Years 2007 and 2006

The Office of Inspector General (OIG) is transmitting its report on the *Audit of USAID's Financial Statements for Fiscal Years 2007 and 2006*. Pursuant to the Government Management Reform Act of 1994, USAID is required to prepare consolidated financial statements as of the end of the fiscal year. USAID is also required to submit a Performance and Accountability Report, including audited financial statements, to the Office of Management and Budget (OMB) and Department of Treasury by November 15, 2007. In accordance with fiscal year 2007 requirements of OMB Circular A-136, USAID has elected to prepare an alternative Agency Financial Report that includes an Agency Head Message, Management's Discussion and Analysis, and a Financial Section.

The OIG has issued unqualified opinions on each of USAID's principal financial statements for fiscal years 2007 and 2006.

With respect to internal control, we did not identify any deficiencies that we consider to be material weaknesses. We did, however, identify certain deficiencies in internal control that we consider to be significant deficiencies. The significant deficiencies address USAID's (1) controls over interagency reporting processes, (2) accounting for loans receivable, (3) reporting on foreign currency transactions, (4) reconciliations of its intragovernmental transactions, and (5) reconciliations of its Fund Balance with the U.S. Treasury.

We noted no instances of substantial noncompliance with Federal financial management systems requirements, Federal accounting standards, or U.S. Standard General Ledger accounting at the transaction level as a result of our tests required by Section 803(a) of the Federal Financial Management Improvement Act of 1996.

This report contains three recommendations to improve USAID's internal control over financial reporting and the preparation of its annual financial statements.

We appreciate the cooperation and courtesies that your staff extended to us during the audit. The OIG is looking forward to working with you on our audit of the fiscal year 2008 financial statements.

U.S. Agency for International Development
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SUMMARY OF RESULTS

In our opinion, USAID's consolidated balance sheets, consolidated statements of changes in net position, consolidated statements of net cost, and combined statements of budgetary resources present fairly, in all material respects, the financial position of USAID as of September 30, 2007 and 2006; and its net cost, net position, and budgetary resources for the years then ended, in conformity with generally accepted accounting principles.

We did not identify any deficiencies in internal control that we considered to be material weaknesses. Nonetheless, we did identify five deficiencies in internal control considered to be significant deficiencies, related to USAID's:

- Controls over interagency reporting processes
- Accounting for loans receivable
- Reporting on foreign currency information
- Intragovernmental reconciliations
- Reconciliations of Fund Balance with the U.S. Treasury

We noted no instances of substantial noncompliance with Federal financial management systems requirements, Federal accounting standards, or U.S. Standard General Ledger accounting at the transaction level as a result of our tests required by Section 803(a) of the Federal Financial Management Improvement Act.

BACKGROUND

USAID was created in 1961 to advance U.S. foreign policy interests by promoting broad-based sustainable development and providing humanitarian assistance. USAID has missions in more than 90 countries, 46 of which have full accounting operations with USAID controllers. For the fiscal year ended September 30, 2007, USAID reported total budgetary resources of \$15 billion.

Pursuant to the Government Management Reform Act of 1994, USAID is required to submit audited financial statements to OMB annually. Pursuant to this Act, for fiscal year 2007, USAID has prepared the following:

- Consolidated Balance Sheets
- Consolidated Statements of Changes in Net Position
- Consolidated Statements of Net Cost
- Combined Statements of Budgetary Resources
- Notes to the principal financial statements
- Other Required Supplementary Information
- Management's Discussion and Analysis

AUDIT OBJECTIVE

Did USAID's principal financial statements present fairly the assets, liabilities, net position, net costs, changes in net position, and budgetary resources for fiscal years 2007 and 2006?

In our opinion, the financial statements referred to above present fairly, in all material respects and in conformity with generally accepted accounting principles, USAID's assets, liabilities, and net position; net costs; changes in net position; and budgetary resources as of September 30, 2007 and 2006 and for the years then ended.

In accordance with *Government Auditing Standards*, the OIG has also issued reports (dated November 14, 2007) on our consideration of USAID's internal control over financial reporting and on our tests of USAID's compliance with certain provisions of laws and regulations. These reports are an integral part of an overall audit conducted in accordance with *Government Auditing Standards* and should be read in conjunction with this report.

Independent Auditor's Report on USAID's Financial Statements

We have audited the accompanying consolidated balance sheets of USAID as of September 30, 2007 and 2006, and the consolidated statements of changes in net position, consolidated statements of net cost, and combined statements of budgetary resources of USAID for the years ended September 30, 2007 and 2006.

We conducted our audits in accordance with auditing standards generally accepted in the United States; *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, and in conformity with U.S. generally accepted accounting principles, USAID's assets, liabilities, and net position; net costs; changes in net position; and budgetary resources as of September 30, 2007 and 2006 and for the years then ended.

Management's Discussion and Analysis and Required Supplementary Information sections are not a required part of the consolidated financial statements, but represent supplementary information required by OMB Circular A-136, *Financial Reporting Requirements*. We have applied certain limited procedures to this information, primarily consisting of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information and, accordingly, we do not express an opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our reports, dated November 14, 2007, on our consideration of USAID's internal control over financial reporting and on our tests of USAID's compliance with certain provisions of laws and regulations. These reports are an integral part of an overall audit conducted in accordance with *Government Auditing Standards* and should be read in conjunction with this report.



USAID, Office of Inspector General
November 14, 2007

Report on Internal Control

We have audited the consolidated balance sheets of USAID as of September 30, 2007 and 2006. We have also audited the consolidated statements of changes in net position, consolidated statements of net cost, and combined statements of budgetary resources for the fiscal years ended September 30, 2007 and 2006, and have issued our report thereon dated November 14, 2007. We conducted the audits in accordance with auditing standards generally accepted in the United States; *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*.

In planning and performing our audits of USAID's financial statements for the fiscal years ended September 30, 2007 and 2006, we considered its internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of USAID's internal control. We limited our system of internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin 07-04. 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. Accordingly, we do not express an opinion on USAID's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

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

- Controls over interagency reporting processes
- Accounting for loans receivable
- Reporting on foreign currency information
- Intragovernmental reconciliations
- Reconciliations of Fund Balance with the U.S. Treasury

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

as defined above.

With respect to internal control related to information included in the Management's Discussion and Analysis Section of USAID's Agency Financial Report, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions, as required by OMB Bulletin 07-04, and determined whether they were in operation. Our procedures were not designed to provide assurance on internal control over this information and, accordingly, we do not provide an opinion on such controls.

We also noted other matters involving the internal control over financial reporting which we reported to USAID management in a separate letter dated November 14, 2007.

Significant Deficiencies

Controls over Interagency Reporting Need Improvement

USAID's controls used to update its financial management system (Phoenix) with accounting information provided by its child¹ agencies through interagency reporting processes need improvement. In fiscal year 2007, USAID correctly entered annual budgetary account activity for its child agencies in its general ledger, but did not always readily confirm associated non-budgetary activity. This occurred, in one instance, because although USAID confirmed the update of its general ledger with budgetary information provided by its child agencies to the Department of Treasury, it did not perform a similar confirmation for non-budgetary (or proprietary) accounts that are included in its Balance Sheet and Statement of Net Cost. As a result, without compensating controls, USAID's Balance Sheet and Statement of Net Cost are potentially in error to the extent of the unrecorded differences between budgetary and proprietary information provided by its child agencies.

To account for annual child agency budgetary account activity in its general ledger, USAID's Office of the Chief Financial Officer (CFO) compared quarterly trial balance information provided directly by its child agencies, with the same information that its child agencies provide to the Department of Treasury through the Federal Agencies' Consolidated Trial Balance System (FACTS II). For the end of fiscal year 2007, USAID obtained FACTS II trial balances that were different than the trial balances originally sent by one child agency, and relied completely on the FACTS II information. However, because the FACTS II trial balance did not contain complete proprietary balance information, USAID continued to rely on the original trial balance it received directly. The OIG confirmed that no material differences existed between the separate sources.

¹ OMB Circular A-136 defines financial reporting requirements for transferring budget authority from one Federal entity to another, and describes "child" agencies as those for which a Federal entity receives budget authority from another Federal entity (the "parent") and then obligates and outlays sums up to the amount included in the allocation.

USAID also had difficulty reporting interim financial statement information consistently throughout 2007. Fiscal year 2007 beginning balance information provided to USAID by one Federal child agency did not agree with the same information reported to Treasury. Since accounting information reported to USAID for use in its financial statements is obtained from the same source as the information provided to Treasury via FACTS II, this information must agree, as required by OMB Circular A-136, section II.4.6.1. These differences in fiscal year 2007 beginning balances reported throughout 2007 occurred primarily because quarterly information provided by at least one child agency was not consistent between periods.

To ensure that USAID continues to receive complete, consistent, updated trial balances from its partner agencies, we are making the following recommendation:

Recommendation No. 1: We recommend that USAID's Office of the Chief Financial Officer develop agreements with its material Federal child agencies that address consistency between budgetary and proprietary accounting information provided to USAID.

Accounting for Loans Receivable Needs Improvement

Some USAID loans receivable activities recorded in Phoenix were not accurate or complete. We identified Loans Receivable transactions that were not initially recorded in Phoenix and certain credit subsidy entries that were recorded prior to the receipt of an approved apportionment from OMB, causing differences between USAID's Phoenix accounting system and Midland Loan Services' Enterprise Loan System. OMB Circular A-11 requires Federal agencies to obtain an approved apportionment from OMB before making modifications to direct loans. These activities occurred because of weaknesses in the system interface between USAID and its loan service provider, and because of inadequate coordination within the Office of the CFO. As a result, approximately \$193 million of credit program receivables were not accurately processed prior to adjustment.

USAID works with Midland Loan Services of PNC Bank for its loan-servicing. Midland processes USAID's credit program transactions in its Enterprise loan system while USAID maintains the interface between transactions posted monthly by Midland and those entered in Phoenix. For each transaction, Midland converts Enterprise transaction codes into Phoenix transaction codes for entry by USAID, based on a translation table created by USAID. USAID cannot post transactions if Phoenix transaction codes are incorrectly or inaccurately assigned to activities in Midland's Enterprise loan system.

In auditing rescheduled loans (i.e. refinanced loans or loans whose terms and conditions were modified between borrowers and the U.S. Government), the OIG discovered approximately \$193 million of credit program receivables processed by Midland that were not recorded in Phoenix. This discrepancy occurred primarily because certain transactions entered in Midland Bank's Enterprise loan system did not have a corresponding entry code in USAID's translation table. Both Midland Loan Services and USAID informed us that the translation table had not been updated for missing codes, invalid codes, or new general ledger accounts since June 2005. As a result, significant credit program activity remained unprocessed at USAID.

Although USAID performs monthly reconciliations of certain credit program accounts, its staff identified unreconciled differences between rescheduled loan balances reported by Midland and those observed in the Phoenix trial balance. USAID did not have procedures in place to correct missing or inaccurate transactions identified by its staff. Until USAID updates the translation table and implements procedures for reviewing exceptions, loan transactions processed by Midland and transmitted via the monthly interface file will not be completely or accurately recorded in USAID's accounting system.

The OIG also determined that USAID's Office of the CFO, Washington Financial Services Division, had authorized Midland Loan Services to write off loans before USAID's receipt of an approved apportionment from OMB. If not detected promptly, these loan subsidy entries in Phoenix may remain in the incorrect accounting period, understating USAID's Loans Receivables. USAID's Office of the CFO needs to ensure that its Washington Financial Services Division and its Central Accounting and Reporting Division coordinate in the process of authorizing and recording activity related to loan subsidies.

Recommendation No. 2: We recommend that USAID's Office of the Chief Financial Officer develop and implement a procedure to annually update and validate transaction codes used by its loan-servicing provider in USAID's transaction translation table.

Recommendation No. 3: We recommend that USAID's Office of the Chief Financial Officer develop and implement controls preventing the authorization of loan write-offs prior to its receipt of subsidy funds by the Department of Treasury and prior to the transfer of appropriations approved by the Office of Management and Budget.

Reporting on Foreign Currency Information Needs Improvement (Repeat Finding)

USAID's process for reporting on foreign currency assets and liabilities in its financial statements needs improvement. Foreign Currency Trust Fund balances reported on USAID's Balance Sheet are a compilation of local bank balances reported by its overseas missions. This bank information was used in lieu of transaction information in Phoenix because USAID's foreign currency information in Phoenix was generally incomplete and sometimes inaccurate, and because USAID had not completed required reconciliations. As a result, USAID was required to make manual financial reporting adjustment to accurately report on its Foreign Currency Trust Funds, which represent \$288 million in assets and liabilities. As long as the information in Phoenix is incorrect, USAID will continue to rely on external sources for foreign currency assets and liabilities.

USAID's foreign currency balances represent cash held in local banks throughout the world, managed by USAID on behalf of local governments. USAID records an asset and a liability for the balances in these accounts and as of September 30, 2007, USAID's total Foreign Currency Trust Fund balance was \$288 million.

The OIG observed that USAID continues to collect foreign currency balance information from its overseas missions from sources outside of Phoenix. Because Phoenix foreign

currency information has been migrated from USAID's previous financial management system but not completely reconciled with bank records, many USAID missions maintain separate records of the foreign currency accounts they manage locally, based on account statements they receive from the local banks. As a result, USAID/Washington accumulates mission bank statement balances for quarterly financial reporting in lieu of foreign currency information in Phoenix. By using this information solely, USAID missions cannot perform reconciliations against a separate independent source of foreign currency information. To record quarterly fluctuations in foreign currency balances, USAID makes a financial reporting adjustment to capture the net change in the accumulated mission cash balances.

During fiscal year 2006, the OIG reported that USAID's foreign currency information in Phoenix was unreliable and recommended that USAID's Office of the CFO perform monthly bank reconciliations to maintain current financial information in its general ledger. USAID continued to obtain quarterly bank balances from each mission and, for financial statement purposes, adjusted its general ledger balance to agree with the bank balances of the missions as of the end of each quarter. USAID and its information systems contractor attempted to resolve the condition by comparing USAID's general ledger balances to the balances reported on the missions' bank statements as of October 1, 2006, and determined that foreign currency assets and liabilities reported at the end of fiscal year 2006 were understated. USAID did not take any further action to determine the reason for these differences, but increased related assets and liabilities in the general ledger as a result. This activity remained in the general ledger but was ultimately excluded for financial reporting purposes. As a result, no relationship exists between the detailed foreign currency transaction information in Phoenix, and the balances reported on USAID's financial statements.

USAID's Automated Directives System (ADS) 627.3.13, *Local Currency Trust Fund Verification*, states that Mission Controllers must ensure accountability of trust funds through the use of a biannual non-Federal Audit of the Missions' trust fund accounts. USAID did not perform a verification of local currency trust funds in 2007. Pursuant to a prior recommendation,² the Office of the CFO has indicated that it will develop and implement procedures to maintain current information on foreign currency trust funds in its general ledger and will also assign a point of contact to monitor trust fund activities. Beginning in the 2nd quarter of fiscal year 2008, the OIG will monitor USAID's progress on this effort, which is scheduled to be completed by December 31, 2007.

² *Report on the Audit of USAID's Financial Statements for Fiscal Years 2006 and 2005*, p. 12, November 15, 2006, <http://www.usaid.gov/oig/public/fy07rpts/0-000-07-001-c.pdf>

Intragovernmental Transactions Remain Unreconciled (Repeat Finding)

The U.S. Treasury reported a \$5.6 billion net difference in intragovernmental transactions between USAID and other Federal agencies at the end of fiscal year 2007. Of this amount, \$1.4 billion represents differences requiring reconciliation in accordance with OMB Circular A-136 and the Department of Treasury Financial Management Service *Federal Intragovernmental Transactions Accounting Policies Guide*. The differences between USAID's records and those of its trading partners occurred because USAID was not able to consistently resolve material differences identified by the Department of Treasury in its quarterly Material Differences/Status of Disposition Certification Report and other differences equal to or greater than \$50 million. USAID also did not consistently reconcile other significant differences by reciprocal category with its Federal trading partners throughout fiscal year 2007. Until intragovernmental transactions are reconciled, USAID's financial statements are subject to error.

USAID has increased its efforts in resolving unreconciled amounts, but significant differences still exist, including \$1.4 billion required to be reconciled with three different Federal agencies. While some timing differences may ultimately be resolved, differences caused by accounting errors or different accounting methodologies require a special effort by USAID and its trading partners for timely resolution. The *Federal Intragovernmental Transactions Accounting Policies Guide* suggests that agencies work together to estimate accruals and to record corresponding entries in each set of records so that they are in agreement and so that long-term accounting policy differences can be identified. Until these differences are eliminated, USAID's financial statements are subject to error, to the extent of unreconciled intragovernmental activity.

Although \$4.2 billion of the \$5.6 billion of net differences reported between USAID and the Treasury general fund are not required to be reconciled, Treasury does suggest that Federal agencies confirm that these differences represent general fund activities. USAID did not consistently document these confirmations.

We identified similar conditions related to USAID's intragovernmental reconciliation process in a previous audit report³ and recognize that this process requires continuing coordination with other Federal agencies. Therefore, we are not making a new recommendation, but we will continue to monitor USAID's progress in reducing intragovernmental balances in future audits.

³ *Report on the Audit of USAID's Financial Statements for Fiscal Years 2006 and 2005*, p. 9, November 15, 2006, <http://www.usaid.gov/oig/public/fy07rpts/0-000-07-001-c.pdf>

Reconciliations of Fund Balance with the U.S. Treasury Need Improvement (Repeat Finding)

USAID had large unreconciled differences between its Fund Balance and its cash balance reported by Treasury throughout 2007. As of September 30, 2007, these differences totaled to a cumulative net value of \$77 million. The differences remained undocumented because USAID was not consistently investigating and resolving reconciling items, and was not completing reconciliations of its Fund Balance in accordance with Treasury Financial Manual (TFM) 2-5100. As a result, USAID recorded adjustments at the end of fiscal year 2007—to ensure that its Fund Balance with the U.S. Treasury reported on its Form 2108, *Year End Closing Statement*, agreed with the balance in Treasury's records—without fully documenting and investigating the reasons for the differences.

U.S. Treasury reconciliation procedures state that an agency (1) may not arbitrarily adjust its fund balance with the U.S. Treasury account, and (2) can adjust its fund balance with the U.S. Treasury account balance only after clearly establishing the causes for any errors and properly correcting those errors. Treasury's guidance for reconciling fund balances requires that Federal agencies research and resolve differences reported by the U.S. Treasury on a monthly basis.

USAID CFO Bulletin 06-1001, *Reconciliations with U.S. Treasury*, requires USAID to perform timely monthly reconciliations with the U.S. Treasury. The Bulletin also requires a written justification for carrying forward unpaid and unsupported transactions more than 90 days old, provides specific written guidance for write-offs, and requires a certification that reconciliations have been performed in accordance with TFM Volume 1, Part 2-5100. Bulletin 06-1001 has not been fully implemented.

Prior to adjustment, USAID reported its Fund Balance as \$77 million more than the balance reported by Treasury on its September 30, 2007 account statement. This occurred because Treasury symbol changes in Phoenix were not routinely updated to ensure that transactions were recorded against the correct appropriation, and because \$10.8 million of cash transactions remained in a suspense status at USAID pending additional information. The transactions in suspense were fully processed at the Department of Treasury as of the end of fiscal year 2007. USAID could not identify the reasons for many other differences, including some items that have not been reconciled since 2004. For financial reporting purposes, USAID adjusted its Fund Balance to match the cash balance reported by Treasury without always fully documenting the reasons for the unreconciled conditions.

USAID made some attempts to resolve unreconciled Treasury items, but did not always document the efforts made to investigate and reconcile the differences. We also noted this issue in a previous audit report⁴. Fund balance reconciliations with Treasury are ongoing efforts and we will continue to monitor USAID's progress with these reconciliations in future audits.

⁴ *Report on the Audit of USAID's Financial Statements for Fiscal Years 2006 and 2005*, p. 8, November 15, 2006, <http://www.usaid.gov/oig/public/fy07rpts/0-000-07-001-c.pdf>

USAID management's written response to the significant deficiencies identified in our audit has not been subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of those charged with governance at USAID (the USAID Administrator, Deputy Administrator, Assistant Administrator for Management, and Chief Financial Officer) and others within USAID, as well as OMB and Congress, and is not intended to be and should not be used by anyone other than these specified parties. This report is a matter of public record, however, and its distribution is not limited.

USAID Office of Inspector General

USAID, Office of Inspector General
November 14, 2007

Report on Compliance with Laws and Regulations

We have audited the consolidated balance sheets of USAID as of September 30, 2007 and 2006. We have also audited the consolidated statements of changes in net position, consolidated statements of net cost, and combined statements of budgetary resources for the fiscal years ended September 30, 2007 and 2006, and have issued our report thereon. We conducted the audit in accordance with auditing standards generally accepted in the United States, *Government Auditing Standards*, (issued by the Comptroller General of the United States) and OMB Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*.

The management of USAID is responsible for complying with laws and regulations applicable to USAID. As part of obtaining reasonable assurance about whether USAID's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations—noncompliance with which could have a direct and material effect on the determination of financial statement amounts and with certain other laws and regulations specified in OMB Bulletin 07-04, including the requirements referred to in the Federal Financial Management Improvement Act of 1996 (FFMIA). We limited our tests of compliance to these provisions and did not test compliance with all laws and regulations applicable to USAID.

Our tests did not disclose instances of noncompliance, other than FFMIA, considered to be reportable under *Government Auditing Standards*. Our objective was not to provide an opinion on overall compliance with laws and regulations and, accordingly, we do not express such an opinion.

OMB Circular A-123

OMB Circular A-123, *Management's Responsibility for Internal Control*, implements the requirements of FFMIA. Appendix A of OMB Circular A-123 contains an assessment process that management should implement in order to properly assess and improve internal controls over financial reporting. The assessment process should provide management with the information needed to properly support a separate assertion on the effectiveness of the internal controls over financial reporting, as a subset of the overall FFMIA report.

In 2006, USAID elected to complete its assessment in accordance with OMB Circular A-123, Appendix A, over the course of three years, and intends to complete this assessment in 2008. Its 2007 process was implemented in substantial accordance with the approved plan. USAID's Statement of Assurance accurately reflects the results of the assessment and includes an appropriate scope limitation.

Federal Financial Management Improvement Act of 1996

Under FFMIA, we are required to report on whether USAID's financial management

systems substantially comply with 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. We noted no instances of substantial noncompliance with Federal financial management systems requirements, Federal accounting standards, or U.S. Standard General Ledger accounting at the transaction level. In our Report on Internal Control, we identified the following areas for improvement over several financial system processes, not affecting substantial compliance:

- Controls over interagency reporting processes
- Accounting for Loans Receivable
- Reporting on foreign currency information

This report is intended solely for the information and use of the management of USAID, OMB, and Congress, and is not intended to be and should not be used by anyone other than those specified parties. This report is a matter of public record, however, and its distribution is not limited.

USAID Office of Inspector General

USAID, Office of Inspector General
November 14, 2007

EVALUATION OF MANAGEMENT COMMENTS

We have received USAID's management comments to the findings and recommendations included in our draft report. We have evaluated USAID management comments on the recommendations and have reached management decisions on all of the recommendations. The following is a summary of USAID's management comments and our evaluation of those comments.

USAID management agreed to implement **Recommendation No. 1** and will proceed to elevate issues of noncompliance in instances where other federal agencies have not provided USAID with correct and timely financial information. The target completion date is March 31, 2008.

USAID management agreed to implement **Recommendation No. 2** and will work to ensure that an update and validation of transaction codes used by its loan service provider will be completed in the USAID transaction table by the target completion date of March 31, 2008.

USAID management has agreed to implement **Recommendation No. 3** and will take steps to ensure that USAID does not record loan subsidies prior to its receipt of subsidy funds by the Department of Treasury and prior to the transfer of an appropriation approved by OMB. The target completion date is March 31, 2008.

SCOPE AND METHODOLOGY

USAID management is responsible for (1) preparing the financial statements in accordance with generally accepted accounting principles, (2) establishing, maintaining and assessing internal control to provide reasonable assurance that the broad control objectives of the Federal Managers' Financial Integrity Act are met, (3) ensuring that USAID's financial management systems substantially comply with FFMIA requirements, and (4) complying with applicable laws and regulations.

The OIG is responsible for obtaining reasonable assurance about whether the financial statements are presented fairly, in all material respects, in conformity with generally accepted accounting principles. The OIG is also responsible for (1) obtaining a sufficient understanding of internal control over financial reporting and compliance to plan the audit, (2) testing whether USAID's financial management systems substantially comply with FFMIA requirements, (3) testing compliance with selected provisions of laws and regulations that have a direct and material effect on the financial statements and laws for which OMB audit guidance requires testing, and (4) performing limited procedures with respect to certain other information appearing in the Agency Financial Report.

To fulfill these responsibilities, the OIG:

- examined, on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- assessed the accounting principles used and significant estimates made by management;
- evaluated the overall presentation of the financial statements;
- obtained an understanding of internal control related to financial reporting (including safeguarding assets), compliance with laws and regulations (including execution of transactions in accordance with budget authority), and performance measures reported in Management's Discussion and Analysis section of the Agency Financial Report;
- tested relevant internal controls over financial reporting and compliance, and evaluated the design and operating effectiveness of internal controls;
- considered the process for evaluating and reporting on internal control and financial management systems under FFMIA; and
- tested USAID's compliance with FFMIA requirements.

We also tested USAID's compliance with selected provisions of the following laws and regulations:

- Anti-Deficiency Act
- Improper Payments Information Act
- Prompt Payment Act
- Debt Collection Improvement Act
- Federal Credit Reform Act
- OMB Circular A-136
- OMB Circular A-123
- Foreign Assistance Act of 1961

We did not evaluate all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act, such as those controls relevant to preparing statistical reports and ensuring efficient operations. We limited our internal control testing to controls over financial reporting and compliance. Because of inherent limitations in internal control, misstatements due to error or fraud, losses, or noncompliance may occur and not be detected. We also caution that projecting our evaluation to future periods is subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with controls may deteriorate. In addition, we caution that our internal control testing may not be sufficient for other purposes.

We did not test compliance with all laws and regulations applicable to USAID. We limited our tests of compliance to those laws and regulations required by OMB audit guidance that we deemed applicable to the financial statements for the fiscal years ended September 30, 2007 and 2006. We caution that noncompliance may occur and not be detected by these tests and that such testing may not be sufficient for other purposes.

In forming our opinion, the OIG considered potential aggregate errors exceeding \$270 million for any individual statement to be material to the presentation of the overall financial statements.

Federal Financial Management Improvement Act

We assessed whether USAID substantially complied with the Federal financial management systems requirements under the Federal Financial Management Improvement Act of 1996. OMB's core financial systems requirements dated November 2001 were the required standard agencies were expected to meet in fiscal year 2007.

Because USAID's core financial systems requirements substantially complied with OMB's November 2001 core financial systems requirements during fiscal year 2006, we did not test whether requirements that were found to be in compliance last year continued to be in compliance in 2007. However, we did review a listing of modifications that were made to Phoenix during fiscal year 2007 to note any reductions or significant changes in functionality. We also obtained a representation from USAID's chief financial officer that the financial system continued to operate with the same functionality during 2007 as it did during 2006.

In addition, we identified four feeder systems to the core financial systems and documented key internal controls and information flows between core systems and feeder systems. Those feeder systems included the U.S. Department of Agriculture's National Finance Center, the Department of Health and Human Services' payment management system, the Department of the Treasury's CASHLINK II system, and USAID's loan servicing system maintained by Midland Loan Services of PNC Bank. To perform our fieldwork we interviewed USAID staff and contract personnel and reviewed documentation related to the capabilities of Phoenix and feeder systems. Documentation included reports, monthly reconciliations between the core financial system and feeder systems, systems documentation, and documentation generated between core systems and feeder systems.

Management's Discussion and Analysis

With respect to the Management's Discussion and Analysis, we gained an understanding of USAID's system of collecting and reporting on the information presented, and performed limited tests to assess the controls established by USAID over this information. We conducted a limited review of the internal controls related to the existence and completeness assertions relevant to the performance information included in the Management's Discussion and Analysis.

MANAGEMENT COMMENTS



November 14, 2007

MEMORANDUM

TO: AIG, Joseph Farinella

FROM: CFO, David Ostermeyer

SUBJECT: Management Response to Draft Independent Auditor's Report on USAID's Financial Statements for Fiscal Years 2007 and 2006 (Report No. 0-000-08-001-C)

Thank you for your draft audit report on the USAID FY 2007 and 2006 Financial Statement and for the professionalism and dedication exhibited by your staff throughout this entire process.

Fiscal year 2007 was another significant year for federal financial management at USAID. We are pleased that your draft report presents both our progress and our remaining challenges. We are gratified that the USAID Inspector General will issue unqualified opinions on all of USAID's four principal financial statements. The acknowledgments of the Agency's improvements in financial systems and processes throughout the report are greatly appreciated.

Following are our comments and management decisions regarding the findings and proposed audit recommendations:

Significant Deficiency: Controls Over the Inter-Agency Reporting Process

Recommendation 1: We recommend that USAID's Office of the Chief Financial Officer develop agreements with its material child Federal agencies to ensure consistency between budgetary and proprietary accounting information provided to USAID.

Management Decision: We agree to implement the recommendation. In those cases where other federal agencies whose financial activity is material to USAID's financial reporting and have not complied with the OMB requirement to provide USAID with correct and timely financial information, USAID will elevate this issue to appropriate levels of such agencies to encourage compliance. Target completion date is March 31, 2008.

Significant Deficiency: Accounting for Loans Receivable

Recommendation 2: We recommend that USAID's Office of the Chief Financial Officer annually update and validate transaction codes used by its loan servicing provider in USAID's transaction translation table.

Management Decision: We agree to implement the recommendation. We have commenced reconciliation effort. Update and validation of transaction codes used by the loan service provider will be completed in the USAID transaction table by the target completion date of March 31, 2008.

Recommendation 3: We recommend that USAID's Office of the Chief Financial Officer develop and implement controls preventing the authorization of loan cancellations prior to its receipt of subsidy funds by the Department of Treasury and prior to the transfer of appropriations approved by the Office of Management and Budget.

Management Decision: We agree to implement the Recommendation. Steps will be taken to ensure that USAID does not record loan subsidies prior to its receipt of subsidy funds by the Dept. of the Treasury and prior to the transfer of Appropriation approved by OMB. Target completion date is March 31, 2008.

Significant Deficiency: Reporting on Foreign Currency Information (Repeat Finding)

There are no recommendations associated with this Significant Deficiency.

Significant Deficiency: Reconciliations of Fund Balances with the U.S. Treasury (Repeat Finding)

There are no recommendations associated with this Significant Deficiency. The CFO implemented corrective actions related to two audit recommendations issued under Fiscal Years 2006 and 2005 GMRA audit reports and will continue to implement improvements in this area.

Significant Deficiency: Intragovernmental Reconciliations (Repeat Finding)

There are no recommendations associated with this Significant Deficiency. The CFO implemented corrective actions related to two audit recommendations issued under Fiscal Years 2004 and 2005 GMRA audit reports and will continue to implement improvements in this area.

In closing, I would like to confirm USAID's commitment to continual improvement in financial management. I intend to ensure that all necessary steps are taken to institutionalize strong financial management performance throughout the Agency. We will continue the improvements made in the last few years as we work further to develop and implement long-term solutions to address the issues cited in your report. The completion of the implementation of our worldwide financial management system, Phoenix, during FY 2006 has been the critical first step in a strategy of consistent improvement of financial management resources at USAID that will continue for years to come.

STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS

OMB Circular A-50 states that a management decision on audit recommendations shall be made within a maximum of six months after a final report is issued. Corrective action should proceed as rapidly as possible.

Status of 2006 Findings and Recommendations

Audit of USAID's Financial Statements for Fiscal Years 2006 and 2005, Audit Report No. 0-000-07-001-C, November 15, 2006

Recommendation No. 1.1: We recommend that USAID's Office of the Chief Financial Officer prepare a quarterly reconciliation of its Phoenix Accruals System with the Phoenix general ledger, and document and resolve all differences.

Status: The Office of the Chief Financial Officer has developed a Business Objects Enterprise report and determined that the accrual document script is functioning as intended and producing an accurate quarterly Accrual Reconciliation Report. Final action was completed on July 18, 2007.

Recommendation No. 1.2: We recommend that USAID's Office of the Chief Financial Officer update its Accruals training course to ensure that Cognizant Technical Officers can make reasonable accrual estimates when contract modifications result in changes to obligation levels.

Status: Contract Technical Officer training material has been updated, a mandatory web-based course has been developed, standardized forms are available to compute the accrual and an improved database better identifies training needs. Final action was completed on September 28, 2007.

Recommendation No. 2.1: We recommend that USAID's Office of the Chief Financial Officer document monthly reconciliations of its Fund Balance with Treasury as required by TFM 2-5100, and ensure that overseas missions are performing and documenting monthly Fund Balance reconciliations.

Status: The Office of the CFO has reviewed and updated its Cash Reconciliation procedures for consistency with Treasury guidance. Central Accounting and Reporting and Mission Controllers are now required to certify to the Deputy CFO for Washington Operations that Accounting Stations have completed and maintained file documentation fully supporting monthly Treasury Account reconciliations for the twelve month period ended June 30. As of July 31, 2007, all accounting stations have replied to the Office of the CFO that they are performing and documenting monthly cash reconciliations. Final

action was completed on July 31, 2007.

Recommendation No. 2.2: We recommend that USAID's Office of the Chief Financial Officer implement policies to ensure that all transactions recorded in the general ledger are reported to Treasury on the SF 224 and that all differences and suspense items are investigated and resolved in a timely manner.

Status: The Office of the CFO indicates that it needs additional resources to fully implement this recommendation and is working to report all material transactions to Treasury, as required. USAID will determine what changes need to be made to the procedures on resolving Treasury SF 224 differences. The target completion date is March 30, 2008.

Recommendation No. 3: We recommend that USAID's Office of the Chief Financial Officer develop and implement monthly payment review procedures to identify transactions that have been posted in Phoenix to invalid appropriation Treasury symbols.

Status: The Office of the CFO has worked to determine the source of improper postings and has implemented corrective actions. In addition, written procedures have been drafted to ensure accuracy and consistency when updating the appropriation tables and for biweekly verification of the data in the tables. The Office of the CFO has implemented a new procedure for manually processing held interface transactions to eliminate discrepancies in postings to the appropriations when grant payment and grant advance document pairs are manually processed. Final action was completed on June 26, 2007.

Recommendation No. 4: We recommend that USAID's Office of the Chief Financial Officer perform monthly reconciliations of local bank balances with the same information in Phoenix and record, in Phoenix, interest earned and gains or losses associated with foreign currency fluctuations for each of its foreign currency accounts.

Status: The Office of the CFO is working with the missions to reconcile the Foreign Currency Trust Fund data and record the data in Phoenix. The target date of completion is December 31, 2007.

Recommendation No. 5: We recommend that USAID require all bureaus and missions to certify that performance data submitted for publication are accurate, adequately supported, and that the required data quality assessments have been performed.

Status: State Department teams are working to ensure that Operational Plans meet USAID's performance management and reporting needs as fully as possible. Guidance was issued on August 24, 2007 which requires that a data quality assessment on all performance data reported to Washington must be performed at least once every three years. The guidance also requires that the Mission Directors, Assistant Secretary, or Assistant Administrators endorse the validity of the performance data before it is submitted. State Department teams are working with USAID offices to identify and address other reporting needs that have not been met. Final action was completed on August 31, 2007.

Recommendation No 6: We recommend that the Office of the Chief Financial Officer (a) research Phoenix problems causing manual adjustments to the account closing and deobligation processes and implement a plan to resolve these deficiencies in FY 2007 and (b) ensure that Phoenix properly records Recoveries of prior year obligations throughout the year.

Status: The Office of the CFO office has researched differences in Phoenix general ledger accounts closing and corrected all known systemic closing processes. The Phoenix 6.0.10.A upgrade has been installed and includes an enhancement to ensure that all disbursements are posted to open/current accounting periods. Final action was completed on July 31, 2007.

Recommendation No. 7: We recommend that USAID's Office of the Chief Financial Officer direct each of USAID's missions and offices in Washington to ensure that obligations are not incurred prior to the commitment of funds and valid obligations are recorded in Phoenix as required by Automated Directive System 634.3.5.2.

Status: The Office of the CFO issued a policy reminder conveying the importance of proper funds control, including the commitment of funds in Phoenix, before incurring any obligations of USAID funds that ultimately will result in claims for payment. Final action was completed on December 7, 2006.

Status of 2005 Findings and Recommendations

Audit of USAID's Financial Statements for Fiscal Years 2005 and 2004, Audit Report No. 0-000-06-001-C, November 14, 2005

Recommendation No. 2: We recommend that the Office of the Chief Financial Officer ensure that USAID financial managers and mission controllers implement the reconciliation guidelines specified by Chief Financial Officer Bulletin No. 06-1001, Reconciliation with U. S. Treasury, dated October 2005 to ensure Fund Balance with Treasury accounts are reconciled in a timely manner, reconciling items are investigated and resolved, and that adequate documentation is retained to support the reconciliation procedures performed.

Status: The Office of the CFO issued a policy reminder instructing all USAID Controllers to perform and document monthly cash reconciliations as required by CFO Bulletin 06-1001. Final action was completed on May 31, 2007.

Unresolved Prior Year Findings and Recommendations

Report on USAID's Consolidated Financial Statements, Internal Controls and Compliance for Fiscal Year 2002, Audit Report No. 0-000-03-001-C, January 24, 2003

Recommendation No. 2: We recommend that the Chief Financial Officer:

2.2 Reconcile the mission adjustment account in the general ledger to the

cumulative amounts in the mission ledgers and resolve differences between the general ledger and the mission ledgers.

Status: This recommendation was superseded by the full rollout of Phoenix. Final action was completed on May 25, 2007.

FINANCIAL STATEMENTS AND NOTES





(Above) USAID-supported healthcare programs provide Yemen's citizens with clinics, doctors, midwives and nurses, bringing better medical care for children and adults.

PHOTO: USAID/BEN BARBER

(Preceding page) In Baghdad, a Department of State field worker chats with a local businessman in the historic Abu Nawaz area as part of efforts to help the local shops reopen and improve their service.

PHOTO: USAID/BEN BARBER

INTRODUCTION TO PRINCIPAL FINANCIAL STATEMENTS

The **Principal Financial Statements** have been prepared to report the financial position and results of operations of the U.S. Agency for International Development (USAID). The Statements have been prepared from the books and records of the Agency in accordance with formats prescribed by the Office of Management and Budget (OMB) in OMB Circular A-136, *Financial Reporting Requirements*. The Statements are in addition to financial reports prepared by the Agency in accordance with OMB and U.S. Department of the Treasury directives to monitor and control the status and use of budgetary resources, which are prepared from the same books and records. The Statements should be read with the understanding that they are for a component of the U.S. government, a sovereign entity. The Agency has no authority to pay liabilities not covered by budgetary resources. Liquidation of such liabilities requires enactment of an appropriation.

USAID's Principal Financial Statements and additional information for FY 2007 and FY 2006 consist of the following:

The **Consolidated Balance Sheet** provides information on amounts available for use by USAID (assets); the amounts owed (liabilities); and amounts that comprise the difference between assets and liabilities, which is the Agency's net financial position or equity, similar to the balance sheets reported in the private sector. Comparative data for FY 2006 are included and intra-Agency balances have been eliminated from the amounts presented.

The **Consolidated Statement of Net Cost** reports the components of the net costs of the Agency's operations for the period. The net cost operations consist of the gross cost incurred by the Agency less any exchange (i.e. earned) revenue from its activities. Comparative data for FY 2006 are included and intra-Agency balances have been eliminated from the amounts presented.

The **Consolidated Statement of Changes in Net Position** reports the beginning net position, the transactions that affect net position for the period, and the ending net position. The components of net position are separately displayed in two columns, Cumulative Results of Operations and Unexpended Appropriations, to more clearly identify the components of and changes to net position. Comparative data for FY 2006 are included and intra-Agency balances have been eliminated from the amounts presented.

The **Combined Statement of Budgetary Resources** provides information on how budgetary resources were made available for the year and what the status of budgetary resources was at year-end. Information in this statement is reported on the budgetary basis of accounting. Comparative data for FY 2006 are included and intra-Agency balances have been eliminated from the amounts presented.

The **Notes to Principal Financial Statements** are an integral part of the financial statements. They provide explanatory information to help financial statement users to understand, interpret, and use the data presented. Comparative FY 2006 Note data may have been restated or recast to enable comparability with the FY 2007 presentation.

Required Supplementary Information provides details on USAID's budgetary resources at year-end.

HISTORY OF USAID'S FINANCIAL STATEMENTS

In accordance with the Government Management Reform Act of 1994 (GMRA), USAID has prepared consolidated fiscal year-end financial statements since FY 1996. The USAID Office of Inspector General (OIG) is required to audit these statements, related internal controls, and Agency compliance with applicable laws and regulations. From FY 1996 through FY 2000, the OIG was unable to express an opinion on USAID's financial statements because the Agency's financial management systems could not produce complete, reliable, timely, and consistent financial information.

For FY 2001, the OIG was able to express qualified opinions on three of the five principal financial statements of the Agency, while continuing to issue a disclaimer of opinion on the remaining two. For FY 2002, the OIG expressed unqualified opinions on four of the five principal financial statements and a qualified opinion on the fifth. This marked the first time since enactment of the GMRA that USAID received an opinion on all of its financial statements. We are extremely pleased that the efforts of both Agency and OIG staff have resulted in an unqualified opinion on all of the financial statements since FY 2003.

Effective for FY 2007, the **Consolidated Statement of Financing** is presented in Note 21, per OMB's authority under Statements of Federal Financial Accounting Standard (SFFAS) #7, and is no longer considered a basic statement.

FINANCIAL STATEMENTS

U.S. Agency for International Development
CONSOLIDATED BALANCE SHEET
 As of September 30, 2007 and 2006
 (Dollars in Thousands)

	2007	2006
ASSETS:		
Intragovernmental:		
Fund Balance with Treasury (Note 2)	\$ 19,131,357	\$ 19,333,383
Accounts Receivable (Note 3)	220	220
Other (Note 4)	4,532	24,874
Total Intragovernmental	19,136,109	19,358,477
Cash and Other Monetary Assets (Note 5)	288,079	327,598
Accounts Receivable, Net (Note 3)	179,347	91,173
Loans Receivable, Net (Note 6)	4,410,638	4,810,615
Inventory and Related Property, Net (Note 7)	35,753	53,345
General Property, Plant, and Equipment, Net (Notes 8 and 9)	88,498	103,994
Advances and Prepayments (Note 4)	501,531	405,898
Total Assets (Note 20)	\$ 24,639,955	\$ 25,151,100
LIABILITIES (Note 16):		
Intragovernmental:		
Accounts Payable (Note 10)	\$ 62,101	\$ 62,076
Debt (Note 11)	498,506	474,055
Due to U.S. Treasury (Note 11)	4,045,375	4,491,077
Other (Note 12)	216,005	42,651
Total Intragovernmental	4,821,987	5,069,859
Accounts Payable (Note 10)	2,367,957	2,267,721
Loan Guarantee Liability (Note 6)	1,823,332	1,660,909
Federal Employee and Veteran's Benefits (Note 14)	22,282	23,438
Other (Notes 12, 13, and 14)	398,622	428,788
Total Liabilities	9,434,180	9,450,715
Commitments and Contingencies (Note 15)	2,940	3,000
NET POSITION:		
Unexpended Appropriations	14,787,230	14,334,819
Cumulative Results of Operations	415,605	1,362,566
Total Net Position	\$ 15,202,835	\$ 15,697,385
Total Liabilities and Net Position (Note 20)	\$ 24,639,955	\$ 25,151,100

The accompanying notes are an integral part of these statements.

U.S. Agency for International Development
CONSOLIDATED STATEMENT OF NET COST
For the Years Ended September 30, 2007 and 2006
(Dollars in Thousands)

OBJECTIVES	2007	2006
Peace and Security		
Gross Costs	\$ 460,211	\$ 567,836
Less: Earned Revenue	(1,146)	(5,208)
Net Program Costs	459,065	562,628
Governing Justly and Democratically		
Gross Costs	1,306,545	1,458,935
Less: Earned Revenue	(3,498)	(17,197)
Net Program Costs	1,303,047	1,441,738
Investing in People		
Gross Costs	3,513,749	3,718,162
Less: Earned Revenue	(484,068)	(146,009)
Net Program Costs	3,029,681	3,572,153
Economic Growth		
Gross Costs	3,103,511	3,915,462
Less: Earned Revenue	(102,616)	(32,515)
Net Program Costs	3,000,895	3,882,947
Humanitarian Assistance		
Gross Costs	1,389,641	844,792
Less: Earned Revenue	(3,587)	(5,956)
Net Program Costs	1,386,054	838,836
Operating Unit Management		
Gross Costs	117,362	56,028
Less: Earned Revenue	(210)	(606)
Net Program Costs	117,152	55,422
Net Costs of Operations (Notes 17 and 18)	\$ 9,295,894	\$ 10,353,724

The accompanying notes are an integral part of these statements.

U.S. Agency for International Development
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
For the Years Ended September 30, 2007 and 2006
(Dollars in Thousands)

	2007	2006
	Consolidated Total	Consolidated Total
Cumulative Results of Operations:		
Beginning Balances	\$ 1,362,566	\$ 760,502
Adjustments-Changes in Accounting Principles (Note 20)	\$ (1,026,284)	\$ –
Beginning Balances, as Adjusted	336,282	760,502
Budgetary Financing Sources:		
Appropriations Used	9,235,818	9,675,521
Donations and Forfeitures of Cash and Cash Equivalents	117,541	71,962
Transfers-in/out without Reimbursement	–	1,189,017
Other Financing Sources (Non-Exchange):		
Imputed Financing	21,858	19,288
Total Financing Sources	9,375,217	10,955,788
Net Cost of Operations	(9,295,894)	(10,353,724)
Net Change	79,323	602,064
Cumulative Results of Operations:	415,605	1,362,566
Unexpended Appropriations:		
Beginning Balance	14,334,819	13,004,174
Adjustments-Changes in Accounting Principles (Note 20)	(896,460)	–
Beginning Balance, as Adjusted	13,438,359	13,004,174
Budgetary Financing Sources:		
Appropriations Received	10,853,865	10,238,890
Appropriations Transferred in/out	(64,272)	845,076
Other Adjustments	(204,904)	(77,800)
Appropriations Used	(9,235,818)	(9,675,521)
Total Budgetary Financing Sources	1,348,871	1,330,645
Total Unexpended Appropriations	14,787,230	14,334,819
Net Position	\$ 15,202,835	\$ 15,697,385

The accompanying notes are an integral part of these statements.

U.S. Agency for International Development
COMBINED STATEMENT OF BUDGETARY RESOURCES
For the Years Ended September 30, 2007 and 2006
(Dollars in Thousands)

	2007		2006	
	Budgetary	Non-Budgetary Credit Reform	Budgetary	Non-Budgetary Credit Reform
Budgetary Resources:				
Unobligated Balance, Brought Forward, October 1	\$ 3,904,527	\$ 1,422,605	\$ 3,262,407	\$ 1,024,789
Recoveries of Prior Year Unpaid Obligations	199,240	23	276,771	–
Budget Authority:				
Appropriations	10,920,445	–	10,321,277	–
Borrowing Authority	–	–	–	52,026
Spending Authority from Offsetting Collections:				
Earned:				
Collected	978,655	227,843	862,464	447,625
Change in Receivables from Federal Sources	(3,435)	–	3,620	–
Change in Unfilled Customer Orders:				
Without Advance from Federal Sources	58,516	–	4,652	–
Subtotal	11,954,181	227,843	11,192,013	499,651
Nonexpenditure Transfers, Net, Anticipated and Actual	78,398	–	(332,548)	–
Permanently Not Available	(980,038)	–	(1,414,341)	–
Total Budgetary Resources	15,156,308	1,650,471	12,984,302	1,524,440
Status of Budgetary Resources:				
Obligations Incurred:				
Direct	11,523,609	68,154	9,001,401	101,835
Reimbursable	371,418	–	85,531	–
Subtotal	11,895,027	68,154	9,086,932	101,835
Unobligated Balance:				
Apportioned	2,703,044	3,663	3,473,858	–
Exempt from Apportionment	–	–	–	–
Subtotal	2,703,044	3,663	3,473,858	–
Unobligated Balance Not Available	558,237	1,578,654	423,512	1,422,605
Total Status of Budgetary Resources	15,156,308	1,650,471	12,984,302	1,524,440

(continued on next page)

U.S. Agency for International Development
COMBINED STATEMENT OF BUDGETARY RESOURCES (continued)
For the Years Ended September 30, 2007 and 2006
(Dollars in Thousands)

	2007		2006	
	Budgetary	Non-Budgetary Credit Reform	Budgetary	Non-Budgetary Credit Reform
Change in Obligated Balance:				
Obligated Balance, Net				
Unpaid Obligations, Brought Forward, October 1	11,666,588	3,772	10,287,030	3,288
Less: Uncollected Customer Payments from Federal Sources, Brought Forward, October 1	(19,930)	–	(11,306)	–
Total Unpaid Obligated Balance, Net	11,646,658	3,772	10,275,724	3,288
Obligations Incurred Net (+/-)	11,895,027	68,155	9,086,932	101,835
Less: Gross Outlays	(8,969,011)	(43,235)	(7,926,208)	(101,352)
Less: Recoveries of Prior Year Unpaid Obligations, Actual	(199,239)	(23)	(276,771)	–
Change in Uncollected Customer Payments from Federal Sources (+/-)	(55,081)	–	(8,264)	–
Obligated Balance, Net, End of Period				
Unpaid Obligations	14,393,364	28,669	11,170,983	3,772
Less: Uncollected Customer Payments from Federal Sources	(75,010)	–	(19,930)	–
Total, Unpaid Obligated Balance, Net, End of Period	14,318,354	28,669	11,151,053	3,772
Net Outlays:				
Gross Outlays	8,969,011	43,235	7,926,208	101,352
Less: Offsetting Receipts	(978,655)	(227,843)	(861,043)	(447,625)
Less: Distributed Offsetting Receipts	(25,925)	–	(41,784)	–
Net Outlays	\$ 7,964,431	\$ (184,608)	\$ 7,023,381	\$ (346,273)

The accompanying notes are an integral part of these statements.

NOTES TO THE FINANCIAL STATEMENTS

NOTE I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF PRESENTATION

The accompanying principal financial statements (statements) report USAID's financial position and results of operations. They have been prepared using USAID's books and records in accordance with Agency accounting policies, the most significant of which are summarized in this note. The statements are presented in accordance with the guidance and requirements of the Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements*.

In accordance with OMB Circular A-136, changes have been made to the 2007 accounting reporting procedures. The 2007 statement of financing is presented as a footnote instead of a principal financial statement to comply with new requirements. In addition, as specified by Note I Section U, child transfer activities are to be included and parent transfer activities are to be excluded in trial balances. This results in changes in FY 2007 beginning balances, which have been described in Notes 19 and 20.

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

B. REPORTING ENTITY

Established in 1961 by President John F. Kennedy, USAID is the independent U.S. government agency that provides economic development and humanitarian assistance to advance United States economic and political interests overseas.

PROGRAMS

The statements present the financial activity of various programs and accounts managed by USAID. The programs include the Iraq Relief and Reconstruction Fund, Economic Support Fund, Development Assistance, Assistance for the New Independent States of the Former Soviet Union, Special Assistance Initiatives, International Disaster Assistance, Child Survival and Disease, Transition Initiatives, and Direct and Guaranteed Loan Programs. This classification is consistent with the Budget of the United States.

Iraq Relief and Reconstruction Fund

This fund supports necessary expenses related to providing humanitarian assistance in and around Iraq and to carrying out the purposes of the Foreign Assistance Act of 1961 for rehabilitation and reconstruction in Iraq. These include costs of (1) water/sanitation infrastructure, (2) feeding and food distribution, (3) supporting relief efforts related to refugees, internally displaced persons, and vulnerable individuals, including assistance for families of innocent Iraqi civilians who suffer losses as a result of military operations, (4) electricity, (5) healthcare, (6) telecommunications, (7) economic and financial policy, (8) education, (9) transportation, (10) rule of law and governance, (11) humanitarian de-mining, and (12) agriculture.

Economic Support Fund

Programs funded through this account provide economic assistance to select countries in support of efforts to promote stability and U.S. security interests in strategic regions of the world.

Development Assistance

This program provides economic resources to developing countries with the aim of bringing the benefits of development to the poor. The program promotes broad-based, self-sustaining economic growth and supports initiatives intended to stabilize population growth,

protect the environment and foster increased democratic participation in developing countries. The program is concentrated in those areas in which the United States has special expertise and which promise the greatest opportunity for the poor to better their lives.

Assistance for the New Independent States of the Former Soviet Union

This account provides funds for a program of assistance to the independent states that emerged from the former Soviet Union. These funds support U.S. foreign policy goals of consolidating improved U.S. security; building a lasting partnership with the New Independent States; and providing access to each other's markets, resources, and expertise.

Special Assistance Initiatives

This program provides funds to support special assistance activities. The majority of funding for this program was for democratic and economic restructuring in Central and Eastern European countries consistent with the objectives of the Support for East European Democracy (SEED) Act. All SEED Act programs support one or more of the following strategic objectives: promoting broad-based economic growth with an emphasis on privatization, legal and regulatory reform and support for the emerging private sector; encouraging democratic reforms; and improving the quality of life including protecting the environment and providing humanitarian assistance.

International Disaster Assistance

Funds for the International Disaster Assistance Program provide relief, rehabilitation, and reconstruction assistance to foreign countries struck by disasters such as famines, floods, hurricanes and earthquakes. The program also provides assistance in disaster preparedness, and prevention and mitigation.

Child Survival and Disease

This program provides economic resources to developing countries to support programs to improve infant and child nutrition, with the aim of reducing infant and child mortality rates; to reduce HIV transmission and the impact of the HIV/AIDS pandemic in developing countries; to reduce the threat of infectious diseases of major public health importance such as polio, and malaria; and to expand access to quality basic education for girls and women.

Transition Initiatives

This account funds humanitarian programs that provide post-conflict assistance to victims of natural and man-made disasters. Until FY 2001, this type of assistance was funded under the International Disaster Assistance account.

Direct and Guaranteed Loans:

■ *Direct Loan Program*

These loans are authorized under Foreign Assistance Acts, various predecessor agency programs, and other foreign assistance legislation. Direct Loans are issued in both U.S. dollars and the currency of the borrower. Foreign currency loans made "with maintenance of value" place the risk of currency devaluation on the borrower, and are recorded in equivalent U.S. dollars. Loans made "without maintenance of value" place the risk of devaluation on the U.S. government, and are recorded in the foreign currency of the borrower.

■ *Urban and Environmental Program*

The Urban and Environmental (UE) program, formerly the Housing Guarantee Program, extends guaranties to U.S. private investors who make loans to developing countries to assist them in formulating and executing sound housing and community development policies that meet the needs of lower income groups.

■ *Micro and Small Enterprise Development Program*

The Micro and Small Enterprise Development (MSED) Program supports private sector activities in developing countries by providing direct loans and loan guarantees to support local micro and small enterprises. Although the MSED program is still active, the bulk of USAID's new loan guarantee activity is handled through the Development Credit Authority (DCA) program.

■ *Israeli Loan Guarantee Program*

Congress enacted the Israeli Loan Guarantee Program in Section 226 of the Foreign Assistance Act to support the costs for immigrants resettling to Israel from the former Soviet Union, Ethiopia, and other countries. Under this program, the U.S. government guaranteed the repayment of up to \$10 billion in loans from commercial sources, to be borrowed in \$2 billion annual increments. Borrowing was completed under

the program during FY 1999, with approximately \$9.2 billion being guaranteed. Guarantees are made by USAID on behalf of the U.S. government, with funding responsibility and basic administrative functions guarantees for Israel, not to exceed \$9 billion and \$1.3 billion in guarantees were resting with USAID. In FY 2003, Congress authorized a second portfolio of loan issued under this portfolio during FY 2003.

■ *Ukraine Guarantee Program*

The Ukraine Export Credit Insurance Program was established with the support of the Export-Import Bank of the U.S. to assist Ukrainian importers of American goods. The program commenced operations in FY 1996 and expired in FY 1999. The Ukraine Financing Account was closed out in FY 2002.

■ *Development Credit Authority*

The first obligations for USAID's new Development Credit Authority (DCA) were made in FY 1999. DCA allows missions and other offices to use loans and loan guarantees to achieve their development objectives when it can be shown that (1) the project generates enough revenue to cover the debt service including USAID fees, (2) there is at least 50% risk-sharing with a private-sector institution, and (3) the DCA guarantee addresses a financial market failure in-country and does not "crowd-out" private sector lending. DCA can be used in any sector and by any USAID operating unit whose project meets the DCA criteria. DCA projects are approved by the Agency Credit Review Board and the Chief Financial Officer.

■ *Loan Guarantees to Egypt Program*

The Loan Guarantees to Egypt Program was established under the Emergency Wartime Supplemental Appropriations Act, 2003. Under this program, the U.S. government was authorized to issue an amount not to exceed \$2 billion in loan guarantees to Egypt during the period beginning March 1, 2003 and ending September 30, 2005. New loan guarantees totaling \$1.25 billion were issued in fiscal year 2005 before the expiration of the program.

FUND TYPES

The statements include the accounts of all funds under USAID's control. Most of the fund accounts relate to general fund appropriations. USAID also has special fund, revolving fund, trust fund, deposit funds, capital investment fund, receipt account, and budget clearing accounts.

General fund appropriations and the Special fund are used to record financial transactions under Congressional appropriations or other authorization to spend general revenue.

Revolving funds are established by law to finance a continuing cycle of operations, with receipts derived from such operations usually available in their entirety for use by the fund without further action by Congress.

Trust funds are credited with receipts generated by the terms of the trust agreement or statute. At the point of collection, these receipts are unavailable, depending upon statutory requirements, or available immediately.

The capital investment fund contains no year funds to provide the Agency with greater flexibility to manage investments in technology systems and facility construction that the annual appropriation for Operating Expenses does not allow.

Deposit funds are established for (1) amount received for which USAID is acting as a fiscal agent or custodian, (2) unidentified remittances, (3) monies withheld from payments for goods or services received, and (4) monies held waiting distribution on the basis of legal determination.

C. BASIS OF ACCOUNTING

Transactions are recorded on both an accrual and budgetary basis. Under the accrual basis, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal constraints on, and controls of, the use of federal funds. The accompanying Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position have been prepared on an accrual basis. The Statement of Budgetary Resources has been prepared in accordance with budgetary accounting rules.

D. BUDGETS AND BUDGETARY ACCOUNTING

The components of USAID's budgetary resources include current budgetary authority (that is, appropriations and borrowing authority) and unobligated balances remaining from multi-year and no-year budget authority received in prior years. Budget authority is the authorization provided by law to enter into financial obligations that result in immediate or future outlays of federal funds. Budgetary resources also include reimbursement and other income (that is, spending authority from offsetting collections credited to an appropriation of fund account) and adjustments (that is, recoveries of prior year obligations).

Unobligated balances associated with appropriations that expire at the end of the fiscal year remain available for obligation adjustments, but not new obligations, until that account is canceled. When accounts are canceled five years after they expire, amounts are not available for obligations or expenditure for any purpose and are returned to Treasury.

Pursuant to Section 511 of USAID's Appropriations Act for certain purposes under the Foreign Assistance Act of 1961, as amended, funds shall remain available for obligation for an extended period if such funds are initially obligated within their initial period of availability.

E. REVENUES AND OTHER FINANCING

SOURCES

USAID receives the majority of its funding through congressional appropriations -- annual, multi-year, and no-year appropriations -- that may be used within statutory limits. Appropriations are recognized as revenues at the time the related program or administrative expenses are incurred. Appropriations expended for capitalized property and equipment are not recognized as expenses. In addition to funds warranted directly to USAID, the agency also receives allocation transfers from the U.S. Department of Agriculture (USDA) Commodity Credit Corporation, the Executive Office of the President, the Department of State, and Millennium Challenge Corporation.

Additional financing sources for USAID's various credit programs and trust funds include amounts obtained through collection of guaranty fees, interest income on rescheduled loans, penalty interest on delinquent balances, permanent indefinite borrowing authority from

U.S. Treasury, proceeds from the sale of overseas real property acquired by USAID, and advances from foreign governments and international organizations.

Revenues are recognized as financing sources to the extent that they were payable to USAID from other agencies, other governments and the public in exchange for goods and services rendered to others. Imputed revenues are reported in the financial statements to offset the imputed costs.

F. FUND BALANCE WITH U.S. TREASURY

Cash receipts and disbursements are processed by the U.S. Treasury. The fund balances with Treasury are primarily appropriated funds that are available to pay current liabilities and finance authorized purchase commitments, but they also include revolving, deposit, and trust funds.

G. FOREIGN CURRENCY

The Direct Loan Program has foreign currency funds, which are used to disburse loans in certain countries. Those balances are reported at the U.S. dollar equivalents using the exchange rates prescribed by the U.S. Treasury. A gain or loss on translation is recognized for the change in valuation of foreign currencies at year-end. Additionally, some USAID host countries contribute funds for the overhead operation of the host mission and the execution of USAID programs. These funds are held in trust and reported in U.S. dollar equivalents on the balance sheet and statement of net costs.

H. ACCOUNTS RECEIVABLE

Accounts receivable consist of amounts due mainly from foreign governments but also from other Federal agencies and private organizations. USAID regards amounts due from other Federal agencies as 100 percent collectible. The Agency establishes an allowance for uncollectible accounts receivable for non-loan or revenue generating sources that have not been collected for a period of over one year.

I. LOANS RECEIVABLE

Loans are accounted for as receivables after funds have been disbursed. For loans obligated before October 1, 1991 (the pre-credit reform period), loan principal, interest, and penalties receivable are reduced by an allowance for estimated uncollectible amounts. The allowance is estimated based on a net present value method prescribed by OMB that takes into account country risk and projected cash flows.

For loans obligated on or after October 1, 1991, the loans receivable are reduced by an allowance equal to the net present value of the cost to the U.S. government of making the loan. This cost, known as “subsidy”, takes into account all cash inflows and outflows associated with the loan, including the interest rate differential between the loans and Treasury borrowing, the estimated delinquencies and defaults net of recoveries, and offsets from fees and other estimated cash flows. This allowance is re-estimated when necessary and changes reflected in the operating statement.

Loans have been made in both U.S. dollars and foreign currencies. Loans extended in foreign currencies can be with or without “Maintenance of Value” (MOV). Those with MOV place the currency exchange risk upon the borrowing government; those without MOV place the risk on USAID. Foreign currency exchange gain or loss is recognized on those loans extended without MOV, and reflected in the net credit programs receivable balance.

Credit program receivables also include origination and annual fees on outstanding guarantees, interest on rescheduled loans and late charges. Claims receivables (subrogated and rescheduled) are due from foreign governments as a result of defaults for pre-1992 guaranteed loans. Receivables are stated net of an allowance for uncollectible accounts, determined using an OMB approved net present value default methodology.

While estimates of uncollectible loans and interest are made using methods prescribed by OMB, the final determination as to whether a loan is collectible is also affected by actions of other U.S. government agencies.

J. ADVANCES AND PREPAYMENTS

Funds disbursed in advance of incurred expenditures are recorded as advances. Most advances consist of funds disbursed under letters of credit to contractors and grantees. The advances are liquidated and recorded as expenses upon receipt of expenditure reports from the recipients.

K. INVENTORY AND RELATED PROPERTY

USAID’s inventory and related property is comprised of operating materials and supplies. Some operating materials and supplies are held for use and consist mainly of computer paper and other expendable office supplies not in the hands of the user. USAID also has materials and supplies in reserve for foreign disaster assistance stored at strategic sites around the world. These consist of tents, vehicles, and water purification units. The Agency also has birth control supplies stored at several sites.

USAID’s office supplies are deemed items held for use because they are tangible personal property to be consumed in normal operations. Agency supplies held in reserve for future use are not readily available in the market, or there is more than a remote chance that the supplies will be needed, but not in the normal course of operations. Their valuation is based on cost and they are not considered “held for sale.” USAID has no supplies categorizable as excess, obsolete, or unserviceable operating materials and supplies.

L. PROPERTY, PLANT AND EQUIPMENT

USAID capitalizes all property, plant and equipment that have an acquisition cost of \$25 thousand or greater and a useful life of two years or more. Acquisitions that do not meet these criteria are recorded as operating expenses. Assets are capitalized at historical cost and depreciated using the straight-line method. Real property is depreciated over 20 years, nonexpendable personal property is depreciated over 3 to 5 years, and capital leases are depreciated according to the terms of the lease. The Agency operates land, buildings, and equipment that are provided by the General Services Administration. Rent for this property is expensed. Internal use software that has development costs of \$300,000 or greater is capitalized. Deferred maintenance amounts are immaterial with respect to the financial statements.

M. LIABILITIES

Liabilities represent the amount of monies or other resources that are likely to be paid by USAID as the result of transactions or events that have already occurred. However, no liability can be paid by the Agency without an appropriation or borrowing authority. Liabilities for which an appropriation has not been enacted are therefore classified as liabilities not covered by budgetary resources (unfunded liabilities), and there is no certainty that the appropriations will be enacted. Also, these liabilities can be abrogated by the U.S. government, acting in its sovereign capacity.

N. LIABILITIES FOR LOAN GUARANTEES

The Credit Reform Act (CRA) of 1990, which became effective on October 1, 1991, has significantly changed the manner in which USAID's loan programs finance their activities. The main purpose of CRA was to more accurately measure the cost of Federal credit programs and to place the cost of such programs on a budgetary basis equivalent to other Federal spending. Consequently, commencing in fiscal 1992, USAID cannot make new loans or guarantees without an appropriation available to fund the cost of making the loan or guarantee. This cost is known as "subsidy."

For USAID's loan guarantee programs, when guarantee commitments are made, an obligation for subsidy cost is recorded in the program account. This cost is based on the net present value of the estimated net cash outflows to be paid by the Program as a result of the loan guarantees, except for administrative costs, less the net present value of all cash inflows to be generated from those guarantees. When the loans are disbursed, the subsidy cost is disbursed from the program account to a financing account.

For loan guarantees made before the CRA (pre-1992), the liability for loan guarantees represents an unfunded liability. Footnote 6 presents the unfunded amounts separate from the post-1991 liabilities. The amount of unfunded liabilities also represents a future funding requirement for USAID. The liability is calculated using a reserve methodology that is similar to OMB prescribed method for post-1991 loan guarantees.

O. ANNUAL, SICK, AND OTHER LEAVE

Annual leave is accrued as it is earned and the accrual is reduced as leave is taken. Each year, the balance in the accrued annual leave account is adjusted to reflect current pay rates. To the extent that current or prior year appropriations are not available to fund annual leave earned but not taken, funding will be obtained from future financing sources. Sick leave and other types of leave are expensed as taken.

P. RETIREMENT PLANS AND POST EMPLOYMENT BENEFITS

USAID recognizes its share of the cost of providing future pension benefits to eligible employees over the period of time the employees provide the related services. The pension expense recognized in the financial statements equals the current service cost for USAID employees for the accounting period less the amount contributed by the employees. The measurement of the service cost requires the use of an actuarial cost method and assumptions. Office of Personnel Management (OPM) administers these benefits and provides the factors that USAID applies to report the cost. The excess of the pension expense over the amount contributed by USAID and employees represents the amount being financed directly through the Civil Service Retirement and Disability Fund administered by OPM. This cost is considered imputed cost to USAID.

USAID recognizes a current-period expense for the future cost of post retirement health benefits and life insurance for its employees while they are still working. USAID accounts for and reports this expense in its financial statements in a manner similar to that used for pensions, with the exception that employees and USAID do not make contributions to fund these future benefits.

Federal employee benefit costs paid by OPM and imputed by USAID are reported on the Statement of Net Cost.

Q. COMMITMENTS AND CONTINGENCIES

A contingency is an existing condition, situation or set of circumstances involving uncertainty as to possible gain or loss to USAID. The uncertainty will ultimately be resolved when one or more future events occur or fail to occur. For pending, threatened or potential litigation, a liability is recognized when a past transaction or event has occurred, a future outflow or other sacrifice of resources is likely, and the related future outflow or sacrifice of resources is measurable. For other litigations, a contingent liability is recognized when similar events occur except that the future outflow or other sacrifice of resources is more likely than not. Footnote 15 identifies commitments and contingency liabilities.

R. NET POSITION

Net position is the residual difference between assets and liabilities. It is composed of unexpended appropriations and cumulative results of operations.

- Unexpended appropriations are the portion of the appropriations represented by undelivered orders and unobligated balances.
- Cumulative results of operations are also part of net position. This account reflects the net difference between (1) expenses and losses and (2) financing sources, including appropriations, revenues and gains, since the inception of the activity.

S. NON-ENTITY ASSETS

Non-entity fund balances are amounts in Deposit Fund accounts. These include such items as: funds received from outside sources where the government acts as fiscal agent, monies the government has withheld awaiting distribution based on legal determination, and unidentified remittances credited as suspense items outside the budget. For USAID, non-entity assets are minimal in amount as reflected in Note 3, composed solely of accounts receivables, net of allowances.

T. AGENCY COSTS

USAID costs of operations are comprised of program and operating expenses. USAID/Washington program expenses by objective are obtained directly from Phoenix, the Agency general ledger accounting system. Mission related program expenses by goal area are obtained from Phoenix. A cost allocation model is used to distribute operating expenses, including Management Bureau, Global Development Alliance, Trust Funds and Support Offices costs to specific goals. Expenses related to Credit Reform and Revolving Funds are directly applied to specific agency goals based on their objectives.

U. PARENT/CHILD REPORTING

USAID is a party to allocation transfers with other federal agencies as both a transferring (parent) entity and receiving (child) entity. Allocation transfers are legal delegations by one department of its ability to obligate budget authority and outlay funds to another department. A separate fund account (allocation account) is created in the U.S. Treasury as a subset of the parent fund account for tracking and reporting purposes. All allocation transfers of balances are credited to this account, and subsequent obligations and outlays incurred by the child entity are charged to this allocation account as they execute the delegated activity on behalf of the parent entity. Generally, all financial activity related to these allocation transfers (e.g. budget authority, obligations, outlays) is reported in the financial statements of the parent entity, from which the underlying legislative authority, appropriations, and budget apportionments are derived. Exceptions to this general rule affecting USAID include the Executive Office of the President, for whom USAID is the child in the allocation transfer, but, per OMB guidance, will report all activity relative to these allocation transfers in USAID's financial statements. In addition to these funds, USAID allocates funds as the parent to:

- Department of Energy
- Department of Justice
- Department of Labor
- Department of State
- Department of the Treasury
- Nuclear Regulatory Commission.

USAID receives allocation transfers as the child from:

- Department of State
- Executive Office of the President
- Millennium Challenge Corporation
- United States Department of Agriculture, Commodity Credit Corporation.

NOTE 2. FUND BALANCE WITH TREASURY

Fund Balance with Treasury as of September 30, 2007 and 2006 consisted of the following:

Fund Balance with Treasury (Dollars in Thousands)		
Fund Balance	2007	2006
Trust Funds	\$ 40,421	\$ 52,050
Revolving Funds	3,018,774	2,400,715
Appropriated Funds	16,024,157	16,879,748
Other Funds	48,005	870
Total	\$ 19,131,357	\$ 19,333,383

Status of Fund Balance with Treasury		
	2007	2006
Unobligated Balance		
Available	\$ 2,706,707	\$ 3,462,340
Unavailable	2,136,891	1,846,117
Obligated and Other Balances Not Yet Disbursed (Net)	14,287,759	14,024,926
Total	\$ 19,131,357	\$ 19,333,383

The Fund Balances with Treasury are available to pay accrued liabilities and finance authorized commitments relative to goods, services, and benefits.

Obligated and Other Balances Not Yet Disbursed (Net) include balances for non-budgetary funds and unfilled customer orders without advances.

Note 20 describes the change in the FY 2007 Fund Balance with Treasury beginning balance as a result of a change in accounting principle.

NOTE 3. ACCOUNTS RECEIVABLE, NET

The primary components of USAID's accounts receivable as of September 30, 2007 and 2006 are as follows:

Accounts Receivable, Net (Dollars in Thousands)				
	Receivable Gross	Allowance Accounts	Receivable Net 2007	Receivable Net 2006
Intragovernmental				
Appropriation Reimbursements from Federal Agencies	\$ 761	N/A	\$ 761	\$ 225
Accounts Receivable from Federal Agencies	255,538	N/A	255,538	84,744
Less Intra-Agency Receivables	(256,079)	N/A	(256,079)	(84,749)
Total Intragovernmental	220	N/A	220	220
Accounts Receivable	186,789	(7,442)	179,347	91,173
Total Receivables	\$ 187,009	\$ (7,442)	\$ 179,567	\$ 91,393

Entity intragovernmental accounts receivable consist of amounts due from other U.S. government agencies. No allowance accounts have been established for the intragovernmental accounts receivable, which are considered to be 100 percent collectible.

All other entity accounts receivable consist of amounts managed by missions or USAID/Washington. These receivables consist of non-program related receivables such as overdue advances, unrecovered advances, audit

findings, and any interest related to these types of receivables. A 100 percent allowance for uncollectible amounts is estimated for accounts receivable due from the public, which are more than one year past due. Accounts receivable from missions are collected and recorded to the respective appropriation.

Interest receivable is calculated separately, and there is no interest included in the accounts receivable listed above.

NOTE 4. OTHER ASSETS

Advances and Prepayments as of September 30, 2007 and 2006 consisted of the following:

Advances and Prepayments (Dollars in Thousands)		
	2007	2006
Intragovernmental		
Advances to Federal Agencies	\$ 4,532	\$ 24,874
Total Intragovernmental	4,532	24,874
Advances to Contractors/Grantees	400,622	368,611
Advances to Host Country Governments and Institutions	94,898	25,942
Advances, Other	6,011	11,345
Total with the Public	501,531	405,898
Total Other Assets	\$ 506,063	\$ 430,772

FY 2006 prepayment balance of \$2.5 million is shown as part of Advances, Other due to a change in reporting requirements. Advances to Host Country Governments and Institutions represent amounts advanced by USAID missions to host country governments and other in-

country organizations, such as educational institutions and voluntary organizations. Advances, Other consist primarily of amounts advanced for living quarters, travel, and home service.

NOTE 5. CASH AND OTHER MONETARY ASSETS

Cash and Other Monetary Assets as of September 30, 2007 and 2006 are as follows:

Cash and Other Monetary Assets (Dollars in Thousands)		
Cash and Other Monetary Assets	2007	2006
Imprest Fund-Headquarters	\$ 4	\$ 350
UE and Micro and Small Enterprise Fund Cash w/Fiscal Agent	50	50
Foreign Currencies	288,025	327,198
Total Cash and Other Monetary Assets	\$ 288,079	\$ 327,598

USAID has imprest funds in various overseas locations. These funds are provided by the Department of State overseas U.S. Disbursing Officers to which USAID is liable for any shortages. The cumulative balance of imprest funds provided to USAID by the Department of State was \$1.6 million in FY 2007 and \$1.8 million in FY 2006. These imprest funds are not included in USAID's Consolidated Balance Sheet.

Foreign Currencies are related to Foreign Currency Trust Funds and this totaled to \$288.0 million in FY 2007 and \$327.2 million in FY 2006. USAID does not have any non-entity cash or other monetary assets.

NOTE 6. DIRECT LOAN AND LOAN GUARANTEES AND LOANS AND LIABILITIES FOR LOAN GUARANTEES

USAID operates the following loan and/or loan guarantee programs:

- Direct Loan Program (Direct Loan)
- Urban and Environmental Program (UE)
- Micro and Small Enterprise Development Program (MSED)
- Israel Loan Guarantee Program (Israel Loan)
- Development Credit Authority Program (DCA)
- Egypt Loan Guarantee Program

Direct loans resulting from obligations made prior to FY 1992 are reported net of allowance for estimated uncollectible loans. Estimated losses from defaults on loan guarantees resulting from obligations made prior to FY 1992 are reported as a liability.

The Credit Reform Act of 1990 prescribes an alternative method of accounting for direct loans and guarantees resulting from obligations made after FY 1991. Subsidy cost, which is the net present value of the cash flows (i.e.

interest rates, interest supplements, estimated defaults, fees, and other cash flows) associated with direct loans and guarantees, is required by the Act to be recognized as an expense in the year in which the direct loan or guarantee is disbursed. Subsidy cost is calculated by agency program offices prior to obligation using a model prescribed by the Office of Management and Budget (OMB). Subsidy relating to existing loans and guarantees is generally required to be reestimated on an annual basis to adjust for changes in risk and interest rate assumptions. Direct loans are reported net of an allowance for this subsidy cost (allowance for subsidy). The subsidy costs associated with loan guarantees are reported as loan guarantee liability.

An analysis of loans receivable, loan guarantees, liability for loan guarantees, and the nature and amounts of the subsidy costs associated with the loans and loan guarantees are provided in the following sections.

The following net loan receivable amounts are not the same as the proceeds that USAID would expect to receive from selling its loans. Actual proceeds may be higher or lower depending on the borrower and the status of the loan.

Summary of Loans Receivables, Net (Dollars in Thousands)	2007	2006
Net Direct Loans Obligated Prior to 1992 (Allowance for Loss Method)	\$ 3,824,147	\$ 4,183,220
Net Direct Loans Obligated After 1991 (Present Value Method)	308,427	360,132
Defaulted Guaranteed Loans from Pre-1992 Guarantees (Allowance for Loss Method)	278,064	267,263
Total Loans Receivable, Net as reported on the Balance Sheet	\$ 4,410,638	\$ 4,810,615

DIRECT LOANS

Direct Loans (Dollars in Thousands)				
Loan Programs	Loans Receivables Gross	Interest Receivable	Allowance for Loan Losses	Value of Assets Related to Direct Loans, Net
Direct Loans Obligated Prior to 1992 (Allowance for Loss Method) as of September 30, 2007:				
Direct Loans	\$ 4,900,067	\$ 329,209	\$ 1,405,129	\$ 3,824,147
MSED	29	32	61	–
Total	\$ 4,900,096	\$ 329,241	\$ 1,405,190	\$ 3,824,147
Direct Loans Obligated Prior to 1992 (Allowance for Loss Method) as of September 30, 2006:				
Direct Loans	\$ 5,288,905	\$ 382,077	\$ 1,487,761	\$ 4,183,221
MSED	31	36	67	–
Total	\$ 5,288,936	\$ 382,113	\$ 1,487,828	\$ 4,183,221
Direct Loans Obligated After 1991 as of September 30, 2007:				
Direct Loans	\$ 1,045,654	\$ 4,330	\$ 741,374	\$ 308,610
MSED	150	24	357	(183)
Total	\$ 1,045,804	\$ 4,354	\$ 741,731	\$ 308,427
Direct Loans Obligated After 1991 as of September 30, 2006:				
Direct Loans	\$ 1,089,114	\$ 16,501	\$ 745,777	\$ 359,838
MSED	150	133	(10)	293
Total	\$ 1,089,264	\$ 16,634	\$ 745,767	\$ 360,131

Total Amount of Direct Loans Disbursed (Dollars in Thousands)		
Direct Loan Programs	2007	2006
Direct Loans	\$ 5,945,721	\$ 6,378,018
MSED	179	181
Total	\$ 5,945,900	\$ 6,378,199

**Schedule for Reconciling Subsidy Cost Allowance Balances
(Post-1991 Direct Loans)
(Dollars in Thousands)**

	2007			2006		
	Direct Loan	MSED	Total	Direct Loan	MSED	Total
Beginning Balance, Changes, and Ending Balance						
Beginning Balance of the Subsidy Cost Allowance	\$ 745,777	\$ (10)	\$ 745,767	\$ 716,853	\$ 27	\$ 716,880
Add: Subsidy Expense for Direct Loans Disbursed During the Reporting Years by Component:						
(A) Interest Rate Differential Costs	–	–	–	–	–	–
(B) Default Costs (Net of Recoveries)	–	–	–	–	–	–
(C) Fees and Other Collections	–	–	–	–	–	–
(D) Other Subsidy Costs	–	–	–	–	–	–
Total of the Above Subsidy Expense Components	–	–	–	–	–	–
Adjustments:						
(A) Loan Modifications	\$ 16,132	\$ –	\$ 16,132	\$ 21,688	\$ –	\$ 21,688
(B) Fees Received	–	–	–	–	–	–
(C) Foreclosed Property Acquired	–	–	–	–	–	–
(D) Loans Written Off	(39,020)	–	(39,020)	–	–	–
(E) Subsidy Allowance Amortization	18,485	367	18,852	7,236	(37)	7,199
(F) Other	–	–	–	–	–	–
Ending Balance of the Subsidy Cost Allowance Before Reestimates	\$ 741,374	\$ 357	\$ 741,731	\$ 745,777	\$ (10)	\$ 745,767
Add or Subtract Subsidy Reestimates by Component:						
(A) Interest Rate Reestimate	–	–	–	–	–	–
(B) Technical/Default Reestimate	–	–	–	–	–	–
Total of the Above Reestimate Components	–	–	–	–	–	–
Ending Balance of the Subsidy Cost Allowance	\$ 741,374	\$ 357	\$ 741,731	\$ 745,777	\$ (10)	\$ 745,767

**Defaulted Guaranteed Loans
(Dollars in Thousands)**

Loan Guarantee Programs	Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Allowance For Loan Losses	Value of Assets Related to Defaulted Guaranteed Loans Receivable, Net
Defaulted Guaranteed Loans from Pre-1992 Guarantees (Allowance for Loss Method): 2007				
UE	\$ 387,894	\$ 59,143	\$ 168,973	\$ 278,064
Total	\$ 387,894	\$ 59,143	\$ 168,973	\$ 278,064
Defaulted Guaranteed Loans from Pre-1992 Guarantees (Allowance for Loss Method): 2006				
UE	\$ 385,728	\$ 61,980	\$ 180,445	\$ 267,263
Total	\$ 385,728	\$ 61,980	\$ 180,445	\$ 267,263

DEFAULTED GUARANTEED LOANS FROM POST-1991 GUARANTEES

In FY 2007, the UE Program had \$3.6 million in defaults on payments.

In FY 2006, the UE Program had \$3.2 million in defaults on payments.

GUARANTEED LOANS OUTSTANDING:

Guaranteed Loans Outstanding (Dollars in Thousands)		
Loan Guarantee Programs	Outstanding Principal, Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
Guaranteed Loans Outstanding (2007):		
UE	\$ 1,330,189	\$ 1,330,189
MSED	17,010	8,505
Israel	12,700,332	12,700,332
DCA	1,282,332	498,517
Egypt	1,250,000	1,250,000
Total	\$ 16,579,863	\$ 15,787,543
Guaranteed Loans Outstanding (2006):		
UE	\$ 1,510,359	\$ 1,510,359
MSED	17,010	8,505
Israel	12,869,563	12,869,563
DCA	870,636	400,940
Egypt	1,250,000	1,250,000
Total	\$ 16,517,568	\$ 16,039,367
New Guaranteed Loans Disbursed (2007):		
UE	\$ –	\$ –
MSED	–	–
DCA	129,455	51,782
Israel	–	–
Egypt	–	–
Total	\$ 129,455	\$ 51,782
New Guaranteed Loans Disbursed (2006):		
UE	\$ –	\$ –
MSED	–	–
DCA	148,025	51,550
Israel	–	–
Egypt	–	–
Total	\$ 148,025	\$ 51,550

**Liability for Loan Guarantees
(Dollars in Thousands)**

Loan Guarantee Programs	Liabilities for Losses on Pre-1992 Guarantees, Estimated Future Default Claims	Liabilities for Loan Guarantees for Post-1991 Guarantees, Present Value	Total Liabilities for Loan Guarantees
Liability for Loan Guarantees (Estimated Future Default Claims for pre-1992 guarantees) as of September 30, 2007:			
UE	\$ 124,794	\$ 138,203	\$ 262,997
MSED	–	(3,884)	(3,884)
Israel	–	1,386,173	1,386,173
DCA	–	14,617	14,617
Egypt	–	163,429	163,429
Total	\$ 124,794	\$ 1,698,538	\$ 1,823,332

Liability for Loan Guarantees (Estimated Future Default Claims for pre-1992 guarantees) as of September 30, 2006:			
UE	\$ 157,266	\$ 155,429	\$ 312,695
MSED	–	(2,152)	(2,152)
Israel	–	1,169,363	1,169,363
DCA	–	10,812	10,812
Egypt	–	170,191	170,191
Total	\$ 157,266	\$ 1,503,643	\$ 1,660,909

SUBSIDY EXPENSE FOR LOAN GUARANTEES BY PROGRAM AND COMPONENT:

**Subsidy Expense for Loan Guarantees by Program and Component
(Dollars in Thousands)**

Loan Guarantee Programs	Interest Supplements	Defaults	Fees and Other Collections	Other	Total
Subsidy Expense for New Loan Guarantees (2007):					
DCA	\$ –	\$ 6,935	\$ –	\$ –	\$ 6,935
MSED	–	–	–	–	–
Total	\$ –	\$ 6,935	\$ –	\$ –	\$ 6,935
Subsidy Expense for New Loan Guarantees (2006):					
DCA	\$ –	\$ 5,336	\$ –	\$ –	\$ 5,336
MSED	–	86	–	–	86
Total	\$ –	\$ 5,422	\$ –	\$ –	\$ 5,422

Subsidy Expense for Loan Guarantees by Program and Component (continued)
(Dollars in Thousands)

Loan Guarantee Programs	Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates
Modifications and Reestimates (2007):				
UE	\$ -	\$ -	\$ -	\$ -
MSED	-	-	1,408	1,408
DCA	-	-	-	-
Israel	-	-	9,035	9,035
Egypt	-	-	-	-
Total	\$ -	\$ -	\$ 10,443	\$ 10,443
Modifications and Reestimates (2006):				
UE	\$ -	\$ -	\$ -	\$ -
MSED	-	-	-	-
DCA	-	-	-	-
Israel	-	-	34,372	34,372
Egypt	-	-	14,264	14,264
Total	\$ -	\$ -	\$ 48,636	\$ 48,636

Total Loan Guarantee Subsidy Expense
(Dollars in Thousands)

Loan Guarantee Programs	2007	2006
DCA	\$ 6,935	\$ 5,336
UE	-	-
MSED	1,408	86
Israel	9,035	34,372
Egypt	-	14,264
Total	\$ 17,378	\$ 54,058

SUBSIDY RATES FOR LOAN GUARANTEES BY PROGRAM AND COMPONENT:

Budget Subsidy Rates for Loan Guarantees for the Current Year's Cohorts
(Percent)

Loan Guarantee Programs	Interest Supplements (%)	Defaults (%)	Fees and Other Collections (%)	Other (%)	Total (%)
DCA	-	2.08%	-	-	2.08%

**Schedule for Reconciling Loan Guarantee Liability Balances
(Dollars in Thousands)**

(Post-1991 Loan Guarantees)	DCA	MSED	UE	Israel	Egypt	Total
2007						
Beginning Balance, Changes, and Ending Balance						
Beginning Balance of the Loan Guarantee Liability	\$ 10,812	\$ (2,152)	\$ 155,428	\$ 1,169,364	\$ 170,191	\$ 1,503,643
Add: Subsidy Expense for Guaranteed Loans Disbursed During the Reporting Years by Component:						
(A) Interest Supplement Costs	-	-	-	-	-	-
(B) Default Costs (Net of Recoveries)	-	-	-	-	-	-
(C) Fees and Other Collections	-	-	-	-	-	-
(D) Other Subsidy Costs	6,935	-	-	-	-	6,935
Total of the Above Subsidy Expense Components	\$ 6,935	\$ -	\$ -	\$ -	\$ -	\$ 6,935
Adjustments:						
(A) Loan Guarantee Modifications	-	-	-	-	-	-
(B) Fees Received	1,043	45	2,069	-	-	3,157
(C) Interest Supplements Paid	-	-	-	-	-	-
(D) Foreclosed Property and Loans Acquired	-	-	-	-	-	-
(E) Claim Payments to Lenders	(1,442)	(420)	(3,590)	-	-	(5,452)
(F) Interest Accumulation on the Liability Balance	3,088	460	6,116	73,504	7,301	90,469
(G) Other	(5,819)	(3,740)	13,901	-	-	4,342
Ending Balance of the Loan Guarantee Liability Before Reestimates	\$ 14,617	\$ (5,807)	\$ 173,924	\$ 1,242,868	\$ 177,492	\$ 1,603,094
Add or Subtract Subsidy Reestimates by Component:						
(A) Interest Rate Reestimate	-	-	-	-	-	-
(B) Technical/Default Reestimate	-	1,923	(35,722)	143,305	(14,062)	95,444
Total of the Above Reestimate Components	\$ -	\$ 1,923	\$ (35,722)	\$ 143,305	\$ (14,062)	\$ 95,444
Ending Balance of the Loan Guarantee Liability	\$ 14,617	\$ (3,884)	\$ 138,202	\$ 1,386,173	\$ 163,430	\$ 1,698,538
2006						
Beginning Balance, Changes, and Ending Balance						
Beginning Balance of the Loan Guarantee Liability	\$ 4,610	\$ (1,811)	\$ 149,557	\$ 1,066,734	\$ 148,051	\$ 1,367,141
Add: Subsidy Expense for Guaranteed Loans Disbursed During the Reporting Years by Component:						
(A) Interest Supplement Costs	-	-	-	-	-	-
(B) Default Costs (Net of Recoveries)	-	-	-	-	-	-
(C) Fees and Other Collections	-	-	-	-	-	-
(D) Other Subsidy Costs	5,336	86	-	-	-	5,422
Total of the Above Subsidy Expense Components	\$ 5,336	\$ 86	\$ -	\$ -	\$ -	\$ 5,422
Adjustments:						
(A) Loan Guarantee Modifications	-	-	-	-	-	-
(B) Fees Received	847	55	2,334	-	-	3,236
(C) Interest Supplements Paid	-	-	-	-	-	-
(D) Foreclosed Property and Loans Acquired	-	-	-	-	-	-
(E) Claim Payments to Lenders	(168)	(475)	(3,254)	-	-	(3,897)
(F) Interest Accumulation on the Liability Balance	879	-	8,784	48,272	6,625	64,560
(G) Other	(692)	(7)	18,604	-	-	17,905
Ending Balance of the Loan Guarantee Liability Before Reestimates	\$ 10,812	\$ (2,152)	\$ 176,025	\$ 1,115,006	\$ 154,676	\$ 1,454,367
Add or Subtract Subsidy Reestimates by Component:						
(A) Interest Rate Reestimate	-	-	-	-	-	-
(B) Technical/Default Reestimate	-	-	(20,597)	54,358	15,515	49,276
Total of the Above Reestimate Components	\$ -	\$ -	\$ (20,597)	\$ 54,358	\$ 15,515	\$ 49,276
Ending Balance of the Loan Guarantee Liability	\$ 10,812	\$ (2,152)	\$ 155,428	\$ 1,169,364	\$ 170,191	\$ 1,503,643

**Administrative Expense
(Dollars in Thousands)**

Loan Programs	2007	2006
DCA	\$ 12,244	\$ 13,215
Total	\$ 12,244	\$ 13,215

OTHER INFORMATION

1. Allowance for Loss for Liquidating account (pre-Credit Reform Act) receivables have been calculated in accordance with OMB guidance using a present value method which assigns risk ratings to receivables based upon the country of debtor. Ten countries are in violation of Section 620q of the Foreign Assistance Act (FAA), owing \$31.2 million that is more than six months delinquent. Nine countries are in violation of the Brooke-Alexander Amendment to the Foreign Operations Export Financing and Related Programs Appropriations Act, owing \$440.7 million that is more than one year delinquent. Outstanding direct loans receivable for countries in violation of Section 620q totaled \$21.4 million. Outstanding direct loans receivable for countries in violation of the Brooke Amendment totaled \$401.7 million.
2. The MSED Liquidating Account general ledger has a loan receivable balance of \$29 thousand. This includes a loan pending closure. This loan is being carried at 100 percent bad debt allowance.

NOTE 7. INVENTORY AND RELATED PROPERTY, NET

USAID's Inventory and Related Property is comprised of Operating Materials and Supplies. Operating Materials and Supplies as of September 30, 2007 and 2006 are as follows:

**Inventory and Related Property
(Dollars in Thousands)**

	2007	2006
Items Held for Use		
Office Supplies	\$ 12,783	\$ 14,895
Items Held in Reserve for Future Use		
Disaster Assistance Materials and Supplies	7,599	16,074
Birth Control Supplies	15,371	22,376
Total	\$ 35,753	\$ 53,345

Operating Materials and Supplies are considered tangible properties that are consumed in the normal course of business and not held for sale. The valuation is based on historical acquisition costs that do not exceed capitalization criteria of \$25 thousand. There are no items considered as obsolete or unserviceable, and currently there are no restrictions on their use. Inventory costing less than \$25 thousand is expensed as incurred.

NOTE 8. GENERAL PROPERTY, PLANT AND EQUIPMENT, NET

General Property, Plant and Equipment, Net (Dollars in Thousands)					
	Useful Life	Cost	Accumulated Depreciation	Net Book Value 2007	Net Book Value 2006
The components of PP&E as of September 30, 2007 are as follows:					
Classes of Fixed Assets					
Equipment	3 to 5 years	\$ 89,697	\$ (58,126)	\$ 31,571	\$ 37,275
Buildings, Improvements, and Renovations	20 years	74,581	(36,267)	38,314	42,823
Land and Land Rights	N/A	2,456	N/A	2,456	3,139
Assets Under Capital Lease (Note 9)		8,190	(2,653)	5,537	4,739
Construction in Progress	N/A	570	–	570	570
Internal Use Software	3 to 5 years	36,172	(26,122)	10,050	15,448
Total		\$ 211,666	\$ (123,168)	\$ 88,498	\$ 103,994

The threshold for capitalizing or amortizing assets is \$25 thousand. Assets purchased prior to FY 2003 are depreciated using the straight line depreciation method. Assets purchased during FY 2003 and beyond are depreciated using the mid-quarter convention depreciation method. Depreciable assets are assumed to have no remaining salvage value. There are currently no restrictions on Property, Plant and Equipment (PP&E) assets.

USAID PP&E includes assets located in Washington, D.C. offices and overseas field missions.

Equipment consists primarily of electric generators, Automatic Data Processing (ADP) hardware, vehicles and copiers located at the overseas field missions.

Line items Buildings, Improvements, and Renovations in addition to Land and Land Rights include USAID owned office buildings and residences at foreign missions, including the land on which these structures reside. These structures are used and maintained by the field missions. USAID does not separately report the cost of the building and the land on which the building resides.

Land consists of property owned by USAID in foreign countries. Land is generally procured for the construction of buildings.

NOTE 9. LEASES

As of September 30, 2007 and 2006 Leases consisted of the following:

Leases (Dollars in Thousands)		
Entity as Lessee		
Capital Leases:	2007	2006
Summary of Assets Under Capital Lease:		
Buildings	\$ 8,190	\$ 6,899
Accumulated Depreciation	\$ (2,653)	\$ (2,160)
Net Asset under Capital Leases	\$ 5,537	\$ 4,739

Description of Lease(s) Arrangements: Capital leases consist of rental agreements entered into by missions for warehouses, parking lots, residential space, and office buildings. These leases are 1 year or more in duration.

Future Payments Due:		
Fiscal Year	Future Costs	Future Costs
2007	\$ –	\$ 285
2008	297	195
2009	297	117
2010	297	117
2011	232	45
2012	52	–
After 5 Years	77	237
Net Capital Lease Liability	\$ 1,252	\$ 996
Lease Liabilities Covered by Budgetary Resources	\$ 1,252	\$ 996

Operating Leases:		
Future Payments Due:		
Fiscal Year	Future Costs	Future Costs
2007	\$ –	\$ 34,510
2008	33,668	37,271
2009	35,003	40,253
2010	36,391	43,473
2011	37,769	46,951
2012	39,090	–
After 5 Years	40,677	105,470
Total Future Lease Payments	\$ 222,598	\$ 307,928

Future lease payments total \$222.6 million, of which, \$221.3 million has been allocated for USAID headquarters in Washington, D.C. The current lease agreement is for approximately 550,000 sq. feet and will expire in FY 2010. The lessor, General Services Administration (GSA), charges commercial rates for USAID's occupancy. Lease payments for FY 2007 and FY 2006 amounted to \$40.6 million and \$40.5 million, respectively.

NOTE 10. ACCOUNTS PAYABLE

The Accounts Payable covered by budgetary resources as of September 30, 2007 and 2006 consisted of the following:

Accounts Payable Covered by Budgetary Resources (Dollars in Thousands)		
	2007	2006
Intragovernmental		
Accounts Payable	\$ 62,099	\$ 62,052
Disbursements in Transit	2	24
Total Intragovernmental	62,101	62,076
Accounts Payable	2,341,025	2,247,006
Disbursements in Transit	26,932	20,715
Total with the Public	2,367,957	2,267,721
Total Accounts Payable	\$ 2,430,058	\$ 2,329,797

Intragovernmental Accounts Payable are those payable to other federal agencies and consist mainly of unliquidated obligation balances related to interagency agreements between USAID and other federal agencies.

All other Accounts Payable represent liabilities to other non-federal entities.

Note 20 describes the change in the FY 2007 Accounts Payable beginning balance as a result of a change in accounting principle.

NOTE 11. DEBT

USAID Intragovernmental Debt as of September 30, 2007 and 2006 consisted of the following borrowings from Treasury for post-1991 loan programs, which is classified as other debt:

Intragovernmental Debt (Dollars in Thousands)					
Debt Due to Treasury	2006 Beginning Balance	Net Borrowing	2006 Ending Balance	Net Borrowing	2007 Ending Balance
Urban and Environmental	\$ -	\$ -	\$ -	\$ -	\$ -
Direct Loan	422,602	51,453	474,055	24,451	498,506
MSED	-	-	-	-	-
Total Treasury Debt	\$ 422,602	\$ 51,453	\$ 474,055	\$ 24,451	\$ 498,506

Pursuant to the Credit Reform Act of 1990, agencies with credit programs have permanent indefinite authority to borrow funds from the Treasury. These funds are used to disburse new direct loans to the public and, in certain situations, to cover credit reform program costs. Liquidating (pre-1992) accounts have permanent indefinite borrowing authority to be used to cover program costs when they exceed account resources. UE Program debt includes amounts borrowed before the effective date of the Credit Reform Act of 1990.

The above disclosed debt is principal and accrued interest of \$24.5 million payable to Treasury, which represents financing account borrowings from Treasury under the Credit Reform Act and net liquidating account equity in the amount of \$4.1 billion, which under the Credit Reform Act is required to be recorded as Due to Treasury. Both of these accounts are used exclusively for credit reform activity. All debt shown is intragovernmental debt.

NOTE 12. OTHER LIABILITIES

As of September 30, 2007 and 2006 Other Liabilities consisted of the following:

Other Liabilities (Dollars in Thousands)		
	2007	2006
Intragovernmental		
OPAC Suspense	\$ 43,316	\$ –
Unfunded FECA Liability	6,469	8,500
Deposit and Clearing Accounts	8,165	847
Credit Program Undisbursed Loans	149,431	24,270
Other	8,624	9,034
Total Intragovernmental	\$ 216,005	\$ 42,651
Accrued Funded Payroll and Leave (Note 14)	14,055	9,207
Unfunded Leave (Note 13)	25,415	34,405
Advances From Others	986	595
Deferred Credits	10,095	7,120
Foreign Currency Trust Fund	288,171	327,371
Capital Lease Liability (Note 9)	1,252	996
Custodial Liability	2,617	3,741
Other Liabilities	56,031	45,353
Total Liabilities With the Public	\$ 398,622	\$ 428,788
Total Other Liabilities	\$ 614,627	\$ 471,439

All liabilities are current. Intragovernmental Liabilities represent amounts due to other federal agencies. All remaining Other Liabilities are liabilities to non-federal entities.

For FY 2006, the Online Payment and Collection (OPAC) balance was recorded as a net account receivable to USAID for a total of \$6.2 million.

NOTE 13. ACCRUED UNFUNDED ANNUAL LEAVE AND SEPARATION PAY

Accrued unfunded benefits for annual leave and separation pay as of September 30, 2007 and 2006 are:

Accrued Unfunded Benefits (Dollars in Thousands)		
	2007	2006
Liabilities Not Covered by Budgetary Resources		
Accrued Annual Leave	\$ 24,563	\$ 33,304
FSN Separation Pay Liability	852	1,101
Total Accrued Unfunded Annual Leave and Separation Pay (Note 12)	\$ 25,415	\$ 34,405

NOTE 14. FEDERAL EMPLOYEES AND VETERAN'S BENEFITS

The provision for workers' compensation benefits payable as of September 30, 2007 and 2006 are indicated in the table below. These liabilities are included in the Intragovernmental Other Liabilities line item on the Consolidated Balance Sheet and are not covered by budgetary resources.

Accrued Unfunded Workers' Compensation Benefits (Dollars in Thousands)		
	2007	2006
Liabilities Not Covered by Budgetary Resources		
Future Workers' Compensation Benefits	\$ 22,282	\$ 23,438
Accrued Funded Payroll and Leave (Note 12)	14,055	9,207
Total Accrued Unfunded Workers' Compensation Benefits	\$ 36,337	\$ 32,645

The Federal Employees Compensation Act (FECA) program is administered by the U.S. Department of Labor (DOL) and provides income and medical cost protection to covered Federal civilian employees who have been injured on the job or have incurred a work-related occupational disease. Compensation is given to beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. DOL initially pays valid FECA claims for all Federal government agencies and seeks reimbursement two fiscal years later from the Federal agencies employing the claimants.

For FY 2007, USAID's total FECA liability was \$36.3 million and comprised of unpaid FECA billings for \$22.3 million and estimated future FECA costs of \$14.1 million.

For FY 2006, USAID's total FECA liability was \$32.6 million and comprised of unpaid FECA billings for \$9.2 million and estimated future FECA costs of \$23.4 million.

The actuarial estimate for the FECA unfunded liability is determined by the DOL using a method that utilizes historical benefit payment patterns. The projected annual benefit payments are discounted to present value using economic assumption for 10-year Treasury notes and bonds and the amount is further adjusted for inflation. Currently, the projected number of years of benefit payments is 37 years.

NOTE 15. COMMITMENTS AND CONTINGENCIES

USAID is involved in certain claims, suits, and complaints that have been filed or are pending. These matters are in the ordinary course of the Agency's operations and are not expected to have a material adverse effect on the Agency's financial operations.

As of September 30, 2007 a total of twelve cases were pending.

Seven cases have been designated as reasonably possible, a total of \$13.7 million:

- The first case is a contract claim arising out of a contractor's contract to repair and operate an Iraqi port. The estimated loss is \$4.4 million.
- The second case is a contract claim that USAID wrongfully withheld payment for invoices submitted under "Hurricane Mitch" host-country, contract in Honduras. The estimated loss is \$2.2 million.

- The third case is a companion case. A contractor seeks compensation for efforts and expenses it claims to have incurred under a terminated host country contract with the Honduran Government. The estimated loss is \$1.8 million.
- The fourth case is an appeal of the Contracting Officer's disallowance of the costs of supplemental Accidental Death and Dismemberment and Business Travel Insurance for contractor employees related to initial deployment to Iraq. The estimated loss is over \$1 million.
- The fifth case is an appeal of a contractor for claims that arise out of the storage and delivery of 483 health kits in Iraq. The estimated loss is \$1.5 million.
- The sixth case is a case that USAID/Egypt disallowed costs already paid to a contractor for incubators that were installed in Egyptian hospitals but which quickly

proved unsafe and was removed from the hospitals. The estimated loss is \$1 million.

- The seventh case is a case where a contractor seeks costs that were incurred by one of its subcontractors; however USAID disputes those costs as unsubstantiated. The estimated loss is \$1.8 million.

Also, the Agency submitted one unasserted claim and assessment. The matter related to the early termination of the Homer lease agreement. The amount of potential loss is \$2,940,000, which is \$60,000 less than what was disclosed in 2006 financial statements. An adjusting journal entry was made to reflect the new potential loss in the second quarter of 2007.

The statuses of the remaining four litigation cases are at a remote designation.

NOTE 16. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

Liabilities Not Covered by Budgetary Resources as of September 30, 2007 and 2006 are as follows:

Liabilities Not Covered by Budgetary Resources (Dollars in Thousands)		
	2007	2006
Liabilities Not Covered by Budgetary Resources		
Accrued Unfunded Annual Leave and Separation Pay	25,415	34,405
Accrued Unfunded Workers Compensation Benefits	36,337	32,645
Debt - Contingent Liabilities for Loan Guarantees	124,793	160,266
Total Liabilities Not Covered by Budgetary Resources	186,545	227,316
Total Liabilities Covered by Budgetary Resources	9,247,635	9,223,399
Total Liabilities	\$ 9,434,180	\$ 9,450,715

Accrued unfunded annual leave, workmen compensation benefits, and separation pay represent future liabilities not currently funded by budgetary resources, but will be funded as it becomes due with future resources. The Contingent Liabilities for Loan Guarantees is in the pre-Credit Reform Urban and Environmental (UE) Housing Loan Guarantee liquidating fund. As such, it represents the estimated liability to lenders for future loan guarantee defaults in that program.

NOTE 17. INTRAGOVERNMENTAL COSTS AND EXCHANGE REVENUE

The Consolidated Statement of Net Cost reports the Agency's gross costs less earned revenues to arrive at net cost of operations by Objective and Program Area, as of September 30, 2007. These objectives are consistent with the new Department of State and USAID's Foreign Assistance Framework.

The format of the Consolidated Statement of Net Cost is consistent with OMB Circular A-136 guidance.

Note 17 shows the value of exchange transactions between USAID and other Federal entities as well as non-Federal entities. These are also categorized by Objectives, Program Areas and Responsibility Segments. Responsibility Segments are defined in Note 18.

Intragovernmental costs and exchange revenue sources relate to transactions between USAID and other Federal entities. Public costs and exchange revenues on the other hand relate to transactions between USAID and non-Federal entities.

U.S. Agency for International Development INTRAGOVERNMENTAL COSTS AND EXCHANGE REVENUE BY RESPONSIBILITY SEGMENT For the Years Ended September 30, 2007 and 2006 (Dollars in Thousands)

Objective	Africa	Asia & Near East	DCHA	EGAT	Europe & Eurasia	Global Health	Latin America & Caribbean	Intra-Agency Eliminations	2007 Total	2006 Total
Peace and Security										
Intragovernmental Costs	\$ 1,884	\$ 5,382	\$ 1,697	\$ 77	\$ 2,951	\$ -	\$ 412	\$ (109)	\$ 12,294	21,222
Public Costs	34,055	261,490	50,924	1,745	81,927	-	21,755	(3,979)	447,917	546,614
Total Program Costs	35,939	266,872	52,621	1,822	84,878	-	22,167	(4,088)	460,211	567,836
Intragovernmental Earned Revenue	(58)	(275)	(263)	-	(235)	-	(31)	111	(751)	(2,214)
Public Earned Revenue	(37)	(180)	(63)	-	(153)	-	(20)	58	(395)	(2,994)
Total Earned Revenue	(95)	(455)	(326)	-	(388)	-	(51)	169	(1,146)	(5,208)
Net Program Costs	35,844	266,417	52,295	1,822	84,490	-	22,116	(3,919)	459,065	562,628
Governing Justly and Democratically										
Intragovernmental Costs	10,254	8,854	3,373	121	14,699	-	2,251	(348)	39,204	60,496
Public Costs	147,272	662,723	68,012	2,511	304,477	-	93,604	(11,258)	1,267,341	1,398,439
Total Program Costs	157,526	671,577	71,385	2,632	319,176	-	95,855	(11,606)	1,306,545	1,458,935
Intragovernmental Earned Revenue	(324)	(538)	(392)	-	(1,149)	-	(150)	328	(2,225)	(8,794)
Public Earned Revenue	(183)	(338)	(91)	-	(751)	-	(98)	188	(1,273)	(8,403)
Total Earned Revenue	(507)	(876)	(483)	-	(1,900)	-	(248)	516	(3,498)	(17,197)
Net Program Costs	157,019	670,701	70,902	2,632	317,276	-	95,607	(11,090)	1,303,047	1,441,738
Investing in People										
Intragovernmental Costs	40,849	20,469	1,707	5,246	11,574	176,871	11,942	(2,366)	266,292	216,618
Public Costs	638,872	982,243	67,011	74,593	187,323	1,085,327	240,936	(28,848)	3,247,457	3,501,544
Total Program Costs	679,721	1,002,712	68,718	79,839	198,897	1,262,198	252,878	(31,214)	3,513,749	3,718,162
Intragovernmental Earned Revenue	(1,178)	(1,127)	(150)	(102,264)	(671)	(291,682)	(394)	51,133	(346,333)	(124,463)
Public Earned Revenue	(770)	(737)	(97)	(150,408)	(439)	(5,362)	(257)	20,335	(137,735)	(21,546)
Total Earned Revenue	(1,948)	(1,864)	(247)	(252,672)	(1,110)	(297,044)	(651)	71,468	(484,068)	(146,009)
Net Program Costs	677,773	1,000,848	68,471	(172,833)	197,787	965,154	252,227	40,254	3,029,681	3,572,153

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U.S. Agency for International Development
INTRAGOVERNMENTAL COSTS AND EXCHANGE REVENUE BY RESPONSIBILITY SEGMENT
For the Years Ended September 30, 2007 and 2006
(Dollars in Thousands)

Objective	Africa	Asia & Near East	DCHA	EGAT	Europe & Eurasia	Global Health	Latin America & Caribbean	Intra-Agency Eliminations	2007 Total	2006 Total
Economic Growth										
Intragovernmental Costs	25,807	30,717	89	94,221	16,088	-	13,605	(1,590)	178,937	201,025
Public Costs	333,873	1,755,572	3,863	363,442	289,283	-	204,520	(25,979)	2,924,574	3,714,437
Total Program Costs	359,680	1,786,289	3,952	457,663	305,371	-	218,125	(27,569)	3,103,511	3,915,462
Intragovernmental Earned Revenue	(654)	(1,541)	(8)	(3,286)	(1,089)	-	(328)	888	(6,018)	(12,331)
Public Earned Revenue	(427)	(1,007)	(60)	(108,440)	(712)	-	(214)	14,262	(96,598)	(20,184)
Total Earned Revenue	(1,081)	(2,548)	(68)	(111,726)	(1,801)	-	(542)	15,150	(102,616)	(32,515)
Net Program Costs	358,599	1,783,741	3,884	345,937	303,570	-	217,583	(12,419)	3,000,895	3,882,947
Humanitarian Assistance										
Intragovernmental Costs	354	5,910	49,984	2	1,329	-	369	(510)	57,438	97,385
Public Costs	6,285	220,640	558,292	528,976	24,277	-	5,567	(11,834)	1,332,203	747,407
Total Program Costs	6,639	226,550	608,276	528,978	25,606	-	5,936	(12,344)	1,389,641	844,792
Intragovernmental Earned Revenue	(11)	(233)	(2,936)	-	(98)	-	(10)	423	(2,865)	(2,077)
Public Earned Revenue	(7)	(153)	(599)	-	(64)	-	(6)	107	(722)	(3,879)
Total Earned Revenue	(18)	(386)	(3,535)	-	(162)	-	(16)	530	(3,587)	(5,956)
Net Program Costs	6,621	226,164	604,741	528,978	25,444	-	5,920	(11,814)	1,386,054	838,836
Operating Unit Management										
Intragovernmental Costs	874	8,529	1,611	2,860	3,564	-	594	(159)	17,873	4,423
Public Costs	10,023	17,542	8,900	3,399	57,468	-	3,041	(884)	99,489	51,605
Total Program Costs	10,897	26,071	10,511	6,259	61,032	-	3,635	(1,043)	117,362	56,028
Intragovernmental Earned Revenue	(5)	(23)	(20)	(49)	(55)	-	(1)	20	(133)	(222)
Public Earned Revenue	(3)	(4)	(13)	(32)	(36)	-	-	11	(77)	(384)
Total Earned Revenue	(8)	(27)	(33)	(81)	(91)	-	(1)	31	(210)	(606)
Net Program Costs	10,889	26,044	10,478	6,178	60,941	-	3,634	(1,012)	117,152	55,422
Net Costs of Operations	\$1,246,745	\$3,973,915	\$ 810,771	\$712,714	\$989,508	\$ 965,154	\$ 597,087	\$ -	\$9,295,894	\$10,353,724

NOTE 18. SCHEDULE OF COST BY RESPONSIBILITY SEGMENTS

The Schedule of Costs by Responsibility Segment categorizes costs and revenues by Objectives, Program Areas and Responsibility Segment.

A responsibility segment is the component that carries out a mission or major line of activity, and whose manager reports directly to top management. The geographic and technical bureaus of USAID (below) meet the criteria of a responsibility segment. These bureaus directly support the Agency objectives while the remaining bureaus and offices support the operations of these bureaus. To report the full cost of program outputs, the cost of support bureaus and offices are allocated to the outputs of the geographic and technical bureaus. Intra-agency eliminations are allocated to Program Areas to reflect total costs.

FY 2007 STATEMENT OF NET COST BY RESPONSIBILITY SEGMENTS

Geographic Bureaus

- Africa (AFR)
- Asia and Near East (ANE)
- Latin America and the Caribbean (LAC)
- Europe and Eurasia (E&E)

Technical Bureaus

- Democracy, Conflict, and Humanitarian Assistance (DCHA)
- Economic Growth, Agriculture, and Trade (EGAT)
- Global Health (GH)

U.S. Agency for International Development SCHEDULE OF COSTS BY RESPONSIBILITY SEGMENT For the Year Ended September 30, 2007 (Dollars in Thousands)

Objective	Africa	Asia & Near East	DCHA	EGAT	Europe & Eurasia	Global Health	Latin America & Caribbean	Intra-Agency Eliminations	Consolidated Total
Peace and Security									
Counter-Terrorism									
Gross Costs	\$ 1,019	\$ 17	\$ 5,177	\$ -	\$ -	\$ -	\$ -	\$ (55)	\$ 6,158
Less: Exchange Revenues	(2)	-	(21)	-	-	-	-	3	(20)
Net Program Costs	1,017	17	5,156	-	-	-	-	(52)	6,138
Combating Weapons of Mass Destruction (WMD)									
Gross Costs	-	-	5,177	-	18,179	-	-	(206)	23,150
Less: Exchange Revenues	-	-	(21)	-	-	-	-	3	(18)
Net Program Costs	-	-	5,156	-	18,179	-	-	(203)	23,132
Stabilization Operations and Security Sector Reform									
Gross Costs	3,935	17,482	6,279	-	1,546	-	2,901	(283)	31,860
Less: Exchange Revenues	(6)	-	(21)	-	(8)	-	(8)	6	(37)
Net Program Costs	3,929	17,482	6,258	-	1,538	-	2,893	(277)	31,823
Counter-Narcotics									
Gross Costs	560	163,018	5,178	-	2,133	-	460	(1,508)	169,841
Less: Exchange Revenues	(1)	(359)	(21)	-	(14)	-	(1)	51	(345)
Net Program Costs	559	162,659	5,157	-	2,119	-	459	(1,457)	169,496
Transnational Crime									
Gross Costs	956	16,914	5,177	1,811	21,300	-	6,805	(466)	52,497
Less: Exchange Revenues	(3)	(38)	(21)	-	(141)	-	(18)	27	(194)
Net Program Costs	953	16,876	5,156	1,811	21,159	-	6,787	(439)	52,303
Conflict Mitigation and Reconciliation									
Gross Costs	29,469	69,441	25,633	11	41,720	-	12,001	(1,570)	176,705
Less: Exchange Revenues	(83)	(58)	(221)	-	(225)	-	(24)	79	(532)
Net Program Costs	29,386	69,383	25,412	11	41,495	-	11,977	(1,491)	176,173

(continued on next page)

U.S. Agency for International Development
SCHEDULE OF COSTS BY RESPONSIBILITY SEGMENT
For the Year Ended September 30, 2007
(Dollars in Thousands)

Objective	Africa	Asia & Near East	DCHA	EGAT	Europe & Eurasia	Global Health	Latin America & Caribbean	Intra-Agency Eliminations	Consolidated Total
Governing Justly and Democratically									
Rule of Law and Human Rights									
Gross Costs	14,316	47,760	12,683	2,586	66,418	–	20,135	(1,443)	162,455
Less: Exchange Revenues	(42)	(107)	(302)	–	(384)	–	(52)	114	(773)
Net Program Costs	14,274	47,653	12,381	2,586	66,034	–	20,083	(1,329)	161,682
Good Governance									
Gross Costs	78,979	493,712	15,285	46	80,186	–	36,433	(6,204)	698,437
Less: Exchange Revenues	(279)	(566)	(37)	–	(512)	–	(96)	191	(1,299)
Net Program Costs	78,700	493,146	15,248	46	79,674	–	36,337	(6,013)	697,138
Political Competition and Consensus-Building									
Gross Costs	34,069	62,642	21,806	–	51,962	–	20,851	(1,685)	189,645
Less: Exchange Revenues	(100)	(80)	(80)	–	(290)	–	(54)	78	(526)
Net Program Costs	33,969	62,562	21,726	–	51,672	–	20,797	(1,607)	189,119
Civil Society									
Gross Costs	30,162	67,463	21,611	–	120,610	–	18,436	(2,274)	256,008
Less: Exchange Revenues	(86)	(123)	(64)	–	(714)	–	(46)	133	(900)
Net Program Costs	30,076	67,340	21,547	–	119,896	–	18,390	(2,141)	255,108
Investing in People									
Health									
Gross Costs	508,548	621,967	11,134	122	141,966	1,262,198	167,920	(23,896)	2,689,959
Less: Exchange Revenues	(1,459)	(1,177)	(15)	(2)	(756)	(297,044)	(439)	38,709	(262,183)
Net Program Costs	507,089	620,790	11,119	120	141,210	965,154	167,481	14,813	2,427,776
Education									
Gross Costs	160,093	368,273	30,371	43,821	26,105	–	77,211	(6,215)	699,659
Less: Exchange Revenues	(456)	(660)	(125)	(533)	(129)	–	(191)	269	(1,825)
Net Program Costs	159,637	367,613	30,246	43,288	25,976	–	77,020	(5,946)	697,834
Social and Economic Services and Protection for Vulnerable Populations									
Gross Costs	11,080	12,472	27,213	35,896	30,826	–	7,747	(1,103)	124,131
Less: Exchange Revenues	(33)	(27)	(107)	(252,137)	(225)	–	(21)	32,490	(220,060)
Net Program Costs	11,047	12,445	27,106	(216,241)	30,601	–	7,726	31,387	(95,929)
Economic Growth									
Macroeconomic Foundation for Growth									
Gross Costs	8,677	97,697	584	62,470	33,120	–	33,522	(2,078)	233,992
Less: Exchange Revenues	(23)	(73)	(1)	(106,430)	(185)	–	(67)	13,736	(93,043)
Net Program Costs	8,654	97,624	583	(43,960)	32,935	–	33,455	11,658	140,946
Trade and Investment									
Gross Costs	16,269	210,858	405	10,913	16,372	–	32,493	(2,530)	284,780
Less: Exchange Revenues	(47)	(175)	(2)	(147)	(88)	–	(84)	70	(473)
Net Program Costs	16,222	210,683	403	10,766	16,284	–	32,409	(2,460)	284,307

(continued on next page)

U.S. Agency for International Development
SCHEDULE OF COSTS BY RESPONSIBILITY SEGMENT
For the Year Ended September 30, 2007
(Dollars in Thousands)

Objective	Africa	Asia & Near East	DCHA	EGAT	Europe & Eurasia	Global Health	Latin America & Caribbean	Intra-Agency Eliminations	Consolidated Total
Financial Sector									
Gross Costs	10,645	340,456	423	10,596	45,109	–	6,007	(3,639)	409,597
Less: Exchange Revenues	(32)	(107)	(2)	(142)	(310)	–	(16)	78	(531)
Net Program Costs	10,613	340,349	421	10,454	44,799	–	5,991	(3,561)	409,066
Infrastructure									
Gross Costs	37,284	421,560	641	71,534	29,366	–	4,661	(4,975)	560,071
Less: Exchange Revenues	(103)	(698)	(2)	(979)	(154)	–	(12)	251	(1,697)
Net Program Costs	37,181	420,862	639	70,555	29,212	–	4,649	(4,724)	558,374
Agriculture									
Gross Costs	171,903	129,504	453	152,373	49,011	–	28,207	(4,679)	526,772
Less: Exchange Revenues	(527)	(254)	(2)	(2,086)	(273)	–	(75)	414	(2,803)
Net Program Costs	171,376	129,250	451	150,287	48,738	–	28,132	(4,265)	523,969
Private Sector Competitiveness									
Gross Costs	34,355	309,897	495	11,463	115,774	–	13,712	(4,277)	481,419
Less: Exchange Revenues	(99)	(644)	(2)	(152)	(708)	–	(34)	211	(1,428)
Net Program Costs	34,256	309,253	493	11,311	115,066	–	13,678	(4,066)	479,991
Economic Opportunity									
Gross Costs	20,486	152,698	562	53,994	7,633	–	38,369	(2,410)	271,332
Less: Exchange Revenues	(63)	(316)	(55)	(649)	(28)	–	(101)	156	(1,056)
Net Program Costs	20,423	152,382	507	53,345	7,605	–	38,268	(2,254)	270,276
Environment									
Gross Costs	60,061	123,619	389	84,320	8,986	–	61,154	(2,981)	335,548
Less: Exchange Revenues	(187)	(281)	(2)	(1,141)	(55)	–	(153)	234	(1,585)
Net Program Costs	59,874	123,338	387	83,179	8,931	–	61,001	(2,747)	333,963
Humanitarian Assistance									
Protection, Assistance and Solutions									
Gross Costs	3,667	222,783	328,657	–	20,044	–	5,349	(5,111)	575,389
Less: Exchange Revenues	(9)	(379)	(1,808)	–	(131)	–	(14)	301	(2,040)
Net Program Costs	3,658	222,404	326,849	–	19,913	–	5,335	(4,810)	573,349
Disaster Readiness									
Gross Costs	2,972	3,767	279,229	528,978	4,860	–	587	(7,223)	813,170
Less: Exchange Revenues	(9)	(7)	(1,725)	–	(31)	–	(2)	229	(1,545)
Net Program Costs	2,963	3,760	277,504	528,978	4,829	–	585	(6,994)	811,625
Migration Management									
Gross Costs	–	–	390	–	702	–	–	(10)	1,082
Less: Exchange Revenues	–	–	(2)	–	–	–	–	–	(2)
Net Program Costs	–	–	388	–	702	–	–	(10)	1,080
Operating Unit Management									
Cross-cutting Management and Staffing									
Gross Costs	10,897	26,071	10,511	6,259	61,032	–	3,635	(1,043)	117,362
Less: Exchange Revenues	(8)	(27)	(33)	(81)	(91)	–	(1)	31	(210)
Net Program Costs	10,889	26,044	10,478	6,178	60,941	–	3,634	(1,012)	117,152
Net Cost of Operations	\$ 1,246,745	\$ 3,973,915	\$ 810,771	\$ 712,714	\$ 989,508	\$ 965,154	\$ 597,087	\$ –	\$ 9,295,894

NOTE 19. STATEMENT OF BUDGETARY RESOURCES

A. Apportionment Categories of Obligations Incurred:(Dollars in Thousands)

	2007	2006
Category A, Direct	\$ 745,601	\$ 731,684
Category B, Direct	10,846,162	8,386,807
Category A, Reimbursable	11,992	5,526
Category B, Reimbursable	359,426	64,750
Total	\$ 11,963,181	\$ 9,188,767

B. Borrowing Authority, End of Period and Terms of Borrowing Authority Used:

USAID did not have any credit financing activities, borrowing authority for FY 2007. For FY 2006, borrowing authority was \$52 million.

Borrowing Authority is indefinite and authorized under the Credit Reform Act of 1990 (P.L. 101-508), and is used to finance obligations during the current year, as needed.

C. Adjustments to Beginning Balance of Budgetary Resources:

Per OMB Circular A-136 guidance, activity related to the Executive Office of President is included in USAID's Combined Statement of Budgetary Resources (SBR) for FY 2007. For comparative purposes, the table below shows the net effect of this change on the FY 2007 SBR beginning balances.

	2006 Statement of Budgetary Resources	Add: Executive Office of the President	2007 Beginning Balance, as adjusted
Total Budgetary Resources	\$ 14,508,742	\$ 182,834	\$ 14,691,576
Obligated Balance	9,188,767	180,103	9,368,870
Unobligated Balance	5,319,975	2,731	5,322,706
Total Status of Budgetary Resources	\$ 14,508,742	\$ 182,834	\$ 14,691,576
Total, Unpaid Obligated Balance, Net, End of Period	11,154,825	495,605	11,650,430
Net Outlays	\$ 6,677,108	\$ 1,219,726	\$ 7,896,834

The FY 2006 ending balance for the Unobligated Balance Brought Forward increased by \$2.7 million to \$5.3 billion and the Unpaid Obligations Balance Brought forward increased by \$.5 billion to \$11.7 billion.

D. Permanent Indefinite Appropriations:

USAID has permanent indefinite appropriations relating to specific Credit Reform Program and Liquidating appropriations. USAID is authorized permanent indefinite authority for Credit Reform Program appropriations for subsidy reestimates and Credit Reform Act of 1990.

E. Legal Arrangements Affecting the Use of Unobligated Balances:

Pursuant to Section 511 of PL 107-115 funds shall remain available until expended if such funds are initially obligated before the expiration of their periods of availability. Any subsequent recoveries (deobligations) of these funds become unobligated balances that are available for reprogramming by USAID (subject to OMB approval through the apportionment process).

NOTE 20. CHANGE IN ACCOUNTING PRINCIPLE FOR FY 2007 BEGINNING BALANCES

In accordance with requirements of OMB Circular A-136, USAID financial statement reporting requirements for parent/child activity encompasses the following where:

- USAID is the child agency (i.e. budget authority has been transferred to USAID from other federal agencies) financial activity is excluded from USAID's FY 2007 financial statements, with the exception of the Executive Office of the President.
- USAID is the parent agency (i.e. budget authority has been transferred to other federal agencies from USAID) financial activity is included in USAID's FY 2007 financial statements.

As a result, the FY 2007 beginning balance for total assets, total liabilities, and net position has changed as follows:

- Total assets decreased by \$2.35 billion. This decrease is primarily attributable to a \$2.3 billion decrease in the Fund Balance with Treasury.
- Total liabilities decreased by \$427.6 million. This decrease is mostly due to a decrease of \$426 million in accounts payable.
- Net position decreased by \$1.9 billion.

CHANGE IN ACCOUNTING PRINCIPLE FOR FY 2007 BEGINNING BALANCES (Dollars in Thousands)

	2006 Year End Balance	Transfers to Other Federal Agencies	Transfers From Other Federal Agencies	2007 Beginning Balance, as Adjusted
Fund Balance with Treasury	\$ 19,333,383	\$ 506,221	\$ (2,818,276)	\$ 17,021,328
All Other Assets	5,817,717	3,666	(41,909)	5,779,474
Total Assets	25,151,100	509,887	(2,860,185)	22,800,802
Accounts Payable	2,267,721	7,366	(433,400)	1,841,687
All Other Liabilities	7,185,994	659	(2,179)	7,184,474
Total Liabilities	9,453,715	8,025	(435,579)	9,026,161
Unexpended Appropriations	14,334,819	502,661	(1,399,121)	13,438,359
Cumulative Results of Operations	1,362,566	(799)	(1,025,485)	336,282
Total Net Position	15,697,385	501,862	(2,424,606)	13,774,641
Total Liabilities and Net Position	\$ 25,151,100	\$ 509,887	\$ (2,860,185)	\$ 22,800,802

Changes to beginning balances for Cumulative Results of Operations and Unexpended Appropriations are shown on the Statement of Change in Net Position.

NOTE 21. RECONCILIATION OF OBLIGATIONS TO NET COST OF OPERATIONS

RECONCILIATION OF OBLIGATIONS TO NET COST OF OPERATIONS (Dollars in Thousands)		
	2007	2006
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations Incurred	\$ 11,963,181	\$ 11,631,780
Spending authority from offsetting collections	(1,203,063)	(1,308,668)
Change in Unfilled Customer Orders	(58,516)	(4,653)
Downward Adjustments of Obligations	(199,264)	(488,574)
Offsetting Receipts	25,925	41,784
Net Obligations	10,528,263	9,871,669
Other resources used to finance activities	21,857	19,288
Resources Used to Finance Activities	10,550,120	9,890,957
Resources Used to Finance items not part of net cost of operations	(1,389,933)	692,096
Total Resources Used to Finance Net Cost of Operations	9,160,187	10,583,053
Components of the Net Cost of Operations:		
Components of Net Cost of Operations that will require or generate resources in future periods	47,009	(270,054)
Components of Net Cost of Operations that will not require or generate resources	88,698	40,725
Net Cost of Operations	\$ 9,295,894	\$ 10,353,724

REQUIRED SUPPLEMENTARY INFORMATION





(Above) Doctors and a hospital administrator review an x-ray as part of a USAID-funded project helping victims of violence in Haiti. The program works to prevent torture and increase the ability of local human rights groups to document their work.

PHOTO: IFES

(Preceding page) In Darfur, displaced Sudanese women receive USAID-funded hygiene kits. USAID funds emergency programs in health, food, agriculture, water, sanitation, hygiene, economic recovery, protection, shelter, and settlements.

PHOTO: C. REINTSMA

STATEMENT OF BUDGETARY RESOURCES

U.S. Agency for International Development
REQUIRED SUPPLEMENTARY INFORMATION: SCHEDULE OF BUDGETARY RESOURCES
For the period ended September 30, 2007
(Dollars in Thousands)

	Operating		Program				Credit-Financing	Other	Parent Fund	Consolidated Total	
	1000	1010	1021	1035	1037	1093					1095
Budgetary Resources:											
Unobligated Balance, Brought Forward, October 1	\$ 117,038	\$ 81,715	\$ 126,303	\$ 64,970	\$ 2,522,728	\$ 156,770	\$ 288,529	\$ 1,422,605	\$ 497,434	\$ 49,040	\$ 5,327,132
Recoveries of Prior Year Unpaid Obligations	11,578	6,118	15,032	37,329	36,677	6,909	13,603	23	64,862	7,132	199,263
Budget Authority:											
Appropriation	635,532	487,900	1,508,760	526,350	5,092,675	452,000	1,879,150	–	338,078	–	10,920,445
Borrowing Authority	–	–	–	–	–	–	–	–	–	–	–
Spending Authority from Offsetting Collections:											
Earned:											
Collected	12,292	20	1,310	2,172	293	103	5,805	227,843	947,144	9,516	1,206,498
Change in Receivables from Federal Sources	–	–	–	–	–	–	–	–	–	(3,435)	(3,435)
Change in Unfilled Customer Orders:											
Without Advance from Federal Sources	(3,414)	(19)	(541)	(809)	–	(20)	(2,822)	–	66,141	–	58,516
Subtotal	644,410	487,901	1,509,529	527,713	5,092,968	452,083	1,882,133	227,843	1,351,363	6,081	12,182,024
Nonexpenditure Transfers, Net, Anticipated and Actual	9,524	(126,651)	32,170	17	(1,428,486)	(119,862)	8,861	–	67,123	1,635,702	78,398
Permanently Not Available	(474)	(2,316)	(642)	–	(201,678)	(4,964)	–	–	(769,964)	–	(980,038)
Total Budgetary Resources	782,076	446,767	1,682,392	630,029	6,022,209	490,936	2,193,126	1,650,471	1,210,818	1,697,955	16,806,779
Status of Budgetary Resources:											
Obligations Incurred:											
Direct	706,243	186,975	1,377,261	500,108	4,471,264	347,459	2,058,451	68,154	328,087	1,547,761	11,591,763
Reimbursible	8,878	1	769	1,363	293	83	2,983	–	347,532	9,516	371,418
Subtotal	715,121	186,976	1,378,030	501,471	4,471,557	347,542	2,061,434	68,154	675,619	1,557,277	11,963,181
Unobligated Balance:											
Apportioned	41,157	257,094	254,757	107,320	1,515,907	130,807	123,079	3,663	142,227	130,696	2,706,707
Exempt from Apportionment	–	–	–	–	–	–	–	–	–	–	–
Subtotal	41,157	257,094	254,757	107,320	1,515,907	130,807	123,079	3,663	142,227	130,696	2,706,707
Unobligated Balance Not Available	25,798	2,697	49,605	21,238	34,745	12,587	8,613	1,578,654	392,972	9,982	2,136,891
Total, Status of Budgetary Resources	782,076	446,767	1,682,392	630,029	6,022,209	490,936	2,193,126	1,650,471	1,210,818	1,697,955	16,806,779

(continued on next page)

U.S. Agency for International Development
REQUIRED SUPPLEMENTARY INFORMATION: SCHEDULE OF BUDGETARY RESOURCES (continued)
For the period ended September 30, 2007

	Operating		Program				Credit-	Other	Parent	Consolidated	
	1000	1010	1021	1035	1037	1093	Financing	1095	Fund	Total	
Change in Obligated Balance:											
Obligated Balance, Net											
Unpaid Obligations, Brought Forward, October 1	160,575	230,536	2,588,710	600,310	3,976,658	487,446	2,230,532	3,772	1,076,843	314,978	11,670,360
Less: Uncollected Customer Payments from Federal Sources, Brought Forward, October 1	(3,689)	(19)	(648)	(1,053)	–	(20)	(3,817)	–	(6,713)	(3,971)	(19,930)
Total Unpaid Obligated Balance, Net	156,886	230,517	2,588,062	599,257	3,976,658	487,426	2,226,715	3,772	1,070,130	311,007	11,650,430
Obligations Incurred Net (+/-)	715,121	186,976	1,378,030	501,471	4,471,557	347,542	2,061,434	68,155	675,619	1,557,277	11,963,182
Less: Gross Outlays	(633,585)	(135,511)	(1,376,034)	(505,352)	(2,937,369)	(400,461)	(1,572,380)	(43,235)	(938,505)	(469,814)	(9,012,246)
Less: Recoveries of Prior Year Unpaid Obligations, Actual	(11,578)	(6,118)	(15,032)	(37,329)	(36,677)	(6,909)	(13,602)	(23)	(64,861)	(7,133)	(199,262)
Change in Uncollected Customer Payments from Federal Sources (+/-)	3,414	19	541	809	–	20	2,822	–	(66,141)	3,435	(55,081)
Obligated Balance, Net, End of Period											
Unpaid Obligations	230,533	275,883	2,575,674	559,100	5,474,169	427,618	2,705,983	28,669	749,096	1,395,308	14,422,033
Less: Uncollected Customer Payments from Federal Sources	(275)	–	(107)	(244)	–	–	(994)	–	(72,854)	(536)	(75,010)
Total, Unpaid Obligated Balance, Net, End of Period	230,258	275,883	2,575,567	558,856	5,474,169	427,618	2,704,989	28,669	676,242	1,394,772	14,347,023
Net Outlays:											
Gross Outlays	633,585	135,511	1,376,034	505,352	2,937,369	400,461	1,572,379	43,235	938,506	469,814	9,012,246
Less: Offsetting Receipts	(12,292)	(20)	(1,310)	(2,172)	(293)	(103)	(5,805)	(227,843)	(947,144)	(9,516)	(1,206,498)
Less: Distributed Offsetting Receipts	–	–	–	–	–	–	–	–	(25,925)	–	(25,925)
Net Outlays	\$ 621,293	\$ 135,491	\$ 1,374,724	\$ 503,180	\$ 2,937,076	\$ 400,358	\$ 1,566,574	\$ (184,608)	\$ (34,563)	\$ 460,298	\$ 7,779,823

MAJOR FUNDS**Operating Funds**

1000 Operating Expenses of USAID

Program Funds

1010 Special Assistance Initiatives

1021 Development Assistance

1035 International Disaster Assistance

1037 Economic Support Fund

1093 Assistance for the N.I.S. of the Former Soviet Union

1095 Child Survival and Disease Programs Funds

CREDIT-FINANCING FUNDS

4119 Israel Guarantee Financing Fund

4137 Direct Loan Financing Fund

4266 DCA Financing Fund

4342 MSED Direct Loan Financing Fund

4343 MSED Guarantee Financing Fund

4344 UE Financing Fund

4345 Ukraine Financing Fund

OTHER FUNDS**Operating Funds**

1007 Operating Expenses of USAID Inspector General

1036 Foreign Service Retirement and Disability Fund

Program Funds

1012 Sahel Development Program

1014 Africa Development Assistance

1023 Food and Nutrition Development Assistance

1024 Population and Planning & Health Dev.Asst.

1025 Education and Human Resources, Dev.Asst.

1027 Transition Initiatives

1028 Global Fund to Fight HIV / AIDS

1029 Tsunami Relief and Reconstruction Fund

1038 Central American Reconciliation Assistance

1040 Sub-Saharan Africa Disaster Assistance

1096 Latin American/Caribbean Disaster Recovery

1500 Demobilization and Transition Fund

Trust Funds

8342 Foreign Natl. Employees Separation Liability Fund

8502 Tech.Assist. - U.S. Dollars Advance from Foreign

8824 Gifts and Donations

OTHER FUNDS (continued)**Credit Program Funds**

0400 MSED Program Fund

0401 UE Program Fund

0402 Ukraine Program Fund

1264 DCA Program Fund

4103 Economic Assistance Loans - Liquidating Fund

4340 UE Guarantee Liquidating Fund

4341 MSED Direct Loan Liquidating Fund

5318 Israel Admin Expense Fund

Revolving Funds

4175 Property Management Fund

4513 Working Capital Fund

4590 Acquisition of Property, Revolving Fund

ALLOCATIONS TO OTHER AGENCIES

1000 Operating Expenses of USAID

1010 Special Assistance Initiatives

1014 Africa Development Assistance

1021 Development Assistance

1027 Transition Initiatives

1032 Peacekeeping Operations

1035 International Disaster Assistance

1037 Economic Support Fund

1093 Assistance for the N.I.S. of the Former Soviet Union

1095 Child Survival and Disease Programs Funds

1096 International Organizations and Programs

1500 Demobilization and Transition Fund

OTHER ACCOMPANYING INFORMATION





(Above) In Russia, a baker and businessman from California work on a recipe with a Georgeiev bakery employee. This USAID-funded project enhances access to credit for rural businesses and strengthens enterprises through training and consultations.

PHOTO: USAID

(Preceding page) A Lebanese woman displays her relief supplies. USAID-funded groups rehabilitated housing, community spaces, and clinics; distributed relief supplies; and assisted with food, agriculture, jobs, infrastructure, water, and hygiene.

PHOTO: MERCY CORPS

MANAGEMENT CHALLENGES

The *Reports Consolidation Act of 2000* requires that the Agency Financial Report (AFR) include a statement prepared by the Agency's Inspector General (IG) summarizing what the IG considers being the most serious management and performance challenges facing the Agency and briefly assesses the Agency's progress in addressing those challenges. The Office of Inspector General (OIG) considers the most serious management and performance challenges to USAID to be in the following areas:

- Financial Management
- Managing for Results
- Acquisition and Assistance
- Human Capital Management
- Information Technology (IT) Management

A summary of the issue, actions taken this year, and those remaining are presented for each area of concern. USAID aggressively pursues corrective actions for all significant challenges, whether identified by the OIG, Government Accountability Office (GAO), or other sources.



USAID
FROM THE AMERICAN PEOPLE

Office of Inspector General

OCT 5 2007

INFORMATION MEMO FOR THE ACTING ADMINISTRATOR

FROM: *Donald A. Gambatesa*
Donald A. Gambatesa
Inspector General

SUBJECT: U.S. Agency for International Development's (USAID) Most Serious
Management and Performance Challenges

This memorandum summarizes what the Office of Inspector General (OIG) considers to be the most serious management and performance challenges facing USAID.

The Reports Consolidation Act of 2000 (Public Law 106-531) requires that agency performance and accountability reports include a statement prepared by each agency's Inspector General that summarizes what the Inspector General considers to be the most serious management and performance challenges facing the agency and an assessment of the agency's progress in addressing those challenges. Our statement for inclusion in USAID's fiscal year 2007 performance and accountability report is attached.

We have discussed the management and performance challenges summarized in this statement with the responsible agency officials. If you have any questions or wish to discuss this document further, I would be happy to meet with you.

Attachment

U.S. Agency for International Development
1300 Pennsylvania Avenue, NW
Washington, DC 20523
www.usaid.gov

Office of Inspector General's (OIG) Fiscal Year 2007 Statement on
USAID's Most Serious Management and Performance Challenges

USAID continues to face management and performance challenges in the following areas:

- Financial Management
- Managing for Results
- Acquisition and Assistance
- Human Capital Management
- Information Technology Management

OIG has been reporting challenges in these five areas since 2001.

Financial Management

USAID continues to improve its financial management systems. For example, in last year's statement, OIG reported problems with reconciliations of USAID's fund balance with the U.S. Treasury and the extensive use of manual processes that limited agency compliance with Federal financial management system requirements. However, these have been removed from this year's statement.

Accrual Accounting and Reporting

Accrual accounting and reporting remains a significant challenge for USAID. Over the past several years, USAID's accrual system has generated erroneous information that has limited the ability of cognizant technical officers (CTOs) to accurately calculate estimates of accrued expenditures and accounts payable for recording in USAID's general ledger. More specifically, USAID's accruals system has not always produced obligation information with the level of detail or reliability necessary for USAID's CTOs to make informed quarterly accrual estimates. Further, notwithstanding the obligation information provided electronically, some USAID CTOs have manually generated incorrect or inaccurate information in making their quarterly accrual estimates. As a result, USAID's accrued expenditures and accounts payable have continued to contain inaccuracies, and OIG has recommended millions of dollars of adjustments to USAID's financial statements to more accurately reflect USAID's accrual activity. Although USAID has taken several steps throughout the years to improve its accrual system, including training CTOs and revamping its electronic processes for producing obligation information, inaccuracies continue to be found and OIG continues to closely monitor the Agency's progress during annual financial statement audits.

Managing for Results

Managing a complex and diverse portfolio of worldwide activities is an inherent challenge for USAID managers. As reported in last year's performance and accountability report, USAID implements programs in 88 countries. These programs promote a wide range of objectives related to economic growth, agriculture and trade, global health, democracy, conflict prevention, and humanitarian assistance. Federal laws, such as the Government Performance and Results Act of 1993, require that Federal agencies develop performance measurement and reporting systems that establish strategic and annual plans, set annual targets, track progress, and measure results. In addition, Government-wide initiatives, such as the President's Management Agenda, require that agencies link their performance results to budget and human capital requirements.

USAID managers continue to make improvements in this area. For example, each quarter the Office of Management and Budget (OMB) scores each agency's status and progress towards implementing the President's Management Agenda (PMA). OMB developed a scoring system based upon the colors green, yellow, and red. A "green" rating indicates success and a "yellow" rating signifies mixed results, while a "red" rating is unsatisfactory. For the quarter ending June 30, 2007, OMB rated USAID's current status and progress in the performance improvement initiative¹ as "yellow," which, for the current status rating, is a downgrade from the previous "green" rating. However, the "yellow" rating applies only to this one aspect of managing for results. Therefore, although USAID is making some progress towards meeting its performance improvement goals, more work remains to be done.

USAID's primary method for reporting the results of its activities was previously through its Annual Report Application System, whereby each USAID operating unit provided information on the results attained with USAID resources; requested additional resources; and explained the use of, and results expected from, these additional resources. In January 2006, the Secretary of State announced a major change in the way the U.S. Government directs foreign assistance by creating the Office of the Director of Foreign Assistance (State/F) to centralize the structure for rationalizing and coordinating U.S. foreign assistance policy, planning, and oversight. Organizationally, State/F is within the Department of State. However, the Director of Foreign Assistance (DFA) serves concurrently as the Administrator of USAID. In June 2006, the DFA approved the development of a system to support foreign assistance monitoring, budgeting, and information requests—the Foreign Assistance Coordination and Tracking System (FACTS). FACTS is intended to provide a single repository for data and a common planning and reporting tool for foreign assistance resources across U.S. Government agencies implementing programs with foreign assistance funds. The intent is for all foreign assistance resources to be coordinated, appropriately linked to foreign policy objectives, supportive of integrated country strategies, and designed to collect standardized data about foreign assistance programs.

¹ As of July 2007, the Budget and Performance Integration Initiative was changed to the Performance Improvement Initiative.

Although FACTS became operational on December 10, 2006, its ability to adequately manage programs for results is still questionable.

OIG continues to monitor USAID's progress in improving its performance management and reporting systems in Washington, as well as overseas. For performance information reported in the Management's Discussion and Analysis section of USAID's 2006 performance and accountability report, an OIG review found that, while USAID took actions to improve its controls over data management, it needs to improve these controls. Specifically, the Agency needs to ensure that data submitted to headquarters is accurate and adequately supported and that required data quality assessments are performed. In addition, during the past year, the OIG issued 31 audit reports that included 74 recommendations pertaining to issues involving data quality, performance indicators, reporting of results, and supporting documentation.

Acquisition and Assistance

The majority of USAID's development activities are implemented by contractors, grantees, and recipients of cooperative agreements. Because of the innate complexities in Federal acquisition and assistance—which include adherence to numerous laws, regulations, policies, procedures, and definitions—USAID faces challenges in its acquisition of supplies and services, as well as in its delivery of foreign assistance. In the area of competitive sourcing for example, for the quarter ending June 30, 2007, OMB's scorecard reported that USAID is making some progress in implementing the President's Management Agenda for competitive sourcing. Nevertheless, the scorecard rated the status of USAID's competitive sourcing as “red” or unsatisfactory, which reflects no change since the last report in March 2007.

During the past year, OIG issued one performance audit report² dealing with acquisitions and assistance, and another audit is ongoing. The completed audit was conducted to determine whether USAID's Supply Chain Management System achieved its key activities in its first year. This system was established in September 2005 to provide global procurement and distribution for essential HIV/AIDS medicines and supplies funded under the President's Emergency Plan for AIDS Relief. The performance audit determined that USAID generally achieved the planned activities for its first year, such as the development of procurement strategies and policies for the supply system. The ongoing audit, entitled “Follow-up Audit on Recommendations Included in the Audit of Selected USAID Bureaus' Training, Use and Accountability of Cognizant Technical Officers, Audit Report No. 9-000-03-009-P, dated September 22, 2003,” will be completed in early FY 2008.

Although USAID faces serious challenges in this area, it continues to take steps to improve its procurement processes and systems. For example, USAID is currently developing and implementing two new systems—the Global Acquisition System (GLAS) and the Joint³ Assistance Management System (JAMS)—to improve USAID's acquisition and assistance

² Audit of USAID's Start-up of the Supply Chain Management System for the President's Emergency Plan for AIDS Relief, 9-000-07-005-P, dated February 8, 2007.

³ JAMS is being implemented jointly with the Department of State.

functionality worldwide through advanced technology and business process improvements. The success of these systems, however, remains to be seen and recently completed audit of GLAS indicates that USAID did not always follow industry best practices in its development of this system.⁴

OIG intends to conduct several audits in fiscal year 2008 on GLAS, JAMS, and other acquisition and assistance subjects. These will include audits of the procurement and distribution of commodities for the President's Emergency Plan for AIDS Relief, the procurement and handling of commodities for avian influenza activities, and USAID's debarment and suspension process.

Human Capital Management

From fiscal year 2001 to 2003, the Agency's programmatic responsibilities and spending nearly doubled, while its direct hire workforce and operating expense budget have remained essentially flat. Since then, the new demands of rebuilding Afghanistan and Iraq and addressing the prevention, care, and treatment for victims of HIV/AIDS have compounded USAID's challenges. As a consequence, USAID today faces growing human capital gaps, as identified by an annual all-employee survey. They include the following items:

- A lack of surge capacity to meet emerging needs
- A workforce that is rapidly aging, has a void in the midmanagement ranks, and is losing skills and "institutional memory"
- Chronically vacant or understaffed positions and accumulating backlogs of work
A bureaucratic and cumbersome performance appraisal process that is perceived to be lacking fairness, honesty, transparency, and linkages between results and rewards
- Morale and "burnout" problems and perceptions that USAID is not an employee-friendly work environment
- Perceived barriers to equal employment opportunity
- Insufficient capacity in human resources functions to recruit and develop an effective 21st century workforce

Additionally, the PMA identifies the strategic management of human capital as one of five government-wide areas that needs improvement. As of June 30, 2007, OMB gave USAID a "yellow" rating, reflecting mixed results for its overall status in the area of human capital management.

In response to the PMA's initiative on human capital and to address its own human capital challenges, USAID has undertaken a major effort to improve and restructure its human capital management. For example, in September 2007, USAID issued a self-assessment report that focused on civil service merit staffing, foreign service recruitment, and diversity. USAID

⁴ (Audit of USAID's Pre-Deployment Activities for Its Global Acquisition System, Audit Report No. A-000-07-004-P, dated July 19, 2007).

and the Department of State have also formed a human resources working group that is tasked with identifying human resources policies, processes, and initiatives that will have to be changed implemented as USAID and the Department of State work to consolidate administrative support services at new embassy compounds overseas.

The OIG believes that USAID needs to continue to implement its workforce planning to close skill gaps through recruitment, retention, training, succession planning, and other strategies. An audit of USAID's succession planning is intended for fiscal year 2008.

Information Technology Management

USAID has made progress towards addressing weaknesses in its information technology management. However, USAID faces the following management challenges:

Implementing Homeland Security Presidential Directive – HSPD-12

The inherent challenges for integrating and coordinating with other Federal agencies represent only some of the numerous challenges USAID is likely to face in implementing Homeland Security Presidential Directive (HSPD-12).

This directive, signed by the President on August 25, 2005, is entitled "Policy for a Common Identification Standard for Federal Employees and Contractors." It requires the development and agency implementation of a mandatory, Government-wide standard for secure and reliable forms of identification for Federal employees and contractors⁵ in gaining physical access to Federal facilities and logical access to Federal information systems. HSPD-12 is being implemented in two phases: OMB required agencies to begin complying with phase I by October 27, 2005, and phase II by October 27, 2006.

OIG first reported the implementation of HSPD-12 in fiscal year 2006 as one of the most serious management and performance challenges facing USAID. In an ongoing audit initiated in fiscal year 2007, the OIG identified that USAID complied with OMB's phase I selected requirements for obtaining background checks of its employees; however, USAID will not meet the phase II implementation dates for gaining access to USAID facilities and information systems. According to USAID, it lacks the resources needed to carry out this Government-wide initiative. The potential challenges that USAID will likely face include the following:

- Tailoring an implementation plan for USAID's Washington and overseas posts (USAID intends to rely on the Department of State's implementation plan until one can be developed for USAID)
- Obtaining resources to adequately define and develop access interfacing mechanisms to USAID's facilities and information systems

⁵ This standard applies to all employees (i.e., direct hire, Personal Service Contractors, employees on "loan" from other Federal agencies, etc.).

- Defining an overall framework and policy for coordinating issues between USAID and the Department of State in support of HSPD-12
- Defining and coordinating the managerial, operational, and technical integration aspects between USAID and the Department of State for implementing physical and logical access

A final OIG report of the ongoing audit is expected by the first quarter of fiscal year 2008.

Information Technology Governance

In fiscal year 2006, OIG reported that Information Technology (IT) governance is a management challenge for USAID. IT governance involves not only the duties and functions within the Office of the Chief Information Officer, but that of all bureaus, divisions and offices in USAID. As such, IT governance is an Agency-wide challenge rather than merely a Chief Information Officer challenge. IT governance provides the structure that links Agency-wide strategies and objectives to IT processes, resources, and information.

In the area of IT governance, an OIG audit⁶ that assessed USAID's Phoenix Overseas Deployment and Procurement System Improvement Program (PSIP) projects reported that, among other things, USAID needs to take certain corrective actions:

- Develop an enterprise architecture
- Enhance and fully utilize the capabilities of its Program Management Office
- Develop complete policies and procedures governing its IT projects

Moreover, OMB identified 15 USAID IT projects on its high-risk investments list in its quarterly report ending June 30, 2007. This number of USAID projects increased from two on last year's list.

According to USAID management, the following steps have been taken to correct the IT governance weaknesses:

- With respect to enterprise architecture, USAID published the Data Architecture for Program Management and Results Reporting
- USAID completed its reorganization of the Office of the Chief Information Officer, which--among other things--combined the Program Management Office and the Office of Information Resources Management
- Regarding policies and procedures, USAID published a standard IT Project Life Cycle Methodology that prescribes the recommended IT project baselines and government reviews

⁶ Audit of USAID's Information Technology Governance Over Its Phoenix Overseas Deployment and Procurement System Improvement Program Projects (No. A-000-06-001-P, February 21, 2006)

In a recent status report, USAID management reported that the corrective action plans will be revised because of the disbandment of the Program Management Office. However, to date the OIG has not received USAID's revised corrective action plans. The OIG will continue to monitor USAID's progress in addressing these weaknesses, as it is still a major challenge for USAID to acquire, implement, and deploy systems.

Summary

In conclusion, we continue to work with the Agency in these five areas, and as described above, the Agency is taking steps to address these management challenges.

MANAGEMENT CHALLENGES IDENTIFIED BY OIG

Management Challenge/ Significant Issue	Actions Taken in FY 2007	Actions Remaining and/or Expected Completion Date
FINANCIAL MANAGEMENT		
<p>Accrual Accounting and Reporting</p>	<p>The Agency prepared a quarterly reconciliation of its Phoenix Accruals System with the Phoenix general ledger, and documented and resolved all differences. In addition, the Agency updated its Accruals training course to ensure that Cognizant Technical Officers (CTO) can make reasonable accrual estimates when contract modifications result in changes to obligation levels.</p> <p>On September 28, 2007, the Agency issued an Executive Message, announcing a new Web-based <i>Phoenix Accruals Online Training</i> course. The course is mandatory for all obligation managers, in particular those CTOs that must calculate accruals. The course can be completed in one hour, has a test, and a certificate is issued.</p>	<p>USAID verified that the accrual document script for the Accruals Reconciliation report is functioning as intended. The report will be reviewed for two more accrual cycles. Target completion date: January 31, 2008.</p> <p>Current CTOs and other obligation managers must complete the new Web-based training by December 14, 2007. This training is also a prerequisite to being designated as a CTO and will become a mandatory requirement of the Agency's CTO certification. Target completion date: January 31, 2008.</p> <p>USAID will revise the current Agency policies for designating a CTO. Target completion date: September 30, 2008.</p>
MANAGING FOR RESULTS		
<p>Performance Improvement Initiative</p>	<p>USAID collaborated with the Office of the Director of Foreign Assistance within the Department of State (State/F) to issue its Operational Plan Guidance for FY 2007. To ensure a full understanding of the new Operational Plan Guidance, USAID trained 1,000 employees by the first quarter on the changes and new requirements of the Operational Plans.</p> <p>Through a concerted effort by USAID, State/F, and the Department of State, several meetings were held with the Office of Management and Budget (OMB) to formulate plans to improve USAID-State coordination on the Budget and Performance Integration (BPI) scorecard.</p> <p>In the third quarter of FY 2007, USAID provided a status analysis on renewal of all Program Assessment Rating Tool (PART) improvement plans. USAID also updated performance data and improvement plans in PARTWeb. This process included verification that each program manager is held accountable for overall implementation of the program improvement plan as part of PARTWeb.</p> <p>USAID developed an Operating Expense (OE) budget integration plan in collaboration with State/F for the FY 2009 budget submission to OMB.</p>	<p>All actions completed.</p>

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MANAGEMENT CHALLENGES IDENTIFIED BY OIG

Management Challenge/ Significant Issue	Actions Taken in FY 2007	Actions Remaining and/or Expected Completion Date
MANAGING FOR RESULTS (continued)		
<p>Performance Improvement Initiative (continued)</p>	<p>In the fourth quarter of FY 2007, USAID finalized the FY 2008 Proud To Be goals based on the clarification of roles between State/F and USAID. USAID also developed a joint USAID-State framework for collecting, analyzing, and defining limits on program funded OE. Relating to the OE budget, USAID implemented a new OE Budget tool, Budget Formulation and Execution Manager (BFEM). In addition USAID submitted the FY 2009 OE budget request to State/F for transmission to OMB.</p> <p>In the fourth quarter of FY 2007, in preparation for FY 2008, USAID developed a plan for the FY 2007 Annual Performance Report (APR), the Highlights Report, and the FY 2009 Performance Plan. USAID also submitted draft joint Highlights with the Department of State operations indicators and State-USAID foreign assistance indicators, including FY 2007 results, FY 2008 targets, and FY 2009.</p>	<p>All actions completed.</p>
<p>Performance Management and Reporting System</p>	<p>To increase control over data management, USAID collaborated with State/F in highlighting the importance of Data Quality Assessments (DQA) in its Operational Plan Guidance. In the guidance for Operational Plans for FY 2008 and Performance Reports on 2007, USAID reiterated policies and procedures to ensure that performance data are complete, accurate, and as consistent as resources permit.</p> <p>Specifically, the New Operational Plan Guidance requires that a DQA for all performance data reported to Washington by an Operating Unit must be performed at least once every three years. The guidance requires that the Mission Directors, Assistant Secretary, or Assistant Administrators endorse the validity of the performance data before they are submitted to Washington.</p> <p>The Management Bureau's new Office of Management Policy, Budget, and Performance (MPBP) is now responsible for overseeing performance management, planning and reporting, monitoring Agency compliance with program guidance, and results regulations and reporting requirements.</p>	<p>All actions completed.</p>

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MANAGEMENT CHALLENGES IDENTIFIED BY OIG

Management Challenge/ Significant Issue	Actions Taken in FY 2007	Actions Remaining and/or Expected Completion Date
ACQUISITION AND ASSISTANCE		
<p>The President's Management Agenda (PMA) scorecard (www.results.gov) rated the status of USAID's competitive sourcing as "red" or unsatisfactory.</p>	<p>USAID completed its second competitive sourcing (of Directives and Records Management functions) in the second quarter of FY 2007. This competitive sourcing was won by the in-house Most Efficient Organization (MEO) and is expected to save USAID about \$495,000.00 over the next five years.</p> <p>USAID completed a feasibility study of Visual Services functions in the second quarter of FY 2007. The study concluded that no savings would accrue from a competitive sourcing of this function.</p> <p>In June, the Business Transformation Executive Committee (BTEC) approved a revised competitive sourcing strategy which committed USAID to comprehensively examining broad, potentially commercial Agency-wide (or USAID Washington-wide) functions (such as information technology [IT], financial management, and administrative support) considering a wide range of outsourcing, in-sourcing, contract restructuring, and business process re-engineering options to increase efficiency and effectiveness. This strategy is reflected in USAID's fourth quarter PMA scorecard and revised "Proud to Be" document.</p> <p>In August, USAID initiated a feasibility study of Administrative Support Services functions in Washington, the first broad, potentially commercial function to be considered.</p>	<p>USAID is on track to achieve "yellow" for competitive sourcing in the first quarter of FY 2008.</p>
<p>Procurement Processes and Systems</p>	<p>During FY 2007, USAID piloted the Global Acquisition System (GLAS), its new automated contract writing system. USAID also launched contracting and assistance templates to help standardize solicitations for contracts and grants. ePICS, a Web-based reporting system for contracts and grants, was implemented to replace outmoded systems and to provide an interim reporting system compliant with government-wide requirements. The Contract Review Board (CRB) published findings and best practices.</p>	<p>Additional staff are needed at USAID/ Washington and in the field mission to support the President's Emergency Plan for AIDS Relief (PEPFAR), Iraq, Afghanistan, and other critical contracting and grants initiatives and to replace retiring staff.</p>

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MANAGEMENT CHALLENGES IDENTIFIED BY OIG (continued)

Management Challenge/ Significant Issue	Actions Taken in FY 2007	Actions Remaining and/or Expected Completion Date
HUMAN CAPITAL MANAGEMENT		
<p>USAID must demonstrate that staffing is being realigned to support implementation of the new Foreign Assistance Framework prior to moving to “green” status on the PMA scorecard.</p>	<p>Made final decisions on restructuring the field and how USAID is going to do business. Studying how Washington should be structured. Continued to update and refine the Workforce Planning Model (WPM) to reflect the new organizational structures and business model and to realign staff based on WPM results. Will finalize model as soon as USAID gets the final decisions on restructuring. USAID has already run various scenarios for the Administrator and others.</p>	<p>Complete analysis of Washington and refine drivers for WPM to more accurately project the personnel requirements. Refine WPM to include new directions and new types of positions that are required to implement the Foreign Assistance Framework more effectively. Target completion date: June 30, 2008.</p> <p>Refine WPM’s budget tool using MPBP’s new unit costs to estimate more accurate OE estimates based on model’s staff projections. This will greatly speed up the budgeting process for MPBP. Target completion date: March 31, 2008.</p>
<p>USAID needs to continue to implement its workforce planning to close skills gaps through recruitment, retention, training, succession planning, and other strategies.</p>	<p>Learning Management System (LMS) roll out in Washington was completed and is now available for general use. All bureaus and offices are registering participants for training through LMS. USAID is reformatting Standard Form-182 to conform to the Office of Personnel Management’s (OPM) new requirements and this feature will be added in the first quarter of FY 2008. Human Resources (HR)-sponsored training data are now loaded and available in LMS. Older, historical data are being converted to proper format and will be loaded in the second quarter of FY 2008. Operating Units are providing historical data for input into LMS also. USAID hopes to complete this work by first quarter of FY 2008. USAID has begun work on the competency management module which includes the Individual Development Plan (IDP) feature. The first four groups are the Chief Information Officer (CIO), Office of Acquisition and Assistance (OAA), HR, and Leadership (Senior Management Group [SMG]). HR has already begun work with other backstops and expects that all competency data will be loaded by the end of FY 2008 if not sooner. Work on the 360 Module begins in second quarter of FY 2008. Also in the second quarter, USAID will turn on the Succession Planning Module and begin working on adding the Skills Inventory (Talent Search) feature to the menu of features available. Implemented e-Official Personnel Folder (e-OPF) personnel files. Conducted the first self-audit in May 2007 covering talent management (delegated examining, merit staffing [Civil Service], and foreign service recruitment). Continue to exceed OPM’s hiring timeframes for non-Senior Executive Service (SES) and made significant progress towards OPM’s target 45-day hiring standard. Conducted the first Agency Human Capital Survey. Continue to use Agency Career Patterns analysis to improve vacancy announcements and targeted them towards hiring specific Career Patterns. Received SES certification from OPM in FY 2007. USAID is working on the deployment of the competency management module of the LMS and will begin work in the second quarter of FY 2008 on the succession planning component of this module.</p>	<p>Activate the LMS competency management module for HR, IT and Leadership loading OPM competencies. Target completion date: December 31, 2007.</p> <p>Activate the LMS competency management module for one or more backstops. Activate the succession planning component of the LMS competency planning module. Target completion date: March 31, 2008.</p> <p>Conduct gap analysis based on restructuring and create draft plan for closing quantitative skills gaps. Target completion date: June 30, 2008.</p>

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MANAGEMENT CHALLENGES IDENTIFIED BY OIG (continued)

Management Challenge/ Significant Issue	Actions Taken in FY 2007	Actions Remaining and/or Expected Completion Date
INFORMATION TECHNOLOGY MANAGEMENT		
<p>Implement Homeland Security Presidential Directive-12 (HSPD-12)</p>	<p>Due to the interoperability issues between USAID and the Department of State systems, the implementation has been delayed. Following implementation of Personal Identity Verification-1 (PIV-1) processes and procedures in FY 2006, USAID began issuing Identification (ID) Cards to all domestic employees and contractors in October 2006.</p> <p>As of September 14, 2007 USAID has issued 784 cards.</p>	<p>Provide funding to support 2.5 full-time equivalent (FTE) contractor “operations” staff for enrollment and badging. Target completion date: November 30, 2007.</p> <p>Provide funding to support 2.0 FTE contractor “engineering/planning” staff. Target completion date: November 30, 2007.</p> <p>Staff project team for development activities to include a full project plan and detailed cost estimate and implementation schedule. Target completion date: July 31, 2008.</p> <p>[Note: Funding/staffing remain a problem. This is a multi-year effort. Other completion dates are unknown at this time.]</p>
<p>IT Governance : IT Strategic Planning</p>	<p>Discussions were held with the Department of State concerning the degree of integration with its Intranet and other USAID infrastructure requirements and costs. In December 2006, USAID decided to pursue an independent IT Strategic Plan. The new, independent plan and the joint plan will share similar objectives but will be focused on the unique challenges and needs for USAID. An initial draft plan has been developed and circulated within the Office of the CIO (OCIO) for comments/review.</p>	<p>Finalize the IT Strategic Plan. Target completion date: November 30, 2007.</p>
<p>IT Governance: Enterprise Architecture (EA)</p>	<p>USAID decided to pursue two efforts: a joint EA with Department of State and an Agency-specific EA. A Joint Business Analysis Team (JBAT) supports USAID-State Joint Management Council (JMC) on an ongoing basis. Its focus is on JMC support and Joint EA only. For the Agency-specific EA, an OCIO working group assigned to EA drawings is identifying the scope of systems to be considered and the graphical representations and other artifacts necessary to mature OCIO EA capabilities. The working group developed initial EA related drawings of the (1) USAID System Deployment Baseline, (2) GLAS Procurement Management Enterprise View, and (3) the USAID OCIO IT System Initiatives Baseline.</p>	<p>Hire a direct-hire to be the EA Manager. Target completion date: March 31, 2008.</p> <p>Hire contractor staff to support a “core” EA Office as soon as possible contingent upon FY 2008 OE funding decision.</p> <p>Prepare USAID EA Implementation Plan within three months from the time staffing is provided.</p> <p>Develop initial artifacts and governance processes during FY 2008. Target completion date: FY 2009.</p> <p>[Note: Funding/staffing remain a problem. This is a multi-year effort. Other completion dates are unknown at this time.]</p>

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MANAGEMENT CHALLENGES IDENTIFIED BY OIG (continued)

Management Challenge/ Significant Issue	Actions Taken in FY 2007	Actions Remaining and/or Expected Completion Date
INFORMATION TECHNOLOGY MANAGEMENT (continued)		
<p>IT Governance: IT Policy and Practice Standards</p>	<p>Documented IT Project Life Cycle Methodology, a draft Work Breakdown Structure (WBS) Standard, Artifact Quality Factors, Review Checklists, and a Risk Management Manual. Provided mentoring and coaching to major, high-risk IT projects to support implementation of the new standards. These new methodologies are being piloted on Technology Modernization projects.</p> <p>The Earned Value Management (EVM) system is in the process of being implemented by high risk major investments.</p> <p>The OCIO Web site was redesigned.</p>	<p>Secure OMB approval on the revised USAID EVM practices. Target completion date: December 31, 2007.</p> <p>Develop a comprehensive Project Governance Manual based on the IT Project Life Cycle Methodology and WBS approach. Target completion date: December 31, 2007.</p> <p>Provide updates to the Automated Directives System (ADS) team to support governance changes on an ongoing basis.</p>
<p>IT Governance: Institutionalizing Governance</p>	<p>In compliance with federal legislation and industry best practices, the OCIO has deployed a useful segment concept to document services provided by the office. These useful segments define the functional responsibilities of each OCIO division as well as catalogue systems under the stewardship of the CIO. Functional responsibilities have been tied to processes outlined in Control Objectives for Information and related Technology (COBIT). Additionally, the useful segment exercise documents costs that will support Exhibit 300 cost estimation/validation, portfolio management activities, and overall management of CIO resources. The OCIO published an Exhibit 300 guide and cost estimation guidance.</p> <p>An IT Steering Subcommittee (ITSS) to BTEC was chartered in July 2007. ITSS provides oversight to the Agency's IT program to include maintaining and implementing the Agency's approved Capital Planning and Investment Control (CPIC) process as outlined in ADS Chapter 577, making recommendations on Agency IT governance, and serving as the oversight authority to guide IT initiatives.</p> <p>Revised the project "change request" process and implemented a common tool for IT defect tracking and "change requests."</p>	<p>Complete production of the Project Governance Manual. Target completion date: December 31, 2007.</p> <p>Pilot a governance scorecard. Target completion date: December 31, 2007.</p> <p>Provide IT Governance training for IT staff. Target completion date: January 31, 2008.</p>

SUMMARY OF FINANCIAL STATEMENT AUDIT AND MANAGEMENT ASSURANCES

Office of management and budget (OMB) guidance requires all agencies to prepare Table 1 (Summary of Financial Statement Audit) to show auditor-reported material weaknesses identified in the Independent Auditor’s Report. This table relates to the Summary of Independent Auditor’s Report Findings FY 2007 table located in the Management’s Discussion and Analysis (MD&A) section under Other Management Information, Initiatives, and Issues. In addition, OMB guidance requires all agencies to prepare Table 2 (Summary of Management Assurances) for a global overview of management-identified internal control material weaknesses, conformance with financial management requirements, and compliance with the Federal Financial Management Improvement Act (FFMIA). This table corresponds with the information presented in the Management Assurances section under Analysis of Systems, Controls, and Legal Compliance located in the MD&A.

SUMMARY OF FINANCIAL STATEMENT AUDIT

TABLE 1. SUMMARY OF FINANCIAL STATEMENT AUDIT

Audit Opinion: Unqualified

Restatement: No

Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Accounting and Reporting of Accruals	1	0	1	0	0
Total Material Weaknesses	1	0	1	0	0

SUMMARY OF MANAGEMENT ASSURANCES

TABLE 2. SUMMARY OF MANAGEMENT ASSURANCES

Effectiveness of Internal Control over Financial Reporting (FMFIA § 2) (App A, OMB Cir A-123)

Statement of Assurance: Qualified (Due to Scope Limitations)

Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Personnel preparing quarterly accruals have not received adequate training on how to document and calculate quarterly accruals.	1	0	1	0	0	0
The reconciliation between the Accruals Reporting System (ARS) and Phoenix was not performed when data were initially transferred from one database to the other.	1	0	1	0	0	0
Total Material Weaknesses	2	0	2	0	0	0

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TABLE 2. SUMMARY OF MANAGEMENT ASSURANCES (continued)

Effectiveness of Internal Control over Operations (FMFIA § 2)

Statement of Assurance: Qualified

Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Inadequate physical security in overseas buildings and operations	1	0	1	0	0	0
Implementation and activity monitoring in the ANE regions	1	0	0	0	0	1
Total Material Weaknesses	2	0	1	0	0	1

Conformance with financial management system requirements (FMFIA § 4)

Statement of Assurance: Systems conform to financial management system requirements

Non-Conformances	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
None	0	0	0	0	0	0
Total non-conformances	0	0	0	0	0	0

Compliance with Federal Financial Management Improvement Act (FFMIA)

	Agency	Auditor
Overall Substantial Compliance	Yes	Yes
1. System Requirements		Yes
2. Accounting Standards		Yes
3. USSGL at Transaction Level		Yes

DEFINITION OF TERMS

Beginning Balance: The ending balance of material weaknesses from the prior year.

New: The total number of material weaknesses that have been identified during the current year.

Resolved: The total number of material weaknesses that have dropped below the level of materiality in the current year.

Consolidated: The combining of two or more findings.

Reassessed: The removal of any finding not attributable to corrective actions (e.g., management has re-evaluated and determined a material weakness does not meet the criteria for materiality or is redefined as more correctly classified under another heading (e.g., FMFIA Section 2 to a FMFIA Section 4 and vice versa)).

Ending Balance: The agency's year-end balance.

IMPROPER PAYMENTS INFORMATION ACT (IPIA) REPORTING DETAILS

I. Describe the risk assessment(s), performed subsequent to completing its full program inventory. List the risk susceptible programs (i.e., programs that have a significant risk of improper payments based on Office of Management and Budget [OMB] guidance thresholds) identified through its risk assessments. Be sure to include the programs previously identified in the former Section 57 of Circular A-11 (now located in A-123, Appendix C).

The Office of the Chief Financial Officer (OCFO) developed its 2007 IPIA program review and risk assessment strategy by extracting the Agency's worldwide payment data files from its financial system, Phoenix, from October 2006 to September 2007. The process of retrieving and compiling financial data by program and/or activity was greatly enhanced and simplified this year since the entire Agency was on a single consolidated financial system for all of FY 2007. Once the data were sorted by payment streams the OCFO performed an initial risk assessment. The OCFO's risk assessment methodology consisted of weighting and scoring each of USAID's payment streams by assigning a rating of low, moderate, or high. These ratings were based on the following risk factors:

- Dollar amount of program
- Type of program activity
- Internal controls
- Interviews with stakeholders
- Activities identified as risk susceptible through testing and review
- Review of Treasury disbursement and Agency ad-hoc reports.

Although the OCFO's initial assessment indicated that the payment streams did not meet and/or exceed both of OMB's threshold requirements (\$10 million and an error rate of 2.5 percent) for "significant erroneous payments," the OCFO determined that the Contracts/Grants/Cooperative Agreements and Cash Transfers were susceptible to erroneous payments due to their high dollar value and volume of transactions. Both these payment streams total \$9.3 billion and represent 79 percent of the Agency's total outlays of \$11.7 billion for FY 2007. The remaining 10 payment streams did not meet OMB's threshold for reporting improper payments nor pose a significant concern; however, the Agency reviewed and evaluated each payment stream. The OCFO elected to proceed to the next step in the risk assessment process and obtain a statistically valid sample that would subject all USAID programs and outlays to a higher level of improper payment review.

The OCFO met with the OIG in July 2007 to obtain information and guidance on conducting a statistically valid sample. The OIG offered to analyze the data the OCFO had extracted from its financial system. The extracted data were forwarded to the OIG for analysis and generation of a stratified, statistically valid sample. The OIG conducted a risk assessment and provided the OCFO with a sample by payment stream.

The OIG sampling consisted of 980 transactions worldwide, 570 USAID/Washington and 410 overseas mission transactions. The OCFO disseminated the sampling and instruction to the responsible Financial Management Office (FMO) individuals in the overseas Mission and in USAID/Washington. The sampling results revealed that only one of the

980 transactions sampled and reviewed was deemed an improper payment. The Mission responsible for this improper payment had previously recognized this error and had fully recovered the funds.

CONTRACTS, GRANTS, AND COOPERATIVE AGREEMENTS/CASH TRANSFERS DISCUSSION

Contracts, Grants, and Cooperative Agreements

This payment stream constitutes about 67 percent of the Agency's outlays and has been identified as highly susceptible to improper payments, i.e., estimated improper payments exceed 2.5 percent of program outlays and \$10 million. The OCFO requested each of the 50 USAID Missions to perform a comprehensive review and risk analysis of the payment streams and report back to Washington the results of their review of the statistical sample size provided to them. Forty-three of the 50 Missions identified no improper payments from the sample that they reviewed. One Mission identified one improper payment which resulted in an overpayment but has since recovered the funds. The remaining six Missions had no transactions in the OIG stratified sample universe. However, the six Missions reviewed their outlays that were not included in the sample universe and reported no improper payments. USAID/Washington performed an in-depth review of 570 USAID/Washington transactions from the OIG sample universe. In addition to the sample universe, the Agency staff reviewed approximately 200,000 transactions totaling more than \$7.8 billion to determine if overpayments and underpayments occurred under this payment stream. The review consisted of tracing the amount of each transaction to the related invoice, checking for proper signatures, and ensuring that the payments were in compliance with governing agreements and Agency policies. Approximately \$96.7 million representing 1.23 percent of the total outlays of \$7.8 billion for this payment stream were identified as improper payments which consisted of late payments \$74.1 million or 0.94 percent of \$7.8 billion, interest payments of \$56.7 thousand; and Treasury returned payments of \$22.6 million or 0.29 percent of \$7.8 billion. The Agency has fully recovered these funds and impacted vendors have been fully paid. Because all USAID funding and disbursement activities under the Contract, Grants, Cooperative Agreements and Cash Transfer are assigned to alpha-numeric obligation numbers, the risk of significant erroneous payments is minimized. Over and underpayments are identified timely through daily reconciliation processes.

Cash Transfers¹

Although the OCFO has high confidence in the internal controls in place for making cash transfers to foreign governments and foreign bank accounts, it has included this payment activity as risk-susceptible due to the large-dollar volume of these activities. These activities are subject to a series of monthly internal reviews conducted by OCFO staff that analyze and compare data outputs/reports, cross-reference and compare this data to ensure that payment data are accurate, and monitor the improper payment rate on an ongoing basis. Cash Transfers represent 12 percent of the Agency's total outlays of \$11.7 billion and have been identified as moderately susceptible to improper payments. Due to the high dollar volume associated with this payment stream, the Cash Management and Payment Division (CMP) performed an in-depth review of the 606 payment documents totaling \$1.4 billion to determine if improper payments were made. After a review and analysis of Treasury disbursement reports and the Agency's accounting system, Phoenix, CMP identified improper payments totaling \$2.6 million. The majority of these improper payments were due to recipients changing their banking information without informing the Agency of the change. However, through the OCFO's own internal recovery process 100 percent of the improper payments identified were recovered and properly re-issued to the recipients. The improper payments of 2.6 million represent 0.18 percent of the cash transfer outlays of \$1.4 billion. The rate was calculated by dividing the improper payment dollars by the total cash transfer paid. Results indicate that this payment stream is far below OMB's improper payment threshold of \$10 million and 2.5 percent rate.

¹ Cash Transfers are cash disbursements to a foreign country or organization based on Cash Transfer authorizations in the form of official Department of State cables from USAID overseas Missions or an official agreement from USAID/Washington. The cables and agreements are received, accepted, and processed in the OCFO and transmitted to the recipient's bank account via the U.S. Treasury and Federal Reserve Bank.

Other Payment Streams

The remaining 10 payment streams totaling \$2.4 billion represent 21 percent of the Agency's total outlays of \$11.7 billion for FY 2007. These payment streams are subjected to rigorous reviews by multiple layers of staff members to ensure that payments are proper, legal, and correct. In addition, Agency staff members perform pre- and post-audit reviews of claims, which give the assurance that improper payments are unlikely. However, in the event that improper payments are made they are identified through the various systems reconciliations, and timely and appropriate action is taken to recoup these funds for proper re-issuance. Also, the CMP staff interviewed several stakeholders in order to determine the risk susceptibility of these payment streams. The results of its interview indicated that adequate internal controls are in place to address potential payment deficiencies. Because the results of these actions do not indicate improper payments, the Agency has assessed the risk susceptibility of these payment streams as low. This assessment is reflected in Table I.

II. Describe the statistical sampling process conducted to estimate the improper payments rate for each program identified.

The OCFO collaborated with the OIG and obtained a statistically valid sample and subjected all of USAID's programs to a higher level of improper payment review. The scope of the statistical sampling constituted generating a sample universe that clearly defined and identified the dollar outlays that were susceptible to significant erroneous payments. Each of the payment streams was analyzed separately and organized into stratifications, based on the volume of the activity. Samples were then selected among the different stratifications until an acceptable statistical sample size was achieved.

A statistically valid sample size of 980 transactions was selected from a payment universe by OIG's statistician. A sample size of 470 transactions was disseminated to USAID Missions with instructions on how to perform the review and analysis. The remaining 510 transactions were reviewed and analyzed by USAID/Washington to determine if any of the transactions were underpayments or overpayments. Upon further review of the payment streams, the Agency determined that additional outlays not included in the OIG's sample size may be susceptible to significant improper payments. As a result, USAID/Washington selected approximately 600 cash transfer transactions for review and analysis. The analytical process was conducted by tracing each transaction to the voucher to determine its susceptibility to improper payments. Also, USAID/Washington and the Missions checked for proper signatures and compliance of each invoice with the governing agreement. USAID/Washington conducted an interview of the stakeholders and the results were reviewed and analyzed by the USAID/Washington staff to determine vulnerability of the stakeholders' programs. The OCFO review and analysis of the interviews, OIG's statistical sample, and the additional selected sample by USAID/Washington resulted in improper payments of \$2.6 million representing 0.18 percent of a total universe of \$1.4 billion for the Cash Transfers for FY 2007. Improper payments for contracts, grants, and cooperative agreements totaled \$96.7 million and represent 1.23 percent of a payment universe of approximately 200,000 transactions totaling \$7.8 billion. Results of the review indicate that the improper payments were due to interest payments and associated principal amounts; Treasury returned payments due to Agency vendor recipients changing their banking accounts without relaying such information to the Agency and audit findings. However, 100 percent of the improper payments have been fully recovered and properly re-issued during FY 2007.

III. Describe the corrective action plans for the following:

- a. **Reducing the estimate rate and amount of improper payments for each type of category of error. This discussion must include the corrective action(s) for each different type or cause of error, and the corresponding steps necessary to prevent future recurrence. If efforts are ongoing, it is important to include that information in this section.**

Contracts, Grants, and Cooperative Agreements and Cash Transfers

USAID contracts, grants, and cooperative agreement program payment activities have been labeled risk-susceptible due to the high-dollar value of these programs and they continue to be analyzed, reconciled, and closely monitored by the Chief Financial Officer's (CFO) staff to ensure compliance with the provisions of the IPIA, Agency policies, and governing agreements. As a result of this effort the error rate for Contracts, Grants, and Cooperative Agreements and Cash Transfers continues to be less than OMB's error rate of 2.5 percent. Also, the Agency has revamped its internal controls and developed strict guidelines and measures for payments in an effort to eliminate improper payments. The Agency continues to provide funding for training of its staff. In addition, the Agency has in place multiple layers of skilled and experienced staff who are tasked with performing a risk assessment of all the programs under their domain to determine their susceptibility to improper payments and have adopted a more consistent and reliable tool for assessing and evaluating improper payments.

The Iraq Reconstruction and the Afghanistan Assistance and Reconstruction programs continue to be a challenge for USAID. These activities are often high profile and large dollar value and are located in high threat environments where travel to projects sites for inspection may be limited due to safety concerns. During 2007, Missions in these countries took steps within their management control to strengthen monitoring and field reporting capabilities. Also in 2007, the Agency completed design concept work for a spatially enabled management information system which will allow USAID Missions to remotely monitor progress of construction activities.

To further enhance transparency, the OCFO compiles the data related to these financial activities into financial reports for the reconstruction and assistance program activities in both Afghanistan and Iraq. This information is consolidated into monthly reports which are distributed to stakeholders and internal and external clients, including USAID Missions and Bureaus, as a tool to monitor their program and payment activities and to increase overall transparency of these high-profile programs.

In a continuing effort to reduce improper payments, CFO staff members were actively engaged in the ongoing review, sampling, identification, and implementation of the necessary internal controls. In addition, training was provided to staff on meeting the President's goal to eliminate improper payments. CMP staff within the OCFO submitted reports on a regular basis to the CMP Division Chief who monitors progress on the reduction and recovery of improper payments and report results to the Deputy CFO and CFO. Agency managers worked closely with the professional recovery auditors on reducing and recovering improper payments. Additionally, work objectives related to reducing improper payments have been incorporated in relevant CMP staff 2007 work plans to further ensure compliance with IPIA.

Interest Payments

In FY 2007, the Agency paid \$56,749.35 in late payment interest disbursed under the Contract, Grants, and Cooperative Agreements. As a corrective action the Agency has taken a proactive stand in ensuring that all vendor invoices submitted to the Agency for payment are processed timely and in accordance with the Prompt Pay Act (PPA). Interest payment status reports are generated on a regular basis to enable managers to address the root cause of late payments and

take corrective action. The OCFO also documents all processes to ensure consistent application of procedures and corrective action plans. To achieve the goal of eliminating interest payments, the OCFO will be addressing participants at the USAID Controllers' conference in November 2007 and similar conferences in the future about the importance of paying invoices on a timely basis.

Treasury Returned Payments

In FY 2007, Treasury returned payments to USAID totaled \$22,581,794.71 and represent 0.29 percent of \$7.8 billion that was disbursed under the Contracts, Grants, and Cooperative Agreements. The Agency's review indicated that the payments were returned due to incorrect vendor banking information. Recipients would change their banking information with banking institutions without updating their information with USAID. As a corrective action plan the Agency has developed internal controls which require its staff to validate vendor information before issuing a payment. Also, training is offered to staff members on account payable issues that include validation of vendor information and ensuring a claim is valid for payment in accordance with the PPA. The OCFO reviews daily Treasury disbursements reports for returned payments. If returned payments are found the OCFO addresses the issue with the appropriate staff. Corrective action is then taken by contacting the vendor for current information and re-issuance of the payment.

Other Payment Streams

Although the FY 2007 risk assessment concluded that 10 out of its 12 payment streams and programs are at a low risk for improper payment and the error rate remains far below OMB guidance thresholds, the Agency continues to conduct various levels of internal improper payment reviews and samplings for all programs and payment activities throughout the year. Additionally, all new programs, high profile programs, and high dollar programs are considered risk-susceptible and subject to further analysis, review, and scrutiny.

Accruals

The accruals exercise has been an effective tool in helping to reduce improper payments as responsible officers review relevant historical information for assurance that related payments have been properly made. Accruals are accounting estimates of services or goods rendered which have not yet been paid. OMB's Core Financial System Requirements stipulate that an agency's core financial system must be able to provide timely and useful financial information to support management's fiduciary role, budget formulation and execution functions, fiscal management of program delivery and program decision-making, and internal and external reporting requirements. External reporting requirements include the requirements for financial statements prepared in accordance with the form and content prescribed by OMB; reporting requirements prescribed by Treasury; and legal, regulatory, and other special management requirements of the Agency. The core financial system must provide complete, reliable, consistent, timely, and useful financial management information on operations.

According to USAID's Automated Directives System (ADS) 631, financial documentation represents any documentation that impacts on or results in financial activity. It is not limited to documentation within the financial management operations but includes any source material resulting in a financial transaction. CTOs, loan officers, grants officers, strategic objective teams, and others are responsible for retaining financial documentation and ensuring its availability for audit. ADS 631 states that these individuals must gather cost data—such as supporting project documentation, activity reports, delivery reports, or fixed reoccurring expenses—for the accruals exercise and then compare the data to payment histories and advances to estimate quarterly accruals.

b. Grant-making agencies with risk susceptible grant programs, discuss what the Agency has accomplished in the area of funds stewardship past the primary recipient. Include the status on projects and results of any reviews.

The Agency's Contract Audit Management (CAM) team within the Office of Acquisition and Assistance (OAA) reviews audit reports relating to audits of grantees and sub-grantees for resolution of audit findings. The audits are performed by external auditors and the ensuing reports are submitted to the OIG, grantees, and sub-grantees.

OMB Circular A-133, Sub-part C, Section 310(1)(2)(3) *Financial Statements*, states:

1. List individual federal programs by federal agency. For federal programs included in a cluster of programs, list individual federal programs within a cluster of programs. For research and development (R&D), total federal awards expended shall be shown either by individual award or by federal agency and major subdivision within the federal agency. For example, the National Institutes of Health (NIH) is a major subdivision in the Department of Health and Human Services (HHS).
2. For federal awards received as a sub-recipient, the name of the pass-through entity and identifying number assigned by the pass-through entity shall be included.
3. Provide total federal awards expended for each individual program and Catalog of Federal Domestic Assistance (CFDA) number or other identifying number when the CFDA information is not available.

OMB Circular A-133 requires the auditor to audit the entire universe of federal awards, including sub-awards. Therefore, any excess billing or amount that is unallowable will be questioned by the auditor. The auditor's report is sent to the clearinghouse for submission to the OIG. Upon review, the audit report is sent to the Agency's procurement office for follow up.

Upon receiving the A-133 audit reports from the from the Agency's OIG, grantees, or sub-grantees, the Agency's procurement office sends a letter to the recipient and, if the recommendation involves questioned costs, the Agency requests payment. If the findings are procedural, the Agency asks the recipient to provide a corrective action plan with a time line for correcting the deficiencies. The Agency follows up on the action plan until the deficiencies are corrected and asks the audit firm to include a follow-up on the implementation of the corrective action plan to ascertain if the deficiencies were corrected appropriately.

OIG's Pre- and Post-audit reviews

The OIG post-audit reviews are one of the primary methods of sampling and estimating the improper payment rate for the Contracts, Grants, and Cooperative Agreements programs. All nonprofit U.S.-based organizations that expend \$500,000 or more in federal awards are subject to an OMB Circular A-133 financial audit which is reviewed by the Agency's OIG. All foreign nonprofit organizations that expend \$300,000 during their fiscal year in USAID awards are subject to a recipient-contracted audit (RCA) performed by approved Certified Public Accountant (CPA) firms which are reviewed by the respective USAID Regional Inspector General (RIG) overseas. All USAID commercial vendor contracts with incurred-cost submissions are subject to an annual Defense Contract Audit Agency (DCAA) audit. The Agency's procurement office also reviews the OIG recommendations for ongoing audits to ensure payments to recipients are accurate and proper. The OIG tracks audit review activities in the Consolidated Audit Tracking System (CATS) while the OCFO reviews and calculates the improper payment rate for these programs. In 2007, the cumulative audited amount recorded by the OIG in CATS totaled \$5.5 billion. Upon further investigation \$4.4 million of the total audited amount

was identified as excess billing which was fully recovered during this same period. Currently, the OCFO and the OIG are reviewing Web-based audit tracking and reporting systems to replace the existing CATS. The new system will enhance the capturing of all audit activities, formulation of questioned costs and error and recovery rates to ensure that there is an effective tool in place for capturing improper payment activity.

Additionally, all payments processed through the Agency's financial and accounting system, Phoenix, are subject to a series of monthly internal reviews by CFO staff members who analyze and compare data outputs/reports, cross-reference, and compare this data to ensure that payment data are accurate, and monitor the improper payment rate on an ongoing basis. The sampling of the financial systems review includes setting report parameters to identify all potential duplicate payments by vendor, invoice number, and dollar value. Each potential improper payment that is identified is investigated regardless of the dollar value.

IV. Program improper payment reporting for the following:

a. The table below is required for each reporting Agency. Agencies must include the following information:

- i. all risk susceptible programs must be listed in this chart whether or not an error measurement is being reported;**
- ii. where no measurement is provided, Agency should indicate the date by which a measurement is expected;**
- iii. if the Current Year (CY) is the baseline measurement year, indicate by either note or by "n/a" in the Prior Year (PY) column;**
- iv. if any dollar amount(s) included in the estimate correspond to newly established measurement components in addition to previously established measurement components, separate the two amounts to the extent possible;**
- v. include outlay estimates for CY+1, CY+2, and CY+3; and**
- vi. agencies are expected to report on CY activity, and if possible, then PY activity is acceptable. (future year outlay estimates (CY+1, +2 and +3) should match the outlay estimates for those years as reported in the most recent President's Budget.)**

Table I reflects the total voucher count, disbursements, risk assessed, and improper payment rates for USAID's payment streams for FY 2007. The overpayment rate is calculated by dividing the overpayment dollars by the dollars paid.

**Table I. Total Voucher Count and Disbursements, Risk Assessed
and Improper Payment Rates for FY 2007
(Dollars in Millions)**

Payment Stream	Risk Assessed	Voucher Count	Outlays	Rate
Contract, Grants, Cooperative Agreements	High			
Total Payments		200,761	\$ 7,841	100%
Underpayments		-	-	0%
Overpayments		699	97	1.23%
Cash Transfers	Moderate			
Total Payments		606	1,419	100%
Underpayments		-	-	0%
Overpayments		6	3	0.18%
Credit Financing Funds	Low			
Total Payments		982	126	100%
Underpayments		-	-	0%
Overpayments		-	-	0%
Allowances	Low			
Total Payments		10,512	14	100%
Underpayments		-	-	0%
Overpayments		-	-	0%
Other Operating Expenses	Low			
Total Payments		91,143	495	100%
Underpayments		-	-	0%
Overpayments		-	-	0%
Payments to Other Agencies	Low			
Total Payments		3,371	284	100%
Underpayments		-	-	0%
Overpayments		-	-	0%
Payroll	Low			
Total Payments		75,675	473	100%
Underpayments		-	-	0%
Overpayments		-	-	0%
Revolving Funds	Low			
Total Payments		3,642	88	100%
Underpayments		-	-	0%
Overpayments		-	-	0%
Training	Low			
Total Payments		6,923	28	100%
Underpayments		-	-	0%
Overpayments		-	-	0%
Transportation	Low			
Total Payments		9,663	876	100%
Underpayments		-	-	0%
Overpayments		-	-	0%

(continued on next page)

Table 1. Total Voucher Count and Disbursements, Risk Assessed and Improper Payment Rates for FY 2007 (continued)
(Dollars in Millions)

Payment Stream	Risk Assessed	Voucher Count	Outlays	Rate
Travel	Low			
Total Payments		43,071	44	100%
Underpayments		-	-	0%
Overpayments		-	-	0%
Local Currency Trust Funds	Low			
Total Payments		654	1	100%
Underpayments		-	-	0%
Overpayments		-	-	0%
Totals		447,003	\$ 11,689*	

* Total amount does not include overpayments or underpayments.

Table 2. Improper Payment Reduction Outlook
(Dollars in Millions)

Programs	2006			2007		
	PY Outlays	PY IP %	PY IP \$	CY Outlays	CY IP %	CY IP \$
Cash Transfers	\$ 851	0.83%	\$ 7	\$ 1,418	0.18%	\$ 3
Contracts, Grants, & Cooperative Agreements	\$ 6,846	0.22%	\$ 15	\$ 7,841	1.23%	\$ 96

Table 3. Improper Payment Reduction Outlook
(Dollars in Millions)

Programs	2008			2009			2010		
	CY+1 Est. Outlays	CY+1 IP %	CY+1 IP \$	CY+2 Est. Outlays	CY+2 IP %	CY+2 IP \$	CY+3 Est. Outlays	CY+3 IP %	CY+3 IP \$
Cash Transfers	\$ 1,489	0.10%	\$ 1	\$ 1,564	0.05%	\$ 0.8	\$ 1,642	0.03%	\$ 0.4
Contracts, Grants, & Cooperative Agreements	\$ 8,233	0.50%	\$ 41	\$ 8,644	0.25%	\$ 22	\$ 9,077	0.13%	\$ 11

Source of Data:

- 2006 and 2007 Net Outlays
- CFO/CMP Internal Control reports and vouchers
- Washington Disbursements equal approximately 74 percent of total outlays

* 2006: The Cash Transfers, Contracts, Grants, and Cooperative Agreements programs were identified as risk-susceptible due to the fact that they represent 88% (22% and 66% respectively) of the total outlays for the year.

* 2007: The Cash Transfers, Contracts, Grants, and Cooperative Agreements programs were identified as risk-susceptible due to the fact that they represent 79% (12% and 67% respectively) of the total outlays of \$11.3 billion for the year.

* The improper payment error rate for Contracts, Grants, and Cooperative Agreements is calculated at a decreasing rate of 0.50% for FY 2008, 0.25% for FY 2009, and 0.13% for FY 2010. The increase in projected outlays for both Contracts, Grants, and Cooperative Agreements and Cash Transfers is calculated at 5% for each year.

* The increase in overpayments from \$15 million to \$96 million for Contracts, Grants and Cooperative Agreements was due to an expanded, comprehensive and enhanced review of all transactions under this payment stream by the Agency staff.

b. Discuss your Agency’s recovery of improper payments, if applicable. Include in your discussion the dollar amount of cumulative recoveries collected beginning with FY 2004.

The cumulative amounts recovered from FY 2005 to FY 2007 amount to approximately \$112 million for Contracts, Grants, and Cooperative Agreements and \$10.5 million for Cash Transfers. The total cumulative amounts identified as erroneous during this period were fully recovered. The OCFO is committed to proactively identifying and pursuing the recovery of all Agency payments identified through its financial system and close out reviews.

V. Recovery auditing reporting for the following:

a. Discuss recovery auditing effort, if applicable, including any contract types excluded from review and the justification for doing so; actions taken to recoup improper payments, and the business process changes and internal controls instituted and/or strengthened to prevent further occurrences.

During FY 2007, Horn & Associates external/independent recovery auditors performed a Recovery Audit of USAID for FYs 2003-2005 with the primary focus of the audit on 2005 due to the worldwide availability of information in the Agency’s financial system, Phoenix. The recovery auditors reviewed over 60,000 transactions for both duplicate and overpayments (funds paid above the obligated amounts) totaling over \$3 billion. They initially flagged approximately \$42 million as potential overpayments but through further investigation and inquiry reduced the amount by \$3 million which was referred to USAID staff for review and analysis. Further review by USAID staff resulted in approximately \$11,310 in missed discount claims that have been approved for collection from the contractor. Horn & Associates issued their final management report in September 2007 stating, “With over 30 years of history, the rate of recoveries is well below industry standards of .1 percent to .3 percent of total payment and certainly is below the requirements of the Erroneous Payment Act. The results of the audit were compelling enough for us to terminate further work on the recovery audit for USAID.”

Horn & Associates made many numerous recommendations to safeguard against potential improper payments, stating, “We recommend that USAID continue to develop their routines and run the routines on their payment data periodically to search for duplicate payments.”

The OCFO continues to sample and estimate the level of improper payments for all payment streams to determine if there are costs and overpayments identified for recovery. The OCFO will continue its work in developing and implementing an effective recovery audit system to ensure that all Agency overpayments are identified and recovered.

b. Complete the table below.

Recovery Auditing Results (Dollars in Millions)								
Agency Component	Amount Subject to Review for CY Reporting	Actual Amount Reviewed and Reported CY	Amounts Identified for Recovery CY	Amounts Recovered CY	Amounts Identified for Recovery PY	Amounts Recovered PY	Cumulative Amounts Identified for Recovery (CY+PYs)	Cumulative Amounts Recovered (CY+PYs)
Horn & Associates	\$ 3,334	\$ 3,334	\$ 0.01	\$ -	\$ -	\$ -	\$ -	\$ -
Office of Inspector General	\$ 5,527	\$ 5,527	\$ 4	\$ 4	\$ 13	\$ 13	\$ 17	\$ 17

VI. Describe the steps the Agency has taken and plans to take (including time line) to ensure that Agency managers (including the Agency head) are held accountable for reducing and recovering improper payments.

Existing control process and the implementation of the revised OMB Circular A-123 requirements continue to ensure that the Agency's internal control over financial reporting and systems are well documented, sufficiently tested, and properly assessed. In turn, improved internal controls enhance safeguards against improper payments, fraud, and waste and better ensure that the Agency's resources continue to be used effectively and efficiently to meet the intended program objectives. Toward this end, the OCFO engaged the services of external contractors to assess the internal control structure of the Agency in accordance with OMB Circular A-123, *Managements Responsibility for Internal Controls*, to review critical operations within USAID that may be vulnerable to risk. In 2007, the A-123 assessment team reviewed AID/Washington's CMP's Accounts Payable process. The purpose of the review was to ensure compliance with the A-123 Appendix A of Accounts Payable and for compliance with related federal regulations such as the PPA and the IPIA. The scope of the review covered July to September in FY 2006 and October to June in FY 2007. The A-123 team concluded in their final report that was issued on August 27, 2007 that "both the design and operating of internal controls over Accounts Payable are overall deemed to be effective. We found the controls and tools utilized to ensure compliance with the PPA to be effective with no excessive interest paid during our testing period. We found no instances where an improper or duplicate payment remained outstanding."

The OCFO and the OIG continue with the yearly financial management reviews and certifications of financial statements for the Agency. The primary objectives of these reviews and certifications are to obtain assurances of the Agency's compliance with the Federal Managers' Financial Integrity Act of 1982 (FMFIA), the Federal Financial Management Improvement Act of 1996 (FFMIA), and the IPIA, to enhance the Agency's internal financial controls, and to resolve financial management issues in a more efficient and timely manner.

VII. Agency information systems and other infrastructure.

- a. Describe whether the Agency has the information systems and other infrastructures it needs to reduce improper payments to the levels the Agency has targeted.
- b. If the Agency does not have such systems and infrastructure, describe the resources the Agency requested in its most recent budget submission to Congress to obtain the necessary information systems and infrastructure.

INFORMATION SYSTEMS AND INFRASTRUCTURE

Phoenix

In FY 2006, the Agency completed the worldwide deployment of its financial and accounting system, Phoenix. Agency staff members with authorized access to the worldwide financial and payment activity are now able to continuously monitor, review, analyze, and reconcile financial data. Now that USAID/Washington has the capability to access and review the financial payments activities worldwide through Phoenix, future IPIA review efforts to minimize the risk of making erroneous or improper payments will be more streamlined, yielding enhanced effectiveness, efficiency, and results.

Global Acquisition System (GLAS)

The Agency has acquired GLAS to enable the Agency to improve acquisition and assistance systems. GLAS is currently in its testing and implementation phase. Upon its rollout worldwide, it is expected that GLAS will meet the unique functional and technical procurement requirements of the Agency and will be fully interfaced with Phoenix. In addition, GLAS will support E-Government initiatives.

VIII. Describe any statutory or regulatory barriers which may limit the Agency's corrective actions in reducing improper payments and actions taken by the Agency to mitigate the barriers' effects.

Staff shortage may limit the Agency's corrective actions in reducing improper payments in the future. The Agency's senior management staff has identified the staff shortage as a reportable condition and is considering remedial steps that would mitigate the effects of the staff shortage in reducing improper payments.

IX. Additional comments, if any, on overall Agency efforts, specific programs, best practices, or common challenges identified as a result of IPIA implementation.

Additional Comments

- USAID worldwide payments were processed in a single unified financial system, Phoenix, in 2007. The availability of the Agency's financial data in Phoenix has greatly enhanced internal controls and transparency of the entire Agency's financial activities. Implemented procedures where current financial data are subject to various monthly reviews and cross referenced with other internal and external reports.
 - Funds returned from Treasury.
 - Late payment interest abstracted from Phoenix for the entire Agency.
 - Developed several other systems reports and tools to aid in the identification and review of possible worldwide erroneous/duplicate payments.

- Independent payable reviews and consultations:
 - External recovery auditors. Horn & Associates cited the following for USAID “... the rate of recoveries is well below industry standards of .1 percent to .3 percent of total payment and certainly is below the requirements of the Erroneous Payment Act. The results of the audit were compelling enough for us to terminate further work on the recovery audit for USAID.”
 - External A-123 compliance review.
 - GAO IPIA 2004-2006 audit. Great opportunity for independent review of prior IPIA review process and submissions.
 - Interactions enriching. The OCFO IPIA review team expanded approach after being exposed to independent reviews and other agencies’ best practices.
- Re-evaluated existing IPIA review processes and further defined IPIA approach and strategy for 2007.
 - OCFO staff are documenting Agency’s overall IPIA strategy and review practices.
 - Shared proposed strategy with counterparts at OMB and the OIG. Feedback and support beneficial.
 - The OIG provided the Agency sample of transactions based on their independent review and analysis of the payment stream data provided by the OCFO.
 - Learned the value of extending reviews to other internal and external reports. This allowed the Agency to leverage from work/actions previously completed by individuals with expert knowledge leading to less duplication of effort and greater independence and transparency.

APPENDICES





(Above) A shopkeeper in Armenia used a USAID micro-loan to improve his stock selection and renovate his shop.

PHOTO: USAID/ARMENIA

(Preceding page) This small swimwear firm is working to grow its business through exports. This is one of several micro and small enterprises in north and northeast Brazil receiving technical assistance on trade from USAID.

PHOTO: ANA PAULA PALVA, USAID/BRAZIL

APPENDIX A

FOREIGN ASSISTANCE FRAMEWORK

FOREIGN ASSISTANCE FRAMEWORK						
Goal	“To help build and sustain democratic, well-governed states that respond to the needs of their people, reduce widespread poverty and conduct themselves responsibly in the international system.”					
Objectives	Peace and Security	Governing Justly and Democratically	Investing in People	Economic Growth	Humanitarian Assistance	End Goal of U.S. Foreign Assistance
Accounts within State/USAID	FME, TI, IMET, ESF, INCLE, NADR, PKO, ACI, FSA, SEED	DA, TI, SEED, FSA, DF, ESF, INCLE, IO&P, ACI	DA, CSH, ESF, IDFA, IO&P, FSA, SEED, GHAI, ACI, Title II	DA, ESF, SEED, FSA, IO&P, ACI, Title II	IDFA, MRA, ERMA, ACI, Title II	Graduation Trajectory Advance to the Developing or Transforming Category. Advance to the Transforming Category. Advance to the Sustaining Partnership Category or graduate from foreign assistance. Continue partnership or graduate from foreign assistance. Advance to other relevant foreign assistance category. Determined based on criteria specific to the global or regional objective.
Foreign Assistance Program Areas	<ul style="list-style-type: none"> Counter Terrorism Combating WMD Stabilization Operations and Defense Reform Counter-narcotics Transnational Crime Conflict Mitigation and Response 	<ul style="list-style-type: none"> Rule of Law and Human Rights Good Governance Political Competition and Consensus-Building Civil Society 	<ul style="list-style-type: none"> Health Education Social Services and Protection for Vulnerable Populations 	<ul style="list-style-type: none"> Macroeconomic Foundation for Growth Trade and Investment Financial Sector Infrastructure Agriculture Private Sector Competitiveness Economic Opportunity Environment 	<ul style="list-style-type: none"> Protection, Assistance and Solutions Disaster Readiness Migration Management 	
Category Definition	Other USG Agency Contributions					
Rebuilding Countries	States in or emerging from and rebuilding after internal or external conflict.	Assist in creating and/or stabilizing a legitimate and democratic government and a supportive environment for civil society and media.	Start or restart the delivery of critical social services, including health and educational facilities, and begin building or rebuilding institutional capacity.	Assist in the construction or reconstruction of key internal infrastructure and market mechanisms to stabilize the economy.	Address immediate needs of refugee, displaced, and other affected groups.	Stable environment for good governance, increased availability of essential social services, and initial progress to create policies and institutions upon which future progress will rest.
Developing Countries	States with low or lower-middle income, not yet meeting MCC performance criteria, and the criterion related to political rights.	Support policies and programs that accelerate and strengthen public institutions and the creation of a more vibrant local government, civil society and media.	Encourage social policies that deepen the ability of institutions to establish appropriate roles for the public and private sector in service delivery.	Encourage economic policies and strengthen institutional capacity to promote broad-based growth.	Encourage reduced need for future HA by introducing prevention and mitigation strategies, while continuing to address emergency needs.	Continued progress in expanding and deepening democracy, strengthening public and private institutions, and supporting policies that promote economic growth and poverty reduction.
Transforming Countries	States with low or lower-middle income, meeting MCC performance criteria, and the criterion related to political rights.	Provide limited resources and technical assistance to reinforce democratic institutions.	Provide financial resources and limited technical assistance to sustain improved livelihoods.	Provide financial resources and technical assistance to promote broad-based growth.	Address emergency needs on a short-term basis, as necessary.	Government, civil society and private sector institutions capable of sustaining development progress.
Sustaining Partnership Countries	States with upper-middle income or greater for which U.S. support is provided to sustain partnerships, progress, and peace.	Support strategic partnerships addressing security, CT, WMD, and counter-narcotics.	Address issues of mutual interest.	Create and promote sustained partnerships on trade and investment.	Address emergency needs on a short-term basis, as necessary.	Continued partnership as strategically appropriate where U.S. support is necessary to maintain progress and peace.
Restrictive Countries	States of concern where there are significant governance issues.	Prevent the acquisition/proliferation of WMD, support CT and counter narcotics.	Address humanitarian needs.	Promote a market-based economy.	Address emergency needs on a short-term basis, as necessary.	Civil society empowered to demand more effective democracies and states respectful of human dignity, accountable to their citizens, and responsible towards their neighbors.
Global or Regional	Activities that advance the five objectives, transcend a single country's borders, and are addressed outside a country strategy.					

APPENDIX B

FMFIA OMB CIRCULAR A-123 DEFINITIONS AND REPORTING REQUIREMENTS

USAID uses the following FMFIA related definitions when determining the most appropriate characterization of a control deficiency.

FMFIA OMB CIRCULAR A-123 DEFINITIONS AND REPORTING REQUIREMENTS	
Deficiency Type	Definition ¹
Control Deficiency (FMFIA Section 2—Operations and Internal Control over Financial Reporting)	Control deficiencies exist when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A design deficiency exists when a control necessary to meet the control objective is missing or an existing control is not properly designed, so that even if the control operates as designed the control objective is not always met. An operation deficiency exists when a properly designed control does not operate as designed or when the person performing the control is not qualified or properly skilled to perform the control effectively.
Reportable Condition (FMFIA Section 2—Operations and Internal Control over Financial Reporting)	<p>Operations – A control deficiency, or combination of control deficiencies, that in management’s judgment, should be communicated because they represent significant weaknesses in the design or operation of internal control that could adversely affect the organization’s ability to meet its internal control objectives.</p> <p>Financial Reporting (Appendix A to OMB Circular A-123) – A control deficiency, or combination of control deficiencies, that adversely affects the entity’s ability to initiate, authorize, record, process, or report external financial data reliably in accordance with generally accepted accounting principles (GAAP) such that there is more than a remote² likelihood that a misstatement of the entity’s financial statements, or other significant financial reports, that is more than inconsequential will not be prevented or detected.</p>
Material Weakness (FMFIA Section 2—Operations and Internal Control over Financial Reporting)	<p>Operations – Reportable conditions in which the agency head determines to be significant enough to report outside of the agency.</p> <p>Financial Reporting (Appendix A to OMB Circular A-123) – Reportable condition, or combination of reportable conditions, that results in more than a remote² likelihood that a material misstatement of the financial statements, or other significant financial reports, will not be prevented or detected.</p>
Non-Conformance (FMFIA Section 4)	Instances in which financial management systems do not substantially conform to financial systems requirements. Financial management systems include both financial and financially-related (or mixed) systems.

¹ The definition of control deficiency and definitions of reportable condition and material weakness relative to financial reporting are based upon the definitions provided in *Auditing Standard No. 2 – An Audit of Internal Control Over Financial Reporting Performed in Conjunction with An Audit of Financial Statements* issued by the Public Company Accounting Oversight Board (PCAOB).

² The term “remote” is defined in SFFAS No. 5, *Accounting for Liabilities of the Federal Government*, as the chance of the future event, or events, occurring is slight.

APPENDIX C

ABBREVIATIONS AND ACRONYMS

A/AID	Office of the Administrator	CIA	Central Intelligence Agency
A&A	Acquisition and Assistance	CIF	Capital Investment Fund
AAEF	Albanian-American Enterprise Fund	CIO	Chief Information Officer
ADF	African Development Foundation	CMM	Conflict Management and Mitigation
ADP	Automated Data Processing	COOP	Continuity of Operations
ADS	Automated Directives System	COTS	Commercial off the Shelf
AEEB	Assistance to Eastern Europe and the Baltics	CPIC	Capital Planning and Investment Control
AFDF	Africa Development Fund	CSH	Child Survival and Health Programs Fund
AFR	Africa Bureau	CT	Cash Transfer
ANE	Asia and Near East Bureau	CY	Calendar Year
ASHA	American Schools and Hospitals Abroad	DA	Development Assistance
BSM	Business Systems Modernization	DAF	Development Assistance Fund
BTEC	Business Transformation Executive Committee	DCA	Development Credit Authority
CAAEF	Central Asian - American Enterprise Fund	DCHA	Democracy, Conflict and Humanitarian Assistance Bureau (USAID)
CACEDERF	Central America and Caribbean Emergency Disaster Relief Fund	DCOF	Displaced Children and Orphans Fund
CBJ	Congressional Budget Justification	DCP	Development Credit Program
CCA	Clinger-Cohen Act	DFA	Development Fund for Africa
CDC	Centers for Disease Control and Prevention	DG	Democracy and Governance
CFO	Chief Financial Officer	DHRF	Democracy and Human Rights Fund
CG	Consultative Group	DOD	Department of Defense, U.S. Government

DOE	Department of Energy, U.S. Government	FDI	Foreign Direct Investment
DOJ	Department of Justice, U.S. Government	FEMA	Federal Emergency Management Agency, U.S. Government
DOS	Department of State, U.S. Government	FFMIA	Federal Financial Management Improvement Act
DOT	Department of Treasury, U.S. Government	FFP	Food for Peace
DRI	Development Readiness Initiative (USAID)	FH	Freedom House
DRI	Diplomatic Readiness Initiative (Department of State)	FREEDOM	Freedom for Russia and Emerging Eurasian Democracies and Open Markets Support Act of 1992 (FREEDOM Support Act)
DVS	Democratic Values Survey	FSA	FREEDOM Support Act
EA	Enterprise Architecture	FSI	Financial Systems Integration
E&E	Europe and Eurasia Bureau	FSO	Foreign Service Officer
EG	Economic Growth	FTE	Full Time Equivalency
EGAT	Economic Growth, Agriculture and Trade Bureau (USAID)	FY	Fiscal Year
ENR	Environment and Natural Resources	G-8	Group of Eight (leading industrialized nations consisting of Canada, France, Germany, Italy, Japan, Russia, United Kingdom, and United States)
EO	Executive Order	GAI	Global AIDS Initiative
EOP	Office of Equal Opportunity Programs	GAO	Government Accountability Office
EPA	Environmental Protection Agency, U.S. Government	GC	Office of the General Counsel
ERF	Emergency Response Fund	GDP	Gross Domestic Product
ERMA	Emergency Refugees and Migration Assistance	GH	Global Health Bureau (USAID)
ES	Office of the Executive Secretariat	GHAI	Greater Horn of Africa Initiative
ESF	Economic Support Fund	GLAS	Global Acquisition System
EU	European Union	GNP	Gross National Product
FANTA	Food and Nutrition Technical Assistance	GPRA	Government Performance and Results Act (P.L. 103-62)
FAO	Food and Agriculture Organization (United Nations)	GSA	General Services Administration, U.S. Government
FAR	Fixed Amount Reimbursable		
FBO	Faith-Based Organization		
FDA	Food and Drug Administration, U.S. Government		

HBCUs	Historically Black Colleges and Universities	IRRF	Iraq Relief and Reconstruction Fund
HG	Housing Guaranty	ISA	Initiative for Southern Africa
HHS	Health and Human Services, U.S. Government	IT	Information Technology
IAS	International Accounting Standards	KfD	Knowledge for Development
IBRD	International Bank for Reconstruction and Development (World Bank)	LAC	Latin America and the Caribbean Bureau
IBTC	International Business and Technical Consultants	LC	Local Currency
ICASS	International Cooperative Administrative Support Services	LPA	Legislative and Public Affairs Bureau
ID	Infectious Diseases	LWVF	Patrick J. Leahy War Victims Fund
IDFA	International Disaster and Famine Assistance	M	Management Bureau (USAID)
IDP	Internally Displaced Person	MACS	Mission Accounting and Control System
IESC	International Executive Service Corps	MAI	Multilateral Assistance Initiative
IFAD	International Fund for Agricultural Development	MCA	Millennium Challenge Account
IFC	International Finance Corporation	MCC	Millennium Challenge Corporation
IFOR	Implementation Force (NATO)	MDB	Multilateral Development Bank
IFRC	International Federation of the Red Cross	MEO	Most Efficient Organization
IG	Inspector General	M&E	Monitoring and Evaluation
ILRF	International Labor Rights Fund	MOU	Memorandum of Understanding
IMET	International Military Education and Training	MPP	Mission Performance Plan
IMF	International Monetary Fund	MSE	Micro and Small Enterprises
IMR	Integrated Managing for Results	MSED	Micro and Small Enterprise Development
INC	International Narcotics Control (State Department)	NA	Not applicable, or Not Available
IO	International Organization	NAPA	National Academy for Public Administration
IPO	International Public Organization	NAS	Narcotic Affairs Section (State Department)
IQC	Indefinite Quantity Contract	NASA	National Aeronautics and Space Administration
		NATO	North Atlantic Treaty Organization

NEP	New Entry Professional	PAHO	Pan American Health Organization
NFC	National Finance Center	PART	Program Assessment and Rating Tool
NGO	Non-Governmental Organization	PASA	Participating Agency Service Agreement
NIS	New Independent States of the Former Soviet Union (now Independent States of the Former Soviet Union)	PEPFAR	President's Emergency Plan for AIDS Relief
NMS	New Management System	PL	Public Law
NOAA	National Oceanic and Atmospheric Administration	PLO	Palestinian Liberation Organization
NPA	Non-Project Assistance	PMA	Palestinian Monetary Authority
NPI	New Partnership Initiative	PMA	President's Management Agenda
NPR	National Performance Review	PMO	Program Management Office
OAS	Organization of American States	PMP	Performance Monitoring Plan
ODA	Official Development Assistance	PMTI	Presidential Management Training Initiative
OE	Operation Expenses	PPC	Policy and Program Coordination Bureau (USAID)
OECD	Organization for Economic Cooperation and Development	PRM	Population, Refugees, and Migration (State Department)
OECF	Overseas Economic Cooperation Fund	PSC	Personal Services Contract
OECS	Organization of Eastern Caribbean States	PSIP	Procurement System Improvement Project
OFDA	Office of Foreign Disaster Assistance (USAID)	PSO	Private Sector Organization
OIG	Office of Inspector General (USAID)	PVC	Private Voluntary Cooperation
OMB	Office of Management and Budget	PVO	Private and Voluntary Organization
OPEC	Organization of Petroleum Exporting Countries	PWC	PricewaterhouseCoopers
OPIC	Overseas Private Investment Corporation	RCSA	Regional Center for Southern Africa (USAID)
OPIN	Online Presidential Initiatives Network	REDSO	Regional Economic Development Support Office (USAID)
OSDBU/MRC	Office of Small and Disadvantaged Business Utilization/Minority Resource Center	RHUDO	Regional Housing and Urban Development Office (USAID)
OTI	Office of Transition Initiatives (USAID)	RIG	Regional Inspector General (USAID)
OVC	Orphans and Vulnerable Children	ROL	Rule of Law

RSD	Regional Sustainable Development Office (USAID)	UNCH/HRC	UN Commission on Human Rights/Human Rights Council
SAEDF	Southern Africa Enterprise Development Fund	UNCHS	United Nations Center for Human Settlements (Habitat)
SAI	Special Assistance Initiative	UNDB	United Nations Development Bank
SDF	Special Development Fund	UNDCP	United Nations Drug Control Program
SEATO	Southeast Asia Treaty Organization	UNDP	United Nations Development Program
SEC	Office of Security	UNDPKO	United Nations Department for Peacekeeping Operations
SEC	Securities and Exchange Commission	UNECE	United Nations Economic Commission for Europe
SEED	Support for East European Democracy	UNEP	United Nations Environment Program
SEI	State Environmental Initiative	UNESCO	United Nations Educational, Scientific and Cultural Organization
SEP	Senior Executive Program	UNFCCC	United Nations Framework Convention on Climate Change
SME	Small and Medium-sized Enterprises	UNFPA	United Nations Population Fund
SO	Strategic Objective	UNGA	United Nations General Assembly
SOW	Scope of Work	UNHCR	United Nations High Commissioner for Refugees
SPO	Special Objective	UNHRC	United Nations Human Rights Commission
SRP	Sahel Regional Program	UNICEF	United Nations Children's Fund
TAACS	Technical Advisors for AIDS and Child Survival	UNIFEM	United Nations Fund for Women
TBD	To be Determined	UNIOSIL	UN Integrated Office for Sierra Leone
TFET	Trust Fund for East Timor	UNMIL	UN Mission in Liberia
TI	Transition Initiatives	UNMIS	UN Mission in Sudan
TRADE	Trade for African Development and Enterprise Initiative	UNOPS	United Nations Operations Support
UECP	Urban Environmental Credit Program	UNRWA	United Nations Relief and Works Agency
UK	United Kingdom	UNSCR	United Nations Security Council Resolution
UN	United Nations	USUN	U.S. Mission to the UN
UNAIDS	United Nations Joint Program on HIV/AIDS		
UNAMSIL	UN Mission in Sierra Leone		

US	United States	WB	World Bank (International Bank for Reconstruction and Development)
USACE	United States Army Corps of Engineers	WCF	Working Capital Fund
USAEP	U.S.-Asia Environmental Partnership	WFP	World Food Program (United Nations)
USAID	United States Agency for International Development	WHO	World Health Organization
USDA	United States Department of Agriculture, U.S. Government	WID	Women in Development
USDH	United States Direct Hire	WMD	Weapons of Mass Destruction
USFDA	U.S. Food and Drug Administration, U.S. Government	WTO	World Trade Organization
USG	United States Government	WWF	World Wildlife Fund
USIA	United States Information Agency	YMCA	Young Men's Christian Association
USIS	United States Information Service		
USTR	United States Trade Representative		
VfP	Volunteers for Prosperity		

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