Financial Section

Introduction to the Principal Financial Statements

The Principal Financial Statements (Statements) have been prepared to report the financial position and results of operations of the U.S. Agency for International Development (USAID or Agency). 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 bulletin 01-09, *Form and Content of Agency Financial Statements.* The Statements are in addition to financial reports prepared by the Agency in accordance with OMB and U.S. Department of the Treasury (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.

For 2004, the Consolidated Statement of Net Cost presents net costs by goal which are different from those displayed in last year's financial statements. USAID implemented a new Joint State-USAID Strategic Plan in FY 2004. To the extent practicable, Agency costs by goal are presented based on the Joint State-USAID plan hierarchy. For comparative purposes, 2003 amounts have been recast consistent with the 2004 presentation.

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 2003 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 of operations consists of the gross cost incurred by the Agency, less any exchange (i.e., earned) revenue from our activities. Comparative data for FY 2003 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 2003 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 the status of budgetary resources at year-end. Information in this statement is reported on the budgetary basis of accounting. Comparative data for FY 2003 are included and intra-Agency balances have been eliminated from the amounts presented.

The ***Consolidated Statement of Financing*** reconciles net obligations reported on the Statement of Budgetary Resources to net costs reported on the Statement of Net Costs. Comparative data for FY 2003 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.

Required Supplementary Information provides information on intra-governmental asset and liability amounts, along with details on USAID's budgetary resources at year-end.

Other Accompanying Information presents Consolidating Financial Statements that provide detailed program and fund data supporting the financial statements.

History of USAID's Financial Statements

In accordance with the Government Management Reform Act (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 for FY 2003 and FY 2004.

Financial Statements

U.S. Agency for International Development
CONSOLIDATED BALANCE SHEET
As of September 30, 2004 and 2003
(in thousands)

	FY 2004	FY 2003
ASSETS		
Intragovernmental		
Fund Balance with Treasury (Note 2)	$ 15,854,926	$ 14,215,414
Accounts Receivable (Note 3)	1,031,168	1,134,074
Advances (Note 4)	30,920	32,998
Total Intragovernmental	16,917,014	15,382,486
Cash and Other Monetary Assets (Note 5)	257,201	240,412
Accounts Receivable, Net (Note 3)	69,800	66,313
Loans Receivable, Net (Note 6)	6,108,252	5,696,597
Inventory and Related Property (Note 7)	35,764	24,027
General Property, Plant, and Equipment, Net (Note 8 and 9)	81,954	64,333
Advances and Prepayments (Note 4)	559,686	350,067
Total Assets	**24,029,671**	**21,824,235**
LIABILITIES (Note 16)		
Intragovernmental		
Accounts Payable (Note 10)	29,523	27,299
Debt (Note 11)	111,081	79,165
Due to U.S. Treasury (Note 11)	6,033,925	5,669,725
Other Liabilities (Note 12, 13, and 14)	420,574	14,843
Total Intragovernmental	6,595,103	5,791,032
Accounts Payable (Note 10)	1,960,478	1,842,778
Loan Guarantee Liability (Note 6)	1,039,937	1,159,415
Federal Employees and Veteran's Benefits (Note 14)	24,523	27,400
Other Liabilities (Note 12)	353,750	511,257
Total Liabilities	9,973,791	9,331,882
Commitments and Contingencies (Note 15)		
NET POSITION		
Unexpended Appropriations	13,395,387	11,777,877
Cumulative Results of Operations	660,493	714,476
Total Net Position	14,055,880	12,492,353
Total Liabilities and Net Position	**$ 24,029,671**	**$ 21,824,235**

The accompanying notes are an integral part of these statements.

U.S. Agency for International Development
CONSOLIDATED STATEMENT OF NET COSTS
For the Years Ended September 30, 2004 and 2003
(In Thousands)

Goal	FY 2004	FY 2003
Regional Stability		
Intragovernmental	$ 13,161	$ 19,196
With the Public	641,109	369,695
Total Costs	654,270	388,891
Less Earned Revenues	(1,271)	(618)
Net Program Costs	652,999	388,273
Counterterrorism		
Intragovernmental	16,604	805
With the Public	112,915	77,010
Total Costs	129,519	77,815
Less Earned Revenues	(54)	(26)
Net Program Costs	129,465	77,789
International Crime and Drugs		
Intragovernmental	4,383	3,053
With the Public	72,701	112,848
Total Costs	77,084	115,901
Less Earned Revenues	(295)	(98)
Net Program Costs	76,789	115,803
Democracy and Human Rights		
Intragovernmental	20,209	27,999
With the Public	1,260,638	875,202
Total Costs	1,280,847	903,201
Less Earned Revenues	(3,789)	(892)
Net Program Costs	1,277,058	902,309
Economic Prosperity and Security		
Intragovernmental	118,496	170,454
With the Public	3,270,365	3,644,744
Total Costs	3,388,861	3,815,198
Less Earned Revenues	(14,339)	(82,596)
Net Program Costs	3,374,522	3,732,602
Social and Environmental Issues		
Intragovernmental	357,063	301,995
With the Public	4,021,570	3,296,720
Total Costs	4,378,633	3,598,715
Less Earned Revenues	(66,842)	(103,951)
Net Program Costs	4,311,791	3,494,764

(continued on next page)

The accompanying notes are an integral part of these statements.

U.S. Agency for International Development
CONSOLIDATED STATEMENT OF NET COSTS *(continued)*
For the Years Ended September 30, 2004
(In Thousands)

Goal	FY 2004	FY 2003
Humanitarian Response		
Intragovernmental	173,977	72,002
With the Public	542,815	1,034,835
Total Costs	716,792	1,106,837
Less Earned Revenues	(66,133)	(2,318)
Net Program Costs	650,659	1,104,519
Management and Organizational Excellence		
Intragovernmental	5,388	18,839
With the Public	41,022	136,522
Total Costs	46,410	155,361
Less Earned Revenues	(424)	(592)
Net Program Costs	45,986	154,769
Public Diplomacy and Public Affairs		
Intragovernmental	152	1,738
With the Public	34,338	21,054
Total Costs	34,490	22,792
Less Earned Revenues	(177)	(56)
Net Program Costs	34,313	22,736
Net Costs of Operations (Note 17)	**$ 10,553,582**	**$ 9,993,565**

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 periods ended September 30, 2004 and 2003
(in thousands)

	FY 2004		FY 2003	
	Cumulative Results of Operations	**Unexpended Appropriations**	**Cumulative Results of Operations**	**Unexpended Appropriations**
Beginning Balances	$ 714,476	$ 11,777,877	$ 578,345	$ 10,065,290
Prior period adjustments (Note 19)	–	–	1,690	–
Beginning Balances, as adjusted	714,476	11,777,877	580,035	10,065,290
Budgetary Financing Sources:				
Appropriations Received	–	9,186,373	–	10,536,974
Appropriations transferred-in/out	–	2,122,641	–	113,059
Other adjustments (recissions, etc)	–	(49,538)	–	(51,797)
Appropriations used	9,641,966	(9,641,966)	8,885,648	(8,885,648)
Nonexchange revenue	–	–	–	–
Donations and forfeitures of cash and cash equivalents	83,683	–	100,316	–
Transfers-in/out without reimbursement	763,675	–	1,128,139	–
Other budgetary financing sources	–	–	–	–
Other Financing Sources:				
Transfers-in/out without reimbursement	1,823	–	–	–
Imputed financing from costs absorbed by others	8,452	–	13,902	–
Total Financing Sources	10,499,599	1,617,510	10,128,005	1,712,588
Net Cost of Operations	10,553,582	–	9,993,565	–
Ending Balance	**$ 660,493**	**$13,395,387**	**$ 714,476**	**$11,777,877**

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, 2004 and 2003
(In Thousands)

	FY 2004		FY 2003	
	Budgetary	**Credit Program Financing**	**Budgetary**	**Credit Program Financing**
Budgetary Resources				
Budget Authority				
Appropriations Received	$ 9,260,278	$ –	$ 10,801,068	$ –
Borrowing Authority (Note 20)	–	–	–	62,886
Net Transfers	1,812,100	–	(436,693)	–
Other	–	–	–	–
Total Budget Authority	11,072,378	–	10,364,375	62,886
Unobligated Balance:				
Beginning of Period	2,288,520	981,619	1,592,265	798,979
Net Transfers, Actual	96,959	–	(1,684)	–
Total Unobligated Balance	2,385,479	981,619	1,590,581	798,979
Spending Authority from Offsetting Collections:				
Earned				
Collected	906,735	218,325	892,844	208,543
Receivable from Federal Sources	(237)	–	(5,961)	11,328
Change in Unfilled Customer Orders	–	–		
Advance Received	4,594	–	(331)	–
Anticipated for Rest of Year, Without Advances	–	–	–	–
Subtotal	911,092	218,325	886,552	219,871
Recoveries of Prior Year Obligations	140,910	3,955	158,594	14,180
Permanently Not Available	(1,079,492)	(1,184)	(712,773)	(465)
Total Budgetary Resources	**13,430,367**	**1,202,715**	**12,287,329**	**1,095,451**
Status of Budgetary Resources:				
Obligations Incurred (Note 20)	11,174,333	234,102	9,973,855	113,832
Unobligated Balance, Available	2,224,129	968,613	2,172,882	981,619
Unobligated Balance, Unavailable	31,905	–	140,592	–
Total Status of Budgetary Resources	**13,430,367**	**1,202,715**	**12,287,329**	**1,095,451**
Relationship of Obligations to Outlays:				
Obligated Balance, Net, Beginning of Period	10,573,245	1,597	9,431,741	26,868
Obligated Balance Transferred, Net	–	–	1,819	–
Obligated Balance, Net, End of Period:				
Accounts Receivable	(3,691)	–	(3,832)	–
Unfilled Customer Orders From Federal Sources	–	–	–	–
Undelivered Orders	11,284,640	10,604	9,209,121	1,731
Accounts Payable	1,469,017	427	1,367,956	(135)
Outlays:				
Disbursements	8,722,076	220,712	8,680,899	113,597
Collections	(1,122,466)	(2,595)	(892,551)	(208,543)
Subtotal	7,599,610	218,117	7,788,348	(94,946)
Less: Offsetting Receipts	–	–	–	–
Net Outlays	**$ 7,599,610**	**$ 218,117**	**$ 7,788,348**	**$ (94,946)**

The accompanying notes are an integral part of these statements.

U.S. Agency for International Development
CONSOLIDATED STATEMENT OF FINANCING
For the years ended September 30, 2004 and 2003
(in thousands)

	FY 2004	FY 2003
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations Incurred (Note 20)	$ 11,408,435	$ 10,087,687
Appropriations transferred to/from other agencies (net)	1,206,427	1,440,612
Total Obligations Incurred (Note 21)	12,614,862	11,528,299
Less: Spending authority from offsetting collections and recoveries (Note 20)	(1,274,282)	(1,279,197)
Spending authority transferred to/from other agencies (net)	172,331	(52,961)
Total spending authority from offsetting collections and recoveries	(1,446,613)	(1,332,158)
Net Obligations	11,168,250	10,196,140
Other Resources		
Donated and Credit Program Revenue	(123,505)	(170,456)
Imputed Financing From Costs Absorbed by Others	8,452	13,902
Total Resources Used to Finance Activities	11,053,196	10,039,587
Resources Used to Finance Items not Part of the Net Cost of Operations:		
Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided	(1,397,036)	(1,318,994)
Resources that fund expenses recognized in prior periods	3,163	20
Budgetary offsetting collections and receipts that do not affect net cost of operations		
Credit program collections which increase liabilities for loan guarantees or allowances for subsidy	1,070,144	1,091,885
Other	(218)	(6,057)
Resources that finance the acquisition of assets	20,159	80,309
Total Resources Used to Finance items not part of net cost of operations	(303,788)	(152,837)
Total Resources Used to Finance Net Cost of Operations	10,749,409	9,886,750
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Periods (Note 20):		
Increase in annual leave liability	1,242	2,168
Upward/Downward reestimates of credit subsidy expense	(208,678)	98,115
Increase in exchange revenue receivable from the public	37,031	36,435
Total	(170,405)	136,718
Components not Requiring or Generating Resources		
Depreciation and Amortization	15,186	6,925
Revaluation of assets or liabilities	(805)	3,133
Other	(39,802)	(39,961)
Total	(25,421)	(29,903)
Total components of net cost of operations that will not require or generate resources in the current period	(195,827)	106,815
Net Cost of Operations	**$ 10,553,582**	**$ 9,993,565**

The accompanying notes are an integral part of these statements.

USAID FY 2004 Footnotes to the Financial Statements

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

These financial 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 applicable form and content requirements of the Office of Management and Budget (OMB) Bulletin 01-09, Form and Content of Agency Financial Statements, and the Government Management Reform Act of 1994.

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 financial statements reflect the various program activities, shown by appropriation in the financial statements, which include such programs as 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, Central America and the Caribbean Emergency Disaster Recovery Fund, 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. The MSED program had one new loan guarantee for FY 2004. 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 Fiscal Year 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 Fiscal Year 1996 and expired in Fiscal Year 1999. The Ukraine Financing Account was closed out in FY 2002, and no new activity is expected.

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.

Fund Types

The accompanying consolidated financial statements for USAID 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. Finally, the Statement of Financing has been prepared to reconcile budgetary to financial (proprietary) accounting information.

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, 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, and the Department of State.

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.

F. Fund Balances with the U.S. Treasury

Cash receipts and disbursements are processed by the U.S. Treasury. The 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 has an acquisition cost of $25,000 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. 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 Financing and the Statement of Net Cost.

Q. 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.

R. 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 and as reflected in Note 3, composed solely of accounts receivables, net of allowances.

S. Agency Costs

USAID costs of operations are comprised of program and operating expenses. USAID/Washington program expenses by goal are obtained directly from Phoenix, the Agency general ledger. Mission related program expenses by goal area are obtained from the Mission Accounting and Control system (MACS). 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.

NOTE 2. FUND BALANCES WITH TREASURY (IN THOUSANDS)

Fund Balances with Treasury as of September 30, 2004 and 2003 consisted of the following:

Fund Balances with Treasury (in thousands)

Fund Balances	FY 2004	FY 2003
Trust Funds	$33,255	$23,253
Revolving Funds	1,435,616	1,312,955
Appropriated Funds	14,324,552	12,894,164
Other Funds	61,503	(14,958)
Total	$15,854,926	$14,215,414

Status of Fund Balance:	FY 2004	FY 2003
Unobligated Balance		
Available	$1,193,906	$3,260,019
Unavailable	18,142	7,294
Obligated Balance Not Yet Disbursed	14,642,878	10,948,101
Total	$15,854,926	$14,215,414

As of September 30, 2004 there was a cash reconciliation difference of $94.8 million between USAID and the Department of Treasury's Fund Balances. The difference as of September 30, 2003 was $34.6 million. For FY 2004 and FY 2003 reporting purposes, USAID adjusted its fund balance by these differences to equal the Department of Treasury's fund balance. By adjusting USAID's fund balance to equal Treasury's fund balance, there is consistency between various published reports. Also, based on past experience, the Department of Treasury's balances are more accurate and the differences are usually cleared when USAID processes the required disbursements.

The $94.8 million cash reconciliation difference was posted to separate Fund Balance sub-accounts and the cash differences remain identified as such. USAID is currently performing a reconciliation of the $94.8 million total amount in these accounts and will make adjustments accordingly.

NOTE 3. ACCOUNTS RECEIVABLE, NET

The primary components of USAID's accounts receivable as of September 30, 2004 are as follows:

Accounts Receivable, Net (in thousands)

	Receivable Gross	Allowance Accounts	Receivable Net 2004	Receivable Net 2003
Entity				
Intragovernmental				
Appropriation Reimbursements from Federal Agencies	$ 225	N/A	$ 225	$ 209
Accounts Receivable from Federal Agencies Disbursing Authority	300,131	N/A	300,131	–
Less Intra-Agency Receivables	(73,679)	–	(73,679)	–
Receivable from USDA	804,491	N/A	804,491	1,133,865
Total Intragovernmental	1,031,168	N/A	1,031,168	1,134,074
Accounts Receivable	72,144	(6,873)	65,271	61,983
Total Entity	1,103,313	(6,873)	1,096,440	1,196,057
Total Non-Entity	4,848	(320)	4,528	4,330
Total Receivables	**$1,108,161**	**$ (7,193)**	**$ 1,100,968**	**$ 1,200,387**

Reconciliation of Uncollectible Amounts (Allowance Accounts) (in thousands)

	FY 2004	FY 2003
Beginning Balance	$ 9,501	$ 14,346
Additions	(341)	1,636
Reductions	(1,967)	(6,481)
Ending Balance	$ 7,193	$ 9,501

Entity intragovernmental accounts receivable consist of amounts due from other U.S. Government agencies. No allowance has been established for the intragovernmental accounts receivable, which are considered to be 100 percent collectible. Disbursing Authority Receivable from USDA consists of obligational authority from the U.S. Department of Agriculture's Commodity Credit Corporation. The authority is for payment of transportation costs incurred by USAID associated with the shipment of Title II and III commodities; Farmer-to-Farmer Technical Assistance Programs; and for assistance to private voluntary organizations, cooperatives, and international organizations. Collections against this receivable are realized when USAID requests a transfer of funds from USDA to cover incurred expenses.

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 that 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. ADVANCES AND PREPAYMENTS

Advances and Prepayments as of September 30, 2004 and 2003 consisted of the following:

Advances and Prepayments (in thousands)

	FY 2004	FY 2003
Intragovernmental		
Advances to Federal Agencies	$ 30,920	$ 32,998
Total Intragovernmental	30,920	32,998
Advances to Contractors/Grantees	487,441	290,433
Travel Advances	2,480	1,763
Advances to Host Country Governments and Institutions	46,620	38,785
Prepayments	11,108	5,660
Advances, Other	12,037	13,425
Total Advances and Prepayments	$ 590,606	$ 383,065

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. Other Advances consist primarily of amounts advanced for living quarters and home service.

NOTE 5. CASH AND OTHER MONETARY ASSETS

Cash and Other Monetary Assets as of September 30, 2004 and 2003 are as follows:

Cash and Other Monetary Assets (in thousands)

Cash and Other Monetary Assets	FY 2004	FY 2003
Imprest Fund- Headquarters	$ 280	$ 140
UE and Micro and Small Enterprise Fund Cash w/Fiscal Agent	50	50
Foreign Currencies	256,871	240,222
Total Cash and Other Monetary Assets	$ 257,201	$ 240,412

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. USAID's cumulative balance of the Department of State provided imprest funds was $4.6 million in FY 2004 and $4.9 million in FY 2003. These imprest funds are not included in USAID's Balance Sheet.

Foreign Currencies are related to Foreign Currency Trust Funds and this amounted to $256.9 million in FY 2004 and $240.2 million in FY 2003. USAID does not have any non-entity cash or other monetary assets.

NOTE 6. LOANS RECEIVABLE 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)
- Ukraine Export Insurance Credit Program (Ukraine)
- Israel Loan Guarantee Program (Israel Loan)
- Development Credit Authority Program (DCA)

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	FY 2004	FY 2003
Net Direct Loans Obligated Prior to FY 1992 (Allowance for Loss Method)	$ 5,780,367	$ 5,334,382
Net Direct Loans Obligated After FY 1991 (Present Value Method)	32,248	7,829
Defaulted Guaranteed Loans from Pre-1992 Guarantees (Allowance for Loss Method)	295,637	354,386
Total Loans Receivable, Net as reported on the Balance Sheet	$ 6,108,252	$ 5,696,597

Direct Loans

Direct Loans (in thousands)

Loan Programs	Loans Receivables Gross	Interest Receivable	Allowance for Loan Losses	Value of Assets Related to Direct Loans
Direct Loans Obligated Prior to FY 1992 (Allowance for Loss Method) as of September 30, 2004:				
Direct Loans	$ 7,748,796	$ 296,481	$ 2,264,834	$ 5,780,443
MSED	677	89	842	(76)
Total	$ 7,749,473	$ 296,570	$ 2,265,676	$ 5,780,367
Direct Loans Obligated Prior to FY 1992 (Allowance for Loss Method) as of September 30, 2003:				
Direct Loans	$ 8,272,378	$ 322,098	$ 3,260,015	$ 5,334,461
MSED	1,360	90	1,529	(79)
Total	$ 8,273,738	$ 322,188	$ 3,261,544	$ 5,334,382

Direct Loans *(continued)*
(in thousands)

Loan Programs	Loans Receivables Gross	Interest Receivable	Allowance for Loan Losses	Value of Assets Related to Direct Loans
Direct Loans Obligated After FY 1991 as of September 30, 2004:				
Direct Loans	$ 259,542	$ 9,774	$ 237,215	$ 32,101
MSED	150	24	27	147
Total	$ 259,692	$ 9,798	$ 237,242	$ 32,248
Direct Loans Obligated After FY 1991 as of September 30, 2003:				
Direct Loans	$ 216,063	$ 7,413	$ 213,993	$ 9,483
MSED	(908)	133	879	(1,654)
Total	$ 215,155	$ 7,546	$ 214,872	$ 7,829

Total Amount of Direct Loans Disbursed
(in thousands)

Direct Loan Programs	FY 2004	FY 2003
Direct Loans	$ 8,008,339	$ 8,488,798
MSED	827	452
Total	**$ 8,009,166**	**$ 8,489,250**

Subsidy Expense for Direct Loans by Program and Component
(in thousands)

Direct Loan Programs	Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates
Modifications and Reestimates (FY 2004)				
MSED	$ –	$ –	$ (29)	$ (29)
Total	**$ –**	**$ –**	**$ (29)**	**$ (29)**
Modifications and Reestimates (FY 2003)				
MSED	$ –	$ (49)	$ (169)	$ (218)
Total	**$ –**	**$ (49)**	**$ (169)**	**$ (218)**

Total Direct Loans Subsidy Expense
(in thousands)

Direct Loan Programs	FY 2004	FY 2003
MSED	$ (29)	$ (218)
Direct Loans	–	–
Total	**$ (29)**	**$ (218)**

Schedule for Reconciling Subsidy Cost Allowance Balances (Post-1991 Direct Loans) (in thousands)

	FY 2004			FY 2003		
	Direct Loan	MSED	Total	Direct Loan	MSED	Total
Beginning Balance, Changes, and Ending Balance						
Beginning balance of the subsidy cost allowance	$ 213,993	$ 879	$ 214,872	$ 186,673	$ 468	$187,141
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	$ –	$ –	$ –	$ 25,654	$ –	$ 25,654
(b) Fees received	–	–	–	–	–	
(c) Foreclosed property acquired	–	–	–	–	–	
(d) Loans written off	–	–	–	–	–	–
(e) Subsidy allowance amortization	10,585	(716)	9,869	3,356	629	3,985
(f) Other	12,637	(107)	12,530	(1,690)	–	(1,690)
Ending balance of the subsidy cost allowance before reestimates	$ 237,215	$ 56	$ 237,271	$ 213,993	$ 1,097	$215,090
Add or subtract subsidy reestimates by component:						
(a) Interest rate reestimate	–	–	–	–	(49)	(49)
(b) Technical/default reestimate	–	(29)	(29)	–	(169)	(169)
Total of the above reestimate components	–	(29)	(29)	–	(218)	(218)
Ending balance of the subsidy cost allowance	**$ 237,215**	**$ 27**	**$ 237,242**	**$213,993**	**$ 879**	**$214,872**

Defaulted Guaranteed Loans

Subsidy Expense for Direct Loans by Program and Component (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): FY 2004				
UE	$ 452,432	$ 22,517	$ 179,312	$ 295,637
Total	**$ 452,432**	**$ 22,517**	**$ 179,312**	**$ 295,637**
Defaulted Guaranteed Loans from Pre-1992 Guarantees (Allowance for Loss Method): FY 2003				
UE	$ 514,611	$ 28,149	$ 188,374	$ 354,386
Total	**$ 514,611**	**$ 28,149**	**$ 188,374**	**$ 354,386**

Defaulted Guaranteed Loans from Post-1991 Guarantees

In FY 2004, the UE Program experienced $4.4 million in defaults on payments.

In FY 2003, the UE Program experienced $7.1 million in defaults on payments.

Guaranteed Loans Outstanding:

Guaranteed Loans Outstanding (in thousands)

Loan Guarantee Programs	Outstanding Principal, Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
Guaranteed Loans Outstanding (FY 2004):		
UE	$ 1,832,755	$ 1,832,755
MSED	76,400	38,200
Israel	12,322,417	12,322,417
DCA	789,799	341,500
Total	$ 15,021,371	$ 14,534,872
Guaranteed Loans Outstanding (FY 2003):		
UE	$ 1,954,929	$ 1,954,929
MSED	95,542	48,492
Israel	10,789,083	10,789,083
DCA	549,631	235,866
Total	$ 13,389,185	$ 13,028,370
New Guaranteed Loans Disbursed (FY 2004):		
UE	$ –	$ –
MSED	5,000	2,500
DCA	250,233	109,417
Israel	3,350,000	3,350,000
Total	$ 3,605,233	$ 3,461,917
New Guaranteed Loans Disbursed (FY 2003):		
UE	$ –	$ –
MSED	100	50
DCA	267,446	133,723
Total	$ 267,546	$ 133,773

Liability for Loan Guarantees
(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, 2004:			
UE	$ 242,171	$ 103,788	$ 345,959
MSED	–	(3,902)	(3,902)
Israel	–	700,855	700,855
DCA	–	(2,975)	(2,975)
Total	$ 242,171	797,766	$ 1,039,937
Liability for Loan Guarantees (Estimated Future Default Claims for pre-1992 guarantees) as of September 30, 2003:			
UE	$ 311,383	$ 175,521	$ 486,904
MSED	–	265	265
Israel	–	673,261	673,261
DCA	–	(1,015)	(1,015)
Total	$ 311,383	$ 848,032	$ 1,159,415

Subsidy Expense for Loan Guarantees by Program and Component:

Subsidy Expense for Loan Guarantees by Program and Component
(in thousands)

Loan Guarantee Programs	Interest Supplements	Defaults	Fees and Other Collections	Other	Total
Subsidy Expense for New Loan Guarantees (FY 2004):					
DCA	$ –	$ 993	$ –	$ –	$ 993
MSED	–	1,466	–	–	1,466
Total	$ –	$ 2,459	$ –	$ –	$ 2,459
Subsidy Expense for New Loan Guarantees (FY 2003):					
UE	$ –	$ 2,239	$ –	$ –	$ 2,239
DCA	–	3,413	–	–	3,413
Total	$ –	$ 5,652	$ –	$ –	$ 5,652

Subsidy Expense for Loan Guarantees by Program and Component *(continued)*
(in thousands)

Loan Guarantee Programs	Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates
Modifications and Reestimates (FY 2004):				
UE	$ –	$ –	$ 2,194	$ 2,194
MSED	–	–	610	610
DCA	–	–	64	64
Total	$ –	$ –	$ 2,868	$ 2,868
Modifications and Reestimates (FY 2003):				
UE	$ –	$ –	$ 48,211	$ 48,211
MSED	–	–	4,163	4,163
Total	$ –	$ –	$ 52,374	$ 52,374

Total Loan Guarantee Subsidy Expense
(in thousands)

Loan Guarantee Programs	FY 2004	FY 2003
DCA	$ 1,057	$ 2,239
UE	2,194	48,211
MSED	2,076	7,576
Total	$ 5,327	$ 58,026

Subsidy Rates for Loan Guarantees by Program and Component:

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

Loan Guarantee Programs	Interest Supplements (%)	Defaults (%)	Fees and Other Collections (%)	Other (%)	Total (%)
DCA	–	3.71%	–	–	3.71%
MSED	–	9.61%	–	–	9.61%

Schedule for Reconciling Loan Guarantee Liability Balances (in thousands)

(Post-1991 Loan Guarantees)	DCA	MSED	UE	Israel	Total
FY 2004					
Beginning Balance, Changes, and Ending Balance					
Beginning balance of the loan guarantee liability	$ (1,015)	$ 265	$ 175,521	$ 673,261	$ 848,032
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	993	1,466	–	–	2,459
Total of the above subsidy expense components	$ 993	$ 1,466	$ –	$ –	$ 2,459
Adjustments:					
(a) Loan guarantee modifications	–	–	–	–	–
(b) Fees received	–	–	2,468	88,200	90,668
(c) Interest supplements paid	–	–	–	–	–
(d) Foreclosed property and loans acquired	–	–	–	–	–
(e) Claim payments to lenders	–	–	(4,380)	–	(4,380)
(f) Interest accumulation on the liability balance	–	–	3,528	55,987	59,515
(g) Other	(765)	(3,522)	(71,514)	19,512	(56,289)
Ending balance of the loan guarantee liability before reestimates	$ (787)	$ (1,792)	$ 105,621	$ 836,960	$ 940,005
Add or subtract subsidy reestimates by component:					
(a) Interest rate reestimate	–	–	–	–	–
(b) Technical/default reestimate	(2,188)	(2,111)	(1,834)	(136,105)	(142,238)
Total of the above reestimate components	$ (2,188)	$ (2,111)	$ (1,834)	$(136,105)	$(142,238)
Ending balance of the loan guarantee liability	$ (2,975)	$ (3,902)	$ 103,788	$ 700,855	$ 797,766
FY 2003					
Beginning Balance, Changes, and Ending Balance					
Beginning balance of the loan guarantee liability	$ (2,484)	$ (431)	$ 58,315	$ 665,267	$ 720,668
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	2,239	3,413	–	–	5,652
Total of the above subsidy expense components	$ 2,239	$ 3,413	$ –	$ –	$ 5,652
Adjustments:					
(a) Loan guarantee modifications	–	–	–	–	–
(b) Fees received	–	–	7,464	117,715	125,179
(c) Interest supplements paid	–	–	–	–	–
(d) Foreclosed property and loans acquired	–	–	–	–	–
(e) Claim payments to lenders	–	(2,318)	(7,077)	–	(9,395)
(f) Interest accumulation on the liability balance	–	–	4,693	44,736	49,429
(g) Other	40	(2,595)	63,914	–	61,359
Ending balance of the loan guarantee liability before reestimates	$ (205)	$ (1,931)	$ 127,310	$ 827,718	$ 952,892
Add or subtract subsidy reestimates by component:					
(a) Interest rate reestimate	–	–	–	–	–
(b) Technical/default reestimate	(811)	2,196	48,211	(154,457)	(104,860)
Total of the above reestimate components	$ (811)	$ 2,196	$ 48,211	$(154,457)	$(104,860)
Ending balance of the loan guarantee liability	$ (1,015)	$ 265	$ 175,521	$ 673,261	$ 848,032

Administrative Expense (in thousands)

Loan Programs	FY 2004	FY 2003
DCA	$ 8,862	$ 8,155
UE	594	448
MSED	161	936
Total	**$ 9,617**	**$ 9,539**

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. Thirteen countries are in violation of Section 620q of the Foreign Assistance Act (FAA), owing $37.3 million that is more than six months delinquent. Twelve countries are in violation of the Brooke-Alexander Amendment to the Foreign Operations Export Financing and Related Programs Appropriations Act, owing $388 million that is more than one year delinquent. Outstanding direct loans receivable for countries in violation of Section 620q totaled $27.6 million. Outstanding direct loans receivable for countries in violation of the Brooke Amendment totaled $372 million.

2. The MSED Liquidating Account general ledger has a loan receivable balance of $689 thousand. This includes two loans pending closure. These loans are being carried at 100% bad debt allowance.

3. The Ukraine program guarantees have expired, and the Ukraine Financing Account was closed out in FY 2002.

4. For footnote presentation purposes, in the table "Direct Loans Obligated Prior to FY 1992 as of September 30, 2003", the Loans Receivable Gross amount for FY 2003 was decreased by $357 thousand in order to correct a footnote error that existed last year.

NOTE 7. INVENTORY AND RELATED PROPERTY

USAID's Inventory and Related Property is comprised of Operating Materials and Supplies. Operating Materials and Supplies as of September 30, 2004 and 2003 are as follows:

	FY 2004	FY 2003
Items Held for Use		
Office Supplies	$ 7,212	$ 6,937
Items Held in Reserve for Future Use		
Disaster assistance materials and supplies	7,986	7,120
Birth control supplies	20,566	9,970
Total	$ 35,764	$ 24,027

Operating Materials and Supplies are valued at historical cost and considered not held for sale.

NOTE 8. GENERAL PROPERTY, PLANT AND EQUIPMENT, NET

General Property, Plant and Equipment, Net (in thousands)

	Useful Life	Cost	Accumulated Depreciation	Net Book Value
The components of PP&E as of September 30, 2004 are as follows:				
Classes of Fixed Assets				
Equipment	3 to 5 years	$ 56,471	$ (25,732)	$ 30,740
Buildings, Improvements, & Renovations	20 years	53,851	(24,236)	29,588
Land and Land Rights	N/A	4,181	–	4,181
Assets Under Capital Lease		6,872	(1,423)	5,449
Construction in Progress	N/A	570	–	570
Internal Use Software	3 to 5 years	20,328	(8,901)	11,427
Total		**$142,272**	**$ (60,317)**	**$ 81,954**
The components of PP&E as of September 30, 2003 are as follows:				
Classes of Fixed Assets				
Equipment	3 to 5 years	$ 42,171	$ (25,004)	$ 17,167
Buildings, Improvements, & Renovations	20 years	52,292	(21,265)	31,027
Land and Land Rights	N/A	4,181	–	4,181
Assets Under Capital Lease		5,311	(1,117)	4,194
Construction in Progress	N/A	570	–	570
Internal Use Software	3 to 5 years	12,248	(5,054)	7,194
Total		**$116,773**	**$ (52,440)**	**$ 64,333**

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

Structures and Facilities 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. Usually the land is purchased with the intention of constructing an office building at the site.

NOTE 9. LEASES

Leases as of September 30, 2004 and 2003
(in thousands)

Entity as Lessee		
Capital Leases:	**FY 2004**	**FY 2003**
Summary of Assets Under Capital Lease:		
Buildings	$ 6,872	$ 5,311
Accumulated Depreciation	$ 1,423	$ 1,117
Future Payments Due:		
Fiscal Year	**Future Costs**	**Future Costs**
2004	$ –	$ 912
2005	785	426
2006	471	222
2007	431	192
2008	192	–
2009	164	–
After 5 Years	–	–
Net Capital Lease Liability	2,043	1,752
Lease Liabilities Covered by Budgetary Resources	2,043	1,752
Lease Liabilities Not Covered by Budgetary Resources	–	–
The capital lease liability is reported on USAID's Balance Sheet under Other Liabilities.		
Operating Leases:	**FY 2004**	**FY 2003**
Future Payments Due:		
Fiscal Year	**Future Costs**	**Future Costs**
2004	$ –	$ 72,452
2005	76,968	70,968
2006	32,327	68,755
2007	28,292	68,022
2008	24,970	67,496
2009	18,889	–
After 5 Years	21,574	344,031
Total Future Lease Payments	$ 203,021	$ 691,724

The lease of the Ronald Reagan Building in Washington D.C., USAID's headquarters is scheduled to expire September 2005. Future lease payments beyond September 2005 were not available at the time of this reporting and are not included. This building is leased by the General Services Administration (GSA). USAID is charged rent intended to approximate commercial rental rates. Lease payments for FY 2004 and 2003 amounted to $39 million and $36 million respectively.

NOTE 10. ACCOUNTS PAYABLE

The Accounts Payable covered by budgetary resources as of September 30, 2004 and 2003 consisted of the following:

Accounts Payable Covered by Budgetary Resources (in thousands)

	FY 2004	FY 2003
Intragovernmental		
Accounts Payable	$ 29,523	$ 27,299
Disbursements in Transit	–	–
Total Intragovernmental	29,523	27,299
Accounts Payable	1,951,468	1,842,778
Disbursements in Transit	9,010	–
	1,960,478	1,842,778
Total Accounts Payable	**$ 1,990,001**	**$ 1,870,077**

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 11. DEBT

USAID Intragovernmental debt as of September 30, 2004 and 2003 consisted of the following borrowings from Treasury for post-1991 loan programs, which is classified as other debt:

Intragovernmental Debt as of September 30, 2004 and 2003 (in thousands)

	FY 2003 Beginning Balance	Net Borrowing	FY 2003 Ending Balance	Net Borrowing	FY 2004 Ending Balance
Urban & Environmental	$ –	$ –	$ –	$ –	$ –
Direct Loan	15,560	62,421	77,981	33,100	111,081
MSED	1,184	–	1,184	(1,184)	–
Total Debt	$ 16,744	$ 62,421	$ 79,165	$ 31,916	$ 111,081

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 payable to Treasury, which represents financing account borrowings from the Treasury under the Credit Reform Act. In addition, there is net liquidating account equity in the amount of $6.0 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, 2004 and 2003 Other Liabilities consisted of the following:

Other Liabilities as of September 30, 2004 and 2003
(in thousands)

	FY 2004	FY 2003
Intragovernmental		
Unfunded FECA Liability	$ 9,529	$ 6,417
Credit Program Undisbursed Loans	207,095	-
Other	203,950	8,426
Total Intragovernmental	420,574	14,843
Accrued Funded Payroll/Benefits	11,357	6,329
Deferred Credit	7,405	4,305
Liability for Deposit Funds and Suspense Accounts – Non-Entity	19,148	9,176
Foreign Currency Trust Fund	256,871	240,222
Trust Fund Balances	26,459	23,106
Unfunded Leave	29,891	28,714
Capital Lease Liability	2,589	1,981
Other	29	197,424
	$ 353,750	$ 511,257
Total Other Liabilities	$ 774,324	$ 526,100

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

The desparity between FY 2004 and FY 2003 other intragovernmental liability and those with the public is due to Federal and NonFederal misclassifications in last years financial statements.

NOTE 13. ACCRUED UNFUNDED ANNUAL LEAVE AND SEPARATION PAY

Accrued unfunded benefits for annual leave and separation pay as of September 30, 2004 and 2003 are:

Accrued Unfunded Benefits
(in thousands)

	FY 2004	FY 2003
Liabilities Not Covered by Budgetary Resources		
Accrued Annual Leave	$ 29,882	$ 28,409
FSN Separation Pay Liability	9	305
Total Accrued Unfunded Annual Leave and Separation Pay	$ 29,891	$ 28,714

NOTE 14. ACCRUED UNFUNDED WORKERS' COMPENSATION BENEFITS

The provision for workers' compensation benefits payable, as of September 30, 2004 and 2003 are as follows:

Accrued Unfunded Workers' Compensation Benefits
(in thousands)

	FY 2004	FY 2003
Liabilities Not Covered by Budgetary Resources		
Accrued Unfunded Workers' Compensation	$ 6,985	$ 6,417
Future Workers' Compensation Benefits	24,523	27,400
Total Accrued Unfunded Workers' Compensation Benefits	$ 31,508	$ 33,817

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.

USAID's total FECA liability is $31.5 million as of September 30, 2004 and comprises of unpaid FECA billings for $7.0 million and estimated future FECA costs of $24.5 million.

For FY 2003, USAID's total FECA liability was $33.8 million and comprised of unpaid FECA billings for $6.4 million and estimated future FECA costs of $27.4 million.

Estimated future FECA costs are determined by the Department of Labor. This liability is determined using a paid losses extrapolation method calculated over a 37 year period. This method utilizes historical benefit payment patterns related to a specific incurred period to predict the ultimate payments related to that period. These annual benefit payments have been discounted to present value. The interest rate assumptions used for discounting were 4.883% in year 1 and 5.235% in Year 2 and thereafter.

The decrease of $2.9 million for Future Workers' Compensation Benefits is shown as a financing source yet to be provided on the Statement of Financing.

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 disclosed in FY 2003, USAID continues to be involved in a group of cases which dispute the appropriate indirect cost rates to be charged where contract rates do not match Negotiated Indirect Cost Rate Agreement (NICRA) rates, however, the likelihood of an unfavorable outcome to USAID on this case has changed from reasonably possible to remote. The status of all remaining 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, 2004 and 2003 are as follows:

Liabilities Not Covered by Budgetary Resources (in thousands)

	FY 2004	FY 2003
Contingent Liabilities for Loan Guarantees	$ 242,171	$ 311,383
Accrued Unfunded Annual Leave and Separation Pay	29,891	28,714
Accrued Unfunded Workers Compensation Benefits	31,508	33,817
Total Liabilities not covered by Budgetary Resources	303,571	373,914
Total Liabilities covered by Budgetary Resources	9,670,220	8,957,967
Total Liabilities	**$ 9,973,791**	**$ 9,331,882**

All liabilities not covered by Budgetary Resources are non-federal liabilities.

NOTE 17. STATEMENT OF NET COST

The Consolidated Statement of Net Cost reports the Agency's gross costs less earned revenues to arrive at net cost of operations by strategic goals, as of September 30, 2004. To the extent practicable, presentation of program results by strategic goals is based on the Joint FY 2004-2009 State/USAID Strategic Plan. For comparative purposes, prior year data have been recast consistent with the 2004 presentation.

The Schedule of Cost by Responsibility Segment categorizes costs and revenues by strategic and performance goals and responsibility segments. A responsibility segment is the component that carries out a mission or major line of activity, and whose managers report 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 goals 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 goals to reflect total goals costs.

FY 2004 Schedule of Cost 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, 2004
(in thousands)

Goal	Africa	Asia & Near East	Europe & Eurasia	Latin America & Caribbean	Global Health	DCHA	EGAT	Intra-Agency Eliminations	2004 Total
Regional Stability									
Close, strong, and effective U.S. ties with allies									
Total Costs	$ 77	$ 1,039	$ 16,734	$ 2,064	$ –	$ 55,112	$ 215	$(158)	$ 75,083
Less Earned Revenues	–	(4)	(62)	–	–	(433)	(3)	64	(438)
Net Program Costs	77	1,035	16,672	2,064	–	54,679	212	(94)	74,645
Existing and emergent regional conflicts are contained or resolved									
Total Costs	32,965	496,507	26,545	11,577	–	12,811	–	(1,218)	579,187
Less Earned Revenues	(80)	(556)	(84)	(118)	–	(117)	–	122	(833)
Net Program Costs	32,885	495,951	26,461	11,459	–	12,694	–	(1,096)	578,354
Counterterrorism									
Coordinated international prevention and response to terrorism									
Total Costs	–	16,325	–	–	–	–	–	(34)	16,291
Less Earned Revenues	–	–	–	–	–	–	–	–	–
Net Program Costs	–	16,325	–	–	–	–	–	(34)	16,291
Stable political and economic conditions									
Total Costs	–	113,466	–	–	–	–	–	(238)	113,228
Less Earned Revenues	–	(62)	–	–	–	–	–	8	(54)
Net Program Costs	–	113,404	–	–	–	–	–	(230)	113,174
International Crime and Drugs									
International trafficking in drugs, persons, and other illicit goods									
Total Costs	–	–	332	76,914	–	–	–	(162)	77,084
Less Earned Revenues	–	–	(2)	(336)	–	–	–	43	(295)
Net Program Costs	–	–	330	76,578	–	–	–	(119)	76,789
Democracy and Human Rights									
Develop transparent and accountable democratic institutions									
Total Costs	106,217	375,862	278,387	122,738	–	361,408	–	(2,612)	1,242,000
Less Earned Revenues	(215)	(505)	(313)	(439)	–	(2,567)	–	517	(3,522)
Net Program Costs	106,002	375,357	278,074	122,299	–	358,841	–	(2,095)	1,238,478
Universal standards protect human rights									
Total Costs	563	9,649	60	845	–	6,168	21,643	(82)	38,847
Less Earned Revenues	–	(31)	–	–	–	(68)	(207)	39	(267)
Net Program Costs	563	9,618	60	845	–	6,100	21,436	(43)	38,580

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U.S. Agency for International Development
SCHEDULE OF COSTS BY RESPONSIBILITY SEGMENT *(continued)*
For the year ended September 30, 2004
(in thousands)

Goal	Africa	Asia & Near East	Europe & Eurasia	Latin America & Caribbean	Global Health	DCHA	EGAT	Intra-Agency Eliminations	2004 Total
Economic Prosperity and Security									
Enhanced food security and agricultural development									
Total Costs	160,415	30,168	11,465	57,736	–	–	114,050	(784)	373,050
Less Earned Revenues	(383)	(113)	7	(472)	–	–	(1,005)	251	(1,715)
Net Program Costs	160,032	30,055	11,472	57,264	–	–	113,045	(533)	371,335
Increased trade and investment									
Total Costs	84,422	113,765	33,675	45,681	–	–	535	(583)	277,495
Less Earned Revenues	(281)	(1,063)	–	(202)	–	–	(4)	198	(1,352)
Net Program Costs	84,141	112,702	33,675	45,479	–	–	531	(385)	276,143
Institutions, laws, and policies foster private sector led growth									
Total Costs	76,695	2,033,690	270,627	60,715	–	11,308	135,971	(5,433)	2,583,573
Less Earned Revenues	(399)	(5,001)	1,045	(486)	–	(88)	(7,247)	1,559	(10,617)
Net Program Costs	76,296	2,028,689	271,672	60,229	–	11,220	128,724	(3,874)	2,572,956
Secure and stable financial and energy markets									
Total Costs	–	76,237	60,839	57	–	–	17,935	(325)	154,743
Less Earned Revenues	–	(214)	(279)	(2)	–	–	(256)	96	(655)
Net Program Costs	–	76,023	60,560	55	–	–	17,679	(229)	154,088
Social and Environmental Issues									
Broader access to quality education with an emphasis on primary school completion									
Total Costs	167,154	282,509	7,542	70,692	–	–	38,459	(1,188)	565,168
Less Earned Revenues	(737)	(837)	7	(532)	–	–	(408)	321	(2,186)
Net Program Costs	166,417	281,672	7,549	70,160	–	–	38,051	(867)	562,982
Improved global health									
Total Costs	983,203	563,369	149,544	355,830	1,157,586	–	–	(6,735)	3,202,797
Less Earned Revenues	(8,174)	(4,536)	(957)	(3,592)	(7,554)	–	–	3,177	(21,636)
Net Program Costs	975,029	558,833	148,587	352,238	1,150,032	–	–	(3,558)	3,181,161
Partnerships, initiatives, and implemented international treaties									
Total Costs	47,614	253,154	71,993	93,757	–	–	145,434	(1,284)	610,668
Less Earned Revenues	(29)	(899)	(416)	(724)	–	–	(47,269)	6,317	(43,020)
Net Program Costs	47,585	252,255	71,577	93,033	–	–	98,165	5,033	567,648
Humanitarian Response									
Effective protection, assistance, and durable solutions for refugees									
Total Costs	8,400	6,948	31,425	18,144	–	405,008	–	(986)	468,939
Less Earned Revenues	–	66	(66)	(190)	–	(3,200)	–	434	(2,956)
Net Program Costs	8,400	7,014	31,359	17,954	–	401,808	–	(552)	465,983
Improved capacity of host countries to reduce vulnerabilities to disasters									
Total Costs	8,671	(2,364)	51,461	78,690	–	13,054	98,862	(521)	247,853
Less Earned Revenues	(44)	89	(368)	27	–	(149)	(72,009)	9,277	(63,177)
Net Program Costs	8,627	(2,275)	51,093	78,717	–	12,905	26,853	8,756	184,676

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U.S. Agency for International Development
SCHEDULE OF COSTS BY RESPONSIBILITY SEGMENT *(continued)*
For the year ended September 30, 2004
(in thousands)

Goal	Africa	Asia & Near East	Europe & Eurasia	Latin America & Caribbean	Global Health	DCHA	EGAT	Intra-Agency Eliminations	2004 Total
Management and Organizational Excellence									
A high performing, well–trained, and diverse workforce									
Total Costs	41,202	–	3,069	–	–	–	–	(93)	44,178
Less Earned Revenues	(475)	–	(6)	–	–	–	–	62	(419)
Net Program Costs	40,727	–	3,063	–	–	–	–	(31)	43,759
Customer–oriented, innovative delivery of administrative and information services									
Total Costs	708	–	–	–	–	–	–	(1)	707
Less Earned Revenues	(6)	–	–	–	–	–	–	1	(5)
Net Program Costs	702	–	–	–	–	–	–	–	702
Modernized, secure, and high quality information technology management									
Total Costs	1,357	–	–	–	–	–	–	(3)	1,354
Less Earned Revenues	–	–	–	–	–	–	–	–	–
Net Program Costs	1,357	–	–	–	–	–	–	(3)	1,354
Secure, safe, and functional facilities serving domestic and overseas staff									
Total Costs	–	–	171	–	–	–	–	–	171
Less Earned Revenues	–	–	–	–	–	–	–	–	–
Net Program Costs	–	–	171	–	–	–	–	–	171
Public Diplomacy and Political Affairs									
American understanding and support for U.S. foreign policy									
Total Costs	–	–	–	–	–	34,561	–	(72)	34,489
Less Earned Revenues	–	–	–	–	–	(202)	–	26	(176)
Net Program Costs	–	–	–	–	–	34,359	–	(46)	34,313
Net Costs of Operations	$1,708,840	$4,356,658	$1,012,375	$988,374	$1,150,032	$892,606	$444,696	$ –	$10,553,582

NOTE 18. TOTAL AND INTRAGOVERNMENTAL COST AND EARNED REVENUE BY BUDGET FUNCTIONAL CLASSIFICATION

Total Cost and Earned Revenue by Budget Functional Classification as of September 30, 2004 are as follows:

Function Classification	Gross Cost	Earned Revenue	Net Cost
International Development and Humanitarian Assistance- 151	$ 7,977,485	$ (153,316)	$ 7,824,170
International Security Assistance- 152	2,679,334	(3)	2,679,331
Conduct of Foreign Affairs- 153	43,859	–	43,859
Federal Employee Retirement and Disability- 602	6,222	–	6,222
Total	$ 10,706,901	$ (153,319)	$ 10,553,582

Total Cost and Earned Revenue by Budget Functional Classification as of September 30, 2003 are as follows:

Function Classification	Gross Cost	Earned Revenue	Net Cost
International Development and Humanitarian Assistance- 151	$ 6,700,489	$ (188,023)	$ 6,512,466
International Security Assistance- 152	3,434,912	–	3,434,912
Conduct of Foreign Affairs- 153	45,200	–	45,200
Federal Employee Retirement and Disability- 602	987	–	987
Total	$ 10,181,588	$ (188,023)	$ 9,993,565

Intragovernmental Cost and Earned Revenue by Budget Functional Classification, as of September 30, 2004 are as follows:

Function Classification	Gross Cost	Earned Revenue	Net Cost
International Development and Humanitarian Assistance- 151	$ 532,069	$ 131,168	$ 400,901
International Security Assistance- 152	41,493	–	41,493
Conduct of Foreign Affairs- 153	43,859	–	43,859
Federal Employee Retirement and Disability- 602	–	–	–
Total	$ 617,421	$ (131,168)	$ 486,253

Intragovernmental Cost and Earned Revenue by Budget Functional Classification, as of September 30, 2003 are as follows:

Function Classification	Gross Cost	Earned Revenue	Net Cost
International Development and Humanitarian Assistance- 151	$ 496,708	$ (17,452)	$ 479,256
International Security Assistance- 152	28,972	–	28,972
Conduct of Foreign Affairs- 153	45,200	–	45,200
Federal Employee Retirement and Disability- 602	–	–	–
Total	$ 570,880	$ (17,452)	$ 553,428

NOTE 19. PRIOR PERIOD ADJUSTMENT

USAID recorded no prior period adjustments during FY 2004. In FY 2003, a prior adjustment was made in the amount of approximately $1.7 million to adjust the allowance for subsidy for prior year amortization of the reestimate interest expense in the Direct Loan Financing fund (Enterprise for the Americas Initiative Debt Restructuring Financing).

NOTE 20. STATEMENT OF BUDGETARY RESOURCES

A. Apportionment Categories of Obligations Incurred:

	FY 2004	FY 2003
Category A, Direct	$ 39,926	$ 1,371,774
Category B, Direct	11,316,180	8,534,809
Category A, Reimbursable	27,475	10,065
Category B, Reimbursable	24,854	171,039
Total	$ 11,408,435	$10,087,687

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

For credit financing activities, borrowing authority for FY 2004 was 31.9 million. For FY 2003 borrowing authority was $62.9 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:

There were no differences for FY 2004 between prior year and current year beginning balances.

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 reporogramming by USAID (subject to OMB approval through the apportionment process).

F. Appropriations Received:

The $73.9 million difference between appropriations received on the Statement of Changes in Net Position and the Statement of Budgetary Resources is due to appropriated funds received for a credit program liquidating account which was recorded in budgetary accounts and not required to be recorded in traditional accounts. In addition, the difference also includes Trust Fund re-appropriations which are shown as appropriations received on the Statement of Changes in Net Position.

NOTE 21. STATEMENT OF FINANCING - OTHER

Explanation of the Relationship Between Liabilities Not Covered by Budgetary Resources on the Balance Sheet and the Change in Components Requiring or Generating Resources in Future Periods

Contingent liabilities for Loan Guarantees on the Balance Sheet represent cumulative balances, of which $209 million represent the Credit Subsidy expense reestimates requiring resources in future periods. Current period changes of $1.2 million represents the current period increase in the Accrued Unfunded Annual Leave Separation Pay liability, and is shown on the Statement of Financing as a change in components requiring resources in future periods. Increase in exchange revenue from the Public includes current-period increases in Accrued Unfunded Workers Compensation Benefits with other non-related expenses that require future resources.

Description of Transfers that Appear as a Reconciling Item on the Statement of Financing

Appropriations that are transferred from other Federal Agencies to USAID are not shown on the Statement of Budgetary Resources, but are shown on the Balance Sheet and Statement of Net Costs. Appropriations that are transferred to other agencies are shown on the Statement of Budgetary Resources, but are not shown on the Balance Sheet nor the Statement of Net Costs. Below is a reconciliation of obligations and spending authority from offsetting collections between the Statement of Budgetary Resources and the Statement of Financing.

Explanation of the Relationship Between the Statement of Changes in Net Position and the Statement of Financing

Transfers in/out without reimbursement of $1.8 million is included in upward/downward reestimates of credit subsidiary expense on the Statement of Financing.

Reconciliation of Obligations and Spending Authority from Offsetting Collections between the Statementof Budgetary Resources and the Statement of Financing (in thousands)

Obligations Incurred, Statement of Budgetary Resources		$11,408,435
Less: Transfers to Other Agencies		
Nuclear Regulatory Commission	$(334,567)	–
Others	(2,563)	(337,129)
Add: Transfers from Other Agencies		
Dept of State	447,345	–
Dept of Agriculture	950,192	–
Executive Office of the President	146,020	1,543,556
Obligations Incurred, Statement of Financing		12,614,862
Spending Authority from Offsetting Collections Per Statement of Budgetary Resources		1,274,282
Less: Transfers to Other Agencies		
Dept of State	(18,956)	–
U.S. Treasury Dept	(355)	(19,310)
Add: Allocations from Other Agencies		
Dept of State	316	–
Dept of Agriculture	186,517	–
Executive Office of the President	4,808	191,641
Spending Authority from Offsetting Collections Per Statement of Financing		**$ 1,446,613**

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Required Supplementary Information

U.S. Agency for International Development
REQUIRED SUPPLEMENTARY INFORMATION: INTRAGOVERNMENTAL AMOUNTS
as of September 30, 2004
(in thousands)

Intragovernmental assets:

Agency	Fund Balance with Treasury	Accounts Receivable, Net	Advances and Prepayments	Totals
Treasury	$ 15,854,926	$ –	$ –	$ 15,854,926
Dept of Agriculture	–	804,491	2,601	807,092
Dept of Commerce	–	–	531	531
Dept of State	–	–	19,911	19,911
Other	–	226,677	7,876	234,554
Total	$ 15,854,926	$ 1,031,168	$ 30,920	$ 16,917,014

Intragovernmental liabilities:

Agency	Due to Treasury	Accounts Payable	Debt	Other	Totals
Treasury	$ 6,033,925	$ 5,440	$ 111,081	$ 37,549	$ 6,187,996
GSA	–	12,059	–	–	12,059
Dept of Agriculture	–	3,369	–	–	3,369
Dept of Labor	–	2,455	–	7,017	9,472
Dept of Health and Human Services	–	6,003	–	–	6,003
Other	–	197	–	376,008	376,205
Total	$ 6,033,925	$ 29,523	$ 111,081	$ 420,574	$ 6,595,103

Intragovernmental earned revenues and related costs:

USAID's intragovernmental earned revenues are not greater than $500 million. As such, intragovernmental earned revenues and related costs by trading partner are not required to be reported.

U.S. Agency for International Development
REQUIRED SUPPLEMENTARY INFORMATION: SCHEDULE OF BUDGETARY RESOURCES
For the periods ended September 30, 2004 and 2003

	Operating				Program				Credit-Financing	Other	Alocations to Other Aagencies	Consolidated Total
	1000	1010	1021	1035	1037	1093	1095	1096				
Budget Authority	$670,162	$309,821	$1,325,050	$512,900	$2,842,200	$430,988	$1,824,481	$2,336,233	$ –	$ 581,715	$238,828	$11,072,378
Unobligated Balances - Beginning of Period	26,071	92,806	202,891	40,863	1,071,659	195,044	144,389	726	981,619	421,762	189,268	3,367,098
Spending Authority from Offsetting Collections	29,134	5	3,142	1,427	3	–	18,054	–	218,325	856,732	2,595	1,129,417
Recoveries of Prior-Year Obligations	16,317	14,803	23,355	14,114	15,355	17,322	12,963	571	3,955	9,395	16,715	144,865
Temporarily Not Available Pursuant to Public Law	–	–	–	–	–	–	–	–	–	–	–	–
Permanently Not Available	(3,768)	(2,729)	(8,213)	(1,507)	(13,544)	(3,663)	(10,826)	–	(1,184)	(1,035,168)	(74)	(1,080,676)
Total Budgetary Resources	**737,916**	**414,706**	**1,546,225**	**567,797**	**3,915,673**	**639,691**	**1,989,061**	**2,337,530**	**1,202,715**	**834,436**	**447,332**	**14,633,082**
Status of Budgetary Resources:												
Obligations Incurred	667,014	319,265	1,490,504	366,628	2,928,428	494,587	1,750,151	2,203,028	234,102	617,598	337,130	11,408,435
Unobligated Balances - Available	69,246	93,754	42,773	200,729	983,159	144,672	238,914	134,502	968,613	216,186	100,194	3,192,742
Unobligated Balances - Unavailable	1,656	1,687	12,948	440	4,086	432	(4)	–	–	652	10,008	31,905
Total, Status of Budgetary Resources	**737,916**	**414,706**	**1,546,225**	**567,797**	**3,915,673**	**639,691**	**1,989,061**	**2,337,530**	**1,202,715**	**834,436**	**447,332**	**14,633,082**
Relationship of Obligations to Outlays:												
Obligated Balance, Net, Beginning of Period	160,842	527,856	2,506,374	409,634	2,933,916	565,322	1,996,750	90,230	1,597	83,600	1,298,721	10,574,842
Obligated Balance, Transferred, Net	–	–	–	–	–	–	–	–	–	–	–	–
Obligated Balance, Net, End of Period	166,373	452,415	2,630,507	379,666	3,105,784	544,004	2,073,456	1,969,418	11,031	160,905	1,267,439	12,760,997
Outlays:												
Disbursements	645,384	379,903	1,343,018	382,482	2,741,205	498,583	1,660,482	323,268	220,712	530,918	216,834	8,942,788
Collections	(27,460)	(5)	(3,142)	(1,427)	(3)	–	(18,054)	–	(218,325)	(854,050)	(2,595)	(1,125,061)
Less: Offsetting Receipts	–	–	–	–	–	–	–	–	–	–	–	–
Net Outlays	$617,924	$379,899	$1,339,876	$381,055	$2,741,202	$498,583	$1,642,428	$ 323,268	$ 2,387	$(323,131)	$ 214,240	$ 7,817,727

MAJOR FUNDS

Program Fund
- 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
- 1096 Latin American/Caribbean Disaster Recovery

Operating Fund
- 1000 Operating Expenses of USAID

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
- 1038 Central American Reconciliation Assistance
- 1040 Sub-Saharan Africa Disaster Assistance
- 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
- 1500 Demobilization and Transition Fund

Other Accompanying Information

U.S. Agency for International Development
CONSOLIDATING BALANCE SHEET
As of September 30, 2004
(in thousands)

	Credit Program Funds	Program Funds	Operating Funds	Revolving Funds	Trust Funds	Other Funds	Eliminating Entries	Total
ASSETS								
Intragovernmental								
Fund Balance with Treasury	$ 1,227,679	$ 14,163,133	$ 368,349	$ 1,034	$ 33,255	$ 61,476	–	$ 15,854,926
Accounts Receivable	300,147	–	804,700	–	–	–	(73,679)	1,031,168
Other Assets	–	30,554	366	–	–	–	–	30,920
Total Intragovernmental	1,527,826	14,193,687	1,173,415	1,034	33,255	61,476	(73,679)	16,917,014
Cash and Other Monetary Assets	50	–	257,151	–	–	–		257,201
Accounts Receivable, Net	46,927	17,330	1,014	0	–	4,529	–	69,800
Loans Receivable, Net	6,108,252	–	–	–	–	–	–	6,108,252
Inventory and Related Property	–	28,551	7,213	–	–	–	–	35,764
General Property, Plant, and Equipment, Net	–	935	81,019	–	–	–	–	81,954
Advances and Prepayments	160	504,190	51,655	2,300	1,380	1	–	559,686
Total Assets	7,683,215	14,744,693	1,571,467	3,334	34,635	66,006	(73,679)	24,029,671
LIABILITIES								
Intragovernmental								
Accounts Payable	19,098	40,898	878	–	–	42,328	(73,679)	29,523
Debt	111,081	–	–	–	–	–	–	111,081
Due to U.S. Treasury	6,033,925	–	–	–	–	–	–	6,033,925
Other Liabilities	407,959	–	8,086	–	–	4,529	–	420,574
Total Intragovernmental	6,572,063	40,898	8,964	–	–	46,857	(73,679)	6,595,103
Accounts Payable	45,708	1,460,177	444,827	1,590	8,176	–	–	1,960,478
Loan Guarantee Liability	1,039,937	–	–	–	–	–	–	1,039,937
Federal Employees and Veteran's Benefits	–	–	24,523	–	–	–	–	24,523
Other Liabilities	7,810	–	300,324	–	26,468	19,148	–	353,750
Total Liabilities	7,665,518	1,501,075	778,638	1,590	34,644	66,005	(73,679)	9,973,791
Commitments and Contingencies	–	–	–	–	–	–	–	–
NET POSITION								
Unexpended Appropriations	42,557	13,209,745	143,085	–	–	–	–	13,395,387
Cumulative Results of Operations	(24,859)	33,873	649,745	1,743	(9)	–	–	660,493
Total Net Position	17,698	13,243,618	792,830	1,743	(9)	–	–	14,055,880
Total Liabilities and Net Position	**$ 7,683,216**	**$ 14,744,693**	**$ 1,571,468**	**$ 3,333**	**$ 34,635**	**$ 66,005**	**$ (73,679)**	**$ 24,029,671**

U.S. Agency for International Development
CONSOLIDATING STATEMENT OF NET COSTS
For the Year ended September 30, 2004
(in thousands)

Goal	Credit	Operating	Other	Program	Revolving	Trust	IntraAgency Elimination	Total
Regional Stability								
Close, strong, and effective U.S. ties with allies								
Intragovernmental	$ –	$ 1,904	$ –	$ 700	$ 1	$ –	$ (6)	$ 2,599
With the Public	–	10,435	–	62,069	24	108	(152)	72,484
Total Costs	–	12,339	–	62,769	25	108	(158)	75,083
Less Earned Revenues	–	(183)	–	(304)	(15)	–	64	(438)
Net Program Costs	–	12,156	–	62,465	10	108	(94)	74,645
Existing and emergent regional conflicts are contained or resolved								
Intragovernmental	–	2,998	–	7,584	2	–	(22)	10,562
With the Public	–	16,432	–	553,180	38	171	(1,196)	568,625
Total Costs	–	19,430	–	560,764	40	171	(1,218)	579,187
Less Earned Revenues	–	(287)	–	(645)	(23)	–	122	(833)
Net Program Costs	–	19,143	–	560,119	17	171	(1,096)	578,354
Counterterrorism								
Coordinated International prevention and response to terrorism								
Intragovernmental	–	–	–	16,325	–	–	(34)	16,291
With the Public	–	–	–	–	–	–	–	–
Total Costs	–	–	–	16,325	–	–	(34)	16,291
Less Earned Revenues	–	–	–	–	–	–	–	–
Net Program Costs	–	–	–	16,325	–	–	(34)	16,291
Stable political and economic conditions								
Intragovernmental	–	197	–	117	–	–	(1)	313
With the Public	–	1,080	–	112,059	2	11	(237)	112,915
Total Costs	–	1,277	–	112,176	2	11	(238)	113,228
Less Earned Revenues	–	(19)	–	(41)	(2)	–	8	(54)
Net Program Costs	–	1,258	–	112,135	–	11	(230)	113,174
International Crime and Drugs								
International trafficking in drugs, persons, and other illicit goods								
Intragovernmental	–	1,689	–	2,702	1	–	(9)	4,383
With the Public	–	9,261	–	63,476	21	96	(153)	72,701
Total Costs	–	10,950	–	66,178	22	96	(162)	77,084
Less Earned Revenues	–	(162)	–	(163)	(13)	–	43	(295)
Net Program Costs	–	10,788	–	66,015	9	96	(119)	76,789

(continued on next page)

U.S. Agency for International Development
CONSOLIDATING STATEMENT OF NET COSTS *(continued)*
(in thousands)

Goal	Credit	Operating	Other	Program	Revolving	Trust	IntraAgency Elimination	Total
Democracy and Human Rights								
Develop transparent and accountable democratic institutions								
Intragovernmental	–	17,398	–	559	9	–	(38)	17,928
With the Public	–	95,372	–	1,130,065	219	990	(2,574)	1,224,072
Total Costs	–	112,770	–	1,130,624	228	990	(2,612)	1,242,000
Less Earned Revenues	–	(1,669)	–	(2,237)	(133)	–	517	(3,522)
Net Program Costs	–	111,101	–	1,128,387	95	990	(2,095)	1,238,478
Universal standards protect human rights								
Intragovernmental	–	2,030	–	255	1	–	(5)	2,281
With the Public	–	11,130	–	25,371	26	116	(77)	36,566
Total Costs	–	13,160	–	25,626	27	116	(82)	38,847
Less Earned Revenues	–	(195)	–	(95)	(16)	–	39	(267)
Net Program Costs	–	12,965	–	25,531	11	116	(43)	38,580
Economic Prosperity and Security								
Enhanced food security and agricultural development								
Intragovernmental	–	12,054	–	19,572	6	–	(66)	31,566
With the Public	–	66,077	–	275,287	152	686	(718)	341,484
Total Costs	–	78,131	–	294,859	158	686	(784)	373,050
Less Earned Revenues	–	(1,156)	–	(718)	(92)	–	251	(1,715)
Net Program Costs	–	76,975	–	294,141	66	686	(533)	371,335
Increased trade and investment								
Intragovernmental	–	8,438	–	15,933	4	–	(51)	24,324
With the Public	–	46,254	–	206,863	106	480	(532)	253,171
Total Costs	–	54,692	–	222,796	110	480	(583)	277,495
Less Earned Revenues	–	(809)	–	(676)	(65)	–	198	(1,352)
Net Program Costs	–	53,883	–	222,120	45	480	(385)	276,143
Institutions, laws, and policies foster private sector led growth								
Intragovernmental	6,305	21,625	–	24,174	11	–	(109)	52,006
With the Public	652	118,543	–	2,416,193	272	1,231	(5,324)	2,531,567
Total Costs	6,957	140,168	–	2,440,367	283	1,231	(5,433)	2,583,573
Less Earned Revenues	(5,067)	(2,074)	–	(4,869)	(166)	–	1,559	(10,617)
Net Program Costs	1,890	138,094	–	2,435,498	117	1,231	(3,874)	2,572,956
Secure and stable financial and energy markets								
Intragovernmental	–	6,347	–	4,272	3	–	(22)	10,600
With the Public	–	34,795	–	109,210	80	361	(303)	144,143
Total Costs	–	41,142	–	113,482	83	361	(325)	154,743
Less Earned Revenues	–	(609)	–	(93)	(49)	–	96	(655)
Net Program Costs	–	40,533	–	113,389	34	361	(229)	154,088

(continued on next page)

U.S. Agency for International Development
CONSOLIDATING STATEMENT OF NET COSTS *(continued)*
(in thousands)

Goal	Credit	Operating	Other	Program	Revolving	Trust	IntraAgency Elimination	Total
Social and Environmental Issues								
Broader access to quality education with an emphasis on primary school completion								
Intragovernmental	–	17,454	–	28,395	9	–	(96)	45,762
With the Public	–	95,681	–	423,604	219	994	(1,092)	519,406
Total Costs	–	113,135	–	451,999	228	994	(1,188)	565,168
Less Earned Revenues	–	(1,674)	–	(699)	(134)	–	321	(2,186)
Net Program Costs	–	111,461	–	451,300	94	994	(867)	562,982
Improved global health								
Intragovernmental	–	152,501	(3)	80,080	77	–	(488)	232,167
With the Public	–	835,981	3	2,130,294	1,918	8,681	(6,247)	2,970,630
Total Costs	–	988,482	–	2,210,374	1,995	8,681	(6,735)	3,202,797
Less Earned Revenues	–	(14,626)	–	(9,018)	(1,169)	–	3,177	(21,636)
Net Program Costs	–	973,856	–	2,201,356	826	8,681	(3,558)	3,181,161
Partnerships, initiatives, and implemented international treaties								
Intragovernmental	42,362	17,808	–	19,121	9	–	(166)	79,134
With the Public	21,529	97,622	–	412,263	224	1,014	(1,118)	531,534
Total Costs	63,891	115,430	–	431,384	233	1,014	(1,284)	610,668
Less Earned Revenues	(46,536)	(1,708)	–	(956)	(137)	–	6,317	(43,020)
Net Program Costs	17,355	113,722	–	430,428	96	1,014	5,033	567,648
Humanitarian Response								
Effective protection, assistance, and durable solutions for refugees								
Intragovernmental	–	14,967	–	55,084	8	–	(147)	69,912
With the Public	–	82,047	–	316,779	188	852	(839)	399,027
Total Costs	–	97,014	–	371,863	196	852	(986)	468,939
Less Earned Revenues	–	(1,435)	–	(1,840)	(115)	–	434	(2,956)
Net Program Costs	–	95,579	–	370,023	81	852	(552)	465,983
Improved capacity of host countries to reduce vulnerabilities to disasters								
Intragovernmental	98,862	3,859	–	1,561	2	–	(219)	104,065
With the Public	–	21,156	–	122,665	49	220	(302)	143,788
Total Costs	98,862	25,015	–	124,226	51	220	(521)	247,853
Less Earned Revenues	(72,008)	(370)	–	(46)	(30)	–	9,277	(63,177)
Net Program Costs	26,854	24,645	–	124,180	21	220	8,756	184,676

(continued on next page)

U.S. Agency for International Development
CONSOLIDATING STATEMENT OF NET COSTS *(continued)*
(in thousands)

Goal	Credit	Operating	Other	Program	Revolving	Trust	IntraAgency Elimination	Total
Management and organizational excellence								
A high performing, well–trained, and diverse workforce								
Intragovernmental	–	3,945	–	1,422	2	–	(11)	5,358
With the Public	–	21,626	–	17,001	50	225	(82)	38,820
Total Costs	–	25,571	–	18,423	52	225	(93)	44,178
Less Earned Revenues	–	(378)	–	(73)	(30)	–	62	(419)
Net Program Costs	–	25,193	–	18,350	22	225	(31)	43,759
Customer–oriented, innovative delivery of administrative and information svs								
Intragovernmental	–	30	–	–	–	–	–	30
With the Public	–	162	–	514	–	2	(1)	677
Total Costs	–	192	–	514	–	2	(1)	707
Less Earned Revenues	–	(3)	–	(3)	–	–	1	(5)
Net Program Costs	–	189	–	511	–	2	–	702
Modernized, secure, and high quality information technology management								
Intragovernmental	–	–	–	–	–	–	–	–
With the Public	–	–	–	1,357	–	–	(3)	1,354
Total Costs	–	–	–	1,357	–	–	(3)	1,354
Less Earned Revenues	–	–	–	–	–	–	–	–
Net Program Costs	–	–	–	1,357	–	–	(3)	1,354
Secure, safe, and functional facilities serving domestic and overseas staff								
Intragovernmental	–	–	–	–	–	–	–	–
With the Public	–	–	–	171	–	–	–	171
Total Costs	–	–	–	171	–	–	–	171
Less Earned Revenues	–	–	–	–	–	–	–	–
Net Program Costs	–	–	–	171	–	–	–	171
Public Diplomacy and Public Affairs								
American understanding and support for U.S. foreign policy								
Intragovernmental	–	152	–	–	–	–	–	152
With the Public	–	833	–	33,566	2	9	(72)	34,338
Total Costs	–	985	–	33,566	2	9	(72)	34,490
Less Earned Revenues	–	(15)	–	(187)	(1)	–	26	(177)
Net Program Costs	–	970	–	33,379	1	9	(46)	34,313
Net Costs of Operations	$46,099	$1,822,511	$ –	$8,667,180	$1,545	$16,247	$ –	$10,553,582

U.S. Agency for International Development
CONSOLIDATING STATEMENT OF NET POSITION
For the Year ended September 30, 2004
(in thousands)

	Credit Program Funds	Program Funds	Operating Funds	Revolving Funds	Trust Funds	Other Funds	Total
Beginning Balances	$ (58,154)	$ 11,616,448	$ 931,022	$ 3,288	$ (251)	$ -	$ 12,492,353
Prior period adjustments	–	–	–	– –	– –		
Beginning Balances, as adjusted	(58,154)	11,616,448	931,022	3,288	(251)	–	12,492,353
Budgetary Financing Sources:							
Appropriations Received	108,114	8,256,500	821,759	–	–	–	9,186,373
Appropriations transferred–in/out	13,386	2,081,554	27,701	–	–	–	2,122,641
Other adjustments (recissions, etc)	(1,372)	(43,703)	(4,463)	–	–	–	(49,538)
Appropriations used	–	–	–	–	–	–	–
Nonexchange revenue	–	–	–	–	–	–	–
Donations and forfeitures of cash and cash equivalents	–	–	67,194	–	16,489	–	83,683
Transfers–in/out without reimbursement	–	–	763,675	–	–	–	763,675
Other budgetary financing sources	–	–	–	–	–	–	–
Other Financing Sources:							
Donations and forfeitures of property	–	–	–	–	–	–	–
Transfers–in/out without reimbursement	1,823	–	–	–	–	–	1,823
Imputed financing from costs absorbed by others	–	–	8,452	–	–	–	8,452
Other	–	–	–	–	–	–	–
Total Financing Sources	121,951	10,294,351	1,684,318	–	16,489	–	12,117,109
Net Cost of Operations	(46,099)	(8,667,181)	(1,822,510)	(1,545)	(16,247)	–	(10,553,582)
Ending Balances	**$ 17,698**	**$13,243,618**	**$ 792,830**	**$ 1,743**	**$ (9)**	**$ –**	**$ 14,055,880**

U.S. Agency for International Development
CONSOLIDATING STATEMENT OF BUDGETARY RESOURCES
For the Year ended September 30, 2004
(in thousands)

	Credit Program Funds	Program Funds	Operating Funds	Revolving Funds	Trust Funds	Other Funds	Credit-Financing	Allocations	Total
Budgetary Resources:									
Budget Authority	$ 176,499	$9,788,686	$ 849,460	$ –	$18,905	$ –	$ –	$ 238,828	$11,072,378
Unobligated Balances – Beginning of Period	368,508	1,785,630	37,384	2,694	1,995	–	981,619	189,268	3,367,098
Spending Authority from Offsetting Collections	851,779	22,640	29,148	4,930	–	–	218,325	2,595	1,129,417
Recoveries of Prior-Year Obligations	2,709	103,085	17,583	115	703	–	3,955	16,715	144,865
Temporarily Not Available Pursuant to Public Law	–	–	–	–	–	–	–	–	–
Permanently Not Available	(1,031,253)	(43,703)	(4,462)	–	–	–	(1,184)	(74)	(1,080,676)
Total Budgetary Resources	**368,242**	**11,656,338**	**929,113**	**7,739**	**21,603**	**–**	**1,202,715**	**447,332**	**14,633,082**
Status of Budgetary Resources:									
Obligations Incurred	189,933	9,776,105	846,333	5,255	19,576	–	234,102	337,130	11,408,435
Unobligated Balances–Available	178,048	1,860,643	80,734	2,484	2,027	–	968,613	100,194	3,192,742
Unobligated Balances–Unavailable	261	19,590	2,046	–	–	–	–	10,008	31,905
Total Status of Budgetary Resources	**368,242**	**11,656,338**	**929,113**	**7,739**	**21,603**	**–**	**1,202,715**	**447,332**	**14,633,082**
Relationship of Obligations to Outlays:									
Obligated Balance, Net, Beginning of Period	(5,842)	9,082,772	175,584	751	21,259	–	1,597	1,298,721	10,574,842
Obligated Balance, Transferred, Net	–	–	–	–	–	–	–	–	–
Obligated Balance, Net, End of Period	34,791	11,218,291	196,964	1,252	31,229	–	11,031	1,267,439	12,760,997
Outlays:									
Disbursements	146,611	7,537,501	807,589	4,638	8,903	–	220,712	216,834	8,942,788
Collections	(851,798)	(22,639)	(27,475)	(2,229)	–	–	(218,325)	(2,595)	(1,125,061)
Less: Offsetting Receipts	–	–	–	–	–	–	–	–	–
Net Outlays	**$(705,187)**	**$7,514,862**	**$ 780,114**	**$ 2,409**	**$ 8,903**	**$ –**	**$ 2,387**	**$ 214,239**	**7,817,727**

U.S. Agency for International Development
CONSOLIDATING STATEMENT OF FINANCING
For the Year ended September 30, 2004
(in thousands)

	Credit	Program	Operating	Revolving	Trust	Other	Total
Resources Used to Finance Activities:							
Budgetary Resources Obligated							
Obligations Incurred	$ 424,035	$ 10,113,235	$ 846,333	$ 5,255	$ 19,577	$ –	$ 11,408,435
Appropriations transferred to/from other agencies (net)	–	256,235	950,192	–	–	–	1,206,427
Total Obligations Incurred	424,035	10,369,470	1,796,525	5,255	19,577	–	12,614,862
Less: Spending authority from offsetting collections and recoveries	(1,076,768)	(145,035)	(46,731)	(5,045)	(703)	–	(1,274,282)
Spending authority transferred to/from other agencies (net)	–	14,218	(186,549)	–	–	–	(172,331)
Total Spending authority from offsetting collections and recoveries	(1,076,768)	(130,817)	(233,280)	(5,045)	(703)	–	(1,446,613)
Net Obligations	(652,733)	10,238,653	1,563,245	210	18,874	–	11,168,249
Other Resources							
Donated and Credit Program Revenue	(123,611)	(24)	130	–	–	–	(123,505)
Imputed Financing From Costs Absorbed by Others	–	–	8,452	–	–	–	8,452
Net other resources used to finance activities	(123,611)	(24)	8,582	–	–	–	(115,053)
Total resources used to finance activities	**(776,344)**	**10,238,629**	**1,571,827**	**210**	**18,874**	**–**	**11,053,196**
Resources Used to Finance Items not Part of the Net Cost of Operations:							
Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided	(40,013)	(1,556,081)	200,094	1,295	(2,331)	–	(1,397,036)
Resources that fund expenses recognized in prior periods	–	–	3,163	–	–	–	3,163
Budgetary offsetting collections and receipts that do not affect net cost of operations	–	–	–	–	–	–	–
Credit program collections which increase liabilities for loan guarantees or allowances for subsidy	1,070,104	–	–	40	–	–	1,070,144
Other	–	–	(218)	–	–	–	(218)
Resources that finance the acquisition of assets	974	(13,679)	32,864	–	–	–	20,159
Total resources used to finance items not part of net cost of operations	**1,031,065**	**(1,569,760)**	**235,903**	**1,335**	**(2,331)**	**–**	**(303,788)**
Total resources used to finance net cost of operations	**254,721**	**8,668,869**	**1,807,730**	**1,545**	**16,543**	**–**	**10,749,408**
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:							
Components Requiring or Generating Resources in Future Periods:							
Increase in annual leave liability	122	–	1,416	–	(296)	–	1,242
Upward/Downward reestimates of credit subsidy expense	(208,678)	–	–	–	–	–	(208,678)
Other	–	–	37,031	–	–	–	37,031
Total components of net cost of operations that will require or generate resources in future periods	(208,556)	–	38,447	–	(296)	–	(170,405)
Components not Requiring or Generating Resources							
Depreciation and Amortization	–	262	14,924	–	–	–	15,186
Revaluation of assets or liabilities	–	–	(805)	–	–	–	(805)
Other	(66)	(1,950)	(37,786)	–	–	–	(39,802)
Total components of net cost of operations that will not require or generate resources	(66)	(1,688)	(23,667)	–	–	–	(25,421)
Total components of net cost of operations that will not require or generate resources in the current period	(208,622)	(1,688)	14,780	–	(296)	–	(195,826)
Net Cost of Operations	$ 46,099	$ 8,667,181	$ 1,822,510	$ 1,545	$ 16,247	$ –	$ 10,553,582

Independent Auditor's Report

November 15, 2004

MEMORANDUM

TO: CFO/FM, Lisa D. Fiely

FROM: AIG/A, Bruce N. Crandlemire

SUBJECT: Independent Auditor's Report on USAID's Financial Statements for Fiscal Years 2004 and 2003 (Report No. 0-000-05-001-C)

The Office of Inspector General (OIG) is transmitting its *Independent Auditor's Report on USAID's Financial Statements for Fiscal Years 2004 and 2003*. Under the Government Management Reform Act of 1994, USAID is required to prepare consolidated fiscal year-end financial statements. For FY 2004, USAID is required to submit the audited financial statements to the Office of Management and Budget (OMB) and the U.S. Department of the Treasury (Treasury) by November 15, 2004.

The Office of Inspector General has issued unqualified opinions on all five of USAID's principal financial statements for fiscal year 2004.

With respect to internal control, our report discusses one material internal control weakness and six reportable conditions identified during the audit. The material internal control weakness is related to USAID's process for reviewing and reporting on its quarterly accrued expenditures and accounts payable *(See page 10)*. The reportable conditions address USAID's need to (1) improve its certification process for mapping strategic objectives to performance goals; (2) reconcile its Fund Balance with the U.S. Treasury; (3) improve recognition and reporting over its accounts receivable; (4) perform regular intragovernmental reconciliations; (5) analyze and deobligate unliquidated obligations; and (6) improve its system for preparing its Management's Discussion and Analysis.

This report contains five recommendations to improve USAID's internal control over financial management, the preparation of its annual financial statements, and its compliance with laws and regulations.

We have received and considered your response to our findings and recommendations in the draft audit report *(see page 29)*. Based on your response, we have accepted your comments as management decisions. Please forward information related to the resolution of these findings to the Office of Management, Planning, and Innovation for acceptance and final action *(see Appendix II for USAID's Management Comments)*.

We appreciate the cooperation and courtesies that your staff extended to the OIG during the audit. The Office of Inspector General is looking forward to working with you on our audit of the fiscal year 2005 financial statements.

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Summary of Results

In our opinion, USAID's consolidated balance sheet, consolidated statement of changes in net position, consolidated statement of net cost, combined statement of budgetary resources, and consolidated statement of financing present fairly, in all material respects, the financial position of USAID as of September 30, 2004 and 2003, and its net cost, net position, and budgetary resources for the years then ended in conformity with generally accepted accounting principles *(see page 7)*.

Our audit identified one material internal control weakness and six reportable internal control conditions *(see page 9)*.

The material internal control weakness is identified as follows:

- USAID's process for reviewing and reporting its quarterly accrued expenditures and accounts payable needs improvement.

The reportable conditions relate to USAID's need to improve its:

1. Certification process for mapping its strategic objectives to its performance goals
2. Reconciliation of its Fund Balance with the U.S. Treasury
3. Process for recognizing and reporting its accounts receivable
4. Intragovernmental reconciliation process
5. Process for deobligating unliquidated obligations
6. System for preparing its Management's Discussion & Analysis

Our audit identified reportable noncompliance related to requirements of the Federal Financial Management Improvement Act, as follows:

- USAID's new core financial system is not deployed
- Funds control
- The U.S. Standard General Ledger at the transaction level

The other reportable instance of noncompliance identified in our audits relates to USAID's compliance with Section 620(q) and the Brooke Amendment of the Foreign Assistance Act of 1961.

Background

The United States Agency for International Development (USAID) was created in 1961 to advance the United States' foreign policy interests by promoting broad-based sustainable development and providing humanitarian assistance. USAID has an overseas presence in over 80 countries, 36 of which have operational accounting stations. In fiscal year 2004, USAID had total obligation authority of about $14.2 billion.

Under the Government Management Reform Act of 1994, USAID is required to annually submit audited financial statements to the Office of Management and Budget (OMB) and the U.S. Treasury. Pursuant to this Act, for FY 2004, USAID has prepared the following:

- Consolidated Balance Sheet,
- Consolidated Statement of Changes in Net Position,
- Consolidated Statement of Net Cost,
- Combined Statement of Budgetary Resources,
- Consolidated Statement of Financing,
- Notes to the principal financial statements,
- Other Required Supplementary Information, and
- 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, budgetary resources, and reconciliation of net costs to budgetary resources for fiscal years 2004 and 2003?

In our opinion, the financial statements referred to above present fairly, in all material respects, in conformity with generally accepted accounting principles, USAID's assets, liabilities, and net position; net costs; changes in net position; budgetary resources; and reconciliation of nets costs to budgetary resources as of September 30, 2004 and 2003 and for the years then ended.

In accordance with *Government Auditing Standards*, we have also issued our reports (dated November 15, 2004) 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

Auditor's Opinion

We have audited the accompanying consolidated balance sheets of USAID as of September 30, 2004 and 2003, and the consolidated statements of changes in net position, consolidated statements of net cost, combined statements of budgetary resources, and consolidated statements of financing of USAID for the years ended September 30, 2004 and 2003.

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 the Office of Management and Budget (OMB) Bulletin No. 01-02, *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, in conformity with generally accepted accounting principles, USAID's assets, liabilities, and net position; net costs; changes in net position; budgetary resources; and reconciliation of net costs to budgetary resources as of September 30, 2004 and 2003 and for the years then ended.

Management's Discussion and Analysis, Required Supplementary Information, and other accompanying information contain a wide range of data, some of which are not directly related to the financial statements. We do not express an opinion on this information. However, we compared this information for consistency with the financial statements and discussed the methods of measurement and presentation with USAID officials. Based on this limited work, we found no material inconsistencies with the financial statements or nonconformance with OMB guidance.

In accordance with *Government Auditing Standards*, we have also issued our reports, dated November 15, 2004 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.

Office of Inspector General

USAID, Office of Inspector General
November 15, 2004

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Independent Auditor's Report on Internal Control

Report on Internal Control

We have audited the consolidated balance sheet of USAID as of September 30, 2004 and 2003. We have also audited the consolidated statement of changes in net position, consolidated statement of net cost, combined statement of budgetary resources, and consolidated statement of financing for the fiscal years ended September 30, 2004 and 2003, and have issued our report thereon dated November 15, 2004. We conducted the audits in accordance with generally accepted auditing standards; *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements.*

In planning and performing our audits of USAID's financial statements for the fiscal years ended September 30, 2004 and 2003, we considered its internal control over financial reporting by obtaining an understanding of the agency's internal control, determined whether internal controls had been placed in operation, assessed control risk, and performed tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. We limited our system of internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin 01-02. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982, such as those controls relevant to ensuring efficient operations. The objective of our audit was not to provide assurance on internal control. Consequently, we do not provide an opinion on internal control.

Our consideration of internal control over financial reporting would not necessarily disclose all matters in internal control over financial reporting that might be reportable conditions. Under standards established by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect the agency's ability to record, process, summarize, and report financial data consistent with the assertions by management in the financial statements. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in internal control, misstatements, losses, or noncompliance may occur and not be detected. Our consideration of internal control over financial reporting would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we noted certain matters (discussed in the following paragraphs) involving internal control and its operation that we consider to be reportable conditions, and one matter that we consider to be a material weakness.

The material weakness relates to USAID's need to improve its process for reviewing and reporting its quarterly accrued expenditures and accounts payable.

The reportable conditions relate to USAID's need to improve its:

1. Certification process for mapping its strategic objectives to its performance goals.
2. Reconciliation of its Fund Balance with the U.S. Treasury.
3. Process for recognizing and reporting its accounts receivable.
4. Intragovernmental reconciliation process.
5. Process for deobligating unliquidated obligations.
6. System for preparing its Management's Discussion & Analysis.

We also noted other matters involving the internal control over financial reporting, which we reported to USAID management in a separate letter dated November 15, 2004.

With respect to internal control related to performance measures reported in USAID's Performance and Accountability Report, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions, as required by OMB Bulletin 01-02. Our procedures were not designed to provide assurance on internal control over reported performance measures, and, accordingly, we do not provide an opinion on such controls.

Material Weakness

USAID's Process for Reviewing and Reporting Its Quarterly Accrued Expenditures and Accounts Payable Needs Improvement

In our testing of USAID's accrued expenditures at selected overseas missions and bureaus in Washington, DC, the OIG determined that existing controls over the accruals process needed improvement. USAID's accrued expenditures and accounts payable recorded in the core accounting system were less accurate because of deficiencies and unresolved training needs of USAID's Certifying Technical Officers. The OIG proposed, and USAID made, $254 million of adjustments to more accurately present accrued expenditures and accounts payable reported on USAID's financial statements.

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. Contracting Technical Officers (CTOs), Loan Officers, Grants Officers, Strategic Objective teams, and others are responsible for retaining financial documentation and ensuring its availability for audit. ADS 631 also states that the Obligation Manager 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.

The OIG found that USAID's amounts accrued via accrual worksheets at overseas missions and in Washington, DC lacked sufficient documentation to support accrual estimates and that such documentation could often not be produced subsequent to the recording of the estimates. We also found many accrual documentation errors, including incorrect calculations, misinterpretation of grantee information, and incorrect comparisons of estimated expenditure reports. In addition, we noted that USAID program managers did not have the training necessary to adequately estimate accruals.

At USAID, accrued expenditures are accounting estimates of services or goods rendered which have not been paid by USAID. In conducting quarterly accrual estimates, USAID relied on the efforts of CTOs at overseas missions and in Washington, DC. During FY 2004, these efforts were limited by the inability of USAID's overseas Mission Accounting Control System (MACS) to monitor various funding sources of the same project or program. Project managers and financial analysts had not documented their calculations or correspondence from grantees, their analysis of expenditure rates, or their review of accounting reports. Financial analysts estimating accruals also indicated that some accruals for completed projects are reported the same way for several quarters because missions have either not received disbursement data from USAID/Washington or because mission or Washington-based analysts have not received final vouchers indicating project completion.

USAID has taken action to address this situation. In previous years, simply identifying an individual responsible for providing accrual estimates was difficult. In response to an OIG recommendation made in FY 2004, USAID has worked with the contractor maintaining its core accounting system to improve the quality of this information. As a result of this work, the OIG can more easily locate USAID managers responsible for maintaining accrual estimates.

USAID has implemented OIG recommendations that have improved the overall process. Nevertheless, USAID's reported accounts payable and accrued expenditures are still vulnerable to material error, and annual pipeline information used at various levels of USAID management may be unreliable as long as CTOs are not trained to adequately perform quarterly accruals. In prior years, existing controls over the accruals process have been ineffective and resulted in incomplete or inadequate written supporting documentation for many accrual transactions. To address this condition, the OIG is making the following recommendation.

> **Recommendation No 1: We recommend that USAID's Chief Financial Officer, in coordination with USAID's Office of Human Resources, update USAID's Cognizant Technical Officer training course and Financial Management Overview training course to include sessions on developing and supporting quarterly accrual estimates. The training should include information on supporting documentation and on developing estimates in the absence of timely disbursement data necessary to develop accurate accruals.**

Reportable Conditions

Certification Process for Mapping Strategic Objectives to Performance Goals Needs Improvement (Previously Reported as a Material Weakness)

USAID's Bureau for Policy and Program Coordination (PPC) needs to improve the certification process for mapping its strategic objectives (SOs) to agency performance goals. While USAID has implemented OIG recommendations in improving PPC's system for certifying strategic objective to performance goals, we identified problems that continue to affect USAID's ability to obtain certifications on a timely and consistent basis. These problems occurred because USAID's process for obtaining certifications was not always followed consistently or in a timely manner and because PPC's Annual Reports Database was incomplete. As a consequence, the existing certification process may result in inaccurate information being reported on USAID's Statement of Net Cost.

In response to an FY 2003 OIG audit recommendation, PPC instructed USAID operating units to certify that individual strategic objectives expending funds in FY 2004 were correctly assigned to one of its 34 separate performance goals. In January 2004, PPC forwarded two tables to USAID operating units—one identifying strategic objectives linked to performance goals and the other with unlinked strategic objectives—and instructed USAID operating units to certify the accuracy of strategic objectives assigned to USAID's performance goals by April 30, 2004. This information was developed from PPC's Annual Reports

Database (ARD), which contains all USAID strategic objectives active when the ARD was first created. PPC received all of the certifications from USAID's operating units, with certifying officers' statements and signatures, by May 14, 2004.

In June 2004, however, we determined that several strategic objectives which were either not contained in the ARD or were considered inactive by the certifying official at the time of the certification were not captured in the certifications from mission directors. Many inactive strategic objectives which still had significant expenditure activity were not considered in PPC's initial request. Upon this discovery, PPC worked with USAID's Office of Financial Management and the bureau program offices to ensure that these strategic objectives were appropriately linked to agency performance goals (i.e. second round). Had these strategic objectives remained unassigned, USAID would have reported improperly allocated costs in its FY 2004 Statement of Net Cost.

PPC did not require individual certifications for the second round of validating strategic objectives of agency goal linkages. Instead, it accepted email correspondence from the operating units for these previously unassigned strategic objectives as evidence that these were legitimate changes made by an appropriate official. When the final table showing the attributions made during the second round was finished, PPC required the head of each bureau's program office to sign the table with the words, "I am satisfied with the way the listed SOs are attributed to Agency goals." If PPC does not implement a certification policy consistently throughout all USAID operating units, the overall quality of these certifications will be compromised.

Statement of Federal Financial Accounting Standard (SFFAS) No. 4 requires federal agencies to accumulate and report the costs of its activities on a regular and consistent basis for management information purposes. SFFAS No. 4 states that reliable information on the costs of federal programs and activities is crucial for effective management of government operations. The information supplied to internal and external users should be reliable and useful in making evaluations or decisions.

Recommendation No 2: We recommend that the USAID Chief Financial Officer, in coordination with the Assistant Administrator of the Policy and Program Coordination Division:

2.1 Ensure that annual certifications of strategic objectives to agency goals, which are made when information from the Annual Reports Database are finalized, are conducted consistently by all USAID operating units.

2.2 Include all active strategic objectives expending funds in the Annual Reports Database.

USAID's Process for Reconciling Its Fund Balance with the U.S. Treasury Needs Improvement (Repeat Finding)

Because of the significance of the unsupported year-end adjustments, the OIG determined that USAID's approach and internal controls over its fund balance reconciliation process need enhancement. USAID did not develop written narratives on unreconciled conditions of its fund balance accounts documenting the reasons for making year-end adjustments to resolve $392 million of differences between its balances and the pre-closing balances reported on the year-end closing statement provided by the U.S. Treasury's Financial Management Service (FMS). While preparing the year-end closing statement, USAID made adjustments of $95 million net ($392 million in absolute value) to bring its balances in agreement with the U.S. Treasury on the year-end closing statement and annual financial statement. This is compared to the $35 million net amount ($201 million in absolute dollar value) that was reported in FY 2003.

The U.S. Department of 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. Agencies must also resolve all differences between the balances reported in their general ledger fund balance with the U.S. Treasury accounts and the balances reported by the U.S. Treasury. This guidance stipulates three months as a reasonable period for clearing the differences. U.S. Treasury reconciliation procedures state that an agency may not arbitrarily adjust its fund balance with the U.S. Treasury account. The procedures further state that an agency 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. In addition, the procedures state that an agency should document "month cleared" (the accounting month that the discrepancy was adjusted), accounting periods, required explanations, and brief narratives that disclose the cause of the discrepancy.

According to GAO's *Standards for Internal Control in Federal Government*, deficiencies found during ongoing monitoring should be communicated to the individual responsible for the particular function and also to at least one level of management above that individual. Serious matters should be reported to top management. This directive states that federal program managers should continually seek ways to improve accountability and to minimize and improve operational problems. USAID federal managers must seek, identify and report specific operational problems that should be disclosed based on the review of USAID's monthly fund balance reconciliations.

The OIG identified several problems that continue to limit USAID's ability to reconcile and correct differences between its reported fund balances and the control balances reported by the FMS. Specifically, USAID did not regularly document the conditions resulting in unreconciled conditions. USAID spent considerable time resolving timing differences associated with unreconciled amounts but was not able to implement procedures to quickly research and resolve other types of reconciling items. Also, authorized USAID officials did not review, certify, or sign monthly reconciliation documents, in accordance with TFM 5100. The OIG determined that because of these problems, it was not clear whether USAID clearly established and reported the conditions to the USAID managers for the function and whether USAID properly corrected

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reconciling items and unreconciled conditions of the fund balance accounts. Moreover, USAID's overseas missions continue to have large unreconciled balances because they have not been able to implement procedures to reconcile items quickly and because accounting stations responsible for several client missions do not consistently receive documentation to support unreconciled transactions. As a result, USAID had to make an adjustment to reconcile its Fund Balance with the U.S. Treasury.

This condition does not have a material impact on the *Fund Balance with Treasury* line item reported on USAID's FY 2004 Balance Sheet; Note 2, *Fund Balances with Treasury,* or on amounts reported as unobligated balances on USAID's *Schedule of Budgetary Resources by Major Appropriation* for the year ended September 30, 2004.

In FY 2003, USAID implemented a new reporting system that has been used to determine its missions' reconciling items at the end of each accounting period. We determined that this new system was designed to track all reconciling items that existed between USAID's overseas mission records and FMS records, and allowed USAID access to information on these differences.

We identified similar reconciliation conditions in a previous audit report and made recommendations for corrective action by USAID management. As of September 30, 2004, in a cash reconciliation directive for USAID's overseas missions, USAID had taken action to implement those recommendations by identifying common problems that cause timing differences and other unreconciled conditions, and ways to avoid common problems. The information in USAID's cash reconciliation procedures referenced the U.S. Treasury's guidance (*Fund Balance with Treasury Reconciliation Procedures*) for identifying common errors or problems.

Because USAID is currently developing procedures to respond to a previous recommendation, we are not making a new recommendation to address the unreconciled condition between USAID's overseas missions and the Department of Treasury. We will review these procedures during the FY 2005 financial statement audit. However, because USAID/Washington continues to record unsupported and undocumented adjustments to its year-end fund balance to bring this account into agreement with the U.S. Treasury, we are including the following recommendation to USAID management:

> **Recommendation No. 3: We recommend that USAID's Chief Financial Officer require USAID's Office of Financial Management to develop and implement specific written desk procedures requiring documenting and reporting processes for the narratives of (1) conditions of reconciling items and (2) unreconciled conditions of fund balance accounts for the reconciliation of the Fund Balance**

with Treasury, that incorporate and enhance existing USAID and federal guidance.

USAID's Process for Recognizing and Reporting Its Accounts Receivable Needs Improvement (Repeat Finding Previously Reported as a Material Weakness)

USAID's process for receivables due to USAID needs improvement in ensuring that all receivables are accounted for and validated in the amount reported for accounts receivable in its financial statements. Currently, USAID records receivables after its missions and the Office of Acquisition and Assistance (OAA) notify OFM that employees, vendors, contractors, and grantees owe funds to USAID. Overall, USAID still does not have an integrated system for ensuring that its accounts receivable are complete, and no single person in USAID is solely responsible for ensuring that USAID accounts receivable are accurate for interim and year-end financial reporting.

SFFAS No. 1, paragraph 40 to 52, *Accounts Receivable*, requires the recognition (recording) of accounts receivable when a claim to cash or other assets has been established. The establishment of accounts receivable cannot occur on a timely basis unless there are adequate procedures in place for recognizing and reporting them at the end of each accounting period. Such a system does not exist at USAID for its overseas locations.

The OIG determined that USAID had inadequate supervisory controls for ensuring that USAID officials completely determined and reported all validated receivables to the USAID Office of Financial Management. Approximately $5 million of USAID's accounts receivable that have been outstanding for two years or more were not validated as of September 30, 2004.

Since it has not fully implemented policies and procedures for its overseas missions and its Office of Acquisition and Assistance to immediately recognize accounts receivable, USAID had to rely on its web-based data collection tool to determine the year-end accounts receivable balances for its overseas missions. USAID continues to lack an integrated financial management system with the ability to recognize and account for its worldwide accounts receivable. This internal control weakness was reported in a previous audit report[1] and USAID is still in the process of integrating its financial management systems. Because this systemic weakness continues to exist, we have included it as a reportable condition in this report. However, we are not including an additional recommendation to address the condition. We will continue to monitor USAID's progress in implementing the OIG's previously recommended corrective actions.

1 Independent Auditor's Report on USAID's Consolidated Financial Statements, Internal Controls and Compliance for Fiscal Years 2003 and 2002. Report No. 0-000-04-001-C, dated November 14, 2003.

USAID's Intragovernmental Reconciliation Process Needs Improvement

USAID did not reconcile its significant intragovernmental activities and balances with its federal trading partners throughout fiscal year 2004. The U.S. Department of Treasury's Financial Management Service (FMS) reported $14.6 billion in intragovernmental balances at USAID in its 4th quarter Intragovernmental Summary Report. However, the summary report identified $10.4 billion of differences between transactions reported by USAID and those reported by USAID's federal trading partners. These differences were reported by FMS in several reports, including the Material Differences/Status of Disposition Certification (MD/SD) Report identifying differences by federal trading partner and differences in reported intragovernmental activity by reciprocal category.[2] Although USAID reconciled material differences identified by FMS in its quarterly MD/SD Report in accordance with Treasury Financial Manual (TFM) Bulletin No. 2004-04, it did not consistently reconcile other significant differences by reciprocal category with its federal trading partners throughout FY 2004.

Section 11.3 of OMB Bulletin 01-09 requires federal agencies to perform quarterly reconciliations of intragovernmental transactions beginning in fiscal year 2003. These reconciliations are to be conducted in accordance with the FMS *Federal Intragovernmental Transactions Accounting Policies Guide*. Beginning in the quarter ending March 31, 2004, FMS implemented its Intragovernmental Management Control Plan to address a material weakness cited by the Government Accountability Office (GAO) in the Financial Report of the United States Government. TFM Part 2, Chapter 4706.1 (TFM 4706.10) further references the requirements of OMB Bulletin 01-09. FMS monitors the intragovernmental payment and collection (IPAC) process for the entire federal government and accumulates daily IPAC transactions among all federal agencies using its Intragovernmental Reporting and Analysis System. To facilitate the quarterly FMS reports, FMS developed a reconciliation process based on a reciprocal category concept. As of September 30, 2004, FMS identified $10.4 billion of unreconciled differences between USAID and 37 separate federal agencies and one unassigned agency.

USAID did not reconcile other significant activities and balances for fiscal year 2004 because it did not effectively assign the necessary staff resources to reconcile its quarterly activities and balances with federal trading partners and promptly resolve differences. On the other hand, these same federal trading partners have not always attempted to do the same with USAID. As a result of the reportable condition, year-end balances in USAID's intragovernmental line items reported on the financial statements may be misstated.

[2] For example, federal interests are recorded in pairings of related U.S. Standard General Ledger accounts (federal interest receivable, interest payable, appropriation transfers in/out, revenue and expense and budgetary accounts).

The OIG determined that, in accordance with TFM Bulletin No. 2004-04, USAID could begin to reconcile significant activities and balances in FY 2004 on a quarterly basis for most activities and balances identified in the MD/SD. USAID has taken actions to address those material differences reported by FMS in the MD/SD every quarter. USAID has also informed the OIG of its plan to reconcile all differences exceeding $100 million with federal trading partners. We will review USAID's implementation of this plan in future audits.

In the second quarter of FY 2004, after FMS submitted MD/SD reports to federal agencies, USAID began performing intragovernmental reconciliations of reported material differences. As a result, USAID discovered that activity differences with federal trading partners occurred because of timing differences and reporting errors between federal agencies. In one instance, USAID resolved $856 million of activity differences resulting from erroneously reporting a trading partner code. Unresolved differences with federal trading partners may also be reported in the MD/SD because of accounting errors or differences in accounting methodologies.

Because USAID did not begin to resolve other significant differences in fiscal year 2004, however, we are making the following recommendation:

> **Recommendation No 4: We recommend that USAID's Chief Financial Officer direct its Financial Management Office to conduct quarterly intragovernmental reconciliations of activity and balances with its trading partners, in accordance with the requirements of the *Federal Intragovernmental Transactions Accounting Policies Guide,* issued by the Department of Treasury's Financial Management Service.**

Unliquidated Obligations Were Not Always Deobligated as Necessary (Repeat Finding)

USAID needs to improve its determination process for deobligating unliquidated obligations. At fiscal year-end, USAID's records show about $61 million of unliquidated obligations that were not deobligated as necessary and may no longer be needed for their original obligation purpose. In response to a previous OIG audit recommendation, USAID's Business Transformation Executive Committee (BTEC) reviewed approximately $80 million in inactive obligations of $100,000 or more during FY 2004 and coordinated with USAID Bureaus to review those inactive obligations and to make a determination regarding the deobligation of those funds. As of the fiscal year-end, however, USAID had not determined whether approximately $15 million of those inactive obligations could be deobligated because USAID Bureaus did not report their determination of those inactive obligations to the BTEC. USAID also did not deobligate about

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$46 million in other inactive obligations from current USAID records because its bureaus did not develop support for these determinations or report their results to USAID. As a result, as of September 30, 2004, about $61 million in inactive obligations still remained unliquidated that could be available for deobligation. This represents a decrease from the $119 million in unliquidated obligations reported in our FY 2003 audit. More than 51 percent of the $61 million is over the $100,000 threshold established by USAID for periodic review and deobligation as necessary. Consequently, remaining unliquidated amounts will not be available to USAID for other purposes.

USAID's Automated Directives System (ADS) 621.3.15, *Annual Certification of Unexpended Balances*, states, "As part of the annual budget process, Assistant Administrators, independent office directors, and mission directors must certify whether unexpended balances are necessary for ongoing programs." The directive further requires that when conducting reviews of obligations to identify funds that must be deobligated, obligation managers and others involved in the review process should consider circumstances that could result in excessive or unneeded obligation balances. According to ADS 621.3.13, where there is an unobligated balance that has remained unchanged for twelve months or more and there is no evidence of receipt of services and/or goods during that same 12-month period, the remaining balances may no longer be needed. But ADS 621 does not identify an appropriate way of reviewing unliquidated obligations, including guidance on the use of aging to determine their validity.

In FY 2002, USAID's Business Transformation Executive Committee working group reviewed 576 awards with performance periods ending on or before September 30, 2000, and having unliquidated obligation balances of $100,000 or more. As a result of the group's review, USAID deobligated about $100 million of the reported unliquidated obligations related to the 576 awards. However, because USAID has not fully institutionalized business processes and policy and procedural improvements, many other unliquidated obligations may be available for deobligation.

In FY 2004, USAID had taken actions to implement our previously reported recommendations by (1) expanding procedural guidance for reviews needed to identify unliquidated obligations that are no longer needed, and (2) including both ad hoc reports and core accounting system reports to assist USAID Bureaus in reviewing unliquidated obligations and making determinations regarding the deobligation of funds. Despite that improvement, as of September 30, 2004, USAID did not resolve approximately $61 million in inactive obligations in these reports. As a result, USAID was unable to provide its program managers and oversight agencies with amounts available for other purposes. This reportable condition does not have any material impact on the Statement of Budgetary Resources.

USAID's Accrual Reporting System requires USAID's obligation managers to review approve system-generated expenses based on recorded unliquidated obligations. If this system is maintained as intended, it should enable USAID to routinely identify obligations that could be deobligated. We will continue to review USAID's progress in reviewing inactive obligations in our FY 2005 financial statement audit.

USAID's System for Preparing Its Management's Discussion and Analysis Needs Improvement (Repeat Finding)

OMB Bulletin 01-02 requires the OIG to (a) obtain an understanding of the components of internal controls relating to the existence[3] and completeness[4] assertions relevant to the performance measures included in the MD&A and (b) report on those internal controls that have not been properly designed and placed in operation.

The MD&A is a narrative overview, prepared by management, which describes the reporting entity and its mission, activities, program and financial results, and financial condition. Statement of Federal Financial Accounting Standards (SFFAS) No. 15, *Management's Discussion and Analysis*, requires the MD&A to be included in each annual financial statement as required supplementary information. OMB Bulletin 01-09 provides additional guidance for preparing the MD&A.

Based on a limited review of USAID's system to collect and report performance information in the draft MD&A for FY 2004, the OIG identified the following weakness:

- USAID's current system does not allow the reporting of agency-wide performance results for the current year. Certain performance information for FY 2004 indicating the extent to which programs were achieving their objectives is based on results achieved in FY 2003. For example, Section 1.6 *Most Important Results and Continuing Challenges* does not identify targets against which to compare results. Although these results include predominantly FY 2004 information, FY 2003 information is included as well. Therefore, Section 1.6 of the MD&A for FY 2004 does not provide a clear picture of planned and actual performance for fiscal year 2004 and does not adequately reflect the actual costs for the current fiscal year.

[3] This management assertion deals with whether information included in the MD&A actually occurred during the given period.

[4] This management assertion deals with whether all performance results which should be presented have been included.

USAID has made notable improvements to this year's draft MD&A over the FY 2003 MD&A in two major ways:

- The draft MD&A for FY 2004 reported more current-year results in meeting the criteria set by OMB than the prior year's MD&A. USAID's present ability to compare the estimated current-year results against established goals and targets is a significant step in the right direction.

- The draft MD&A for FY 2004 uses USAID's New Strategic Planning Framework and Goal Structure – *Joint USAID/State Strategic Plan* – between the State Department and USAID. The new framework is designed to represent a more coherent, concise and logical reflection of how the Department and USAID organize their work towards given results/outcomes.

As the OIG reported in previous years, we recommend that USAID continue its efforts to improve its system for collecting, summarizing, and preparing actual performance information included in the MD&A. Specifically, USAID needs to further refine its current system so that the MD&A contains a clear picture of USAID's planned performance goals and targets for the current year and a comparison of these goals with actual results for the current year.

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.

Office of Inspector General

USAID, Office of Inspector General
November 15, 2004

Independent Auditor's Report on Compliance With Laws and Regulations

Report on Compliance with Laws and Regulations

We have audited the consolidated balance sheet of USAID as of September 30, 2004 and 2003. We have also audited the consolidated statement of changes in net position, consolidated statement of net cost, combined statement of budgetary resources, and consolidated statement of financing for the fiscal years ended September 30, 2004 and 2003, and have issued our report thereon. We conducted the audit in accordance with generally accepted auditing standards; *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*.

USAID management 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 certain other laws and regulations specified in OMB Bulletin 01-02, 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.

The results of our tests of compliance with the laws and regulations described in the preceding paragraph, exclusive of FFMIA, disclosed an instance of noncompliance with Section 620(q) of the Foreign Assistance Act of 1961, and the Brooke Amendment.

Under FFMIA, we are required to report 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. The results of our tests disclosed three instances in which USAID's financial management systems did not substantially comply with FFMIA requirements.

Our tests of compliance with selected provisions of laws and regulations disclosed instances of noncompliance considered to be reportable under *Government Auditing Standards*. However, our objective was not to provide an opinion on overall compliance with laws and regulations. Accordingly, we do not express such an opinion.

Noncompliance Other than FFMIA

620(q)/Brooke Amendment Report is not Functioning as a Proper Notice

Since March 2004, the USAID-prepared 620(q)/Brooke Amendment Violation Report has not properly reflected the status of foreign governments in violation or potential violation of Section 620(q) of the Foreign Assistance Act of 1961 and the Brooke Amendment to the Foreign Operations Appropriations Act of 1999. Section 620(q) prohibits the provision of federal assistance to any foreign government in default, for more than six months, on its loan obligations to the U.S. The Brooke Amendment identifies the same sanctions for foreign governments in default for more than one year. In May 2004, USAID should have identified a foreign government in the potential 620(q) violation category for failure to fulfill its loan obligations. This foreign government was not listed on the report until they were in Brooke violation in October 2004 after having received $22.5 million in new obligations from USAID subsequent to May 2004. USAID's Loan Management Division (LMD) did not notify the foreign government of its potential 620(q)/Brooke violation with the appropriate 45-day or 120-day notice. Although USAID is rescheduling a portion of the foreign government's loans, LMD did not effectively monitor several loans in arrears that were not undergoing rescheduling. Also because Riggs Bank (USAID's loan servicing agent) does not submit its reports on delinquent loans directly to USAID's Chief Financial Officer (CFO) in addition to LMD, the CFO could not effectively monitor the entire loan management process. LMD did not ensure that payments were made on these loans and did not have current written procedures for preparing and maintaining the 620(q)/Brooke Amendment Violation Report, particularly with respect to reviewing potential violations for countries undergoing loan rescheduling.

ADS 623.3.5.7 Monitoring 620(q)/Brooke states that LMD has the primary responsibility for monitoring 620(q) and Brooke compliance using Department of Defense and Export Import Bank information and internally developed reports on delinquency, and for notifying bureaus and missions when a USAID loan payment is past due. At least one follow-up to this initial message is sent on USAID loan arrearages stating that, unless payment is received, 620(q) or Brooke (if applicable) apply on a specific date. This message must provide a warning of about 45 days for either 620(q) or Brooke dates.

Because the report is not properly prepared, management's ability to properly monitor countries that are in potential or current violation is impaired; the foreign governments may not be properly notified within at least 45 days of their potential violation to allow time to prevent the violation; and USAID and other federal agencies may commit new obligations after a particular country moves into noncompliance with 620(q) or Brooke.

Recommendation No. 5: We recommend that USAID's Chief Financial Officer update written procedures related to the preparation of the 620(q)/Brooke Amendment Violation Report; the monitoring of non-rescheduled loans for countries under rescheduling; and the receipt of loan delinquency reports from its loan servicing agent.

Reportable Noncompliance with FFMIA (Repeat Finding)

OIG reported that USAID's financial management systems did not substantially comply with system requirements under FFMIA.[5] USAID's reportable noncompliance conditions related to (1) USAID's new core financial management system at overseas missions not being deployed, (2) funds control issues in USAID's core financial management system in Washington, and (3) USAID's financial management system compliance with the U.S. Standard General Ledger at the transaction level for its overseas missions. As a result, during FY 2004, USAID relied on a combination of outdated legacy systems; informal, unofficial records; and a core financial management system which suffered from technical and operational problems.

According to FFMIA, federal agencies must implement and maintain financial management systems that comply substantially with federal financial management system requirements. The Act states that users should have on-line access to, or receive daily reports on, the status of funds to perform analysis or make decisions. OMB Circular A-11 states that an agency that is not in compliance with FFMIA must prepare a remediation plan. The purpose of a remediation plan is to identify activities planned and underway that will allow USAID to achieve substantial compliance with FFMIA. Remediation plans must include the resources, remedies, interim target dates, and responsible officials. Further, the remediation target dates must be within three years of the date the system was determined not to be substantially compliant.

In response to our previous audit reports, USAID closed computer security as a material weakness in March 2004 and implemented a new core financial system at five missions. Currently, USAID plans to complete worldwide deployment of the system by the second quarter of fiscal year 2006. The integration of the procurement system is planned to occur at that time. Compliance with financial management system requirements will depend upon the completion of successful implementation of the systems. The OIG will

[5] Reports on USAID's Consolidated Financial Statements, Internal Controls, and Compliance for Fiscal Year 2000 (Audit Report No. 0-000-01-006-F, February 26, 2001); Reports on USAID's Consolidated Financial Statements, Internal Controls, and Compliance for Fiscal Year 1999 (Audit Report No. 0-000-00-006-F, February 18, 2000); and Audit of the Extent to Which USAID's Financial Management System Meets Requirements Identified in the Federal Financial Management Improvement Act of 1996 (Audit Report No. A-000-98-003-P, March 2, 1998).

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continue to monitor USAID's progress in becoming substantially compliant with FFMIA.

New Core Financial Management System Is Not Deployed

While USAID did begin overseas deployment of its new core financial system, it did not implement the deployment of the new core financial management system for other overseas missions. Pilot deployment took place at USAID missions in Colombia, Egypt, Ghana, Nigeria and Peru in June 2004. According to USAID officials, all 38 accounting stations will be converted to the new system by the spring of 2006.

OMB Circular A-127, *Financial Management Systems*, prescribes policies and standards for agencies to follow in developing, operating, evaluating, and reporting on financial management systems. Section 7 of the Circular identifies the requirements that federal financial systems should meet. In January 2001, OMB issued guidance, *Revised Guidance for the Federal Financial Management Improvement Act*, to supplement Office of Management and Budget Circular A-127. The purpose of the guidance is to help determine whether financial systems substantially comply with FFMIA requirements. That guidance identifies various requirements that an agency must meet and USAID's ability to meet financial management system requirements is contingent upon successful overseas deployment of its new financial system.

In 2004, the Department of State (State) and USAID submitted a joint Office of Management and Budget A-300 budget submission. That budget submission stated that State and USAID will share a core financial system but maintain separate databases due to the very different business processes and information requirements. Joint State and USAID operations are to begin in October 2005.

Funds Control Problem in the Core Accounting System

Although USAID has enhanced its financial management systems, it continued to use a separate system to process obligations for its overseas missions because it has not integrated the systems to further strengthen funds control. As a result, USAID's financial system may not have provided users with complete, accurate, and timely financial information needed for decision-making purposes.

According to OMB Circular A-11, *Preparation, Submission, and Execution of the Budget*, each federal agency is responsible for establishing a funds control system that will ensure that the agency does not obligate or expend funds in excess of those appropriated or apportioned. The Circular also states that

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multi-year unobligated funds remaining available at year-end must be reapportioned in the upcoming fiscal year.

In January 2003,[6] the OIG reported that, because USAID did not have an integrated financial management system, it used a separate system to process obligations for its overseas missions. As such, the appropriation amount displayed as available after the roll-up of mission obligations was overstated by the amount of these same mission obligations. To compensate for this weakness, USAID allowed only a few users to apportion funds. Further, those users had access to records held outside of USAID's core accounting system to track mission obligations and determine the correct amount available for apportionment. Because this issue should be corrected with the deployment of the core financial system to the overseas missions, we did not make any recommendations. The OIG will continue to monitor USAID's progress in deploying its core financial system overseas.

USAID's Core Financial Management System for Overseas Mission Activities Did Not Comply with the U.S. General Ledger Standard at the Transaction Level

Because the Mission Accounting and Control System continued to operate as the financial system for overseas missions, USAID has not recorded mission activities using the standard general ledger at the transaction level to support financial reporting and meet requirements. Therefore, USAID cannot ensure that transactions are posted properly and consistently from mission to mission.

FFMIA requires agencies to implement and maintain systems that comply substantially with, among other things, the United States Standard General Ledger (USSGL) at the transaction level. This requires the agency's recording of financial events to be consistent with all applicable account descriptions and posting models/attributes reflected in the standard general ledger issued by the Department of the Treasury, Financial Management Service.

The OIG previously determined that USAID did not substantially comply with the USSGL at the transaction level. Specifically, in fiscal year 2001, the OIG reported that USAID did not record mission activities accounting for approximately 52 percent of USAID's total net cost of operations—using the standard general ledger at the transaction level. This occurred because USAID recorded mission activities in the Mission Accounting and Control System—a computer-based system that did not have a standard general ledger chart of accounts. Instead, the Mission Accounting and Control System uses transaction codes to record transactions.

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6 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)

USAID needs to record mission activities using the standard general ledger at the transaction level to support financial reporting and meet FFMIA requirements. USAID plans to convert all of its accounting stations to its new core financial system by the Spring of 2006. The OIG will continue to monitor USAID's progress in deploying its core financial system overseas.

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.

Office of Inspector General

USAID, Office of Inspector General
November 15, 2004

Evaluation of Management Comments

We have received USAID's management comments to the findings and recommendations included in our draft report. USAID management agreed with the material weakness and the reportable conditions. USAID management noted that they were extremely pleased that the OIG was able to issue unqualified opinions on all of USAID's principal financial statements. USAID management also stated they were pleased that the draft report fairly presented their progress and remaining challenges. We have evaluated USAID management comments on the recommendations and have reached management decisions on all five recommendations. The following is a brief summary of USAID's management comments on each of the five recommendations included in this report and our evaluation of those comments.

Recommendation No. 1

USAID management agreed with Recommendation No. 1 and commented that they will agree to work with other responsible offices to implement this recommendation. USAID management has set a target completion date of September 30, 2005. We agree with the management decision on this recommendation and will review USAID's implementation of this recommendation in our FY 2005 GMRA audit.

Recommendation No. 2

USAID management agreed with Recommendation Nos. 2.1 and 2.2 and noted that they will agree to work with the Office of Policy and Program Coordination to implement this recommendation. USAID management has set a target completion date of September 30, 2005. We agree with the management decision on this recommendation and will review USAID's implementation of this recommendation in our FY 2005 GMRA audit.

Recommendation No. 3

USAID management agreed with Recommendation No. 3 and stated they will agree to implement and continue to engage overseas staff in this process. USAID management has set a target completion date of September 30, 2005. We agree with the management decision on this recommendation and will continue to monitor the development and attainment of specific written desk procedures in our FY 2005 GMRA audit.

Recommendation No. 4

USAID management agreed with Recommendation No. 4. USAID management has set a target completion date of September 30, 2005. We agree with the management decision on this recommendation. We will monitor the quarterly intragovernmental reconciliations and ensure the requirements of the Federal Intragovernmental Transactions Accounting Polices Guide are achieved in our FY 2005 GMRA audit.

Recommendation No. 5

USAID management agreed with Recommendation No. 5 and has set a target completion date of September 30, 2005. We agree with the management decision on this recommendation. In our FY 2005 GMRA audit, we will monitor USAID's progress in compliance with Section 620(q) of the Foreign Assistance Act.

See **Appendix II** for USAID's management comments.

Appendix I

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 Office of Inspector General 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 Office of Inspector General 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 the three 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 Accountability Report.

In order to fulfill these responsibilities, we (1) examined, on a test basis, evidence supporting the amounts and disclosures in the financial statements, (2) assessed the accounting principles used and significant estimates made by management, (3) evaluated the overall presentation of the financial statements, (4) 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 of the Accountability Report, (5) tested relevant internal controls over financial reporting and compliance, and evaluated the design and operating effectiveness of internal controls, (6) considered the process for evaluating and reporting on internal control and financial management systems under the Federal Managers' Financial Integrity Act, (7) tested whether USAID's financial management systems substantially complied with the three FFMIA requirements, and (8) tested USAID's compliance with selected provisions of the following laws and regulations:

- Anti-Deficiency Act
- Improper Payments Act
- Prompt Payment Act
- Debt Collection and Improvement Act
- Federal Credit Reform Act.
- OMB Bulletin 01-09
- 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, 2004 and 2003. We caution that noncompliance may occur and not be detected by these tests and that such testing may not be sufficient for other purposes.

With respect to the Management's Discussion and Analysis (MD&A), we did not perform an audit. However, we gained an understanding of USAID's system of collecting and reporting performance information. We did not assess the quality of the performance indicators and performed only limited tests to assess the controls established by USAID. Based on our limited tests of the measurement and presentation of performance results reported in the MD&A, we identified certain weaknesses that, in our judgment, affected USAID's portrayal of performance results as required by prescribed guidelines. We conducted a limited review of the internal controls related to the existence and completeness assertions relevant to the performance measures included in the MD&A.

In forming our opinion, the OIG considered potential aggregate errors exceeding $309 million for any individual statement to be material to the presentation of the overall financial statements.

USAID Management Comments **Appendix II**

November 12, 2004

MEMORANDUM

TO: AIG/A, Bruce N. Crandlemire

FROM: CFO, Lisa D. Fiely Lisa D. Fiely

SUBJECT: Management Response to Draft Independent Auditor's Report on USAID's Financial Statements for Fiscal Years 2004 and 2003 (Report No. 0-000-05-001-C)

Fiscal year 2004 was another significant year for federal financial management at USAID. We are pleased that your draft report so fairly presents both our progress and our remaining challenges. We are extremely pleased that you are able to issue unqualified opinions on all of USAID's five principal financial statements. We wish to recognize the OIG's dedication and cooperation throughout the audit process, and the excellent counsel and support the auditors provided to us. We also appreciate your acknowledgement of the improvements that we have made throughout the year to improve financial systems and processes.

Following are our management decisions regarding the proposed audit recommendations:

Material Weakness: USAID's Process for Reviewing and Reporting its Quarterly Accrued Expenditures and Accounts Payable Needs Improvement.

Recommendation 1: We recommend that USAID's Chief Financial Officer update USAID's Cognizant Technical Officer training course and Financial Management Overview training course to include sessions on developing and supporting quarterly accrual estimates. The training should include information on supporting documentation, and on developing estimates in the absence of timely disbursement data necessary to develop accurate accruals.

Management Decision: We agree to work with other responsible offices to implement this recommendation. Target completion date is September 30, 2005.

Reportable Condition: Certification Process for Mapping Strategic Objectives to Performance Goals Needs Improvement (Previously Reported as a Material Weakness).

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Recommendation No 2: We recommend that the USAID Chief Financial Officer, in coordination with the Assistant Administrator of the Bureau for Policy and Program Coordination:

2.1 Ensure that annual certifications of strategic objectives to Agency goals, which are made when information from the Annual Reports Database is finalized, are conducted consistently by all USAID operating units.

2.2 Include all active strategic objectives expending funds in the Annual Reports Database.

Management Decision: We agree to work with PPC to implement these recommendations. Target completion date is September 30, 2005.

USAID's Process for Reconciling its Fund Balance with the U.S. Treasury Needs Improvement (Repeat Finding).

Recommendation 3: We recommend that USAID's Chief Financial Officer require its Office of Financial Management to develop and implement specific written desk procedures requiring documenting and reporting processes for the narratives of: (1) conditions of reconciling items and (2) unreconciled conditions of fund balance accounts, for the reconciliation of the fund balance with Treasury that incorporate and enhance existing USAID and federal guidance.

Management Decision: We agree to implement recommendation 3 and will continue to engage overseas staff in this process. Target completion date is September 30, 2005.

Reportable Condition: USAID's Intragovernmental Reconciliation Process Needs Improvement.

Recommendation 4: We recommend that USAID's Chief Financial Officer direct its Financial Management Office to conduct quarterly intragovernmental reconciliations of activity and balances with its trading partners, in accordance with the requirements of the *Federal Intragovernmental Transactions Accounting Policies Guide*, issued by the Department of Treasury's Financial Management Service.

Management Decision: We agree to implement recommendation 4. Target completion date is September 30, 2005.

Noncompliance Other than FFMIA: 620(q)/Brooke Amendment Report not Functioning as a Proper Notice

Recommendation 5: We recommend that USAID's Chief Financial Officer update written procedures related to the preparation of the 620(q)/Brooke Amendment Violation Report; the monitoring of non-rescheduled loans for countries under rescheduling; and the receipt of loan delinquency reports from its loan servicing agent.

Management Decision: We agree to implement recommendation 5. Target completion date is September 30, 2005.

In closing, I would like to restate USAID's commitment to continual improvement in financial management. That commitment permeates throughout the Agency. We will continue the improvements made in the last few years as we work further to develop and implement the fundamental long-term solutions needed to address the internal control weaknesses cited in your report. Both the OIG and USAID management recognize that it is only through implementation of our financial system worldwide that we will be able to overcome many of the weaknesses cited in your audit report.

Appendix III

Status of Uncorrected Findings and Recommendations from Prior Audits That Affect the Current Audit Objectives

Office of Management and Budget (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. The following audit recommendations directed to USAID either have not been corrected or final action has not been completed as of September 30, 2004. We have also noted where final action was taken subsequent to fiscal year-end but prior to the date of this report.

Report on USAID's Financial Statements, Internal Controls, and Compliance for Fiscal Year 1998
Audit Report No. 0-000-99-001-F, March 1, 1999

Recommendation No. 1: Because the Chief Financial Officer lacks the authority called for in the CFO Act, we recommend that the Chief Financial Officer collaborate with the Assistant Administrator for Management, Chief Information Officer, and Bureau for Policy and Program Coordination to:

1.1 Determine the specific responsibility, authority, and resources needed to meet the requirements of the Chief Financial Officers Act of 1990, which assigns the Chief Financial Officer responsibility to: (1) develop and maintain an integrated accounting and financial management system that meets federal financial system requirements, federal accounting standards, and the U.S. Standard General Ledger at the transaction level; (2) approve and manage financial management system design and enhancement projects; and (3) develop a financial management system that provides for systematic measurement of performance.

Recommendation is pending final action by USAID.

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.

Recommendation is pending final action by USAID.

Management Challenges Identified by the Inspector General

OFFICE OF INSPECTOR GENERAL

NOV - 8 2004

MEMORANDUM

TO: A/AID, Andrew S. Natsios

FROM: Acting IG, James R. Ebbitt James R. Ebbitt

SUBJECT: USAID's Most Serious Management and Performance Challenges

The Report Consolidation Act of 2000 (Public Law 106-531) states that agency accountability reports shall include a statement prepared by each agency's inspector general that summarizes the most serious management and performance challenges facing the agency and briefly assesses the agency's progress in addressing those challenges. Our statement for inclusion in USAID's FY 2004 Performance and Accountability Report is attached. If you have any questions or wish to discuss this document, I would be happy to meet with you.

Attachment: a/s

cc: PPC, Dave Simpson

1300 PENNSYLVANIA AVENUE, NW
WASHINGTON, DC 20523

USAID Office of Inspector General Statement on USAID's Most Serious Management and Performance Challenges

In pursuit of its mission, USAID faces serious management and performance challenges in the areas of:

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

Financial Management

The OIG expects to issue unqualified opinions on USAID's fiscal year 2004 financial statements. This is the second year that USAID will receive unqualified opinions on its financial statements. Notwithstanding these unqualified opinions and the progress that USAID has made in strengthening its financial management processes, several financial management challenges need to be addressed. These challenges include:

- Reporting expenses associated with USAID goals.
- Estimating accrued expenditures.
- Recognizing and reporting accounts receivable.
- Reconciling financial management information.

Reporting Expenses Associated with USAID Goals

USAID has made progress in ensuring the accuracy of its Statement of Net Costs, which presents program costs for each of USAID's goals. To better ensure the accuracy of the Statement of Net Costs, USAID implemented procedures for obtaining annual certifications from responsible officers indicating that strategic objectives established by individual USAID operating units have been properly assigned to appropriate performance goals. (This is necessary so that expenses incurred under strategic objectives will be reported under the correct USAID goal.) USAID has also issued guidance requiring that all strategic objectives established by USAID operating units must link to one principal goal, one principal objective, and one pillar as defined in USAID's most current strategic plan.

However, USAID initially did not request certifications for all strategic objectives because the database it used to request certifications did not include all strategic objectives with expenditures during FY 2004. (When this problem was discovered by the OIG, however, USAID requested certifications for all strategic objectives with expenditures.) In addition, some certifications were documented through e-mails rather than signed statements.

Estimating Accrued Expenditures

During FY 2004, USAID established a process to compile, monitor, and review quarterly analytical information on the number and amount of accruals certified in the Accrual Reporting System at the individual USAID/Washington Bureau level. USAID also established procedures for validating selected quarterly accrual amounts and for evaluating the reliability of the Accrual Reporting System. In addition, for its overseas locations, USAID improved its estimation process, its coordination between financial and program staff, and its retention of supporting documentation.

During the FY 2004 financial statement audit, the OIG identified cases where accrual estimates were not supported or were calculated incorrectly.

Recognizing and Reporting Accounts Receivable

USAID has taken steps to establish policies and procedures to account for worldwide accounts receivable. However, USAID does not have an integrated financial management system that would facilitate the recognition of accounts receivable when amounts become due to USAID. Instead, USAID relies on a separate data collection tool to gather information on accounts receivable at year end to facilitate preparation of USAID's financial statements.

Reconciling Financial Management Information

USAID has made progress in reconciling its fund balance with the U.S. Treasury by establishing a Cash Reconciliation Working Group. This group is focusing its attention on (1) consistently performing monthly and cumulative reconciliation processes, (2) developing methods to monitor unreconciled items, and (3) developing clear instructions and procedures for processing reconciling items. In addition, USAID has developed some guidance that will help USAID accounting stations avoid certain timing differences and other conditions that produce unreconciled items. Nevertheless, USAID continues to record significant unsupported adjustments to its year-end balance with Treasury to bring this amount into agreement with the Department of Treasury's accounts.

USAID also needs to reconcile significant differences with its Federal trading partners. As of September 30, 2004, the Department of Treasury's Financial Management Service reported $10.4 billion in unreconciled differences between amounts reported by USAID and other Federal agencies.

Information Resource Management

Within the area of information resource management, the OIG has identified two challenges: (1) information resource management processes and (2) computer security.

Information Resource Management Processes

The OIG and other organizations have identified organizational and management deficiencies in USAID's information resource management processes. Although USAID has made progress in improving these processes, it needs to continue its efforts in this area. For example, USAID has established a Program Management Office to provide performance-based and results-based management of information resources. However, the office is not yet fully staffed. As another example, the OIG recently reviewed pilot testing of the Phoenix accounting system at USAID/Egypt and concluded that the success of the pilot was due to exceptional efforts by USAID/Egypt rather than mature, repeatable management processes.

Improving Computer Security

USAID has taken some actions to improve its computer security. For example, it has:

- Continued to perform monthly scans of all devices on USAID's network for vulnerabilities and to report the results to responsible security personnel.

- Centrally managed the Windows 2000 domain servers, firewalls, and virus scan software.

- Implemented a network appliance sensor that will give USAID the capability to view what devices are being used on the network, record how those devices are being used, and detect intrusions and vulnerabilities.

- Implemented a process to assess information systems security for the purchase of capital assets.

- Certified and accredited for operation its General Support System.

However, the OIG determined that USAID continues to have computer security weaknesses. For example, USAID did not always:

- Keep logs of security violations for USAID's Acquisition and Assistance system.

- Limit unsuccessful log-on attempts to three.

- Terminate user accounts after employees left USAID.

- Configure systems to eliminate high-risk vulnerabilities.

- Use strong passwords.

- Implement effective controls over dial-up access to its systems.

Although USAID developed an information security training program, all key information security employees did not obtain the needed training. Further, under the current organizational structure, USAID's Information Systems Security Officer did not have the authority to enforce training requirements.

<u>Managing for Results</u>

The Government Performance and Results Act of 1993 requires that Federal agencies 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 performance results to budgets and human capital requirements.

A significant element of USAID's performance management system is the Annual Report prepared by each of its operating units. These reports provide information on the results attained with USAID resources, request additional resources, and explain the use of, and results expected from, these additional resources. Information in these unit-level Annual Reports is consolidated to present a USAID-wide picture of achievements in USAID's annual Performance and Accountability Report.

The OIG continues to monitor USAID's progress in improving its performance management system. While USAID has made improvements, more remains to be done. Based on a limited review of USAID's system to collect and report performance information in the draft Management Discussion and Analysis for FY 2004, the OIG identified the following major weaknesses:

- USAID's current system does not allow the reporting of Agency-wide performance results for the current year. Certain performance information for FY 2004 indicating the extent to which programs were achieving their objectives is based on results achieved in FY 2003. For example, Section 1.6 "Most Important Results and Continuing Challenges" does not provide targets to compare the results against and that these results, while though predominantly for FY 2004, include FY 2003 results as well. Therefore, Section 1.6 of the Management Discussion and Analysis for FY 2004 does not provide a clear picture of planned and actual performance for fiscal year 2004 and adequately reflect the actual costs for the current fiscal year.

- The preliminary performance results that are reported for FY 2004 - and are compared to FY 2004 targets - are estimates made by USAID management. These estimated results, which are reported in Section 1.7 of the Management Discussion and Analysis, exactly match each of USAID's FY 2004 performance targets. While OMB Circular No. A-11 (2004) does allow Agencies to estimate performance information when the actual performance information may not be available or may be incomplete or preliminary, it does not appear reasonable to estimate that USAID will be able to accomplish each of the FY 2004 performance targets to the exact amount or quantity stated in each target.

On a more positive note, the OIG noted that the draft Management Discussion and Analysis for FY 2004 uses USAID's New Strategic Planning Framework and Goal Structure - Joint USAID/State Strategic Plan - between the State Department and USAID. The new framework is designed to represent a more coherent, concise and logical reflection of how the Department and USAID organize their work towards given results/outcomes.

Acquisition and Assistance Management

USAID achieves development results largely through intermediaries: contractors or recipients of grants or cooperative agreements. Efficient and effective acquisition and assistance systems are therefore critical.

As part of its strategic plan, the OIG has adopted a strategic objective of contributing to the improvement of USAID's processes for awarding and administering contracts, grants, and cooperative agreements. The OIG has developed multi-year strategies to promote increased efficiency and effectiveness in USAID procurement processes.

Within the framework of a multi-year audit plan, the OIG defined "standards for success" for critical acquisition and award processes. Audit plans have been developed to identify the Office of Acquisition and Assistance's status in achieving these standards and the steps needed for further improvement.

The OIG recently examined whether the task-ordering process carried out by mission directors affected USAID's ability to meet the goals established by the Small Business Administration. The audit concluded that USAID had excluded mission task orders from its small and disadvantaged business program.

In another audit, the OIG reviewed how USAID missions established staffing requirements for U.S. personal services contractors (USPSCs) and whether they awarded U.S. personal services contracts in accordance with selected USAID policies and procedures. This audit report, summarizing the results of audits at eight USAID missions, showed that USAID missions had determined their USPSC staffing requirements in accordance with USAID policies and procedures. Additionally – with only isolated exceptions – USAID missions had awarded their U.S. personal services contracts in accordance with selected USAID policies and procedures. However, the audit concluded that USAID's policies on USPSC contract extensions and renewals needed additional clarification for consistency in application at all USAID missions.

Human Capital Management

Management of a diverse and widespread workforce impacts on the ability of USAID to carry out its mission. Accordingly, USAID has undertaken a major effort to improve and restructure its human capital management. The Office of Management and Budget (OMB) and the Office of Personnel Management have consistently rated USAID's progress in fiscal year 2004 as satisfactory (green light). More remains to be done, as is reflected by USAID's unsatisfactory rating (red light) for its status in the area of human capital management. Most importantly, USAID needs to complete its comprehensive workforce analysis and workforce planning initiative, implement the resulting strategies to close or eliminate the identified mission-critical skill gaps, and make progress towards closing those gaps.

Other Reporting Requirements

Financial Management Goals and Strategies

The implementation of the new core financial system directly supports three of the five initiatives of the President's Management Agenda (PMA) as follows:

Improved Financial Performance: USAID's financial management system, Phoenix, is a JFMIP-compliant financial system, which meets federal accounting standards. Phoenix helps the Agency meet reporting requirements, provides accurate and timely financial information, supports management operations, and provides controls to prevent Anti-Deficiency Act violations. Phoenix also has a Standard General Ledger (SGL) chart of accounts and financial transactions on Phoenix are posted immediately to a general ledger. Implementing Phoenix worldwide will remove the major obstacle to achieving Federal Financial Management Improvement Act (FFMIA) compliance and "getting to green", since the Mission Accounting and Control System (MACS) does not have a SGL. In the interim, USAID will continue its efforts to meet or exceed other milestones for this PMA initiative.

Expanded Electronic Government: Phoenix supports the e-government initiative because it is a web-based system that can be accessed by field offices worldwide. The system also interfaces with other planned web-based initiatives, such as vendor self-service, cost allocation, credit card, e-procurement catalogue, and worldwide funds reconciliation.

Budget and Performance Integration: The Financial Systems Integration (FSI) project team plans to implement the cost allocation module worldwide in tandem with the rollout of the core accounting system. This will allow 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 and strategic objective (SO) level.

To provide a context for the agency's current plans and resources request, the status of financial management activities is outlined below.

- **Phoenix Pilot Missions:** On-going activities at the five Missions currently using Phoenix include on-site user support and training, refinement of reporting needs, and data migration clean-up.
- **Phoenix Overseas Deployment:** The Agency continues coordinating with Phoenix overseas and e-government initiatives with State. The Phoenix overseas deployment schedule includes targets for deployment to overseas Missions in four phases beginning in February 2005 through April 2006.
- **USAID-State Collaboration:** USAID is also collaborating with the Department of State to implement a plan to operate the USAID and State financial systems from a common platform in Charleston, South Carolina, by October 2005. The Phoenix team recently received the hardware and software required for upgrading the Phoenix system to the latest software release version.

USAID employees in Peru receive Phoenix training.

Financial Management Performance

Phoenix has been USAID/Washington's core financial system since December 2000. Despite financial management improvements to date, USAID is still not substantially compliant with the Federal Financial Management Improvement Act (FFMIA) of 1996. The primary deficiency is that USAID's Mission Accounting and Control System (MACS), a feeder system to Phoenix, does not support a general ledger. Substantial compliance will be achieved when Phoenix, which is Joint Financial Management Improvement Program (JFMIP)-compliant and meets regulations, is fully deployed to the field to replace MACS.

In August 2004, USAID completed the first round of overseas deployment with Phoenix operational in five pilot missions. Based on the pilot experience, the Phoenix Overseas Deployment (POD) team documented "lessons learned" – what went well and what did not go as well – in eight key areas: training, user support, system functionality, data migration (the "critical path"), reports, testing, system performance, and project management and communications. A Subject Matter Expert (SME) summit is being planned to focus on improving the Phoenix configuration for mission use and to discuss "lessons learned" in view of looking for ways to repeat successes and overcome challenges.

During the pilot, we learned that we needed more time for data preparation and data cleanup. We also determined that we should not perform a bulk historical migration of data. As a result, the Phoenix Overseas Deployment (POD) team sought and received agreement to modify the project schedule and timeline to accommodate changes in the data migration approach. We are now planning to accelerate the deployment of Phoenix to the Latin America and Caribbean (LAC) region in February 2005. We will push back the upgrade to the web version to June 2005. The POD team is still working out the details for the Phoenix deployment to the Europe & Eurasia (E&E), Africa (AFR), and Asia & the Near East (ANE) regions. With adequate funding, we should have 50% of the missions online by the end of FY 2005, 75% by the end of December 2005, and 100% by April 2006. OMB and USAID expect that the complete rollout of the Phoenix system will address the remaining compliance issues that have kept the agency at red under the President's Management Agenda (PMA). Therefore, the current target date for substantial compliance with FFMIA is April 2006.

As Phoenix is rolled out to the field, there are a number of challenges. In some developing countries, there may be insufficient bandwidth or communications capacity for immediate updates from missions. In those countries, USAID is looking for ways to bypass the problem, such as storing data until lines are freed. Also, immediate knowledge of mission budgets is important to help identify overspending quickly.

Another important requirement to "getting to green" is to ensure that the Phoenix system provides timely, reliable, and complete performance data on foreign assistance programs on a consistent basis. The Phoenix Reports Team recently conducted an analysis of outstanding issues, user suggestions for enhancements, and requests for new reports. The Team's primary focus is to make improvements to the existing reports. They have also identified what appear to be the highest priority new reports and will begin to specify detailed requirements for this group of reports.

Impediments to "getting to green" include competing priorities and potential funding issues related to deploying Phoenix to the remaining overseas missions; providing ongoing support to the missions that already converted from MACS to Phoenix; upgrading to the new software version of Phoenix; collaborating with the State Department to achieve a common infrastructure and financial platform and to have State host Phoenix in Charleston, S.C.; and coordinating with the Procurement System Improvement Project (PSIP) team deploying the new web-based acquisition and assistance system.

Approaches for obtaining clean audit opinions and for ensuring continued favorable opinions include maintaining and improving procedures and systems in place to enhance system capabilities, closing material weaknesses, and closing open audit recommendations. To develop and maintain relevant and timely reporting practices, including financial performance measures and accelerated year-end financial statement reporting, USAID has established a number of teams such as the PAR core team, the Financial Systems Integration (FSI) team, the Phoenix Reports team, the Accrual Reporting System (ARS) team, the Bureau Transition Coordinators (BTC) team, the Quick Hit Deobligation Follow-up team, and the Audit Management Team. There are also a number of working groups overseas led by the Chief Accountants and Controllers. These teams and working groups meet regularly and communicate with each other by sharing information via ad hoc meetings, email distribution lists, newsletters, and other media.

Financial Management Systems Framework

When USAID implemented Phoenix in December 2000, it became the Agency's core financial management system and the cornerstone of its integrated financial management system. During 2001, USAID integrated Phoenix with significant legacy and third party systems that provide transaction processing services. USAID plans to modernize its business systems worldwide through the expansion of the Agency's core accounting system to overseas Missions. The overseas deployment of a web-based and integrated financial management system will provide a common Agency-wide system for budget execution, accounting, and financial management. Using e-business technologies provides a tool for Mission personnel to manage financial transactions and program performance.

Based on the recommendations from a joint Department of State-USAID study, a blueprint for collaboration efforts has been established and a plan to operate from a common infrastructure and software version is in place. The intent is to operate the USAID and State systems from State's Charleston, South Carolina, facility. The major USAID systems and their relationships are discussed below.

Phoenix: Phoenix is the Agency's core financial system. Phoenix will replace MACS overseas. The Phoenix application modules include accounts payable, accounts receivable, automated disbursements, budget execution, cost allocation, general ledger, business planning, project cost accounting, and purchasing.

New Management System (NMS): The NMS was originally an integrated suite of custom-built financial and mixed-financial applications. The implementation of Phoenix enabled USAID to suspend three of the four NMS applications. The *Acquisition and Assistance (A&A)* application continues to support Washington's procurement operations and it is interfaced with Phoenix.

Mission Accounting and Control System (MACS): MACS is an over 20-year old custom-built system for overseas financial operations. It is installed at 38 accounting stations overseas and supports basic accounting and control functions. MACS alone is not substantially compliant with federal financial requirements and the SGL at the transaction level. MACS does not support the Agency's accounting classification structure (ACS). A MACS Auxiliary Ledger (MAL) was implemented in 2001 to capture overseas financial transactions for posting in the Phoenix general ledger. The MAL provides a crosswalk between overseas accounting elements and the Agency's ACS. The MAL enables the Agency to provide timely, accurate and useful external and internal financial reports on overseas programs and operations. The related MACS Voucher Tracking System (MACSTRAX) automates voucher management and payment scheduling. MACS is being phased out as Phoenix is brought on-line in overseas Missions.

Business Support Services: The chief business support applications in the Agency's financial management systems inventory relate to travel management and property management:

- **Travel Manager:** The GELCO commercial software product, Travel Manager, is currently used in Washington and in Missions to provide travel management support. It is used either as a standalone application or operating as a shared application over a local area network. Travel

Manager does not have an electronic interface with any Agency financial systems. It is being replaced with a standard e-travel application that will be interfaced with Phoenix.

- **Non-Expendable Property (NXP):** The NXP program is USAID's custom-developed property management system. It is currently in use at many Missions around the world, but is planned for replacement. It was implemented in 1989 and is not compliant with JFMIP requirements for a property management system. NXP does not have an electronic interface with any Agency financial system.
- **BAR/SCAN:** USAID currently uses the commercial software product, BAR/SCAN, for property management of non-expendable property in Washington. BAR/SCAN is being implemented at field Missions. BAR/SCAN does not have an electronic interface with any Agency financial systems.

Third-Party Service Providers: As part of its long-term information management strategy, USAID has cross-serviced with other Government agencies or outsourced to commercial organizations some of its financial transaction processing requirements. This reflects an overall strategy of the Agency and is consistent with OMB guidance. The chief third-party service providers include:

- **Department of Agriculture National Finance Center (NFC):** USAID has a cross-serving agreement with NFC for personnel and payroll processes for US direct hire (USDH) employees. USAID accesses the NFC systems to maintain personnel records, process employee time and attendance data, and transact payroll services. The NFC payroll system is manually interfaced with Phoenix.
- **Riggs National Bank:** USAID has outsourced standard credit reform transactions to Riggs National Bank. The Riggs Loan Management System provides services to the Agency for collections, disbursements, claims, and year-end accruals. The Riggs system has an automated interface to Phoenix.
- **Department of Health and Human Services (DHHS):** USAID has cross-serviced its letter of credit (LOC) processing of grantee advances and liquidations to the DHHS Payment Management System. The DHHS system has an automated interface to Phoenix.

Other Baseline Financial Management Systems:

- **Mission Personal Services Contractor (PSC) Personnel and Payroll Systems:** USAID Missions currently use a variety of systems to manage and pay PSC personnel. These range from spreadsheets to custom-built applications and databases to commercial off-the-shelf packages. Typically, U.S. citizen PSC employees and Foreign Service National (FSN) PSC employees are managed and paid through different systems. Some Missions obtain FSN payroll services from the U.S. Department of State's Financial Service Center (FSC) in Charleston, South Carolina.
- **Mission Procurement Information Collection System (MPICS):** Pending the fielding of an Agency-wide procurement system, a manual procurement process is used in the Missions. MPICS is the data entry mechanism for USAID field Missions to enter their past and current award data into a single Washington database for reporting purposes.
- **ProDoc and RegSearch:** These procurement support systems have been deployed in Washington and the Missions to generate solicitations and awards as well as improve procurement reporting.
- **Ariba:** USAID piloted a third-party software product for e-procurement called Ariba in four of its offices. The pilot was very successful and now awaits funding for implementation Agency-wide. Ariba is currently in production and has processed thousands of small purchase transactions. It is fully integrated with Phoenix.

Target Financial Management Systems Structure

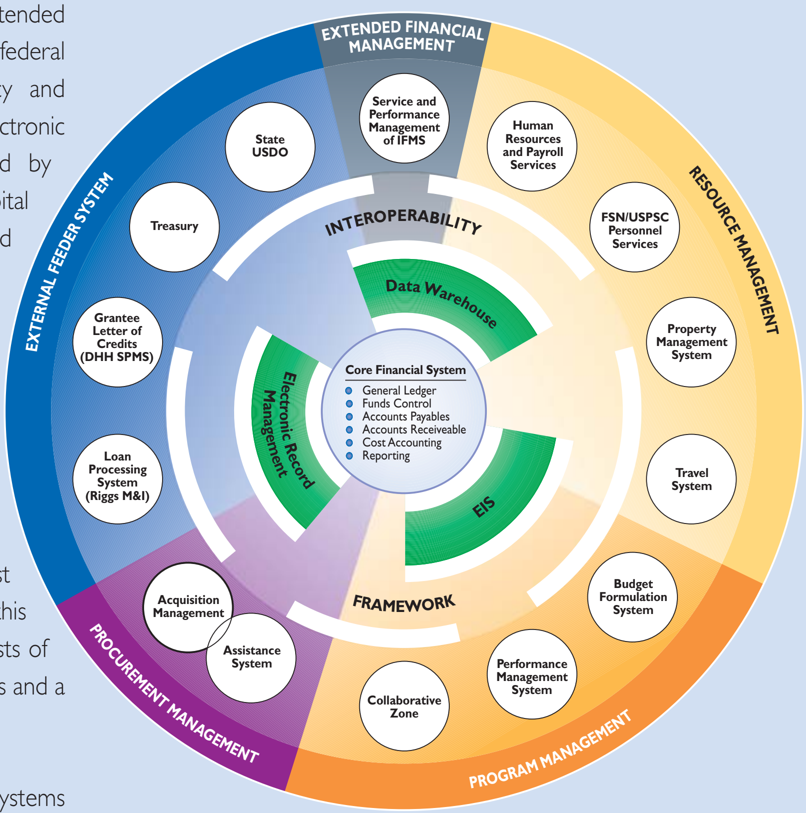
The primary goal of financial management system modernization at USAID is a single, integrated financial management system (IFMS). The IFMS architecture is intended to support the mission of the Agency, comply with federal requirements and standards, improve the efficiency and effectiveness of Agency operations, and deliver electronic government solutions. The goal will be achieved by adherence to the disciplines of 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.

USAID has made transformation of the Agency to a world class, 21st century international development and humanitarian assistance organization, one of its highest priorities. Management reform is a key element of this transformation. Specifically, the vision for USAID consists of a new direction in modernizing Agency business systems and a comprehensive business transformation agenda.

USAID senior managers will lead this business systems transformation in a three-staged approach. Stage one involves modernizing the Agency's business systems worldwide by standardizing and integrating processes and systems, and aligning the Agency business model with the Federal Enterprise Architecture (FEA). In stage two, the Agency will adapt business processes to anticipate and respond to changing requirements such as expanded use of federal government cross-servicing and outsourcing key administrative services.

By stage three, the Agency will deploy adaptive capabilities to the community of development and humanitarian assistance providers. The following are examples of stage three capabilities: suppliers can electronically submit invoices; vendors can determine their expenditures via the internet; and Congress will have ready access to information related to program objectives, results, and approaches.

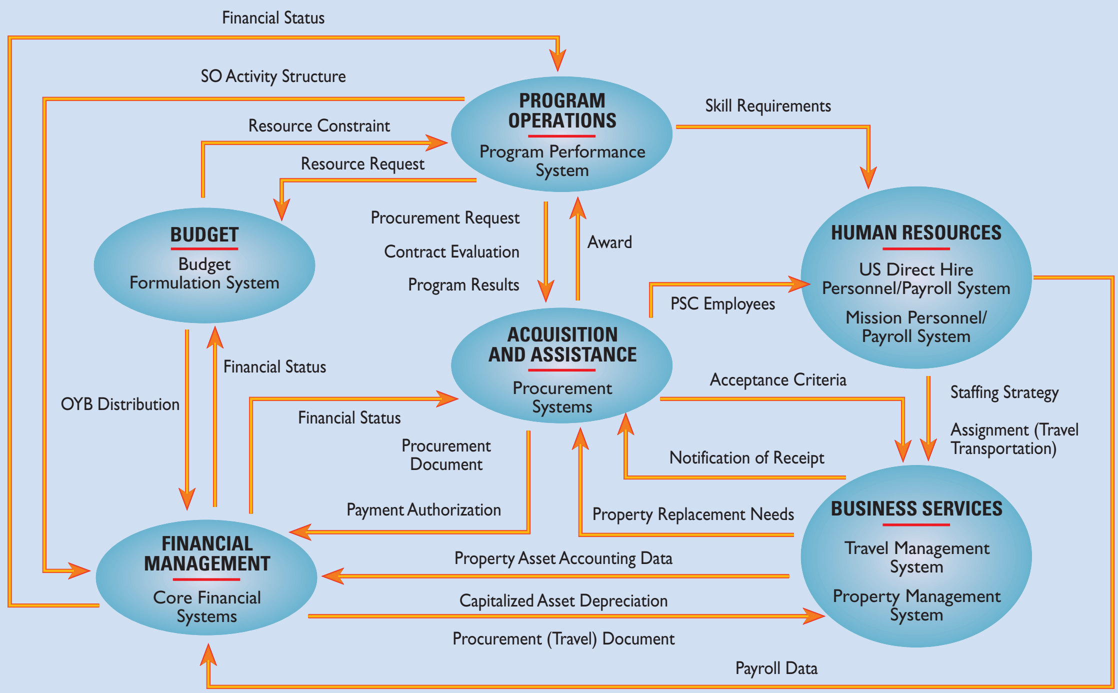
Target Integrated Financial Management System Logical Model



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.
- Provide an information portal to the Agency's financial management data resources with a similar look and feel accessible wherever USAID operates.
- Utilize an open framework and industry standards for data interchange and interoperability.
- Provide, on demand, value-added information products and services.

IFMS Logical Business Architecture



- Ensure that standardized processes are utilized for similar kinds of transactions.
- Remain flexible and modifiable to business changes.
- Support timely, accurate, and cost-effective electronic exchange of information with customers and external partners.

USAID and the State Department plan to run from a common infrastructure and version of the Momentum financial application by October 2005. Both USAID and State will maintain separate financial systems. During FY 2005, the USAID and State joint planning group will continue to conduct analyses and evaluations of systems requirements to achieve the target level of cooperation.

The two agencies can expect to achieve significant savings and efficiencies by integrating infrastructure and coordinating deployment efforts. USAID and State submitted a joint business case for FY 2005 and FY 2006 that provides a general outline of the proposed integration. In 2004, they conducted a study to determine the requirements, and in 2005, will conduct testing for mutual deployment. The interagency working group recommendations and the subsequent interagency agreements will dictate the future planning and acquisition strategy for USAID's financial systems in Washington, as well as overseas.

To achieve this vision, the data, systems, services, and technical infrastructure will be engineered, configured, and optimized to operate in an integrated fashion to deliver Agency-wide financial management support. This target financial management system architecture will be implemented in a modular fashion, and is guided by and is consistent with the Agency's target enterprise information architecture. .

Overseas deployment plans detail a centralized architecture to allow easier maintenance, security, and operational efficiency. To provide around the clock support required for mission operations, the telecommunications and technical architecture will be upgraded. The specific configuration will be determined as overseas rollout plans are developed. The infrastructure business cases detail the telecommunications upgrades.

The business functions of the Agency will increasingly be supported by a combination of commercial software products and third party service providers. Public sector and private sector third party service providers will provide essential feeder systems to the Agency's core financial system. The increasing reliance of foreign affairs agencies on shared telecommunications infrastructure, co-located facilities overseas, and common financial transaction processing services may suggest alternative implementation strategies for the IFMS.

An interoperability framework consisting of policies, standards, practices, hardware, and software will enable the Agency to more effectively utilize commercial software products and third party service providers to develop the IFMS as both technologies and service providers evolve.

Financial Management Systems Strategy

USAID's Business Systems Modernization (BSM) strategy consists of business cases for the Agency Enterprise Architecture, financial systems, and procurement systems. This strategy is consistent with the most urgent priorities set by the Administrator. The Agency's proposed enhancements and new projects will result in greater internal efficiency and effectiveness; and expanded government to government, government to consumer, and government to business interactions. The components of the BSM are:

- Maintaining the following steady state areas: financial systems, IT infrastructure, and existing "as is" architecture.
- Implementing the following enhancements and new projects: upgrade and extend the enterprise architecture to provide a framework and strategy for modernization; enhance the overseas telecommunications and security environments to support new systems; implement the core accounting and managerial cost accounting systems worldwide; and implement a procurement system that is an integrated module of the core accounting system.

The essential elements of the general strategy include:

- Utilize public and private sector third party service providers whenever cost-effective.
- Require solution demonstrations to manage risks and engineer system components within the target enterprise architecture framework.
- Acquire proven commercial software products rather than build custom-developed applications.
- Re-engineer Agency business processes before altering the baseline commercial software product.
- Implement network and telecommunication infrastructure upgrades to support the financial management systems architecture.
- Leverage the system architecture and the planned technology evolution of commercial software products.
- Integrate data repositories using common data elements and web-based reporting and analytical tools.
- Acquire system components in an incremental fashion.
- Plan enhancements to system capabilities as releases within the framework of enterprise configuration management practices.

Planned Major System 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 into 2006. Specific projects will be selected on the merit of each business case. The broad categories of system investment will include:

- Core Financial System
- Procurement System
- Budget Formulation System
- Data Repositories and Reporting Systems
- Executive Information Systems
  - Business Support Systems
  - Third Party Service Providers

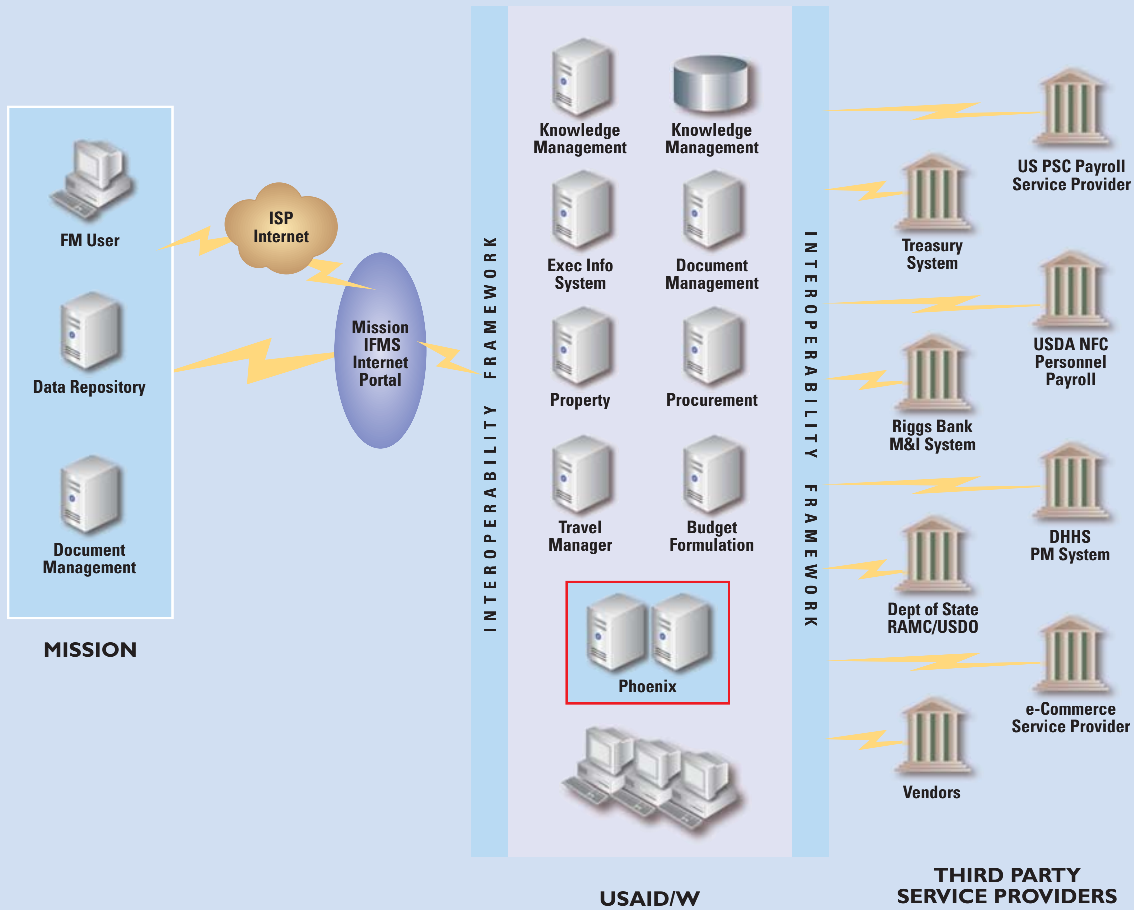
Core Financial System: Phoenix's underlying Momentum Financial product line will be upgraded through successive product releases to ensure sustained compliance with changing federal requirements and the evolution of technology in the commercial marketplace. Key among these expected enhancements will be support for electronic government initiatives and internet-based access to Phoenix, including enhancements to telecommunications capacity within country. Missions will access centralized financial systems based in Washington to record financial transactions and obtain financial information to support decision-making and resource management. An Agency-wide concept of operation will optimize business processes, systems, and workflow to achieve improved efficiency and effectiveness. Phoenix will be integrated with multiple feeder systems utilizing industry standards and proven software integration tools to achieve Agency and government-wide goals in electronic government.

Procurement Service: The USAID capital investment in an Agency-wide acquisition and assistance system is referred to as the Procurement System Improvement Project (PSIP). The new procurement system is designed to replace the New Management System (NMS) legacy system for Acquisition and Assistance (A&A), which is used only at USAID/Washington. However, more than half of the Agency's procurement transactions are conducted overseas. The field contracting staff operates in a paper- dependent process without a comprehensive contract management system to support planning, collaboration, tracking, and administering contract and grant awards. PSIP plans call for a commercial-off-the-shelf (COTS) procurement system that will reduce procurement transaction cycle time, accelerate the delivery of foreign assistance where it is needed, and produce more timely and accurate business information. An accelerated schedule for a worldwide procurement system has been developed primarily to 1) coordinate PSIP deployment activities with the deployment of the USAID/Department of State joint financial management system (JFMS) and procurement and grants functionality with State Department's Integrated Logistics Management System (ILMS), and 2) meet the demands of supporting the Presidential initiative for HIV/AIDS and increased reconstruction activity in Iraq and Afghanistan.

Budget Formulation System: USAID will implement a set of tools and standard business processes to improve Agency-wide budget planning, formulation, consolidation, submission, and integration with Phoenix. 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.

Data Repositories and Reporting Systems: Third party feeder systems generate data that is stored in data repositories to support data reconciliation, audits, ad hoc queries, and reporting requirements. Other financial management systems capture data that will not be electronically exchanged with other systems and will need data repositories to facilitate integrated reporting. 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.

Target Financial Management System Architecture



Executive Information Systems: USAID is committed to creating timely, accurate, useable, and meaningful summary reports of financial data and program effectiveness. Efforts are underway to develop an Agency-wide Executive Information System (EIS). The first phase of development will pull information and data from Phoenix and MAL and provide integrated reports on key financial measures. Subsequent phases will pull data from additional applications within the Agency to allow for more detailed program measurement and analysis. The idea is to generate reports that will facilitate decision-making for allocating funds and determining the effectiveness of operating year budget program implementation management. The EIS will also be used to provide summary reports to the State Department, OMB, Congress, and the Administration. The development team is also evaluating a similar "dashboard" system currently in development at the State Department.

Business Support Systems: The major initiatives in the administrative service areas will be enterprise-wide deployment of the Agency's travel and property management systems. The Agency will rely on joint vendor efforts to integrate commercial software products with the AMS Momentum Financials commercial software product. Future releases of Phoenix will include these enhancements. Initiatives, such as the implementation of a Momentum product that would integrate e-travel with Phoenix, are among the options to be studied.

Third-party service providers: The Agency is expected to continue to rely on its current third-party service providers: NFC, Riggs National Bank, and DHHS, for the foreseeable future. Further improvements to electronic interfaces to achieve greater integration will be evaluated.

Grants Management

USAID's Office of Acquisition & Assistance was an active participant on the inter-agency working group that developed the grants announcement template required by OMB. An electronic format for USAID's announcements (Request for Applications) is currently being finalized in accordance with the new template.

The Agency implemented the OMB policy requirement for grant applicants to provide a Dun and Bradstreet (D&B) Data Universal Numbering System (DUNS) number when applying for any grants or cooperative agreements by issuing a policy [68 FR 38402] which requires use of a DUNS number beginning October 1, 2003, on any application for Federal grants or cooperative agreements.

On September 22, 2003, USAID sent letters to all contractors and recipients to advise them of the Central Contractor Registration/Business Partner Network (CCR/BPN) policy that would come into effect on October 1, 2003, and the requirement that they be registered with CCR/BPN in order to do business with the Agency. Subsequent reminders were sent to contractors to facilitate full compliance with the new OMB policy. A D&B number is required for the contractor to register in the CCR. USAID is also complying with the OMB policy requirement to post synopses of its funding opportunity announcements at Grants.gov, using the government-wide standard data elements for these synopses. This policy [68 FR 58146] requires a synopsis of any Federal funding opportunity to be posted at Grants.gov FIND no later than three business days after release of the full announcement.

A USAID policy directive was issued on May 13, 2003, to Agency grant officers worldwide, and was revised on January 23, 2004. This policy directive required the posting of agency assistance synopses and application opportunities to Grants.gov and required that appropriate training resources be provided for users. The Agency's policy change was implemented approximately six months prior to the actual effective date of OMB's requirement for posting to Grants.gov. Additionally, USAID participated as a pilot agency implementing this eGov initiative and remains fully operational in the posting of USAID's marketing of Request for Application (RFA) announcements.

The Agency also implemented use of the APPLY function of Grants.gov for receiving applications under the agency's discretionary grant or cooperative agreement programs. On January 7, 2004, OMB requested agency schedules to be established no later than March 1, 2004, that identify which programs will participate in Grants.gov APPLY, and when actual use of Grants.gov APPLY will begin.

The USAID E-Grants migration schedule was established to plan, track, and monitor change management procedures necessary to efficiently develop project tasks and milestones for the comprehensive project schedule. The Migration Manager has the ultimate responsibility to review, customize, and track overall progress and variance to the baseline. USAID has customized schedule materials provided by the HHS E-Grants Project Management Office (PMO) and created materials related to supplemental tasks and activities deemed necessary by the agency. During the Planning Phase, USAID reviewed materials provided by the HHS E-Grants PMO such as a project schedule template and determined specific requirements to be included for migration.

Initial testing of APPLY was successfully completed in June 2003 in Washington, DC, and one overseas location using "test data." Subsequent tests conducted on September 2, 2004, successfully launched an Agreement Officer SF424 package creation and application response in Washington, DC. Additional testing in Macedonia was scheduled to occur on September 20, 2004. USAID has signed, approved, and funded the Memorandum of Understanding with HHS for Grants.gov. USAID's Office of Acquisition & Assistance has continued to coordinate with HHS and the Integrated Acquisition Environment (IAE) PMO for guidance.

USAID currently focuses on the development of "results-oriented" grant programs that are similar to Performance-

Based Contracting. Exploration and implementation of formal regulatory guidelines and requirements for "results-oriented" assistance in all Federal assistance programs would likely increase the effectiveness, performance, coordination and accountability of grant programs government-wide.

Additionally, USAID is refining its policies regarding accounts receivable for grant programs to assist in debt collection from grantees. Development of regulatory guidance in this area may provide increased accountability of grant programs government-wide.

While expanding the scope of reporting requirements may provide increased information to the Federal agency, careful consideration must be given to the intended purpose of a grant. Grants are intended to support the recipient's program, rather than to provide a service to the government.

We do not see any current statutory impediments to USAID's compliance with the new OMB policies relating to grants streamlining and Grants.gov. However, a variety of political initiatives have the potential to impact compliance. Issues related to counter-terrorism are an example.

The USAID program portfolio for Assistance and Cooperative Agreements is estimated to be almost 50% of the Agency's procurements. As a result, grant administration accounts for approximately 50% of an Agreement Officer's workload.

Audit Management

The Office of Inspector General (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 nonfederal 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 2004, USAID received 495 audit reports; 439 of these reports covered financial audits of contractors and recipients and 56 covered Agency programs or operations.

During FY 2004, the Agency closed 498 audit recommendations. Of these, 205 were from audits performed by OIG staff and 293 were from financial audits of contractors or grant recipients. USAID took final action on recommendations with $4.4 million in disallowed costs, and $189.7 million was put to better use during the fiscal year.

At the end of FY 2004, there were 304 open audit recommendations, 42 more than at the end of FY 2003 (262). Of the 304 audit recommendations open at the end of FY 2004, only 13 or 4.3% have been open for more than one year.

As regards the 13 recommendations open for more than one year at the end of FY 2004, USAID must collect funds from contractors or recipients to complete actions on two of these recommendations. The remaining 11 require improvements in Agency programs and operations. Most of these are tied to USAID/Nepal's internal control weaknesses related to costs incurred on child survival/family planning services; USAID's staff training and development activities; and USAID's human capital data.

Management Action on Recommendation that Funds be Put to Better Use

	Recommendations	Dollar Value ($000)
Beginning balance 10/1/03	9	$ 214,356
Management decisions during the fiscal year	11	5,377
Final action	14	189,698
Recommendations implemented	14	189,698
Recommendations not implemented	0	-
Ending Balance 9/30/04	6	$ 30,035

Management Action on Audits with Disallowed Costs

	Recommendations	Dollar Value ($000)
Beginning balance 10/1/03	92	$ 11,819
Management decisions during the fiscal year	178	7,779
Final action	169	4,367
Collections/Offsets/Other	169	4,367
Write-offs	0	-
Ending Balance 9/30/04	101	$ 15,231

Debt Management

CROSS SERVICING, PROMPT PAY, ELECTRONIC PAYMENTS

Outstanding accounts receivable have decreased over the last two years, from $7.412 million in FY 2002 to $5.263 million in FY 2004. An accounts receivable due from the public is an amount owed to the government to satisfy a debt or claim. If an individual/entity has been billed, and the debt is under appeal, that debt is also considered a receivable. An analysis of accounts receivable balances can be found in the Footnotes to the Financial Statements.

	FY 2004	FY 2003	FY 2002
Receivables Referred to the Department of Treasury for Cross-Servicing			
Number of Accounts	55	49	54
Amounts Referred (in thousands)	$ 5,263	$ 6,243	$ 7,412

USAID is required by the Prompt Payment Act to pay its bills on time or pay an interest penalty to vendors. This chart shows that USAID has reduced its late payments from 4.52% in FY 2002 to less than 1/2 % in FY 2004. In addition, we pay the vast majority of our bills by Electrionic Funds Transfer (EFT).

Timeliness of Payments	FY 2004	FY 2003	FY 2002
Interest Penalty Paid	$ 3,045.00	$ 17,825.00	$ 66,372.00
Percentage of Payments Paid Late	0.41%	1.17%	4.52%
Number of EFT Payments	21,309	20,690	21,108
Number of Check Payments	427	429	452

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