

## Chief Financial Officer's Message

This USAID Accountability Report provides useful information to those who are interested in the Agency's mission and the manner in which it is implementing its goals and objectives on a worldwide basis.

USAID managers, employees, and partners affect the lives and the opportunities of people in many countries around the world through the delivery of foreign economic and humanitarian assistance. The financial resources that USAID is able to bring to bear to provide this assistance are reflected in the financial statements included in this report to our stakeholders. Owing to the nature of its programs, the expertise and resources that USAID delivers to its recipients are difficult to measure. The Agency's success is due to its effectiveness in marshaling its resources and those of donors to address significant development issues worldwide.

The USAID Inspector General's Office was not able to express an opinion on the financial statements because its audit scope was impaired. This impairment resulted from poorly functioning accounting and financial management systems from which the Agency was unable to produce complete, reliable, timely, and consistent financial statements. The Agency has embarked on a program to replace the accounting systems and the suite of financial management systems that support the internal management functions of the organization using private sector technologies

and the services of other government agencies. It is essential that the Agency ensure strong accountability for the resources provided to us. We are committed to working in an open and constructive manner to make USAID synonymous with sound financial management.

During the fiscal year we implemented a number of operational improvements in accounting and reporting processes. We improved the servicing of our loan portfolio through the use of a private sector financial institution, and we improved the letter-of-credit process used to fund grantees by employing the services of another government agency. We were also able to implement new reporting and disclosure requirements in accordance with the Statement of Federal Financial Accounting Standards Number 2, *Entity and Display*.

Looking to next year, working closely with the chief information officer, the inspector general and USAID managers, we plan to report on marked improvements in our accounting systems, financial operations, the CFO organization, and the CFO functions carried out in Washington and at our overseas missions.



—MICHAEL SMOKOVICH  
Chief Financial Officer  
U.S. Agency for International Development

## Analysis of Financial Statements

Fiscal year 1998 marks the first year that agencies are required to produce financial statements in accordance with the Statement of Federal Financial Accounting Standards Number 2, *Entity and Display*. Because of the significant differences in reporting requirements between fiscal years 1997 and 1998, USAID has decided not to present comparative statements. Comparative statements are not required by the Office of Management and Budget (OMB) until reporting periods beginning after 30 September 1999.

During fiscal year 1998, net position decreased by \$7.413 million. This decrease is primarily due to a change in the presentation of Resources Payable to Treasury for Credit Loan Programs. \$6.212 million in Resources Payable to Treasury was reclassified from net position to other intragovernmental liabilities.

In fiscal year 1997, in consultation with OMB, these amounts were classified as invested capital (a component of net position) for financial statement reporting purposes. This decision was based on OMB Circular 94-01, which included pre-credit reform loans financed by appropriations in its definition of invested capital. In addition, the reclassification of Resources Payable to Treasury as an equity account eliminated a discrepancy between the Statement of Operations and the Statement of Changes in Net Position.

During FY 1998, invested capital was removed from the U.S. Standard General Ledger. Additionally, in the new Entity and Display statements, the closing of income and expenses to Resources Payable to Treasury is recognized as a decrease in Unexpended

Appropriations on the Statement of Changes in Net Position, thereby eliminating any discrepancies between the statements. By reclassifying Resources Payable to Treasury as a liability rather than as a component of net position, consistency between the financial statements is maintained and the payable is properly reflected as a liability.

## Commercial Payment Activities

The Prompt Payment Act and its implementing regulations seek to ensure timely and accurate payment of vendor invoices by federal agencies. The act requires payment within 30 days of receipt of a proper invoice for goods and services. If payment is late, an interest penalty must be paid.

During fiscal year 1998, USAID reduced the *volume* of interest penalties by 65 percent and the dollar value by 66 percent from fiscal year 1997. These reductions were realized through normalization of operations in fiscal year 1998, in the aftermath of the major payment delays that resulted during implementation of the New Management System in 1997.

The Debt Collection Improvement Act of 1996 mandated electronic funds transfers for federal payments to new recipients beginning 26 July 1996. It also mandated electronic funds transfers for all federal payments after 1 January 1999. As a result of this legislation, USAID successfully converted numerous vendors from check payments to electronic funds transfers. As a result, more than 95 percent of USAID's Washington payments are now made electronically. At the mission level, significant progress has been made in using Treasury infrastructure to make payments electronically. However, significant obstacles continue to hinder

the electronic payment of foreign currencies within developing countries.

During fiscal year 1998, USAID began to cross-service the management of advance funding to nonprofit organizations, via letter of credit, through the Department of Health and Human Services (DHHS). DHHS will provide the software and professional support necessary to disburse more than \$1.7 billion to USAID's nonprofit partners. This conversion will be completed in fiscal year 1999 and will provide USAID with improved letter-of-credit processing capabilities at an efficient cost. In addition, it will comply with recommendations by the Grants Management Committee of the Chief Financial Officer's Council to implement the program by 1 October 2000.

## Debt Management

USAID is continuing its efforts to expand and enhance its debt management capabilities. These efforts ensure the Agency's consistent compliance with legal policy as well as accurate disclosure of dollars spent and program objectives achieved.

### *Credit Reform Programs*

USAID has continued to improve the management of its credit portfolio as part of its mission to establish and maintain sound financial management practices in order to advance the Agency's mission, goals, and objectives. To further its mission as a value-added provider of financial information and services, USAID has established a credit review board. It meets on a regular basis to oversee general credit portfolio management.

Improvement of credit management policies and procedures continued during fiscal year 1998 with the develop-

ment of an enhanced procedures manual for the Urban and Environment Credit Program. Development of similar manuals for the remaining credit programs will continue in fiscal year 1999.

USAID has also begun the outsourcing of its loan-servicing function in an effort to improve and streamline that aspect of portfolio management. Completion of this project is scheduled for early 1999. The aging portfolio systems currently in use are to be replaced with a state-of-the-art credit portfolio system housed off-site. This will allow the Agency to improve the quality of credit portfolio information it provides to agency management as well as its customers, partners, and other stakeholders. Agency credit asset management was also improved during fiscal year 1998 through implementation of the Credit Management Improvement Action Plan. This plan established credit managers in the Agency's program offices, allowing financial management

staff and program managers to work closely together to improve financial systems and procedures for managing the Agency's credit portfolio.

### ***Debt Collection Performance***

USAID has been working with the Treasury Department to implement the requirements of the Debt Collection Improvement Act of 1996 and to take advantage of the expanded debt collection authority under the law. Through the end of fiscal year 1998, USAID referred approximately \$80,000 to Treasury's offset program, up from approximately \$20,000 in the prior year. There are substantially more delinquent debts in the Agency. However, many are debts due from foreign vendors. Treasury does not have the capability to seek collection from these vendors.

## **Civil Monetary Penalties**

Civil monetary penalties are non-criminal damages imposed for violations of federal law, for which a given dollar amount or maximum amount is specified by federal law. This amount is assessed or enforced by an agency as a result of an administrative proceeding or civil action in the federal courts. The Federal Civil Penalties Inflation Adjustment Act of 1990, PL 101-410, provides for regular reporting of penalties assessed and collected by federal agencies to ensure that such penalties continue to maintain their deterrent value and that penalty amounts due the federal government are properly accounted for and collected. No penalties were assessed under this statute by USAID in fiscal year 1998.