INDEPENDENT AUDITOR'S REPORT ON USAID'S FY 2001 FINANCIAL STATEMENTS

MEMORANDUM

FOR: A-CFO/FM, Elmer S. Owens

FROM: IG/A/FA, Alvin A. Brown   Alvin A. Brown

SUBJECT: Independent Auditor's Report on USAID's Consolidated Financial Statements, Internal Controls, and Compliance for Fiscal Year 2001 (Report No. 0-000-02-006-F)

The Office of the Inspector General (OIG) is transmitting its reports on the audit of the U.S Agency for International Development's (USAID's) fiscal year 2001 financial statements, related internal controls, and compliance with applicable laws and regulations. Under the Government Management Reform Act of 1994, USAID is required to prepare consolidated fiscal year-end financial statements. For fiscal year (FY) 2001, USAID is required to submit the audited financial statements to the Office of Management and Budget (OMB) and the Department of the Treasury by February 27, 2002.

Enclosed are the OIG's reports on USAID's FY 2001 financial statements, related internal controls, and compliance with applicable laws and regulations. We are pleased to report that, for the first time, we are able to issue opinions on three of USAID's five principal financial statements. This is an important milestone and represents progress by USAID. However, on the Balance Sheet and Statement of Changes in Net Position, the opinion was achieved only through extensive efforts to overcome material weaknesses in internal controls. Although these efforts resulted in an improvement in the information on two of USAID's five principal financial statements, the efforts did not provide for reliable information to USAID managers throughout the year.

Our report discusses three material weaknesses in internal controls and three reportable conditions identified during the audit. The material weaknesses relate to the reconciliation and proper classification of financial information as well as computer security deficiencies. The reportable conditions address financial management improvements needed at USAID.

We reported that USAID is not in substantial compliance with the financial management system requirements of the Federal Financial Management Improvement Act of 1996 (FFMIA).

We have received and considered your response to the draft report and the recommendations included therein. Based on your response, we accepted your comments as management decisions. Please forward all information on your requests to the Office of Management, Planning, and Innovation for acceptance of the final management actions related to the recommendations. See Appendix II for USAID's Management Comments.

I appreciate the cooperation and courtesies that your staff extended to the OIG during our audit. The Office of the Inspector General is looking forward to working with you on the audit of fiscal year 2002 financial statements and seeing improved systems and controls.

INDEPENDENT AUDITOR'S REPORT ON USAID'S FY 2001 FINANCIAL STATEMENTS

SUMMARY OF RESULTS

The Government Management Reform Act (GMRA) of 1994 requires the U.S. Agency for International Development (USAID) to prepare and submit audited consolidated financial statements for inclusion in the government-wide financial statements. As part of this effort, GMRA requires the Office of Inspector General (OIG) to:

- Audit the financial statements and issue an opinion on the fairness of their presentation in accordance with generally accepted accounting principles;
- Report on related internal controls; and
- Report on compliance with applicable laws and regulations.

Auditor's Opinion on USAID's Fiscal Year 2001 Financial Statements

In our opinion, USAID's Balance Sheet, Statement of Changes in Net Position, and Statement of Budgetary Resources present fairly, in all material respects, the financial position of USAID at September 30, 2001, in conformity with generally accepted accounting principles, except for the effects of:

- $128 million in advances that were not reconciled to ensure proper classification as advances and/or expenses on the Balance Sheet and the Statement of Changes in Net Position; and
- $186 million in unliquidated obligations that may not be needed for the original obligation purposes on the Statement of Budgetary Resources.

We were unable to express an opinion on USAID's Statements of Net Cost and Financing for the year ended September 30, 2001 because we could not perform sufficient audit procedures to determine the effect of:

- $246 million in expenses (of which $155 million was attributed to advance liquidations) that may not have been properly allocated to Agency goals and $128 million in unreconciled advances that may not have been properly classified on the Statement of Net Cost; and
- $186 million in unliquidated obligations that may not be needed for the original obligation purpose and the $128 million unreconciled advances that may not have been properly classified on the Statement of Financing.

Other Accompanying Information

The Management Discussion and Analysis (MD&A) is not a required part of the basic financial statements; rather, it is supplementary information required by the Federal Accounting Standards Advisory Board. We did not audit and do not express an opinion on such information. However, we have applied certain limited procedures to determine the methods of measurement and presentation of the supplementary information. As a result of such limited procedures, we believe that the MD&A departs materially from prescribed guidelines. The results of our procedures are included in the reports on internal controls and compliance with applicable laws and regulations.

Report on Related Internal Controls

During fiscal year 2001, USAID took steps to meet the Federal Financial Management Improvement Act (FFMIA) requirements by deploying Phoenix, an off-the-shelf accounting system, as a component of its financial management system. However, USAID financial management systems do not substantially comply with the FFMIA requirements. As a result, USAID places greater reliance on manual processes such as reconciliations because data for the same transaction may be separately entered into multiple systems.

Our audit identified three material internal control weaknesses and reportable conditions, three of which are included in this report.

The material weaknesses were:

- Advances to Grantees Were Not Consistently Reconciled and Classified.
- Unliquidated Obligations Were Not Consistently Analyzed and Deobligated as Necessary.
- Computer Security Deficiencies Continue to Exist.

INDEPENDENT AUDITOR'S REPORT ON USAID'S FY 2001 FINANCIAL STATEMENTS

The reportable conditions were:

- USAID's Process for Recognizing and Reporting Accounts Receivable Needs Improvement.
- USAID's Internal Controls Over Its Overseas Missions Accounts Payable Process Needs Improvement.
- USAID's Process for Preparing the Management Discussion and Analysis Needs Improvement.

We noticed certain other matters involving USAID's internal controls and its operations that we will report to management in a separate report.

With respect to performance measures reported in the MD&A, we were unable to obtain a complete understanding of the design of the related significant internal controls because management did not disclose all sources of performance results data to the OIG in a timely manner. Consequently, we were unable to review the internal controls surrounding all the sources. However, by applying limited procedures to certain sources to determine the methods of measurement and presentation of performance results in the MD&A, we identified deficiencies that, in our judgment, caused the MD&A to depart materially from prescribed guidelines.

Report on Compliance with Laws and Regulations

Our audit also disclosed two instances of noncompliance with laws and regulations that could have a direct and material effect on the principal financial statements and required supplementary information. The laws with which USAID did not comply were:

- The Federal Financial Management Improvement Act of 1996, and
- The Computer Security Act of 1987

Specifically, USAID's financial management systems did not substantially comply with Federal Financial Management System requirements, Federal Accounting Standards, and the U.S. Standard General Ledger at the transaction level. Further, we found that USAID did not implement an effective computer security program as required by the Act.

We considered USAID's internal control weaknesses and noncompliance with laws and regulations to determine our auditing procedures for the purpose of forming our opinion on the financial statements and not to provide assurance on internal controls and compliance with laws and regulations.

We have provided additional information in the following paragraphs regarding the areas listed above. USAID reported these material weaknesses in its previous Accountability Reports and in its draft 2001 Accountability Report, which will be issued on February 27, 2002.

BACKGROUND

The United States Agency for International Development (USAID) was created in 1961 to advance the United States' foreign policy interest by promoting broad-based sustainable development and providing humanitarian assistance. USAID has an overseas presence in over 70 countries, 42 of which have fully operational and formal USAID missions. In fiscal year 2001, USAID had total obligation authority of about $7.5 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 appropriate Congressional Committees. Pursuant to this Act, for FY 2001, USAID has prepared: (1) Balance Sheet, (2) Statement of Net Cost (3) Statement of Changes in Net Position, (4) Statement of Budgetary Resources, (5) Statement of Financing, (6) notes to the financial statements, and (7) other accompanying information.

Audit Objectives

OMB Bulletin No. 01-02 and related GAO guidance established the minimum audit requirements for Federal financial statements. For fiscal year 2001, this Bulletin required us to:

- Determine whether USAID's principal financial statements present fairly in all material respects, in conformity with generally accepted accounting principles, the (1) assets; (2) liabilities and net position; (3) net costs; (4) change in net position; (5) budgetary resources; (6) reconciliation of net costs and budgetary obligations.
- Obtain an understanding of USAID's internal control sufficient to plan the audit by performing

procedures to understand the design of controls relevant to an audit of financial statements, and whether they have been placed in operation. Assess control risk for the assertions embodied in the classes of transactions, account balances, and disclosure components of the financial statements.

- Obtain an understanding of the components of USAID's internal control relating to the existence and completeness assertions relevant to the performance measures included in the Management Discussion and Analysis.
- Report on USAID's compliance with laws and regulations that could have a direct and material effect on the principal statements, and any other applicable laws and regulations.
- Report whether USAID's financial management systems substantially comply with the FFMIA section 803(a) requirements.

For the first objective, we obtained sufficient evidence about the balances in the material line items on USAID's fiscal year 2001 financial statements to enable us to form an opinion on those statements.

For the second and third objectives mentioned above, we obtained an understanding of USAID's internal controls and assessed the control risk for the assertions embodied in the classes of transactions, account balances, and disclosure components of the financial statements. We attempted to obtain an understanding of the components of USAID's internal controls relating to the existence and completeness assertions relevant to the performance measures included in the Management Discussion and Analysis.

For the fourth and fifth objectives mentioned above, we determined whether USAID's financial management systems comply substantially with federal requirements for financial management systems, applicable federal accounting standards, and the U.S. Standard General Ledger at the transaction level, as required by Section 803(a) of the FFMIA of 1996.

In accordance with the OMB audit requirements for federal financial statements, this combined audit report includes our separate reports on USAID's financial statements, internal controls, and compliance with applicable laws and regulations.

AUDIT FINDINGS

Independent Auditor's Report on USAID's Financial Statements

Did USAID's principal financial statements present fairly: the assets, liabilities, net position, net costs, change in net position, budgetary resources, and reconciliation of net costs, and budgetary obligations for fiscal year 2001?

We have audited the accompanying Balance Sheet, Statement of Changes in Net Position, and Statement of Budgetary Resources of USAID for the year ended of September 30, 2001. We were engaged to audit the related Statements of Net Cost and Financing for the year then ended. These financial statements are the responsibility of USAID's management. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with generally accepted government auditing standards; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the Office of Management and Budget (OMB) Bulletin No. 01-02, "Audit Requirements for Federal Financial Statements." Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

USAID did not reconcile and properly classify $66 million net ($109 million in absolute value) in advances and $62 million in advance liquidations were not recorded as expenses on the Balance Sheet and Statement of Changes in Net Position, respectively. Instead, $128 million was reported on the Balance Sheet as advances. Consequently, we were unable to determine how the $128 million should have been classified and reported on the financial statements. Additionally, we were unable to

INDEPENDENT AUDITOR'S REPORT ON USAID'S FY 2001 FINANCIAL STATEMENTS

determine, through our normal auditing procedures, whether $186 million in unliquidated obligations that were reported on the Statement of Budgetary Resources were needed for the original obligation purpose.

In our opinion, except for the effect of the outstanding advances, advance liquidations, and unliquidated obligations mentioned above, USAID's fiscal year 2001 Balance Sheet, Statement of Changes in Net Position, and Statement of Budgetary Resources present fairly, in all material respects, the financial position of USAID for the year then ended in conformity with generally accepted accounting principles.

We were unable to express an opinion on USAID's Statement of Net Cost for the fiscal year ended September 30, 2001 because we could not perform sufficient audit procedures to determine the effects of the allocation of about $246 million in expenses to the appropriate Agency goals on the Statement of Net Cost. In addition, we could not determine the effects of $128 million reported on the Balance Sheet as advances that may be more appropriately recorded as expenses but were not included on the Statement of Net Cost.

The $246 million in expenses may not be appropriately assigned to specific Agency goals because:

- $155 million in expenses (advance liquidations) were not initially recorded as expenses in FY 2001. USAID grantees could not report the expenses because the corresponding obligations were not recorded in the Department of Health and Human Services (DHHS) Payment Management System (hereafter referred to as the Payment Management System). Subsequently, USAID recorded and allocated the expenses but was unable to record them directly to the related agency goals.

- $91 million in mission expenses were not appropriately assigned to specific Agency goals in the Statement of Net Cost.

The $128 million was reported on the Balance Sheet as advances that may be more appropriately recorded as expenses on the Statement of Net Cost. Of the $128 million:

- $62 million was reported to USAID as expenses by the DHHS but not recorded as expenses in USAID's FY 2001 general ledger nor in the financial statements; and

- $66 million of unreconciled advances ($109 million absolute) remained in USAID's legacy system. The legacy system is inactive and, according to USAID officials, the vast majority of these outstanding advances should be reclassified as expenses. Until the advances are reviewed and a determination made as to their status, there is no means of determining whether they are expenses or outstanding advances.

We were unable to express an opinion on USAID's Statement of Financing for the fiscal year ended September 30, 2001 because we could not perform sufficient audit procedures to determine the effects of the $186 million noted above on the Statement of Budgetary Resources that may not be needed for the original obligation purpose. In addition, we could not determine the effects of the $128 million reported on the Balance Sheet as advances that may be more appropriately recorded as expenses.

In accordance with Government Auditing Standards and the provisions of OMB Bulletin 01-02, we have also issued reports, dated February 25, 2002, on our consideration of USAID's internal controls and on its compliance with laws and regulations.

The Management Discussion and Analysis (MD&A) is not a required part of the basic financial statements, rather, it is supplementary information required by the Statement of Federal Accounting Standards and we did not audit and do not express an opinion on such information. However, we have applied certain limited procedures to determine the methods of measurement and presentation of the supplementary information. As a result of such limited procedures, we believe that the MD&A departs materially from prescribed guidelines. The results of our procedures are included in the reports on internal controls and compliance with applicable laws and regulations.

Office of Inspector General
February 25, 2002

Independent Auditor's Report on Internal Controls

Did USAID establish adequate internal controls related to its financial statements and the performance measures contained in its Management Discussion and Analysis section?

We have audited the financial statements of USAID for the fiscal year ended September 30, 2001 and have issued our report thereon. We conducted the audit in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the Office of Management and Budget (OMB) Bulletin No. 01-02, "Audit Requirements for Federal Financial Statements."

In planning and performing our audit, we considered USAID's internal controls over financial reporting by obtaining an understanding of those controls. We determined whether the internal controls have been placed in operation, assessed control risk, and performed tests of controls to determine our auditing procedures for the purpose of expressing an opinion on the financial statements. We limited the internal control testing to those necessary to achieve the objectives described in OMB Bulletin No. 01-02. We did not test all internal controls relevant to the operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982 (such as those relevant to ensuring efficient operations).

The objectives of internal controls are to provide management with reasonable, but not absolute, assurance that the following objectives are met:

- Transactions are properly recorded and accounted for to permit the preparation of reliable financial reports and to maintain accountability over assets.
- Funds, property, and other assets are safeguarded against loss from unauthorized acquisition, use, or disposition.
- Transactions that have a material impact on the financial statements, including those related to obligations and costs are executed in compliance with laws and regulations.

The objective of our audit was not to provide assurance on internal controls. Consequently, we do not provide an opinion on internal controls.

Our consideration of the internal controls over USAID's financial reporting would not necessarily disclose all matters that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgement, could adversely affect USAID's ability to record, process, summarize, and report financial data consistent with the assertions by management in the financial statements. Material weaknesses, on the other hand, 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 statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of inherent limitations in internal controls, misstatements, losses, or noncompliance may nevertheless occur and not be detected. However, we noted certain matters, discussed in the following paragraphs and accompanying schedules, involving the internal controls and their operation that we consider material weaknesses and/or reportable conditions. (See Federal Financial Management Improvement Act of 1996 (FFMIA) section of Compliance Report for additional internal control weaknesses).

During fiscal year 2001, USAID took steps to meet the FFMIA requirements through deploying Phoenix, an off-the-shelf accounting system, as a component of its financial management system. However, USAID still lacks a fully integrated financial management system and does not substantially comply with the FFMIA requirements. As a result, USAID places a greater reliance on manual processes such as reconciliations because data for the same transaction may be separately entered into multiple systems.

We identified the following matters involving the internal control and its operation that we consider to be material weaknesses and reportable conditions as defined above. Material weaknesses and reportable conditions that were reported in prior GMRA

INDEPENDENT AUDITOR'S REPORT ON USAID'S FY 2001 FINANCIAL STATEMENTS

audit reports, and that continued to exist during FY 2001 are identified as "Repeat Conditions".

The material weaknesses were:

- Advances to Grantees Were Not Consistently Reconciled and Classified.
- Unliquidated Obligations Were Not Always Analyzed and Deobligated as Necessary.
- Computer Security Deficiencies Continue to Exist.

The reportable conditions were:

- USAID's Process for Recognizing and Reporting Its Accounts Receivable Needs Improvement.
- USAID's Internal Controls Over Its Overseas Missions Accounts Payable Process Needs Improvement.
- USAID's Process for Preparing the Management Discussion and Analysis Needs Improvements.

We noticed certain other matters involving USAID's internal controls and its operations that we will communicate to management in a separate report that is scheduled to be issued by March 31, 2002.

Material Weaknesses

Advances to Grantees Were Not Consistently Reconciled and Classified (Repeat Conditions)

We found that USAID did not consistently reconcile advances to grantees. Further, USAID did not properly classify its advances to grantees at fiscal year-end. As a result, the following occurred:

- A $439[1] million difference existed between USAID's general ledger and its subsidiary ledger maintained by the Department of Health and Human Services (DHHS) for advances to grantees.
- About $155[2] million in expenses incurred by its grantees had not been reported to DHHS nor identified and recorded in the financial records by USAID.
- A backlog of 278 grant awards and/or modifications was not entered in the Payment Management System.
- About $66 million in advances disbursed prior to October 1999 remained outstanding as of September 30, 2001.

As of September 30, 2001, a difference of $439 million existed between USAID's general ledger and its subsidiary ledger. USAID's general ledger had a balance of about $1.1 billion in advances to grantees, while its subsidiary ledger, which is maintained by DHHS,[3] had a balance of $694 million. No automated interface exists between the Payment Management System and USAID's general ledger. Therefore, transactions processed in the Payment Management System must be manually entered into USAID's general ledger and USAID is required to reconcile the reports provided by DHHS to the general ledger. The $439 million difference occurred because USAID did not follow its established procedure that requires a monthly reconciliation between the general and subsidiary ledgers. According to USAID officials, the lack of staffing resources impaired its ability to perform the monthly reconciliation. USAID recorded an adjustment to its FY 2001 advance balance for about $377 million of the $439 million. USAID is analyzing the remaining $62 million before it is recorded as an expense. Therefore, the advances may be overstated and the expenses may be understated by the $62 million.

GAO Standards for Internal Controls in the Federal Government requires reconciliation as part of federal agency's management and supervisory activities. The standards state that "In the process of carrying out regular management functions, management should obtain information as to whether internal control is working properly. Operating reports should be integrated or reconciled with financial reporting system data and used to manage operations on an ongoing

[1] USAID recorded an adjustment to its FY 2001 advance balance for about $377 million of the $439 million. USAID is analyzing the remaining $62 million before it is recorded as an expense.
[2] USAID subsequently made an adjustment to record the $155 million as expenses.
[3] DHHS is the servicing agency that manages advances to USAID's grantees through the Letter of Credit System. Therefore, the Payment Management System is USAID's subsidiary ledger for advances to grantees.

basis. Significant inaccuracies or exceptions should alert management to any internal control problems." We believe that USAID did not fully carry out the requirements of this standard in fiscal year 2001 as they relate to the advance activities.

In a previous audit report,[4] we recommended that USAID conduct a monthly reconciliation of the advance balances maintained in the general and subsidiary ledgers. However, USAID has not fully implemented our recommendation. Therefore, we are making the following recommendation:

Recommendation No. 1. We recommend that USAID Office of Financial Management:

1.1 establish a general ledger suspense account to record expenses reported to USAID by the Department of Health and Human Services,

1.2 identify and record these expenses against the appropriate general ledger account at the obligation level, and

1.3 establish procedures to research and resolve all expenses remaining in the general ledger suspense account at the end of each accounting period.

As of September 30, 2001, USAID had not recorded about $155 million in expenses related to advance liquidation submitted by grantees. This occurred because USAID does not have an integrated financial management system. Therefore, obligations established for advances to grantees that are managed by DHHS must be manually entered into the Payment Management System. However, USAID has not established a process that ensures that all obligations established for advances to grantees are entered into the Payment Management System. Consequently, the obligations related to the $155 million had not been entered into the PMS, therefore, the expenses were not recognized and reported by DHHS. USAID subsequently made an adjustment to record the $155 million as expenses.

We determined that, as of September 30, 2001, USAID has a backlog of 278 grant agreements and/or amendments with a value of about $255 million that were not recorded in the Payment Management System. The grant agreements and/or amendments were not posted to the Payment Management System for up to 361 days. (Table 1 below illustrates the status of the grant agreements or amendments). This occurred because USAID does not have a worldwide-integrated financial management system that links the accounting, procurement, and assistance systems as well as all other activities performed by USAID. Additionally, copies of new grants and/or amendments issued by USAID were not submitted to the Financial Management Division in a timely manner. Further, there is no assurance that all obligations established for grants managed by DHHS were submitted to the USAID's Cash Management and Payment Division. The backlog of grants and/or amendments were kept in a file drawer in this division because USAID Office of Financial Management did not have the necessary staffing resources to enter these agreements into the Payment Management System.

GAO Standards for Internal Controls in the Federal Government requires that transactions and other significant events should be promptly recorded and properly classified. This guidance further states that transactions must be promptly recorded if pertinent information is to maintain its relevance and value to management in controlling operations and making decisions.

Table 1
Status of Grant Agreements/Amendments At September 30, 2001

Number of Amendments	Absolute Value (in millions)	Number of Days Outstanding
210	$197	0-59
19	$25	60-90
10	$4	91-120
14	$13	121-180
7	$4	181-360
18	$12	361 & Over
278	**$255**	

[4] Audit of USAID Advances and Related Internal Controls for Fiscal Year 1999 (Audit Report No. 0-000-00-003-F, February 1, 2000).

This applies to:

- the entire process or life cycle of a transaction or event and includes the initiation and authorization,
- all aspects of the transactions while in process, and
- its final classification in summary records.

Proper classification of information on transactions and events refers to the organization and format of information on summary records from which reports and statements are prepared.

In previous audit reports,[5] we recommended that USAID implement a process to address the internal control deficiency identified above. However, during our fiscal year 2001 GMRA audit follow-up, we determined that USAID had not done so. According to USAID officials, this occurred because of the shortage in staffing resources. As a result, the backlog of unrecorded grants and modifications has recurred. Therefore, we are restating the following recommendation to USAID Management:

Recommendation No. 2. We recommend that the USAID Office of Financial Management:

2.1 eliminate the backlog of grant agreements and/or amendments by inputting them into the Department of Health and Human Service's Payment Management System;

2.2 ensure that all new grant agreements and/or amendments are submitted to its Cash Management and Payment Division within 10 business days after their execution; and

2.3 ensure that the Cash Management and Payment Division enter all new grants and/or amendments in the Payment Management System within 20 days after receiving them.

USAID had not completed reconciling and classifying the advances to grantees recorded in its legacy system. According to USAID officials, this occurred because the Office of Financial Management lacked the necessary staffing resources. Additionally, maintaining the day-to-day operations and implementing Phoenix (USAID's new accounting system) was assigned a higher priority. As a result, $66 million in advances to grantees remained unreconciled as of September 30, 2001. This could result in an overstatement of the year-end advance balance and an understatement of the related expenses by the $66 million.

In previous audit reports, we reported that USAID transferred an estimated $1.3 billion of unliquidated obligations for 301 recipient organizations to the Payment Management System without verifying the accuracy of the transferred balances. We recommended that USAID perform a reconciliation to verify the accuracy of balances transferred to DHHS. USAID concurred with our finding and recommendation and proposed corrective action for this deficiency.

Our audit covering fiscal year 2001 showed that USAID reconciled the unliquidated obligation balances for 168 of the 292 recipient organizations transferred to the Payment Management System.

As agreed, USAID has implemented prior recommendations. However, due to the lack of staffing resources, USAID has not completed this reconciliation. USAID officials stated that the remaining 124 recipient organizations will be completed by fiscal year-end 2002. Therefore, we are not making a recommendation in this report.

Unliquidated Obligations Were Not Consistently Analyzed and Deobligated as Necessary (Repeat Condition)

USAID records showed unliquidated obligations that may no longer be needed for its original obligation purpose. This occurred because, as of September 30, 2001, USAID had not implemented a process for consistently reviewing, analyzing, and deobligating unneeded obligations.

As a result, at September 30, 2001, there were about $186 million in unliquidated obligations that had no activity against them for more than one year. Further, this $186 million may no longer be needed for its original obligation purpose.

USAID's Automated Directive System (ADS) No. 621 states that "as part of the annual budget process, Assistant

[5] Audit of USAID Advances and Related Internal Controls for Fiscal Year 1999 (Audit Report No. 0-000-00-003-F, February 1, 2000) and Audit of USAID Advances and Related Internal Controls for Fiscal Year 2000 (Audit Report No. 0-000-00-003-F, February 15, 2001).

Administrators, independent Office Directors, and Mission Directors must certify whether unexpended balances are necessary for on-going programs." The directive further requires that in 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, where there is an unobligated balance that has remained unchanged for 12 months or more and there is no evidence of receipt of services/goods during that same 12-month period, the situation may reflect that remaining balances are no longer needed.

We determined that, as of September 30, 2001, USAID's internal control process as it relates to the management of unliquidated obligations needs improvement. Specifically, our review of about $1.9 billion in unliquidated obligations showed that about $186 million had no activity during FY 2001, based on normal Agency operations, and may not be needed for the original obligation purpose. We were unable to determine the portion of this amount that should be deobligated.

We also determined that about $57 million of the $186 million in unliquidated obligations had no disbursement activity since the obligation was established. According to USAID officials, this occurred because USAID's current disbursement process does not match contractor or grantee-reported expenses and the subsequent payments with the obligations that gave rise to those payments. Consequently, the $57 million in unliquidated obligations was carried forward each year even after the payments that would have fully depleted them were made by USAID (see Table 2 below).

In prior years, we reported that USAID's unliquidated balances were not routinely reviewed and were not reliable for calculating accrued expenses and accounts payable. In our fiscal year 2000 audit report, we reported that USAID acted to improve its policies and procedures and the quality of the financial data recorded in the New Management System.[7] USAID agreed that its process for reviewing, analyzing, and deobligating unliquidated obligations needs improvement. During fiscal year 2000, USAID:

- Implemented a project to review and deobligate those unnecessary unliquidated obligations established during fiscal year 1999 and prior periods. As a result, USAID deobligated over 1,200 obligations totaling about $126 million and revised its policies and procedures for performing periodic reviews.
- Provided training in obligation management to financial management personnel; and

Table 2
Unliquidated Obligations Reviewed and Questioned

Fiscal Year	Obligations with No Activity Since Establishment	Obligations with No Activity in Fiscal Year 2001	Total Unliquidated Obligation	Last Recorded Payment by Fiscal Year[6]
1989	$66,250	$5,100	$71,350	
1990	1,376	39,530	40,906	
1991	0	444,833	444,833	
1992	1,192,789	-528,461	664,328	
1993	429,799	5,102,569	5,532,368	
1994	1,037,180	6,620,971	7,658,151	
1995	1,247,520	10,746,980	11,994,500	
1996	5,226,301	19,146,366	24,372,667	$26,567,291
1997	27,118,496	56,417,478	83,535,974	10,043,216
1998	20,743,564	31,175,078	51,918,642	29,602,595
1999	-	-	-	12,988,951
2000	-	-	-	8,504,748
Total	**$57,063,275**	**$129,170,444**	**$186,233,719**	**$87,706,801**

[6] No payment date was available for the fiscal years prior to fiscal year 1996. This is because the last payment would have occurred before USAID deployed the New Management System in fiscal year 1996.

[7] The New Management System is USAID's old accounting system that was replaced in fiscal year 2001 with the Phoenix accounting system.

- Revised its Automated Directive System, Chapter 621, "Obligations," on September 11, 2000.

According to USAID officials, the Agency implemented a decentralized Accrual Reporting System in the beginning of FY 2002. This system is designed to require review and approval of a system-generated accrual estimate. If this system is implemented and maintained as intended, it should enable USAID to routinely identify obligations that could be deobligated. We will review the implementation of this new system during our fiscal year 2002 GMRA audit.

Recommendation No. 3. We recommend that the USAID Office of Financial Management coordinate with the Office of Procurement and responsible program bureaus to conduct the necessary analysis for determining whether the $186 million and other unneeded obligations should be deobligated.

Computer Security
Weaknesses Continue to Exist
(Repeat Condition)

Over the past four years, the OIG has issued several audits related to the security and general controls[8] of USAID's information systems. Those audits have identified computer security weaknesses that exposed USAID's financial systems to significant risk of unauthorized disclosure and modification of sensitive data, misuse or damage of resources, or disruption of critical operations. (See the "Computer Security Laws" section of the compliance report for a discussion of the OIG audit reports.)

Since 1997, USAID has reported the Agency's computer security program as a material weakness[9] and currently estimates that the weakness will not be fully corrected until September 2003. In USAID's attempt to resolve this material weakness, USAID reportedly has (1) established an effective Information System Security Office structure and an advisory group to set strategy, (2) developed a risk assessment methodology to evaluate computer security, and (3) led the Federal Best Security Practices Initiative.

Nonetheless, recent OIG audits showed that USAID has continued to have many serious computer security weaknesses. For example, the audits identified weaknesses in logical access controls, application software development and change control, segregation of duties, systems software configuration, and service continuity. These weaknesses exist because USAID has not implemented an effective computer security program. For instance, USAID did not:

- enforce its policies and procedures to ensure appropriate implementation, and
- provide adequate guidance for incorporating security into some of USAID's information technology processes.

As a result of the security deficiencies, USAID's financial systems are at significant risk of unauthorized disclosure and modifications of sensitive data, misuse or damage of resources, or disruption of critical operations. The weaknesses may also hamper USAID's ability to produce reliable financial information. Therefore, USAID needs to continue to improve the Agency's computer security program. (To address these weaknesses, the OIG made recommendations in other audit reports. We are not, therefore, making any further recommendations at this time.)

Reportable Conditions

USAID's Process for Recognizing and
Reporting Its Accounts Receivable
Needs Improvements
(Repeat Condition)

As of September 30, 2001, USAID lacks an integrated financial management system with the ability to account for its worldwide accounts receivables. Consequently, USAID had to rely on data calls to its missions to determine the year-end accounts receivable balance. This occurred because USAID lacked coordination and integration of various systems; lacked adequate policy and procedural guidance; and, as previously stated, did not have an integrated financial management system. As a result, USAID has no assurance that the amount reported for accounts receivable in its FY 2001 financial statements represents all receivables due to USAID.

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[8] General controls are the structure, policies, and procedures that apply to an entity's overall computer operations. If general controls are weak or ineffective, the reliability of controls associated with individual applications is severely diminished.

[9] USAID identified this as a material weakness in the Agency's Federal Manager's Financial Integrity Act review.

SFFAS No. 1 requires that accounts receivable be recognized (recorded) 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 for recognizing and reporting accounts receivable at the end of each accounting period.

Currently, USAID records accounts receivable after the missions and the Office of Procurement notifies its Financial Management Division that employees, vendors, contractors, and grantees owe funds to USAID. We determined that this notification to the Office of Financial Management occurs when the receivables are significantly past due- ranging from 636 to 4,042 days.

We also determined that USAID had not recorded receivables of about $7.2 million for Title II and III reimbursements from the U. S. Department of Agriculture. Additionally, we determined that USAID initially overstated its accounts receivable for transfers of currently invested balances by about $49 million. USAID's management made adjustments for these amounts to report a more reliable balance for its accounts receivables.

We are making the following recommendation to the USAID Office of Financial Management to improve its accounts receivable process:

Recommendation No. 4. We recommend that the USAID Office of Financial Management develop and implement a system for the immediate recognition and reporting of all accounts receivables that are due to USAID at the end of each accounting period.

USAID's Internal Controls Over its Overseas Missions Accounts Payable Process Needs Improvement

Our audit determined that USAID's internal controls over its mission accounts payable process needs improvement. We noted that amounts reported for accounts payable via the accrual worksheets used by missions were unsupported by financial documentation. This occurred because all missions have not developed an effective process for gathering the needed financial information from their contractors and grantees to calculate and record periodic accounts payable. As a result, the accounts payable amount from USAID's missions for fiscal year 2001 expenses was overstated by about $165 million. USAID management recorded an adjustment for the $165 million to present a more reliable accounts payable balance at September 30, 2001.

OMB Circular A-123 requires that transactions be promptly and properly classified and accounted for so that timely accounts and reliable financial statements can be prepared. The documentation for transactions, management controls, and other significant events must be clear and readily available for examination.

We determined that the internal control over the process for calculating accounts payable at the missions visited was ineffective. We found that amounts calculated via the accrual worksheet process were not supported by available financial documentation, rationale for calculations, or status reports that reflect an assessment of the spending for the project or activity. Moreover, we found that several accounts payable amounts were recorded by the missions for the entire balance of the related obligations, with expired performance periods. These obligations either had no financial activity in more than one year or had no activity since they were established. We determined that USAID had not conducted the necessary research to determine if the obligations and corresponding accounts payable were necessary.

We determined that this resulted because the efforts of USAID were somewhat hampered by the inefficiencies of the Mission Accounting and Control System (MACS)[10] and its inability to group various funding instruments of the same project or program. However, many USAID missions have not documented their calculations, their communications with contractors and grantees, their analysis of project expense burn rates, or their review of the necessary accounting reports. Additionally, the missions have not developed an effective methodology for gathering the necessary financial information from contractors and grantees.

[10] MACS is an activity based system for recording budget allowance, projects, operating expense, and accounting transactions at USAID's missions.

Furthermore, we determined that USAID missions did not close several obligations and calculated accounts payable for the entire remaining balance because the missions have not received disbursement data from USAID/Washington, nor had the missions received a final voucher from the contractors or grantees. As a result, the accounts payable reported by USAID missions were overstated by about $5 million, which resulted in a projected overstatement of about $165 million for FY 2001 mission accounts payable. Therefore, we are including the following recommendation to USAID management:

Recommendation No 5. We recommend that the Office of Financial Management:

5.1 develop a standardized documentation requirement for estimating accounts payable at its missions on a timely basis;

5.2 coordinate with the Office of Procurement and issue detailed guidance and instructions to its missions for reviewing and reporting, to its Washington Office of Procurement, obligations that are available for deobligation;

5.3 require all missions to maintain adequate supporting documentation that is sufficient for the OIG's review, for their accounts payable.

USAID's Process for Preparing the <u>Management Discussion and Analysis Needs Improvements</u>

OMB Bulletin No. 01-02 requires the OIG to (a) obtain an understanding of the components of internal controls relating to the existence and completeness assertions relevant to the performance measures included in the MD&A and to (b) report on those internal controls that have not been properly designed and placed in operation. With respect to performance measures reported in the MD&A, we were unable to obtain a complete understanding of the design of the related significant internal controls because management did not disclose all sources of performance results data to us in a timely manner.

In a memorandum dated April 25, 2001, USAID management asserted to us that the performance information contained in the MD&A for fiscal year 2001 would be drawn from the Results Review and Resource Request (R4) Reports submitted by USAID's operating units during fiscal year 2001. Upon reviewing a draft MD&A dated January 18, 2002, we became aware that much of the performance information reported in the draft came from sources other than the R4 reports. Due to the untimely receipt of this information, we were unable to review the internal controls surrounding those other sources. Nevertheless, after applying limited procedures regarding the measurement and presentation of performance results reported in the MD&A, we identified certain deficiencies that, in our judgment, adversely affected the Agency's portrayal of performance results as required by prescribed guidelines.

The MD&A is a brief narrative overview, prepared by management, which describes the reporting entity and its mission, activities, program and financial results, and financial condition. The 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 No. 97-01 provides additional guidance for preparing the MD&A. It states that program results reported in the MD&A should be expressed in terms of objective and relevant measures that disclose the extent to which the programs are achieving their intended objectives. The Bulletin also states that the reported measures should be consistent with information on major goals and objectives from USAID's strategic plan and should be linked to the programs featured in the Statement of Net Costs.

Based on our review of the draft MD&A dated January 18, 2002, we determined that the reported program results actually represented activities that took place prior to fiscal year 2001. Consequently, the reported results did not (a) correspond to USAID's performance goals established for fiscal year 2001 or (b) reflect the achievements of program funds expended during fiscal year 2001. Further, we determined that the program results reported in the MD&A were based on USAID operating units' self-assessments of progress (made in prior years) towards meeting certain strategic objectives. However, not all strategic objectives were assessed. Further, the MD&A did not disclose which or how many of USAID's strategic objectives were not assessed

INDEPENDENT AUDITOR'S REPORT ON USAID'S FY 2001 FINANCIAL STATEMENTS

or reported. Despite the fact that program results were from prior years and not all strategic objectives were assessed, in many instances the MD&A reflected performance results data achieved during fiscal year 2001 and that all strategic objectives, within certain programmatic categories, were assessed. We believe that this portrayal of USAID's performance results departed materially from prescribed guidelines and included misleading information.

During our fieldwork we communicated our concerns to USAID management, resulting in some changes that were incorporated into a revised draft MD&A.[11] However, we believe that the revised draft continued to portray misleading information. Because we plan to conduct additional audit work in the area of performance reporting, we did not include a recommendation in this report to correct the above deficiencies.

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 these specified parties. However, this restriction is not intended to limit the distribution of this report, which is a matter of public record.

Office of Inspector General
February 25, 2002

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS

Did USAID comply with laws and regulations that could have a direct and material effect on the financial statements, and with any other applicable laws and regulations?

We have audited the financial statements of USAID for the fiscal year ended September 30, 2001 and have issued our report thereon. We conducted the audit in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the Office of Management and Budget (OMB) Bulletin No. 01-02, "Audit Requirements for Federal Financial Statements."

The management of USAID is responsible for complying with laws and regulations applicable to USAID. As part of obtaining reasonable assurance about whether USAID's financial statements are free of material misstatement, we performed tests of USAID's 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. Also, we tested certain other laws and regulations specified in OMB Bulletin No. 01-02, including the requirements referred to in the Federal Financial Management Improvement Act (FFMIA) of 1996. We limited our tests of compliance to these provisions and we did not test compliance with all laws and regulations applicable to USAID.

The results of our tests of compliance with laws and regulations described in the preceding paragraph exclusive to FFMIA[12] disclosed instances of noncompliance with laws and regulations that are required to be reported under Government Auditing Standards and OMB Bulletin No. 01-02.

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

The results of our tests disclosed instances, described below, where USAID's financial management systems did not substantially comply with Federal financial management system requirements, Federal accounting standards, and the U.S. Standard General Ledger at the transaction level.

[11] This revised draft, dated January 29, 2002, was the last version of the MD&A we received for review. At the conclusion of our fieldwork, Agency management had not yet issued a final version.

[12] FFMIA requires reporting on whether an agency's financial management systems substantially comply with the FFMIA section 803 (a) requirements relating to Federal financial management systems requirements, applicable Federal accounting standards, and the United States Government Standard General Ledger published by the Department of the Treasury. FFMIA imposes additional reporting requirements when tests disclose instances in which agency systems do not substantially comply with the foregoing requirements.

INDEPENDENT AUDITOR'S REPORT ON USAID'S FY 2001 FINANCIAL STATEMENTS

Nature, Extent, and Causes of Noncompliance

The Federal Financial Management Improvement Act was passed to improve Federal financial management by ensuring that Federal financial management systems provide reliable, consistent, financial data from year to year. The Act requires each agency to implement and maintain financial management systems that comply substantially with:

- Federal financial management system requirements,
- applicable Federal Accounting Standards, and
- the United States Government Standard General Ledger at the transaction level.

Office of Management and Budget Circular No. 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, mentioned above, that Federal financial systems should meet. In January 2001, the Office of Management and Budget issued guidance to supplement OMB Circular No. A-127 to help determine whether financial systems substantially comply with FFMIA requirements. That guidance identifies various requirements[13] that an agency must meet, including Joint Financial Management Improvement Program system requirements.

Since 1997, the OIG has reported that USAID's financial management systems did not substantially comply with accounting and system requirements under FFMIA.[14] The reason for USAID's noncompliance was that the Agency's core financial management system[15] did not operate effectively. Therefore, USAID had to rely on a combination of outdated, legacy systems; informal, unofficial records; and a core financial management system-that suffered from technical and operational problems.

USAID has taken several steps to modernize the Agency's systems and meet FFMIA requirements. For instance, in September 1999, USAID purchased a new core financial system from the General Services Administration's schedule of qualified software.[16] In December 2000, USAID implemented the new core financial system in Washington. In addition, during fiscal year 2001, USAID:

- implemented the Mission Accounting and Control System Auxiliary Ledger data repository, that provides an automated interface between data extracted from Agency mission systems and the core financial system; and
- established operating procedures for interfaces and pre-interfaces between the new core financial system and five major systems that process transactions outside the core financial system. Those systems were (1) USAID's procurement system; (2) National Finance Center's Payroll system; (3) Mission Accounting and Control System; (4) the Department of Health and Human Services' Payment Management System, that processes USAID's Letter of Credit[17] activities; and (5) Riggs Banks, which services USAID's credit portfolio.

Federal Financial Management System Requirements - Although it has taken steps to meet FFMIA requirements, USAID still needs to continue to improve the Agency's financial management systems. According to FFMIA, Federal agencies must implement and maintain financial management systems that comply substantially with Federal financial management system requirements. However, USAID's financial management systems did not

[13] Other requirements are Office of Management and Budgets Circulars No. A-34, Instructions on Budget Execution; and A-130, Management of Federal Information Resources; and the United States Government Standard General Ledger.
[14] 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).
[15] This system, called the New Management System, consists of four subsystems: (1) AID Worldwide Accounting and Control System, (2) Acquisition and Assistance, (3) Budget, and (4) Operations.
[16] The software on this General Services Administration schedule is Joint Federal Financial Improvement Program certified.
[17] USAID uses Letter of Credit to finance grants. Letter of Credits make Federal funds available to recipient organizations on the next workday following the receipt of a request for funds. The Department of Health and Human Services processes USAID's active Letter of Credits.

substantially comply with the requirements.

The primary reasons for this noncompliance were that:

- USAID's core financial system did not always function properly with respect to funds control,
- USAID did not implement effective internal controls over USAID's financial management systems, and
- USAID's core financial systems did not readily produce user-friendly reports needed to manage Agency programs.

As a result, USAID's financial system may not provide users with complete, reliable, timely financial information needed for decision-making purposes. The following paragraphs discuss these issues in detail.

Funds Control - According to OMB Circular No. A-34, Instructions on Budget Execution, each Federal agency is responsible for establishing a funds control system that will ensure that USAID does not obligate or expend funds in excess of those appropriated or apportioned. In addition, the Circular states that entering into contracts that exceed the enacted appropriations for the year or purchasing services and merchandise before appropriations are enacted is a violation of the Anti-deficiency Act. We found that USAID's core financial system had some system problems with respect to funds control. USAID management was aware of each of these problems before our audit, has begun to take corrective actions, and expects to have these system-related problems corrected in fiscal year 2002. Therefore, we are not making any recommendations at this time. Nonetheless, the OIG considered these problems in determining substantial compliance with Federal system requirements under FFMIA, as described below.

First, according to OMB's FFMIA guidance, the Agency's financial management system shall support the preparation, execution, and reporting of the Agency's budget in accordance with OMB Circular A-34. According to that Circular, at year-end, multi-year funds not obligated that remain available must be reapportioned in the upcoming fiscal year. However, USAID's new core financial system did not roll-up all funds to the appropriation level to be reapportioned as part of the year-end closing process. Specifically, at year-end, the system did not roll up multi-year unobligated balances, thus allowing the funds to remain available for obligation. As a result, although the audit did not identify any instances in which USAID's funds were obligated before roll-up and reapportionment, USAID was at risk of committing an Anti-deficiency Act violation.

USAID recognized that the software created an opportunity for an Anti-deficiency Act violation and requested that Agency bureaus avoid using those funds. Additionally, a USAID contractor ran a series of reports and determined that no Anti-deficiency Act violations occurred. To correct the problem, USAID subsequently ran a series of scripts which rolled up unobligated multi-year account balances by fund to the appropriation level. (A USAID contractor is currently testing software to roll-up unobligated multi-year funds as part of the year-end closing process.)

Second, USAID's system did not properly display the funding available after appropriation transfer[18] transactions. Although, the system prohibited a user from obligating more funds than apportioned, the system displayed an incorrect available amount at the appropriation level after users processed appropriation transfers. For example, if an appropriation had an available amount of $100,000 and USAID transferred in $25,000 from another appropriation or agency, the system would erroneously add $25,000 to the balance twice and display $150,000 as available rather than the correct amount of $125,000. Likewise, if an appropriation had an available amount of $100,000 and USAID transferred $25,000 to another appropriation or agency, the system would erroneously subtract $25,000 from the balance twice and display $50,000 as available rather than the correct amount of $75,000. Consequently, when checking funds availability, the system displayed to users that more or less funds were available than actually were. Therefore, users could not use the system to properly manage operations. According to Agency officials, USAID will place a system patch into production in February 2002 to alleviate this problem.

[18] An appropriation transfer occurs when funds are received from or given to another Federal agency or another appropriation within USAID.

INDEPENDENT AUDITOR'S REPORT ON USAID'S FY 2001 FINANCIAL STATEMENTS

Internal Control Weaknesses - In December 2000, USAID implemented a new core financial system in Washington. The Joint Financial Management Improvement Program certified that the system's baseline software complied with Federal core financial system requirements. However, USAID had internal control weaknesses over the financial systems. USAID's general controls had the most serious weaknesses, as discussed below.[19] (See Appendix No. III for a discussion of other internal control weaknesses.)

Office of Management and Budget Circular A-130, Appendix III, requires agencies implement and maintain a program to assure that adequate security is provided for all agency information. During a series of audits,[20] the OIG determined that USAID did not fully develop and implement an Agency-wide security program for information systems as required. The OIG also identified serious general control weaknesses that place financial systems at significant risk of unauthorized disclosure and modification of sensitive data, misuse or damage of resources, or disruption of critical operations. For example, USAID's security program weaknesses included poorly chosen passwords, inadequate access controls, and inadequate segregation of duties. As a result of these weaknesses, USAID was not substantially compliant with Federal financial management system requirements under FFMIA. The OIG will make recommendations to address these issues in another audit report.

Reports - USAID's financial management system users were not always able to readily obtain data to manage Agency operations. This occurred because USAID's core financial system was operational only for ten months in fiscal year 2001 and, therefore, USAID primarily focused resources on implementation and operations, rather than on reporting. As a result, some system users maintained "cuff records"[21] to supplement the core financial system. The following paragraphs discuss this issue in detail.

According to JFMIP-SR-02-01, Core Financial System Requirements, "Reporting Function:"

…the core financial system must provide for ready access to the information it contains. Information must be assessable to personnel with varying levels of technical knowledge of systems. Personnel with relatively limited knowledge…must be able to access and retrieve data with minimal training on the system.

In fiscal year 1997, USAID first reported a material weakness in obtaining timely, accurate, or sufficiently useful financial information to manage resources and support decision making.[22] To address this issue, USAID's long term strategy was to implement a new, integrated financial management and accounting system.

In December 2000, USAID implemented a new core financial system. Although the system allowed users to view standard financial reports (e.g., required reports to the U. S. Treasury), users still reported that obtaining useful financial reports was a significant problem. For example, officials in one bureau noted that the system could not readily provide the financial information at a detailed level to manage programs and report on program performance. That bureau created a software program to consolidate information contained in individual spreadsheets and provide information that was more detailed than was currently available in the core financial system. The bureau used that software program to plan, budget, report, manage, and track programs. In another bureau, one user maintained spreadsheets to track obligations by strategic objective-information that should be readily available from the financial management system.

As stated previously, USAID's financial management system users were not always able to readily obtain data to manage Agency operations because USAID's core financial system was operational for only ten months in fiscal year 2001. Therefore, USAID

[19] General controls are the structure, policies, and procedures that affect the overall effectiveness and security of computer operations. These include security management, systems security software, and controls designed to ensure that access to data and programs is restricted, computer duties are segregated, only authorized changes are made to computer programs, and plans are adequate to ensure continuity of operations.

[20] Audit of USAID's Compliance with the Provisions of the Government Information Security Reform, (Audit Report No. A-000-01-002-P, September 25, 2001). We are currently drafting the report on USAID's general controls, that will have restricted distribution. In addition, we issued audit reports on general controls for three USAID missions and are drafting a fourth report.

[21] For this audit, "cuff records" are defined as informal, unofficial records of Agency activities.

[22] USAID reported this as a material weakness pursuant to the Federal Managers' Financial Integrity Act of 1982.

INDEPENDENT AUDITOR'S REPORT ON USAID'S FY 2001 FINANCIAL STATEMENTS

primarily focused resources on implementation and operations, rather than on reporting. According to USAID officials, that decision was made because resources were limited. Nonetheless, recognizing that users needed more than the standard reports, USAID implemented a reporting tool.[23] However, that tool was not user-friendly. Moreover, some users did not have the training needed to obtain reports from the system. Finally, only a few users had the role needed to create reports with the necessary data fields.

As a result, some system users maintained cuff records to manage operations. According to one senior Financial Management official, although USAID plans to continue to rely on the software vendor to support the system, the Agency plans to focus on reporting in the future. For instance, USAID has begun to implement a more user-friendly report writing tool.[24] Nonetheless, USAID needs to ensure that system users are able to obtain the information needed to manage resources and support decision making. We are, therefore, making the following recommendation to assist in that effort.

Recommendation No. 6: We recommend that USAID's Chief Financial Officer, in collaboration with USAID's Chief Information Officer, provide users of the core financial system with a reporting tool and the training needed to obtain accurate, timely, and useful information from the core financial system to help manage Agency's operations.

Federal Accounting Standards

Because USAID did not meet Office of Management and Budget's indicators of compliance with Federal accounting standards, this audit determined that USAID's financial management system did not substantially comply with Federal accounting standards. As a result, USAID's systems may not provide complete, accurate, reliable financial information. The following paragraphs discuss this issue in detail.

According to Office of Management and Budget guidance,[25] an agency's financial management systems are considered in substantial compliance with Federal accounting standards if:

- the agency's financial statements are compiled in accordance with Federal accounting standards, and
- financial information used for internal management is consistent with Federal accounting standards.

We determined that USAID did not substantially comply with applicable Federal accounting standards. Specifically, USAID did not substantially comply with the Statements of Federal Financial Accounting Standards Nos. 1, 4, 10, and 15, as described below.

Standard No. 1, Accounting for Selected Assets and Liabilities - We determined that USAID's advances and accounts receivables did not comply with standard No. 1, as discussed below.

Advances - USAID did not recognize (record) all expenses related to advance liquidations during fiscal year 2001. During fiscal year 2001 USAID did not record $439 million in expenses (advance liquidations) submitted by DHHS. USAID did not record the $439 million as expenses because of processing problems and missing data during its payment authorization process. Further, USAID did not follow its established procedure that requires a monthly reconciliation between the general and subsidiary ledgers. According to USAID officials, the lack of staffing resources impaired its ability to perform the monthly reconciliation.

Therefore, the expenses were not recorded until after the fiscal year ended. SFFAS No. 1 requires that advances be reduced when goods and services are received (i.e., expenses have been actually incurred by the grant recipient). USAID was not able to process the $439 million of grantee liquidations because its financial management system had not been updated for new obligations or amendments to existing obligations.

In addition, there were about $155 million in advance liquidations submitted by grantees to DHHS that could not be processed (accepted) by the Payment Management System. This occurred because USAID does not have an integrated financial management system. Therefore,

[23] This tool is called Business Objects.
[24] This tool is called Crystal Reports.
[25] Revised Implementation Guidance for the Federal Financial Management Improvement Act (January 4, 2001)

obligations established for advances to grantees that are managed by DHHS must be manually entered into the Payment Management System. However, USAID has not established a process that ensures that all obligations established for advances to grantees are entered into the Payment Management System..

USAID recorded a $532 million year-end adjusting journal entry ($377 million of the $439[26] million and the $155 million mentioned above) to decrease advances and increase expenses for these advance liquidations that were submitted by grantees but not processed in the system during the fiscal year.

Accounts Receivable - USAID does not have an adequate system to recognize its worldwide accounts receivable in a timely manner. USAID is only aware of its receivables when its Office of Procurement, missions, and contractors/grantees report them to its Office of Financial Management. This occurred because USAID lacked coordination and integration of various systems; lacked adequate policy and procedural guidance; and, as previously stated, did not have an integrated financial management system. SFFAS No. 1 requires that a receivable be recognized (recorded) when a claim to cash or other assets has been established. The establishment of a receivable cannot occur on a timely basis unless there are adequate procedures for recognizing and reporting accounts receivable at the end of each accounting period.

Standard No. 4, Managerial Cost Accounting Concepts and Standards for the Federal Government - USAID did not comply with one of the fundamental elements of SFFAS No. 4 that requires establishing responsibility segments that match costs with outputs and requires the reporting of full costs of outputs. Also, USAID does not have a system to identify and report all costs against the appropriate Agency goals. USAID did not record and report about $374 million in program expenses in accordance with their established methodology due to missing data, inefficient processing, and unreconciled information.

The methodology requires that program costs be directly expensed at the intermediate output level and rolled up to the net cost reporting level of Agency goals. USAID did not record and report the $374 million in accordance with that methodology on its Fiscal Year 2001 Statement of Net Costs. Instead, USAID allocated those costs based on a predetermined percentage rate. We were unable to review this allocation to determine the reliability of the allocation.

We determined that USAID did not process and record about $439 million in expenses related to the advances to grantees managed by the Department of Health and Human Services (DHHS) in their financial management system during fiscal year 2001. (DHHS is the servicing agent for USAID's Letter of Credit advances to grantees). USAID was not able to process the $439 million of grantee advance liquidations expenses for various reasons. Of this amount, $62 million could not be recorded and reported in accordance with their established methodology because of processing problems, inefficient processing of liquidation expenses, and missing data in its payment authorization process. In addition, USAID did not reconcile and properly classify about $66 million in outstanding advances remaining in its legacy system that were disbursed before October 1999. The $128 million mentioned above represents activities that may be more appropriately classified as expenses.

We determined that about $246 million in expenses may not have been properly recorded against the appropriate Agency goals in USAID's Fiscal Year 2001 Statement of Net Cost. The information needed to properly allocate these expenses was not available to USAID at the time the financial statements were prepared. We identified about $155 million in expenses associated with the advances to grantees managed by DHHS that were not identified and recorded by USAID during fiscal year 2001. These expenses were not reported by DHHS because the related obligations for which the expenses were incurred were not recorded in the Payment Management System. According to the agreement established between USAID and DHHS, all awards to grantees for the purpose of advancing funds must be entered into the Payment Management System before the liquidation of the advance funds can occur. Further, we determined that about $91 million (or 3 percent) of mission expenses related to multiple

[26]USAID is analyzing the remaining $62 million.

Agency goals were not consistently allocated as required by FASAB No. 4.

Standard No. 10, Accounting for Internal Use Software[27]- According to Standard No. 10, Federal agencies are required to capitalize the cost of internal-use software, whether that software is commercial off-the-shelf, contractor-developed, or internally developed. The capitalized cost for commercial off-the-shelf software should include the amount paid to the vendor for the software. For contractor-developed software, capitalized cost should include the amount paid to a contractor to design, program, install, and implement the software. USAID's policy is to capitalize software that exceeds a $300,000 threshold.

For fiscal year 2001, the only software that exceeded USAID's threshold was the core financial system,[28] which cost $14.9 million. Of that amount, USAID capitalized $6.3 million for fiscal year 2001. Although those amounts were immaterial to the overall presentation of the fiscal year 2001 financial statements, our audit determined that USAID did not:

- include costs funded in prior years for services received in fiscal year 2001 (accrual basis of accounting),
- capitalize costs by fiscal year,
- have readily available all the required documentation to support USAID's property records, and
- reconcile the Agency's software property records with the financial records.

Standard No. 15, Management Discussion and Analysis - According to Standard No. 15, each general purpose Federal financial report should include a section devoted to Management's Discussion & Analysis (MD&A). Standard No. 15 indicates that the MD&A should be regarded as required supplementary information[29] and, among other things, address performance goals and results that relate to the financial statements included in the general purpose Federal financial report.

Based on our review of the draft MD&A dated January 18, 2002, we determined that the reported program results actually represented activities that took place prior to fiscal year 2001. Consequently, the reported results did not (a) correspond to USAID's performance goals established for fiscal year 2001 or (b) reflect the achievements of program funds expended during fiscal year 2001.

This occurred because USAID management did not require individual operating units to report program results for fiscal year 2001 to include them in the MD&A for fiscal year 2001. Without the current results information, USAID management is unable to effectively discuss and analyze USAID's program performance in relation to its performance goals or financial statements for fiscal year 2001.

Indicators of noncompliance - The audit determined that USAID's financial management system did not substantially comply with Federal accounting standards because the Agency did not meet Office of Management and Budget's indicators of compliance with those standards (opinion, internal controls, and managerial cost information), as described below.

- **Opinion** - One indicator of compliance with Federal accounting standards is "[a]n unqualified opinion, or a qualified or disclaimer…for reasons other than the agency's ability to prepare auditable financial statements." For fiscal year 2001, the OIG could not determine, through normal auditing procedures, whether $186 million in unliquidated obligations were needed for current Agency operations and whether $128 million in advances should be included in USAID's fiscal year 2001 financial statements. Therefore, the OIG disclaimed an opinion on USAID's Statement of Net Costs and Statement of Financing. In addition, the OIG expressed a qualified opinion on the Balance Sheet, Statement of Budgetary Resources, and Statement of Changes in Net Position. (See "Independent Auditor's Report on USAID's Financial Statements.")

[27] The OIG will issue a separate audit report that will further explain the details relating to this section.
[28] USAID's costs for the core financial system included costs to automate the feeder systems.
[29] See section 558, "Required Supplementary Information," in Codification of Statements on Auditing Standards, American Institute of Certified Public Accountants (AICPA).

INDEPENDENT AUDITOR'S REPORT ON USAID'S FY 2001 FINANCIAL STATEMENTS

- **Internal Controls** - Another indicator of compliance with Federal accounting standards is "...no material weaknesses in internal controls that affect USAID's ability to prepare financial statements [and other related reports]...consistent with Federal accounting standards." We identified several material weaknesses in USAID's internal controls. For instance, USAID did not:

- record 278 grant agreements and/or amendments with an absolute total of $256 million in the Department of Health and Human Services' Payment Management System;

- record advance liquidation expenses of about $439 million; and

- have activity during fiscal year 2001 for about $186 million in unliquidated obligations, which may be available for deobligation.

(See "Independent Auditor's Report on USAID's Internal Controls.")

- **Managerial Cost Information** - A third indicator of compliance with Federal accounting standards is that "the agency produces managerial cost information consistent with [cost accounting standards]." However, in a March 1999 audit report, the OIG reported that USAID did not have a system to report on the full cost of Agency programs, activities, and outputs.[30] Therefore, the OIG recommended that USAID's Bureau for Policy and Program Coordination develop internal controls for identifying the full costs of USAID program, activities, and outputs. USAID is continuing to take corrective action to produce managerial cost information.

As a result of USAID's systems not substantially complying with Federal accounting standards, the Agency's financial management systems may not provide complete, accurate, reliable financial information. These issues of non-compliance are discussed in other sections of this audit report. We are not, therefore, making any further recommendations at this time.

Use of United States Standard General Ledger at the Transaction Level - FFMIA requires agencies to implement and maintain systems that comply substantially with, among other things, the United States Standard General Ledger (SGL) at the transaction level. Substantial compliance with the SGL at the transaction level requires that:

- Transactions be recorded in full compliance with the SGL Chart of Account's descriptions and posting models or attributes that demonstrate how the SGL is to be used for recording transactions of the Federal government accounting process;

- Reports produced by the systems provide financial information that can be traced directly to the SGL accounts; and

- Transactions from feeder systems, which may be summarized and interfaced into the core financial system's general ledger, be posted following SGL requirements.

The OIG determined that USAID did not substantially comply with the SGL at the transaction level.[31] Specifically, USAID did not record mission activities-accounting for approximately 52 percent of USAID's total net cost of operations-using the SGL at the transaction level. This occurred because USAID recorded mission activities in the Mission Accounting and Control System (MACS)- a computer-based system that did not have an SGL Chart of Accounts. Instead, MACS used transaction codes that did not match to the SGL Chart of Accounts.

During the fourth quarter of fiscal year 2001, USAID implemented, as part of the monthly closing process, a process to crosswalk MACS transactions to the SGL. In that process, every month USAID extracted mission transactions for MACS transaction codes. USAID electronically transferred those transactions to an auxiliary ledger that summarized and electronically cross-walked the MACS transaction codes to transaction codes in the core financial system. Each transaction code in the

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[30] Report to USAID Managers on Selected USAID Internal Controls (Report No. 0-000-99-002-F, March 31, 1999).

[31] USAID did not record the Agency's non-expendable property activities using the SGL at the transaction level. However, non-expendable property was immaterial to the financial statements for fiscal year 2001.

INDEPENDENT AUDITOR'S REPORT ON USAID'S FY 2001 FINANCIAL STATEMENTS

core financial system is correlated to SGL accounts. USAID then records those summarized results into the core accounting system's general ledger.

According to Office of Management and Budget officials, while USAID's process may be a good interim solution until the Agency has an integrated financial management system, the process did not allow the Agency to be substantially compliant with the SGL at the transaction level. As a result, USAID cannot ensure that transactions are posted properly and consistently from mission to mission.

Therefore, USAID needs to record mission activities using the SGL at the transaction level to support financial reporting and meet requirements. However, until USAID deploys its core financial system worldwide, MACS will continue to operate as the financial system for overseas missions. Although USAID estimates in the Agency's Capital Asset Plan that worldwide deployment of the core financial system will not begin until fiscal year 2008, USAID has begun to conduct a study to identify opportunities for improving the Agency's financial management areas. According to one Agency official, that study will include a determination of when and how USAID should deploy the core financial system overseas. Accordingly, we are not making any recommendations at this time.

Remediation Plan - Although USAID has made progress in becoming FFMIA compliant, the Agency did not fully meet four of the six[32] major targets established in the USAID's remediation plan for completion in fiscal year 2001.[33] This occurred primarily because USAID:

- continued to maintain a fragmented organizational structure, that did not assign USAID's Chief Financial Officer the responsibility and authority to manage all financial management systems; and
- did not fully plan the remedies needed to make USAID's financial management systems compliant with FFMIA.

As a result, USAID may not meet the Agency's overall goal of becoming substantially compliant with FFMIA by the fourth quarter of fiscal year 2003. The following paragraphs discuss this issue in detail.

Office of Management and Budget 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 date must be within three years of the date from the time when the system was determined to be not substantially compliant.

As shown in the table below, USAID achieved only two of the six remediation targets for fiscal year 2001 and dropped a third, stating that the requirement was no longer needed to bring the Agency into substantial compliance with FFMIA. USAID generally cited budget constraints, unplanned additional work, and new strategies as the reasons that the Agency did not meet the milestones for the remaining three targets. However, USAID did partially complete one of the targets by automating the interface between the core financial system and the procurement system. Additionally, USAID stated that they had begun taking steps to resolve weaknesses in the (1) primary accounting and (2) reporting and resource management capabilities, as discussed in other sections of this report.As described in detail below, the primary reasons that USAID did not fully achieve three of the six targets were that:

- USAID continued to maintain a fragmented organizational structure that did not assign the Agency's Chief Financial Officer the responsibility and authority to manage all financial management systems; and
- USAID did not fully plan the remedies needed to make the Agency's financial management systems compliant with FFMIA.

Organizational Structure - In a March 1999 audit report, the OIG reported that USAID had not delegated to the

[32] The remediation plan had six major milestones for fiscal year 2001. However, USAID dropped one, stating that the requirement was not needed to bring the Agency's systems into substantial compliance with FFMIA.
[33] We reviewed the remediation plan in USAID's FY 2000 Accountability Report.

Chief Financial Officer (CFO) the responsibility and authority to develop and maintain an integrated financial management system, as required by the CFO Act of 1990.[37] Therefore, the OIG recommended that USAID's CFO collaborate with other offices to determine the specific responsibility, authority, and resources needed to meet the requirements under the CFO Act, including FFMIA. Although USAID has taken some corrective actions, the most significant-reorganization-has not yet taken place. Consequently, USAID ended up with deficiencies that affected USAID's ability to meet the targets established in the remediation plan.

For example, due to USAID's fragmented organizational structure and a lack of integrated planning, USAID did not achieve the target of performing certification and accreditation at mission accounting stations in fiscal year 2001. Specifically, the CFO's system work group was tasked to perform the certification and accreditation of mission accounting systems, which was dependent on Bureau for Management's Information Resource Management Division (the Division) concurrently performing risk assessments. However, one CFO official stated that the Division did not adequately budget for the risk assessments and, thus, USAID did not have enough funds to complete the planned activities. The audit also noted that USAID's Capital Asset Plan[38] as of October 2001 did not disclose the Division's cost to perform risk assessments, which again was not funded in fiscal year 2002.

In addition, USAID's general control weaknesses have had an impact on the Agency's ability to become FFMIA compliant. The Clinger-Cohen Act of 1996 makes the head of the agency, in

Table 2
USAID's Targets for Fiscal Year 2001

	Remedy	Target Achieved?	Target Date in Remediation Plan	Revised Target Date[34]
1	Electronically interface feeder systems with core financial management system	No[35]	4th Qtr FY 2001	1st Qtr FY 2002
2	Resolve weakness in Agency's (1) primary accounting and (2) reporting and resource management capabilities	No[36]	4th Qtr FY 2001	3rd Qtr FY 2002
3	Implement the core financial system that calculates and reports accounts payable and accrual expenses in compliance with Federal requirements and standards.	No	1st Qtr FY 2001	1st Qtr FY 2002
4	Integrate core financial system in USAID/Washington	Yes	1st Qtr FY 2001	Completed
5	Interface Mission data via the MACS Auxiliary Ledger with core financial system to support the Accounting Classification Structure upper level general ledger postings	Yes	4th Qtr FY 2001	Completed
6	Implement Enterprise Solution Integration Lab (prototype testing) and associate system engineering practices to perform solution demonstration	No	3rd Qtr FY 2001	N/A - Requirement Dropped

[34] These dates were taken from USAID's Capital Asset Plan. At the time of our review, USAID had not completed the Agency's revised remediation plan. However, an Agency official stated that the Capital Asset Plan contained the same information that would be presented in the remediation plan.
[35] USAID completed some of the electronic interfaces during fiscal year 2001.
[36] USAID has taken some steps to correct these weaknesses.
[37] Reports on USAID's Financial Statements, Internal Controls, and Compliance for Fiscal Year 1999 (Report No. 0-000-99-001-F, March 1, 1999).
[38] At the time of our review, USAID had not completed the Agency's revised remediation plan. However, an Agency official stated that the Capital Asset Plan contained the same information that would be presented in the remediation plan.

consultation with the CFO and the Chief Information Officer, accountable for establishing policies and procedures that ensure that:

- the agency's information systems provide financial or program performance data for agency financial statements;
- financial and performance data are provided to financial management systems in a reliable, consistent, and timely manner; and
- financial statements support assessments and revisions of mission and administrative processes, and measurements of the performance of technology investments.

The CFO stated that his position in USAID does not provide him the responsibility for implementing remedies that address general controls. USAID's Administrator has designated the Chief Information Officer to be responsible for planning and budgeting activities for information technology-related investments. Therefore, USAID's CFO did not have control over the resources to correct the general control weaknesses and is dependent on the Chief Information Officer to become compliant with FFMIA. Although this weakness was not a fiscal year 2001 milestone it will effect future year compliance with FFMIA.

Remedies - USAID's remediation plan did not fully address all remedies needed to become FFMIA compliant. Specifically, the plan did not address deployment of USAID's core financial system worldwide to comply with SGL requirements, as discussed below.

USAID's remediation plan did not fully address compliance with the SGL at the transaction level. As discussed in the "Use of United States Standard General Ledger at the Transaction Level" section, USAID did not record the Agency's mission activities using the SGL at the transaction level. Agency officials believed that an interim measure would make the system SGL compliant, and revised the target to start worldwide deployment of the core financial system from fiscal year 2002 to 2008. However, Office of Management and Budget officials stated that USAID's interim measure did not make the Agency compliant with FFMIA. Upon being notified of the Office and Management Budget's position, USAID officials decided to revise the strategy for making the Agency compliant with FFMIA requirements. (For more details, see "Use of United States Standard General Ledger at the Transaction Level" section.)

As a result of the problems discussed above, USAID may not meet the overall goal to become substantially compliant with FFMIA by the fourth quarter of fiscal year 2003. Although USAID named the Chief Financial Officer as the official who would be responsible for implementing the FFMIA remediation plan, USAID's CFO does not have sufficient authority to complete remedial actions. Therefore, the CFO needs to work collaboratively with the Chief Information Officer to meet the targets in USAID's remediation plan. We are, therefore, making the following recommendation to help USAID improve its remediation plan.

Recommendation No. 7: We recommend that USAID's Chief Financial Officer, in collaboration with USAID's Chief Information Officer, revise the remediation plan to identify sufficient resources and remedies to make USAID's systems substantially compliant with the Federal Financial Management Improvement Act of 1996.

Computer Security Act

The Computer Security Act of 1987 (Public Law No. 100-235) requires Federal agencies to protect information by (1) identifying sensitive systems, (2) developing and implementing security plans for sensitive systems, and (3) establishing a training program to increase security awareness and knowledge of accepted security practices. To further improve program management and evaluations of agencies' computer security efforts, the Government Information Security Reform Act (Public Law No. 106-398) was passed in October 2000.

Over the past four years, the OIG has conducted several audits related to the security and general controls of USAID's information systems, as described below. Nevertheless, USAID has continued to have many serious deficiencies in the Agency's security program.

In a September 1997 audit report,[39] the OIG found that USAID did not implement an effective computer security program as required. These deficiencies occurred because USAID did not implement an adequate system of management controls to support an effective computer security program. As a result, USAID was exposed to high risk that resources would not be adequately protected from fraud or misuse.

Additionally, during a series of audits conducted during fiscal year 1999,[40] the OIG found that USAID had not implemented effective general controls over its mainframe, client server, and USAID Mission computer systems. A primary reason for USAID's ineffective general controls is that USAID did not have an Agency-wide security program that includes clear security responsibilities and Agency-wide security processes.

Finally, in a September 2001 audit report,[41] the OIG found that USAID had not fully implemented an effective[42] security program for the Agency's information systems. Although USAID had made significant progress in developing an information systems security program, the Agency had not implemented a program that allows USAID officials to comprehensively manage the risks associated with USAID's operations and systems. Specifically, USAID had not:

- enforced its policies and procedures to ensure appropriate implementation, and
- provided adequate guidance to incorporate security into some of USAID's information technology processes.

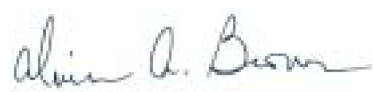
The primary reason for the deficiencies was that USAID had not implemented a centralized function that had oversight and ensured that USAID met security requirements. Such deficiencies exposed USAID to unacceptable risks that resources would not adequately be protected. The OIG made ten recommendations to correct deficiencies identified in USAID's security program for information systems.

As part of this audit effort, the OIG reviewed the status of recommendations from the audit reports discussed above. Although USAID has taken some corrective actions, many deficiencies still exist. Specifically, USAID needs to take corrective action for 17 recommendations from the above reports. For example, USAID needs to develop and implement an effective computer security program by:

- ensuring that adequate resources and skills are available to implement the program,
- preparing security plans,
- completing contingency/disaster recovery plans.

USAID has reported the Agency's computer security program as a material weakness[43] since 1997. USAID currently estimates that the computer security weaknesses will be fully corrected in September 2003.

Providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.



Office of the Inspector General
February 25, 2002

[39] Audit of USAID's Compliance with Federal Computer Security Requirements (Audit Report No. A-000-97-008-P, September 30, 1997).

[40] Audit of USAID/Peru's General Controls Over the Mission Accounting and Controls System (Audit Report No. 527-99-001-P, December 30, 1998); Audit of Access and System's Software Security Controls Over the Mission Accounting and Control System (MACS) (Audit Report No. A-000-99-002-P, December 31, 1998); Audit of USAID's Progress Implementing a Financial Management System That Meets Federal Financial Management Improvement Act Requirements (Audit Report No. A-000-99-003-P, March 1, 1999); Audit of General Controls Over USAID's Mainframe Computer Environment (A-000-99-004-P, March 1, 1999); and Audit of General Controls Over USAID's Client-Server Environment (A-000-99-005-P, March 1, 1999).

[41] Audit of USAID's Compliance with the Provisions of the Government Information Security Reform (Audit Report No. A-000-01-002-P, September 25, 2001).

[42] For that audit, effective was defined as designing controls that are properly implemented and working as intended.

[43] USAID identified this as a material weakness in the Agency's Federal Manager's Financial Integrity Act review.

MANAGEMENT COMMENTS AND OUR EVALUATION

We received USAID's management comments and suggested changes to the findings and recommendations included in our draft report. USAID management agreed with all findings and recommendations and has acted on recommendation No. 2. Management commented that recommendation No. 2 and No. 4 cannot be fully implemented until a worldwide integrated financial management system is deployed. We have evaluated USAID management comments on the recommendations and have reached management decisions on all seven recommendations. We have also made the suggested changes where deemed necessary. The following is a brief summary of USAID's management comments on each of the seven 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 establish the necessary general ledger control account and complete the necessary reconciliation on a monthly basis. USAID will establish a reasonable time period for resolving all reconciling items. We agree with USAID management decision regarding recommendation No. 1 and plan to review this general ledger control account and USAID's reconciliation process during our fiscal year 2002 GMRA audit.

Recommendation No. 2

USAID management agreed with recommendation No. 2 and commented that they have in fact acted to eliminate the backlog of unrecorded grant agreements and/or modifications. USAID management noted that because the Agency does not have a financial management system where its overseas procurement/assistance actions are integrated with the accounting system, USAID cannot develop an automated interface with DHHS' Payment Management System that will ensure that a backlog does not occur in the future. USAID management further commented that the agency will look at ways to improve the workflow between its field offices, Washington, and DHHS' Payment Management System to include allowing Grant and Procurement Officers at its missions access to the Payment Management System.

At the end of FY 2001, USAID established a "central e-mail box" for mission Grant Officers to send, electronically, all new grants and/or modifications to its Washington Office of Financial Management. USAID believes that this electronic submission of new grants and/or modifications will allow its Washington Office of Financial Management to update the DHHS' Payment Management System in a timely manner. We agree with USAID management's decision regarding recommendation No. 2 and plan to review this new "central e-mail box" process and the ways USAID has improved the recording of its new grants and/or modifications during our fiscal year 2002 GMRA audit.

Recommendation No. 3

USAID management agreed with recommendation No. 3 and commented that they will take the necessary actions in fiscal year 2002 to review the unliquidated obligations identified by our audit. USAID management further commented that the Agency would conduct the necessary analysis to determine the correct accounting classification of the unliquidated balance of the expired obligations identified by our audit finding. We agree with USAID management's decision regarding recommendation No. 3 and plan to conduct a separate audit of USAID unliquidated obligations during fiscal year 2002 and will also determine the impact of USAID analysis and classification of the identified expired obligations during our fiscal year 2002 GMRA audit.

Recommendation No. 4

USAID management commented that they agreed with the intent of recommendation No. 4. However, management commented that the Agency could not implement this recommendation until a worldwide integrated accounting system is deployed. USAID management also noted that accounts receivable is an immaterial item on its financial statements?$31 million. Therefore, pending deployment of a worldwide system, USAID will continue to rely on data calls to obtain accounts receivable data for financial statement preparation purposes.

We believe that USAID's claim that accounts receivable is immaterial is incorrect. The accounts receivable amount reported by USAID, before adjustments, for fiscal year 2001 was more than our testing materiality threshold of $75 million. Further, as reported, USAID's process for accounting for and reporting accounts receivable does not allow the Agency to recognize receivables at the time they occur. We agree with USAID management's decision regarding recommendation No. 4 and plan to continue review USAID's annual accounts receivable process if we determine that the amount reported in the financial statements is material.

Recommendation No. 5

USAID management agreed with this recommendation and commented that they will issue the appropriate guidance to its overseas accounting stations regarding documentation retention requirements in fiscal year 2002. We agree with management's decision regarding recommendation No. 5 and will review these instructions and their implementation during our fiscal year 2002 GMRA audit.

Recommendation No. 6

USAID management agreed with recommendation No. 6 and commented that reporting from Phoenix and the MACS Auxiliary Ledger is one of the priority work areas for the Financial Systems Team in fiscal year 2002. We agree with management's decision regarding recommendation no. 6. During our fiscal year 2002 GMRA audit, we will review USAID's actions taken.

Recommendation No. 7

USAID management agreed with recommendation no. 7 and commented that USAID will make the necessary changes to the remediation plan based on the results of the Agency's business transformation study being conducted under the direction of the USAID Business Transformation Executive Committee. We agree with management's decision regarding recommendation no. 7. During the fiscal year 2002 GMRA audit, we will follow-up on the status of USAID's corrective actions.

See Appendix II for USAID's management comments.

APPENDIX I: SCOPE AND METHODOLOGY

Scope

This audit was conducted in accordance with generally accepted auditing standards. Following those standards, we assessed the reliability of USAID's Fiscal Year 2001 financial statements, related internal controls, and compliance with provisions of applicable laws and regulations.

We obtained an understanding of the account balances reported in USAID's FY 2001 financial statements. We determined whether the amounts were reliable, whether applicable policies and procedures were established, and whether they had been placed in operation to meet the objectives of the Federal Accounting Standards Advisory Board and other regulations. We considered all reasonable efforts made by USAID's management to improve its financial management and respond to our previous recommendations relating to the operations of its financial portfolio.

We statistically selected and reviewed FY 2001 financial statements and financial related activities at USAID/Washington and 10 USAID missions.[44] A planning materiality threshold of five percent and testing materiality threshold of three percent was calculated. These materiality thresholds were based on USAID FY 2000 total assets net of intergovernmental balances. Any amount over $75 million was considered material and included in our review of USAID's FY 2001 financial statements. All exceptions were considered in the aggregate to determine whether USAID's FY 2001 financial statements were reliable.

With respect to the MD&A, we judgmentally selected and reviewed FY 2001 performance results data reported to USAID/Washington by its operating units. We did not assess the quality of the performance indicators but attempted to verify the accuracy of data in the MD&A and performed only limited tests to assess the controls established by USAID. With respect to performance measures reported in the MD&A, we were unable to obtain a complete understanding of the design of the related significant internal controls because USAID's management did not disclose all sources of performance results data to us in a

[44]The ten missions selected were USAID: Kiev, Budapest, India, Nepal, Cairo, Pretoria, Ghana, Mali, Kenya, and Nicaragua. USAID/Nepal was not visited because of political unrest in that country. USAID/Nigeria was visited as part of our review of USAID/Ghana and USAID/Moscow was substituted for USAID/India during the testing phase of the audit.

timely manner. However, after applying the limited tests in regards to the measurement and presentation of performance results reported in the MD&A, we identified certain deficiencies that, in our judgment, adversely affected USAID's portrayal of performance results as required by prescribed guidelines.

Methodology

In accomplishing our audit objectives, we reviewed significant line items and amounts related to USAID's fiscal year 2001 financial statements. These financial statements include Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, Statement of Budgetary Resources, and Statement of Financing. To accomplish the audit objectives we:

- Obtained an understanding of the components of internal control and assessed the level of control risk relevant to the assertions embodied in the class of transactions, account balances, and disclosure components of the financial statements;
- Performed tests of compliance with laws and regulations that could have a direct and material effect on USAID's financial statements including FFMIA;
- Conducted detailed audit tests of selected account balances at USAID/Washington and the 10 statistically selected missions;
- We statistically selected and confirmed outstanding advances to grantees and selected direct loan balances.
- Reviewed prior audit reports related to USAID financial activities and determined their impact of USAID's fiscal year 2001 financial statements;
- Conducted meetings with USAID management, employees, contractors, grantees, and other parties associated with the information presented in the fiscal year 2001 financial statements;
- Followed up on previous financial statement audit recommendations and restated those recommendations that were not implemented by USAID management; and
- Conducted a limited review of the components of internal controls related to the existence and completeness assertions relevant to the performance measures included in the MD&A.

APPENDIX II: USAID'S MANAGEMENT COMMENTS

MEMORANDUM
February 21, 2002

TO: IG/A/FA, Alvin A. Brown

FROM: M/FM, Elmer S. Owens, Acting CFO

SUBJECT: Draft Report on the Audit of USAID's Consolidated Financial Statements, Internal Controls, and Compliance for FY2001 (Report No. 0-000-02-003-F)

Thank you for the opportunity to respond to the subject draft report. We are very pleased that you are able to issue qualified opinions on three of USAID's five principal financial statements, and appreciate your recognition of the progress that the Agency has made in addressing financial accounting deficiencies. I would also like to express my sincere appreciation for the professional and cooperative manner that your audit team displayed throughout the audit. This memo includes our comments on your draft report, suggestions for changes, and our management decisions regarding proposed recommendations.

Independent Auditor's Report on Internal Controls

The paragraph that discusses the $439 million difference between the general ledger and subsidiary ledger should include a statement that USAID reconciled all but $62 million of the difference and that the IG was able to verify this reconciliation.

We agree with the three parts of **Recommendation No. 1**. We will establish the necessary general ledger control account and complete the necessary reconciliation on a monthly basis. However, with regard to Recommendation 1.3, it will in all likelihood not be possible to "resolve" all reconciling items at the end of the month in which they first occur. USAID will establish a reasonable time period for resolving all reconciling items.

The discussion of the $155 million in expenses that could not be recorded into the Department of Health and Human Services' (DHHS) Payment Management System (PMS) by some grantees need to be expanded to clarify for the reader why these advance liquidations could not be recorded. Also, please include a statement that USAID made an adjusting entry to recognize the $155 million in expenses.

The paragraph that describes the 278 grant agreements and/or modification not entered in DHHS' PMS contains a sentence that states that this problem occurred because USAID does not have a worldwide integrated financial management system. This statement should to be expanded to clarify that the worldwide system the audit reports is referring to is a integrated system that includes both the procurement and assistance systems and that it is not referring to just the accounting system.

We agree with **Recommendation 2.1** and have in fact taken action to eliminate the backlog. It should be eliminated within the next month. However, because the Agency does not yet have a financial management system where overseas procurement/assistance actions are integrated with the accounting system, we cannot develop an automated interface with DHHS' PMS that will "ensure" (Recommendation 2.2) that a backlog does not occur in the future. We will look at ways to improve the workflow between field offices, Washington, and DHHS' PMS, including looking into the alternative of giving field offices input access to PMS. For example, at the end of FY 2001 we established a central e-mail box for grantee officers to send new grant agreements or modifications. If the documents are sent electronically to the mailbox, the time lost through the pouch mail system will be done away with and PMS will be updated in a timely manner. Given the foregoing, please modify **Recommendation 2.2**.

We agree with **Recommendation No. 3** and will take the necessary action in FY 2002 to review the unliquidated obligations identified by this finding. In this regard, it should be noted that the amount identified by the Agency as requiring review is about $150 million or some $36 million less than the amount identified in the audit report. The Office of Financial Management, in consultation with the responsible bureaus/offices, will do the necessary analysis to determine the correct accounting classification of the unliquidated balance of the expired obligations identified in this finding.

We agree in general with the intent of **Recommendation No. 4**, but until we deploy the core financial system worldwide; The Agency cannot implement the recommendation. We are taking this position because Accounts Receivable for USAID is small in comparison to our other assets. In fact, as of September 30, 2001 accounts receivables were only $31 million, which includes $11 million in credit program fee receivables. Therefore, pending deployment of a worldwide system, USAID will have to continue to rely on periodic data calls to obtain total accounts receivable data for financial statement preparation purposes. We will institute more frequent data calls to comply with the new semi-annual and quarterly unaudited financial statement requirements starting in FY 2002.

The first paragraph under the discussion of mission accounts payable discussed the estimated $165 million that these payables were determined to be overstated. Please include a statement that USAID made an adjusting entry for this amount and that you concur with this adjustment.

The final paragraph regarding mission accounts payable states that accounts payable at the mission visited by the auditors were ineffective. I believe that this statement needs to be clarified. It is my understanding that the finding relates to the weaknesses in the documentation supporting the accrual calculations in some of the missions visited that caused the auditors to recommend a $165 million adjusting entry.

We agree with **Recommendation No. 5**. We will issue appropriate guidance to overseas accounting stations regarding document retention requirements during FY 2002.

Independent Auditor's Report on Compliance with Laws and Regulations

It is our understanding that the findings related to compliance with the Federal Financial Management Improvement Act are based on the system as it was operated during FY 2001. Further, we understand that the report does not consider actions taken or planned for FY 2002 nor does it take into consideration manual controls or work-around implemented to mitigate risk in drawing its conclusion. Given this understanding, we will not take issue with the finding and recommendations. However, it should be noted we implemented adequate manual controls during FY 2001 that prevented any obligations or expenditures in excess for funds appropriated or appropriated. This is evidenced by the fact that the audit did not detect any cases where the Agency violated these restrictions.

The draft report identifies Reports as an area of non-compliance with federal system requirements. We agree with **Recommendation No. 6**. Reporting from Phoenix and the MACS Auxiliary Ledger is one of our priority work areas for the Financial Systems Team in FY 2002. In fact, we are planning to issue an Agency Notice the first week of March announcing that the first set of financial reports available to USAID/Washington on Crystal Enterprise. In conjunction with M/IRM we will be sending out a notice on how people can access the reports in Crystal Enterprise.

Recommendation No. 7 makes recommendations regarding the revision of the remediation plan. We agree with this recommendation and will make the necessary changes based on the results of the current business transformation study being conduction under the direction of the USAID Business Transformation Executive Committee.

Finally, once again I would like to thank you for the opportunity to comment on the draft report and to express my appreciation for the cooperation extended by your entire audit team.

CC:

AA/M, J. Marshall

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M/MPI/MIC, S. Malone-Gilmer

M/MPI/MIC, S. Stiens

M/FM, N. Wijesooriya

APPENDIX III: OTHER SYSTEM WEAKNESSES

The audit identified other control weaknesses in USAID's implementation of its core financial system, as described below.

Payment history not migrated - JFMIP-SR-02-01, Core Financial System Requirements, "Payment Management Function," requires systems to maintain among other things, a history of invoice number, vendor name, payment amount, payment date, obligation number, and appropriation charged. Before implementing the new core financial system, USAID migrated only summary level information from the previous core financial system.

As a result, USAID's new core financial system did not contain detailed payment history, thus increasing the risk of duplicate payments. According to Agency officials, USAID decided that payment information would be migrated at the summary level because migrating all transactions would have required more staff support, thereby significantly increasing the time and costs of the migration. Further, the detailed information would be maintained in the old accounting system and contract payment files to serve as mitigating controls. USAID officials noted that the cost of migrating detailed information might outweigh the benefit. Further, this control risk will be reduced over time as the financial system generates a payment history. Therefore, we are not making a recommendation at this time.

Accruals off-line - JFMIP-SR-02-01, Core Financial System Requirements, "General Ledger Management Function," requires that systems provide for accruals relating to contracts or other items that cross fiscal years. For fiscal year 2001, USAID calculated the Agency's accruals manually because the Agency had problems with (1) unliquidated obligations balances, and (2) contract and grant completion dates-two factors needed to automatically calculate accruals. As a result, USAID's system did not control and execute the period-end processes needed for reporting purposes. USAID is aware of the problem and is cleaning up the data used in the accrual process. For instance, according to Agency officials, USAID successfully reviewed over 85 percent of its obligations. In addition, beginning in fiscal year 2002, USAID plans to use an online tool that will allow accrual information to be loaded to a web-site for review. We, therefore, are not making any recommendations at this time.

STATUS OF UNCORRECTED FINDINGS AND RECOMMENDATIONS FROM THE PRIOR AUDITS THAT AFFECT THE CURRENT AUDIT OBJECTIVES

Office of Management and Budget's Circular No. A-50 states that a management decision on audit recommendations shall be made within a maximum of six months after issuance of a final report. Corrective action should proceed as rapidly as possible. The following audit recommendations directed to USAID remain uncorrected and/or final action has not been completed as of September 30, 2001. We have also noted where final action was taken subsequent to fiscal year-end but prior to the date of this report.

Audit of USAID's Compliance with Federal Computer Security Requirements Audit Report No. A-000-97-008-P September 30, 1997

Recommendation No. 2: We recommend that the Acting Assistant Administrator for Management demonstrate support for an effective computer security program by taking action to direct the computer security program manager to develop and implement an effective computer security program by:

2.2 Ensuring that adequate resources and skills are available to implement the program.

2.4 Implementing disciplined processes to ensure compliance with the Computer Security Act of 1987 and OMB Circular A-130.

2.5 Bringing sensitive computer systems, including NMS, into compliance with computer security requirements by: (1) assigning security responsibility, (2) preparing security plans, (3) completing contingency/disaster recovery plans, (4) identifying technical controls, (5) conducting security reviews, and (6) obtaining management's authorization before allowing systems to process data.

Recommendation is pending final action by USAID

Reports on USAID'S Financial Statements, Internal Controls, and Compliance for Fiscal Years 1997 and 1996 Audit Report No. 0-000-98-001-F March 2, 1998

Recommendation No. 5: We recommend that the Assistant Administrator/Bureau for Policy and Program Coordination establish a common set of indicators for use by operating units to measure progress in achieving USAID's strategic goals and objectives and that allow for the aggregation of program results reported by operating units.

Recommendation is pending final action by USAID

Recommendation No. 7: We recommend that USAID:

7.1 Establish procedures to ensure (1) operating units report results for the year ended September 30 and (2) results reported in the MD&A section of USAID's financial statements and Annual Performance Report be clearly shown as achievements for that year.

Recommendation is pending final action by USAID

Recommendation No. 9: We recommend that the Chief Financial Officer develop and implement policies and procedures to ensure adherence to the requirements of the Debt Collection Act of 1982 and the Debt Collection Improvement Act of 1996. These policies and procedures should at a minimum ensure that:

9.1 All billing offices incorporate due process rights into demands for payment;

9.2 All delinquencies in excess of 180 days are identified in a timely manner, and referred to the United States Treasury; and

9.3 The issuance or guarantee of consumer credit is reported to consumer credit reporting agencies.

Recommendation is pending final action by USAID

Audit of Access and System Software Security Controls Over the Mission Accounting and Control System (MACS) Audit Report No. A-000-99-002-P December 31, 1998

Recommendation No. 1: We recommend that the Director of IRM strengthen MACS' access and system software controls by developing and implementing standards for access and system software installation and maintenance. These standards should implement the agency's policies pertaining to access and system software controls and thus, provides step-by-step guidance to mission system managers in the implementation of these controls. These standards should specifically address the controls described in GAO's Federal Information System Controls Audit Manual.

Recommendation is pending final action by USAID

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

INDEPENDENT AUDITOR'S REPORT ON USAID'S FY 2001 FINANCIAL STATEMENTS

Report to USAID Managers on Selected USAID Internal Controls for Fiscal year 1998 Audit Report No. 0-000-99-002-F March 31, 1999

Recommendation No. 10: We recommend that USAID's Bureau for Policy and Program Coordination:

10.2 Develop internal controls for identifying the full costs (USAID program and operating expenses and funding by other donors and host countries) of USAID programs, activities, and outputs.

Recommendation is pending final action by USAID

Audit on USAID's Advances and Related Internal Controls Audit Report No. 0-000-00-003-F, February 1, 2000

Recommendation No. 3: We recommend that the Office of Financial Management perform a reconciliation to verify the accuracy of unliquidated obligation balances and related information transferred to the Department of Health and Human Services.

Recommendation is pending final action by USAID

Recommendation No. 4: We recommend that the Office of Financial Management perform periodic reconciliations between its subsidiary ledger and general ledger.

Recommendation is pending final action by USAID.

Audit of USAID's Actions to Correct Financial Management System Planning Deficiencies Audit Report No.A-000-00-003-P August 24, 2000

Recommendation No. 1: We recommend that the Chief Information Officer, in conjunction with the Capital Investment Review Board and the Chief Financial Officer:

1.1 Develop and implement a process for selecting information technology investments that meets requirements of OMB's guidelines for Selecting Information Technology Investments and GAO's Executive Guide: Leading Practices in Capital Decision Making; and

1.2 Apply the process to prioritize USAID's financial management system investments as part of a portfolio of planned information technology investments as part of a portfolio of planned information technology investments for USAID's fiscal year 2002 budget submission to OMB.

Recommendation is pending final action by USAID

Recommendation No. 3: We recommend that the Chief Information Officer and the Chief Financial Officer work with the Assistant Administrator for management to ensure that the Change Management Team and the Office of Financial Systems Integration collectively have the responsibilities, the authority, and the structure to direct the planning, design, development, and deployment of all financial and mixed financial system components of the Integrated Financial management System Program.

Recommendation is pending final action by USAID

Audit of USAID's Fund Balance with The U.S. Treasury And Related Internal Controls Audit Report No. 0-000-01-005-F, February 15, 2001

Recommendation No. 1: We recommend that USAID's Office of Financial Management:

1.1 Continue to perform a detailed analysis of its outstanding reconciling items, which were reported by the overseas missions, and to reslove or write off the remaining reconciling items.

1.2 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 No. 2: We recommend that USAID's Office of Financial Management develop and implement procedures to obtain the necessary information needed from its overseas missions to prepare and submit the required budgetary reports to the Office of Management and Budget as required by the Office of Management and Budget Circular A-34.

Audit of USAID's Compliance with the Provisions of the Government Information Security Reform Audit Report No. A-000-01-002-P September 25, 2001

Recommendation No. 1: We recommend that the Chief Information Officer obtain evidence that the security requirements have been applied to USAID's mission critical systems. For those systems that are operated by other agencies and organizations, the responsible Assistant Administrator, the Chief Financial Officer, the Director of Human Resources, or the Director of the Office of Procurement shall provide the Chief Information Officer evidence that proper protection exists for those systems.

Recommendation is pending final action by USAID.

Recommendation No. 2: We recommend that Chief Information Officer provide and document that USAID employees in key security positions obtain training to allow them to conduct their security responsibilities.

Recommendation is pending final action by USAID.

Recommendation No. 3: We recommend that the Chief Information Officer conduct a study to determine the feasibility of centrally administering information security, monitoring controls, intrusion detection, and additional sensors for sensitive systems.

Recommendation is pending final action by USAID.

Recommendation No. 4: We recommend that the Chief Information Officer develop and implement a management oversight process by assigning responsibility and accountability for correcting identified information security vulnerabilities to designated individuals. The process should include a reporting mechanism that regularly tracks the status of all vulnerabilities, including actions taken to correct them.

Recommendation is pending final action by USAID.

Recommendation No. 5: We recommend that the Chief Information Officer centralize security functions to oversee, enforce, and coordinate security and related functions.

Recommendation is pending final action by USAID.

Recommendation No. 6: We recommend that the Chief Information Officer coordinate the revision of appropriate Automated Directives System Chapters and any other supporting guidance to include and/or clarify the government information security reform-mandated requirements, especially those that pertain to incorporating security into the investment process, enterprise architecture, and contractor-provided services.

Recommendation is pending final action by USAID.

Recommendation No. 7: We recommend that the Chief Information Officer provide instructions to program managers to include security requirements in the information technology investment process and report them on the Capital Asset Plan.

Recommendation is pending final action by USAID.

Recommendation No. 8: We recommend that the Chief Information Officer finalize and approve the following four draft documents: (1) USAID Information Systems Security Program Plan; (2) USAID Risk Assessment Manual; (3) USAID Security Incident Handling Response Policy and Procedures; and (4) USAID Incident Response Capability Handbook Coordinating Draft.

Recommendation is pending final action by USAID.

Recommendation No. 9: We recommend that the Chief Information Officer document the agency's decision on the critical infrastructures protection plan.

Recommendation is pending final action by USAID.

Recommendation No. 10: We recommend that the Chief Information Officer develop specific performance measures that include timetables and approaches to address deficiencies in its information security program.

Recommendation is pending final action by USAID.