USAID CFO GOALS AND STRATEGIES AND FINANCIAL REMEDIATION PLAN

OVERVIEW

The implementation of cost-effective and reliable financial management systems to support USAID's worldwide operations continues to represent an enormous challenge for the Agency. USAID's Chief Financial Officer (CFO) is charged with modernizing and integrating USAID's financial management systems and the business processes that depend on them. The CFO specifically oversees the financial systems and operations of the Agency. The CFO in turn works with other Agency managers of systems with financial components to ensure that these systems are interfaced with the financial systems and provide reliable, consistent and timely financial information. The Agency's financial and administrative operations are critically dependent on the implementation of modern systems, improved services, and proven technologies that enable the workforce to connect with and deliver services to its customers, stakeholders, and partners through more cost-effective business processes.

USAID has made significant progress in aligning its management goal and objectives to focus on the basic management functions that it must perform well to be a high performing and efficient organization. These objectives recognize that USAID needs to apply technologies and process improvements to provide proven support solutions for internal and external work processes. Investing in systems and services that are generally available to commercial and Government users will deliver these solutions and transform the way the Agency conducts its business.

The government-wide priorities of the CFO Council are reflected in this plan. The Council's priorities guide the Agency's goal in recognizing the need for integrated processes and systems that, when implemented, solve end-user and customer problems, achieve performance objectives, and gain compliance with laws and regulations.

This document sets forth a strategy for modernizing USAID's financial management systems and details specific plans and targets for achieving substantial compliance with Federal financial management requirements and standards. Where appropriate, the plan suggests preliminary performance targets. These targets will be refined and possibly modified through USAID's Annual Performance Plans. Results achieved will be reported in USAID's Accountability Reports and Annual Performance Reports.

Michael T. Smokovich
Chief Financial Officer

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GOALS AND STRATEGIES

Background

The 2000 Federal Financial Management Report contains the following Government-wide goals for financial management:

- Improve financial accountability;

- Improve financial programs and the performance of financial systems;

- Invest in human capital;

- Better manage obligations of the Federal Government; and

- Improve the administration of Federal grants.

In addition to these goals, USAID must align itself with government-wide financial management regulations and requirements as outlined in relevant legislation including the Chief Financial Officer's Act (1990); the Government Performance and Results Act (1993); the Federal Financial Management Improvement Act (1996); and the Government Management Reform Act (1994).

USAID has kept these goals and requirements in mind as we refined the management performance goals, objectives and targets for the FY 2003 Annual Performance Plan (APP). The CFO and USAID consider the APP management goal to be consistent with the government-wide goals for financial management identified above and the Improved Financial Performance initiative described in the President's Management Reform Agenda.

It is the function and responsibility of the Chief Financial Officer working with other Agency bureaus, offices and missions to meet these goals and targets. The reference to CFO herein, unless indicated otherwise, reflects the combined efforts of the CFO and USAID staff engaged in financial management stewardship and improvement efforts.

USAID Management Objectives

To achieve its management goal, USAID has identified four management objectives:

- Accurate program performance and financial information available for Agency decisions.

- USAID staff skills, Agency goals, core values and organizational structures better aligned to achieve results efficiently.

- Agency goals and objectives served by well-planned and managed acquisition and assistance.

- Agency goals and objectives supported by better information management and technology.

The following focuses on the first goal and its associated objectives, indicators, and targets. The other objectives are detailed in the Agency's current Performance Plan.

Objective 1:

Accurate Program Performance and Financial Information Available for Agency Decisions.

FY 2001 Achievements:

The cornerstone of USAID's financial management improvement program is the implementation of a fully compliant core financial system. To this end, USAID successfully launched Phoenix, a commercial off-the-shelf core financial system that is compliant with Federal requirements and standards. In December 2000, USAID deployed Phoenix to support Washington operations, and during FY 2001, the Agency implemented tools to extract overseas financial information for an automated interface with Phoenix (the Mission Accounting and Control System Auxiliary Ledger). USAID also completed the work necessary to interface Phoenix with two additional financial systems: Department of Health and Human Services Payment Management System (DHHS PMS), which services USAID-issued Letters of Credit, and the Riggs Bank system, which services loans on behalf of USAID. Phoenix and the Agency's acquisition and assistance system have also been interfaced to achieve internal efficiencies and to ensure the accuracy of financial

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information. In addition, USAID implemented a comprehensive program to train Agency staff to transition to Phoenix. As a result of these efforts, the new accounting system successfully completed its first fiscal year accounting cycle.

Historically, USAID managers have not had access to accurate, timely and useful financial information from missions. This was a factor in USAID's reporting a material weakness in financial reporting and resource management. In response, USAID created a repository of overseas financial information in Washington in FY 2001 that provides Agency-wide financial reporting to support internal decision-making and external stakeholder information needs. Overseas financial transactions are now captured and stored monthly in Washington in the MACS Auxiliary Ledger (MAL), which will be used to facilitate external reporting. This improvement will help to correct the material weakness in financial reporting, make financial information more readily available to managers, and reduce the number of cuff record systems used by bureaus for tracking overseas financial activity. USAID is now meeting government-wide quarterly financial reporting requirements on time and with current and complete financial information. In addition, USAID completed the first phase of its implementation of a Managerial Cost Accounting (MCA) model. The model allocates operating expenses, recorded in the general ledger, from the Management Bureau to benefiting bureaus. The MCA model along with other cost allocation tools will be used in preparing the annual Statement of Net Cost, which reports

revenues and expenses by Agency goals.

Performance Goal 1.1

Core financial management system certified compliant with Federal requirements.

Progress against this goal will be assessed using the following indicators and targets for FY 2002 and FY 2003:

- *Indicator 1.1.1*: Integrated automated financial systems worldwide.

FY 2002 targets:

The core financial system supports mission financial reporting at the strategic objective level in accordance with the Agency's accounting classification structure. A firm date is established for accelerated deployment of the core accounting system. Electronic interfaces and data repositories for significant feeder systems are implemented.

FY 2003 target:

Plans are finalized for worldwide deploy-ment of the core accounting system.

- Indicator 1.1.2: A fully operational, secure and compliant core financial system installed with interfaces to major feeder systems.

FY 2002 targets:

Mission accounting system security certifications completed for at least 50% of the overseas accounting stations. Web-based reporting tools implemented to support enhanced financial reporting for decision-making and resource management. Select

priority enhancements to core financial system implemented (e.g., web-based vendor query and electronic invoicing capabilities, web-based core financial system upgrade, and Agency reorganization).

FY 2003 targets:

Mission accounting system security certification completed at all (38) overseas accounting stations. Select priority enhancements to core financial system implemented (e.g., credit card processing, grantee advances, Agency-wide cash reconciliation system, core financial system upgrade, and application integration tools).

Performance Goal 1.2

A system to allocate administrative costs fully to Agency strategic goals installed in Washington and the field.

Progress against this goal will be assessed using the following indicators and targets for FY 2002 and FY 2003:

- *Indicator 1.2.1*: Administrative costs allocated to strategic goals.

FY 2002 target:

Cost accounting system capable of allocating the full costs of Washington programs and operations to Agency goals.

FY 2003 target:

Plan developed for implementing the cost accounting system Agency-wide.

AUDITED FINANCIAL STATEMENTS

USAID is required, under the Government Management and Reform Act of 1994 to: (1) prepare consolidated audited financial statements each year, beginning with FY 1996; and (2) submit them to the Office of Management and Budget (OMB) and the Department of the Treasury. USAID has prepared consolidated financial statements for each fiscal year. However, through the FY 2000 financial statements, the USAID Inspector General (IG) has been unable to express an opinion on the statements. This has occurred because the IG has been unable to perform the audit due to deficiencies in accounting and financial management systems.

For FY 2001, following the deployment of the new core accounting system in Washington and the implementation of a new interface to the field accounting system, the IG is conducting a complete financial statement audit for the first time. While the audit is ongoing, nothing has been brought to USAID's attention to indicate that the IG will not complete the audit. USAID is hopeful that the IG will be able to render an opinion on the FY 2001 financial statements, and in future fiscal years.

FINANCIAL MANAGEMENT SYSTEMS STRUCTURE

Baseline Financial Management Systems

USAID implemented the Phoenix System in December 2000. Phoenix is the USAID configuration of the Momentum® Financials software product from American Management Systems (AMS). Phoenix is the Agency's new core financial management system and the cornerstone of its interfaced financial management system. During 2001, USAID has interfaced Phoenix with significant legacy financial management systems and third-party systems that provide transaction processing services. The major systems and their relationships are shown in Figure 6-1.

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

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

Mission Accounting and Control System (MACS): MACS is a 20-year-old, custom-built system for overseas financial operations. It is installed at 38 accounting stations overseas and supports basic accounting and control functions. MACS alone is not substantially compliant with Federal financial requirements, standards, and the standard general ledger at the transaction level. MACS does not support the Agency's accounting classification structure (ACS). A MACS Auxiliary Ledger (MAL) was implemented in 2001 to capture overseas financial transactions for posting in the Phoenix general ledger. The MAL provides a crosswalk between overseas accounting elements and the Agency's ACS. The MAL enables the Agency to provide timely, accurate and useful external and internal financial reports on overseas programs and operations. The related MACS Voucher Tracking System (MACSTRAX) automates voucher management and payment scheduling. A system security certification and accreditation of MACS to operate at each overseas accounting station is underway. In addition to strengthening

management controls, this work will assure financial data integrity and reduce financial statement audit risk.

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

- *Travel Manager*: The GELCO commercial software product, Travel Manager, is currently used in Washington and in missions to provide travel management support. It is used either as a standalone application or operating as a shared application over a local area network. Currently, Travel Manager does not have an electronic interface with any Agency financial systems.

- *Non-Expendable Property (NXP)*: The NXP program is USAID's custom-developed property management system. It is currently in use at many missions around the world but is planned for replacement. Imple-mented in 1989, it is not compliant with JFMIP requirements for a property management system. NXP does not have an electronic interface with any Agency financial system.

- *BAR/SCAN*: USAID currently uses the commercial software product, BAR/SCAN, for property management of non-expendable property in Washington. BAR/SCAN is being implemented at field missions. BAR/SCAN does not have an electronic interface with any Agency financial systems.

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

- *Department of Agriculture National Finance Center (NFC):* USAID has a cross-serving agreement with NFC for personnel and payroll processes for U.S. direct hire (USDH) employees. USAID accesses the NFC systems to maintain personnel records, process employee time and attendance data, and transact payroll services. The NFC payroll system is not integrated with Phoenix at this time.

- *Riggs National Bank:* USAID has outsourced standard Credit Reform transactions to Riggs National Bank. The Riggs Loan Management System provides services to the Agency for collections, disbursements, claims, and year-end accruals. The Riggs system has an automated interface with Phoenix.

- *Department of Health and Human Services (DHHS)*: USAID has cross-serviced its letter of credit (LOC) processing of grantee advances and liquidations to the DHHS Payment Management System. The DHHS system has an automated interface with Phoenix.

Figure 6-1 Current Financial Management Systems Structure
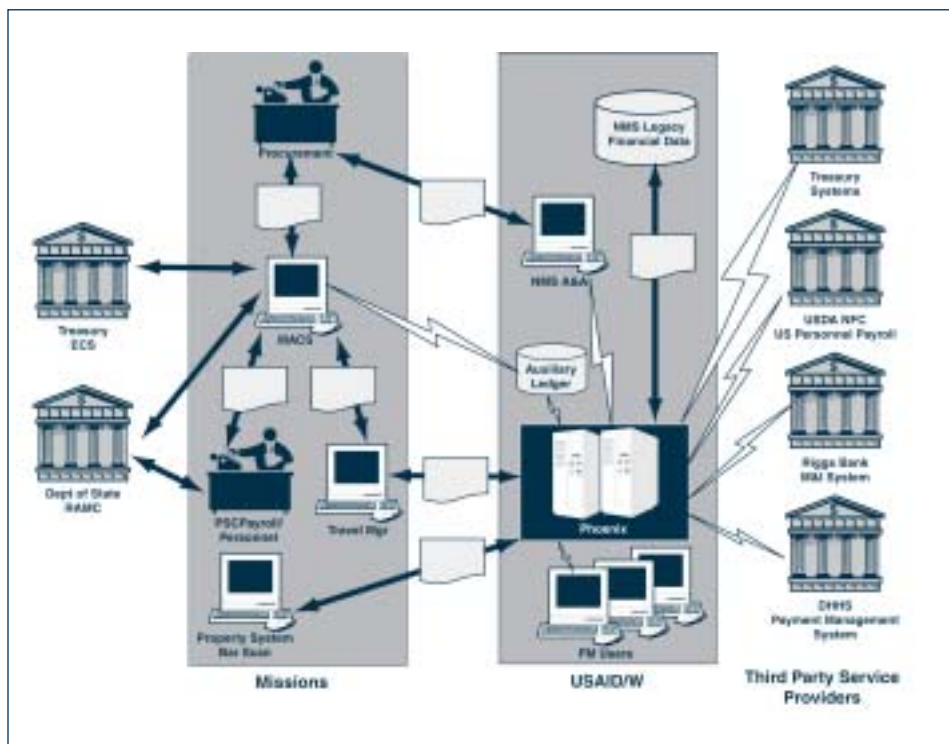
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Other Baseline Financial Management Systems

*   ***Mission Personal Services Contractor (PSC) Personnel and Payroll Systems***: USAID missions currently use a variety of systems to manage and pay PSC personnel. These range from spreadsheets to custom-built applications and databases to commercial off-the-shelf packages. Typically, U.S. citizen PSC employees and Foreign Service National (FSN) PSC employees are managed and paid through different systems. Some missions obtain FSN payroll services from the U.S. Department of State's Financial Management Center (FMC). Some missions have developed electronic interfaces from their payroll systems to MACS. State's FMC will become the standard Agency-wide third-party service provider for FSN PSC payroll processing.

*   ***Mission Procurement Information Collection System (MPICS)***: Pending the fielding of an Agency-wide procurement system, a manual procurement process is used in the missions. MPICS is the data entry mechanism for USAID field missions to enter their past and current award data into a single Washington database for reporting purposes.

*   ***ProDoc and RegSearch:*** These procurement support systems from Distributed Solutions Inc. have been deployed in Washington and the missions to generate solicitations and awards as well as improve procurement reporting.

Deficiencies in Baseline Financial Management Systems

Material Weaknesses: USAID has developed and is implementing detailed corrective action plans for each material weakness as required by the Federal Managers' Financial Integrity Act (FMFIA).

Primary Accounting System: Since 1988, USAID's accounting system 1) had not fully complied with all financial system requirements, (2) could not produce accurate and timely reports, and (3) did not have adequate controls. During FY 2001, USAID deployed Phoenix, the new accounting system. USAID successfully migrated financial records to the new system, trained employees on its use, implemented essential interfaces, and provided accurate and timely financial information. Following an assessment of the results of the FY 2001 financial statement audit, an audit of the general systems control environment, and a review of FFMIA compliance by the USAID IG, the Agency will establish the target correction date.

Reporting and Resource Management Capabilities: Since 1997, Agency-level financial reporting has not always been sufficiently timely, accurate or useful to support decision-making. Also, USAID lacked a system for capturing data on overseas procurement actions to comply with Federal reporting

requirements. The deployment of Phoenix has improved Agency-level financial reporting. For example, during FY 2001, USAID was able, for the first time, to report all of its enterprise-wide financial information on budget execution to OMB in a comprehensive, timely manner. Other external reporting requirements are also more accurate and timely. USAID has implemented an automated procurement data capture system for overseas missions, and further work is underway to improve financial reporting on overseas programs.

Information Resources Management Processes: USAID plans to implement a process to include 1) procedures to select, manage, and evaluate investments and 2) a means for senior managers to monitor progress in terms of costs, system capabilities, timeliness
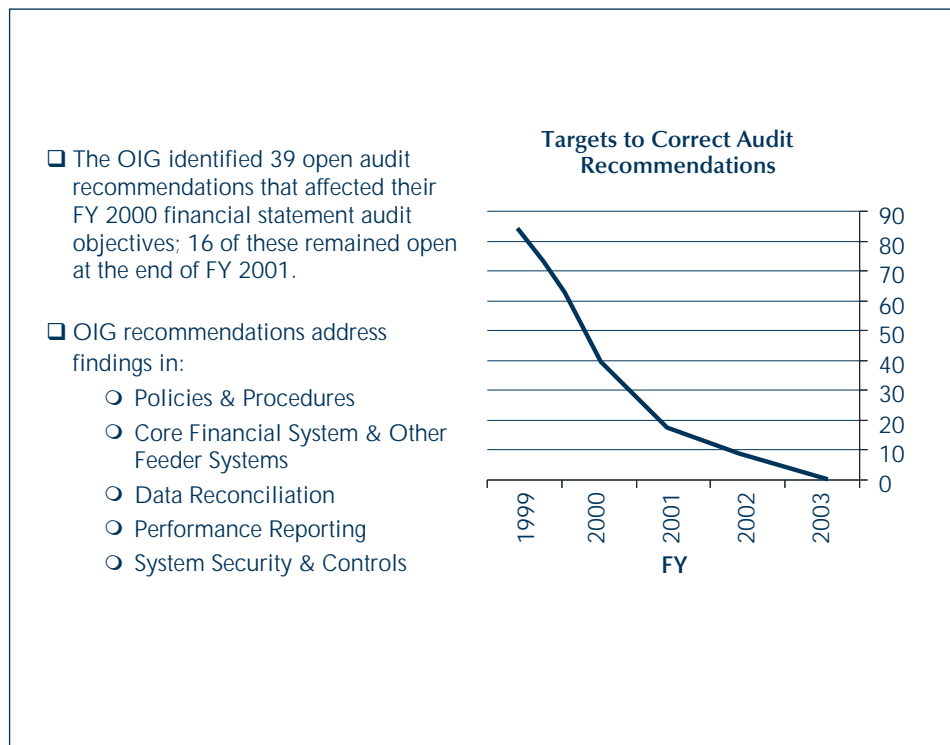
and quality. During FY 2001, USAID established an information management integrated product team to formulate and review the Agency's information technology (IT) budget. Experts are providing disciplined processes in life-cycle management. Reengineering the Agency from a systems integration organization to a technology acquisition organization will help to achieve a Software Engineering Capability Maturity Model (CMM) Level 2, a rating target representative of the top one-third of all technical organizations. USAID completed requirements documentation toward CMM Level 2 status for the network upgrade initiative. When USAID's Information Technology Council becomes operational, IT portfolio management processes are implemented, and the USAID Capital Planning and

Investment Management Process is implemented, this weakness will be closed by December 2002.

Computer Security Program: In FY 2003, USAID plans to implement its computer security program, which will comply with the Computer Security Act of 1987, USAID's administrative policy, and requirements of OMB Circulars A-123, 127 and 130. Decisions by top USAID officials resulted in the designation of Information Systems Security as a capital investment in USAID's budget. By following standard certification and accreditation procedures, USAID has corrected a number of material vulnerabilities. USAID is prioritizing and implementing security projects as funding allows. The Agency's IG, CIO and external agencies, such as the National Security Agency, are continuously reviewing best security practices in the IT arena. USAID's management oversight process will continue to assign responsibility and accountability for identifying, tracking, and correcting information security vulnerabilities.

Audit Findings: During IG's audit of the Agency's FY 2000 financial statements, 39 audit recommendations were identified as remaining uncorrected from prior audits that affected financial statement audit objectives, as shown in Figure 6-3. The Agency developed a strategy and plan to systematically correct many of these deficiencies and close the audit recommendations. By the end of FY 2001, 23 of these audit recommendations were successfully closed. All but six of the 16 remaining audit recommendations are targeted for closure in FY 2002. The remaining six

Figure 6-2 IG Audit Findings and Recommendations

- The OIG identified 39 open audit recommendations that affected their FY 2000 financial statement audit objectives; 16 of these remained open at the end of FY 2001.

- OIG recommendations address findings in:
  - Policies & Procedures
  - Core Financial System & Other Feeder Systems
  - Data Reconciliation
  - Performance Reporting
  - System Security & Controls

Targets to Correct Audit Recommendations

FY

related to performance reporting and system security and controls are planned for closure in FY 2003.

The following summarizes key deficiencies identified in the open audit recommendations planned for closure in FY 2002 and FY 2003:

- **Policies & Procedures:** Implement policies and procedures to ensure adherence to debt collection requirements. Clarify CFO authorities and resources to carry out CFO Act responsibilities.

- **Core Financial System & Other Feeder Systems:** Apply disciplined practices to system planning, project management and system development. Record accruals in the general ledger. Establish adequate responsibilities, authority and structure to direct financial system design, development and deployment efforts.

- **Data Reconciliation:** Ensure that subsidiary ledgers and general ledger reconcile. Verify unliquidated obligation balances at DHHS.

- **Performance Reporting:** Establish common performance indicators by operating unit. Identify the full cost of USAID programs, activities and outputs.

- **System Security & Controls:** Incorporate system security requirements, processes and resources in planning and implementation efforts. Ensure that adequate skills and resources are assigned to the computer security program. Bring existing systems into full

compliance. Strengthen MACS system security. Clarify security roles and responsibilities.

## Target Financial Management Systems Structure

The primary goal of financial management system modernization at USAID is a single, integrated financial management system (IFMS). The IFMS architecture is intended to support the mission of the Agency, comply with Federal requirements and standards, improve the efficiency and effectiveness of Agency operations, and deliver electronic government solutions. The goal will be achieved by adherence to the disciplines of architecture planning, capital investment planning, business process re-engineering, and systems engineering. This will ensure that

plans are business-focused rather than technology-driven, results-oriented rather than process-driven, and developed by business managers rather than technology specialists alone.

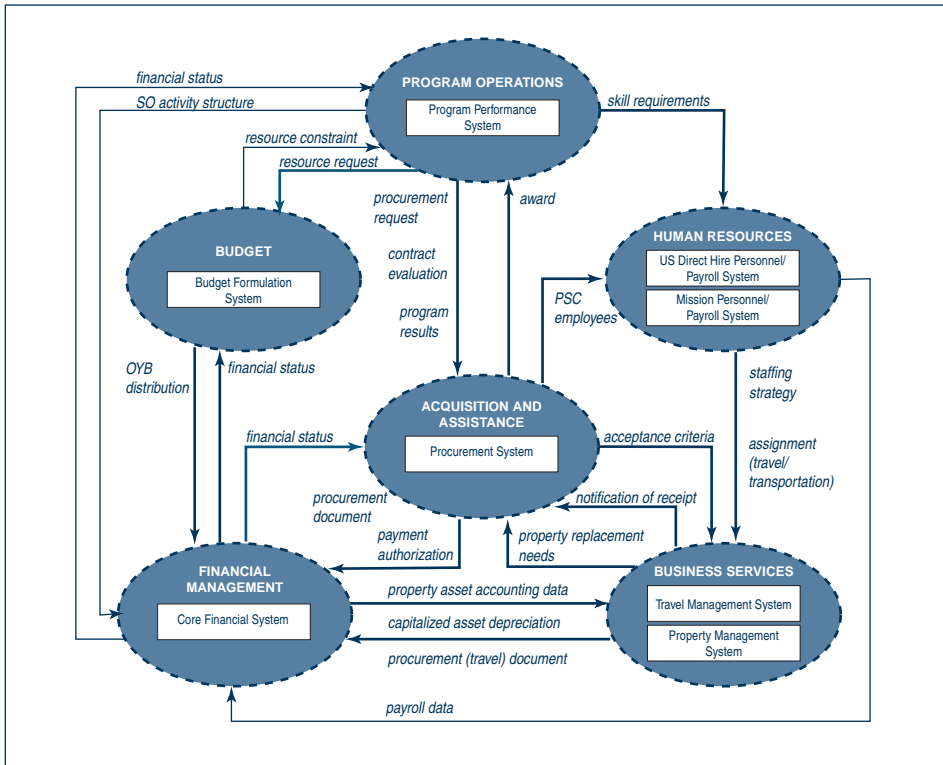The target financial management system will:

- Provide complete, reliable, timely, and consistent information.

- Apply consistent internal controls to ensure the integrity and security of information and resources.

- Utilize a common data classification structure to support collection, storage, retrieval and reporting of information.

- Provide an information portal to

Figure 6-3 Target Financial Management System Structure
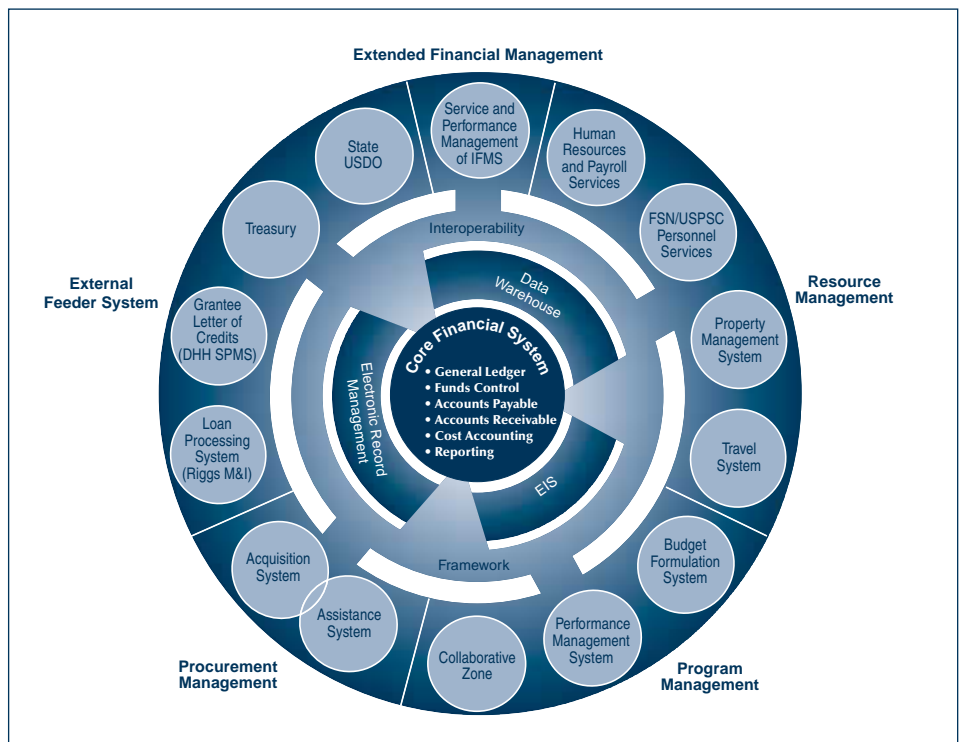
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Figure 6-4 Logical Business Architecture

the Agency's financial management data resources with a similar look and feel accessible wherever USAID operates.

• Utilize an open framework and industry standards for data interchange and interoperability.

• Provide, on demand, value-added information products and services.

• Ensure standardized processes are utilized for similar kinds of transactions.

• Remain flexible and modifiable to business changes.

• Support timely, accurate, and cost-effective electronic exchange of information with customers and external partners.

To achieve this vision, the data, systems, services, and technical infrastructure will be engineered, configured and optimized to operate in an integrated fashion to deliver Agency-wide financial management support. Figure 6-4 shows this architecture at a conceptual level where the components of the IFMS are interfaced via an interoperability framework. Figure 6-5 describes the logical business model that the target IFMS will support. A high-level target system architecture is shown in Figure 6-6. It is guided by and consistent with the Agency's target enterprise information architecture. This target financial management system architecture will be implemented in a modular fashion.

The business functions of the Agency will increasingly be supported by a combination of commercial software products and third party service providers. Public sector and private sector third party service providers will provide essential feeder systems to the Agency's core financial system. The increasing reliance of foreign affairs agencies on shared telecommunication infrastructure, co-located facilities overseas, and common financial transaction processing services may suggest alternative implementation strategies for the IFMS. An interoperability framework consisting of policies, standards, practices, hardware and software will enable the Agency to more effectively utilize commercial software products and third party service providers to evolve the IFMS as both technologies and service providers evolve.

Enterprise Solution Integration Lab: Given the global nature of USAID's mission, its overseas operations and diverse technical infrastructure, an enterprise systems engineering approach will be used to design and maintain the IFMS. This approach will involve users and technical staff in evaluating alternative concepts of operation, system design approaches, reengineered processes, and new technologies operating over the Agency's current and planned network systems and telecommunications infrastructure. An Enterprise Solution Integration Lab (ESIL) and associated system engineering practices will be established to support the planning, prototyping, design, configuration and testing of components of the Agency's IFMS. This test-bed environment that models the Agency's current and intermediate target architecture along with disciplined engineering practices will mitigate the significant risks of

deploying the IFMS over the Agency's global network. It will provide a cost-effective approach for conducting solution demonstrations that validate the application of new technologies for satisfying business needs, developing performance measures, refining requirements, improving the reliability of cost and schedule estimates, and assuring that planned returns on investment are realized.

Financial Management Systems Strategy

The Agency's financial management system strategy is aligned to the Agency's Strategic Plan, Information Management Strategic Plan, and Target Enterprise Information Architecture. The essential elements of the strategy include:

- Utilize public and private sector third party service providers whenever cost-effective.

- Require solution demonstrations to manage risks and engineer system components within the target enterprise architecture framework.

- Acquire proven commercial software products rather than build custom-developed applications.

- Re-engineer Agency business processes before altering the baseline commercial software product.

- Implement major systems in Washington before deploying systems to missions.

- Implement network and telecommunication infrastructure upgrades to support the financial management systems architecture.

Figure 6-5 Target Financial Management System Architecture

2005 Financial Management System Application Architecture
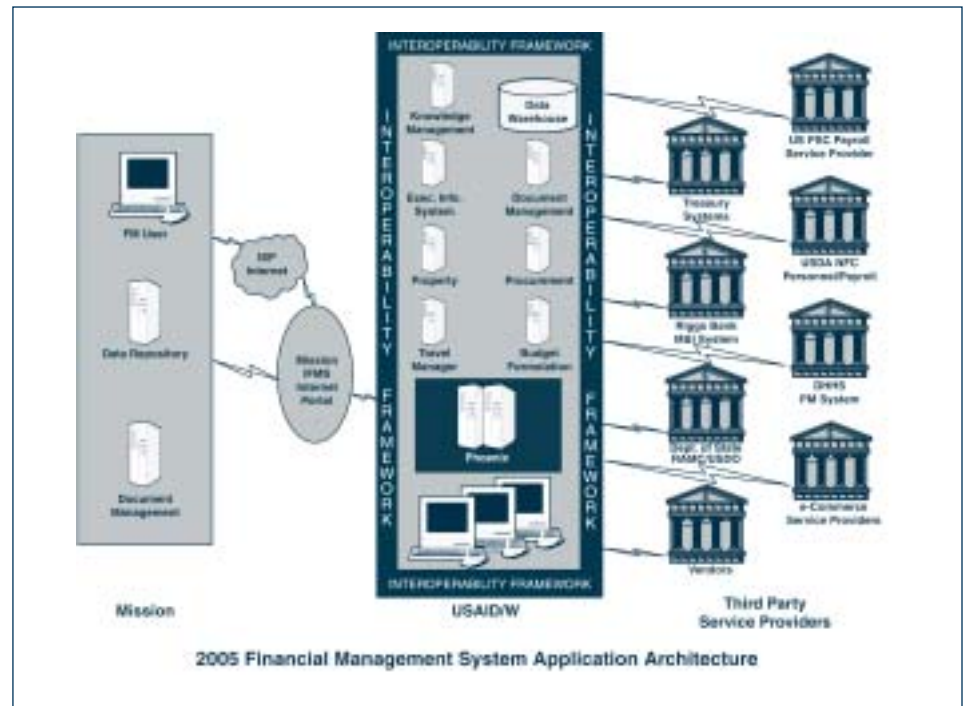
- Leverage the system architecture and the planned technology evolution of commercial software products.

- Integrate data repositories using common data elements and web-based reporting and analytical tools.

- Acquire system components in an incremental fashion.

- Plan enhancements to system capabilities as releases within the framework of enterprise configuration management practices.

Planned Major System Investments

Implementing the target financial management system structure will take more than 5 years. The required major system investments will be identified, planned, and sequenced as part of a business transformation initiative that will begin in 2002 and extend into 2003. Specific projects will be selected on the merit of each business case and support for accelerated deployment of the IFMS. The broad categories of system investment will likely include:

- Core Financial System

- Procurement System

- Budget Formulation System

- Data Repositories and Reporting Systems

- Executive Information Systems

- Business Support Systems

- Third Party Service Providers

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

achieve Agency and government-wide goals in electronic government.

Procurement System: A commercial software product will be selected that supports both acquisition and assistance activities of the Agency. This new internet-based procurement system will standardize Agency-wide business practices, be fully interfaced with Phoenix, support electronic government initiatives, and improve Agency efficiency and effectiveness.

Budget Formulation System: USAID will implement a set of tools and standard business processes to improve Agency-wide budget planning, formulation, consolidation, submission, and integration with Phoenix. USAID's budget formulation and execution processes will be interfaced with its program and performance management processes for collecting information on the performance of Agency programs.

Data Repositories and Reporting Systems: Third-party feeder systems generate data that is stored in data repositories to support data reconciliation, audits, ad hoc queries, and reporting requirements. Other financial management systems capture data that will not be electronically exchanged with other systems and will need data repositories to facilitate integrated reporting. USAID will implement an enterprise-wide "data-mart" strategy to link multiple data repositories using common data elements. Web-based reporting tools will be used to extract, consolidate and generate reports tailored to managers' needs across systems and data repositories.

Executive Information Systems: With the implementation of integrated data

repositories, the Agency will be able to use commercial software products that provide online analytical processing tools to view Agency operations and programs, monitor performance, and enhance effective utilization of resources.

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

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

Financial Management System Costs: Estimates for the full life-cycle costs for major system planning, modernization, enhancements and steady state operations for current and planned financial management systems have not been fully developed. The Agency's FY 2003 Annual Performance Plan includes an FY 2002 target to complete a business transformation study to reengineer business practices and identify system investment priorities to accelerate deployment of Agency-wide financial management systems. The

business case and estimated costs for system investments in FY 2003 and beyond will be included in the FY 2004 budget submission. The FY 2002 and FY 2003 budget requests for financial management systems are included in the Agency's FY 2003 budget submission, and Exhibits 52, 53 and 300, that largely sustain current operations with incremental enhancements. IT capital investments for accelerated deployment of financial management systems will be included in the FY 2004 budget submission.

FFMIA Remediation Plan

The Federal Financial Management Improvement Act (FFMIA) requires USAID to implement and maintain a financial management system that complies substantially with:

- Federal requirements for an integrated financial management system.

- Applicable Federal accounting standards.

- U.S. Standard General Ledger at the transaction level.

These requirements are further detailed in OMB Circular A-127, *Financial Management Systems*. The IG is required under FFMIA to report on compliance with these requirements as part of the audit of USAID's financial statements. In successive audits of USAID's financial statements, the IG has determined that USAID's financial management systems did not substantially comply with FFMIA accounting and system requirements. The Agency Administrator has also reported the material non-conformance of its financial management systems in successive Accountability Reports. The

designated accountable Agency official for correcting these deficiencies is the Chief Financial Officer, Michael Smokovich.

Audit Work on USAID's Compliance with FFMIA: The Agency largely relies on IG audit work to determine the Agency's conformance with FFMIA. The IG has identified deficiencies in the Agency's baseline financial management systems that encompass policies, procedures, controls and practices. These are summarized in Section 4.1 and further detailed in Table 4-1. OMB guidance on implementing FFMIA sets forth requirements and indicators for substantial compliance. The IG began its most comprehensive audit of Agency compliance with FFMIA in FY 2001 based on this OMB guidance and will deliver its findings and recommendations in FY 2002. Prior to this audit work, the IG has identified only examples of non-compliance and not necessarily all instances of non-compliance. As a result of this new and on-going FFMIA compliance audit work, additional deficiencies may be identified.

Preliminary audit findings have indicated that the scope of planned remedies may be insufficient to achieve substantial compliance with FFMIA. In particular, the underlying strategy to integrate the overseas accounting systems, i.e., MACS, with Phoenix, may prove insufficient to achieve substantial compliance. While Phoenix is compliant with JFMIP requirements for a core financial system, MACS is not substantially compliant. MACS does not enable standard general ledger postings at the transaction level or manage accounts receivables. Furthermore, MACS does

not support the Agency's full accounting classification structure. The planned remedy of using an intermediate MACS Auxiliary Ledger to capture overseas financial transactions in order to make summary general ledger postings in Phoenix utilizing ACS cross-walk tables may prove insufficient to achieve substantial FFMIA compliance.

Notwithstanding these issues, the remedies largely implemented in FY 2001 do substantially improve the accuracy, timeliness, and usefulness of Agency-wide financial information for decision-making, resource management, and external reporting. However, it will likely be necessary to further deploy Phoenix Agency-wide to replace MACS at overseas accounting stations in order to achieve substantial compliance with FFMIA. The Agency will continue to rely on MACS through FY 2003 or longer to support Agency financial operations until an incremental deployment of Phoenix is completed. Further investments in MACS and the MACS Auxiliary Ledger will be necessary as intermediate remedies until Phoenix is fully deployed.

Revisions to the Agency's Remediation Plan: The Agency's Remediation Plan as detailed in the FY 2000 Accountability Report will continue to undergo substantial revisions in FY 2002. The Agency will undertake a study in FY 2002 to address how it can make more effective use of capital planning, enterprise architecture, and modern business practices in accounting, procurement, and electronic government to modernize its business systems and accelerate deployment of Phoenix as the Agency-

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wide core financial system. The Remediation Plan in its current form does not capture the additional remedies arising from this study, nor does it address the new IG audit findings and recommendations in the ongoing FFMIA audit. Table 4-1 provides a summary of currently understood deficiencies, remedies, and target dates.

The current target date for substantial compliance with FFMIA is the 4th quarter of FY 2003. It was predicated on the adequacy of MACS at overseas accounting stations interfaced with Phoenix via the MACS Auxiliary Ledger to achieve a JFMIP compliant core financial system. The Agency anticipates that this target date will change based on preliminary IG FFMIA audit work and guidance from OMB that MACS is not an adequate accounting system. Migration of overseas accounting to Phoenix will take substantially more time and resources. An updated Remediation Plan will be submitted to OMB later in FY 2002 with updated target date and resource estimates for implementing an Agency-wide substantially compliant interfaced financial management system.

The current estimated cost of the Remediation Plan for the Agency's financial management systems is $12.4 million in FY 2002 and FY 2003. This cost is consistent with the Agency's FY 2003 budget submission as detailed in Exhibits 52 and 53, and 300 for the Agency's core financial system.

GRANTS MANAGEMENT

USAID ensures consistency across its programs through the issuance of policies and procedures for award and administration of assistance instruments. USAID's Automated Directives System (ADS) includes a chapter (ADS 303, Grants and Cooperative Agreements to Non-Governmental Organizations) that establishes requirements applicable to grants and cooperative agreements with non-governmental organizations under virtually all USAID assistance programs except those that are exempt by statute. The chapter establishes not just the requirements under OMB Circular A-110, but also requirements that are specific to USAID programs.

Except for programs that exclusively involve local overseas organizations, ADS 303 now requires utilization of the standard government-wide application form, "Application for Federal Assistance" (SF-424). Financial reporting is limited to the use of U.S. government standard forms as well. ADS 303 includes the standard provisions that are applicable to USAID assistance instruments. Agreement Officers do not have the authority to make changes in the standard provisions for awards to U.S. organizations, whether for a single award or a group of awards, unless the Director of the Office of Procurement approves the deviation. All together, the requirements in ADS 303 help to ensure that there is substantial consistency of requirements among USAID's programs.

While USAID has some grant programs under which assistance is available on an annual basis to Private Voluntary Organizations, for the most part USAID grants are competed on a case-by-case basis as required in accordance with the objectives of USAID's programs in various developing countries. We do not have information that can be used to identify the five largest programs. For the most part, the requirements are the same for any USAID grant with limited exceptions.

USAID obtains feedback from recipient organizations fairly regularly, which helps to identify areas of concern. The Advisory Committee on Voluntary Foreign Aid, chaired by a member of the recipient community, with a membership comprised of both recipient organizations and USAID, provides input to USAID on issues of mutual concern. USAID offices also conduct outreach programs from time to time that provide recipients the opportunity to discuss issues and concerns.

USAID participates in an informal group of grants policy professionals from virtually all of the grant-making agencies. The group meets regularly to discuss topics of interest to all agencies. When USAID considers policy changes, the grants policy expert in the Office of Procurement generally researches regulations of other agencies and confers with contacts from other agencies to determine their approach to similar issues.

USAID FFMIA Remediation Plan

Deficiencies & Remedies	Current Schedule Targets	Revised Schedule Targets
Deficiency: MACS is not substantially compliant with JFMIP requirements for a core financial system. The MACS Auxiliary Ledger and interface to Phoenix do not sufficiently address compliance deficiencies. MACS does not support new electronic government initiatives. The Agency's overseas operations do not have access to the Agency's integrated financial management system, especially a procurement system integrated with a core financial system, to be compliant with Federal requirements, standards, and government-wide initiatives. USAID needs an enterprise architecture and IT capital investment plan to accelerate deployment of modern, compliant business practices in finance, procurement, and electronic government.		
Remedy: Conduct a study to make more effective use of capital planning, enterprise architecture, and modern business practices in finance, procurement, and electronic government to modernize the Agency's business systems and accelerate deployment of Phoenix as the Agency-wide core financial system. Submit updated IT capital asset plans and FFMIA Remediation Plan.	**4th Qtr of FY 2002**	
Remedy: Establish a capital investment account to segregate and better manage IT capital investments for modernizing the Agency's financial management systems.	**FY 2003**	
Deficiency: IG audit findings and recommendations summarized areas of non-compliance with OMB Circular A-127 and indicated that USAID did not reconcile and record accounts receivable subsidiary ledger balances to the general ledger in accordance with the U.S. Standard General Ledger.		
Remedy: Implement Phoenix in Washington as the Agency's fully integrated core financial system with budget execution, accounts payable, accounts receivable and general ledger.	**1st Qtr of FY 2001 Achieved**	
Deficiency: IG audit findings and recommendations indicated the Agency relied on multiple incompatible systems that cannot exchange data electronically. The manual interfaces require controls and compensatory procedures that were judged inadequate and labor intensive. Inadequate data reconciliation policies and procedures impair the financial statement audit objectives. The Agency's primary accounting system (i.e., NMS AWACS) and overseas accounting system (i.e., MACS) were not integrated and interface was not electronic. Furthermore, significant feeder systems to NMS AWACS and MACS did not have electronic interfaces.		
Remedy: Implement electronic interfaces between Phoenix and significant feeder systems with associated controls and reconciliation procedures.	**4th Qtr of FY 2001 Revision Required:** Completed NMS A&A, Treasury's Connect: Direct, and MACS interfaces.	**1st Qtr of FY 2002 Justification:** Increased complexity and FY close workload. Scheduled to complete DHHS LOC and Riggs Loan interfaces.
Remedy: Improve reconciliation and management of the fund balance with Treasury and reduce the materiality of cash reconciling items.	**FY 2001 Achieved**	

USAID CFO GOALS AND STRATEGIES AND FINANCIAL REMEDIATION PLAN

USAID FFMIA Remediation Plan		
Deficiencies & Remedies	**Current Schedule Targets**	**Revised Schedule Targets**
Deficiency: USAID identified a material weakness in Reporting and Resource Management. Agency financial systems could not produce accurate and consistent financial reports and IG audit work also identified findings and recommendations related to the Agency's ability to produce timely, accurate, and useful financial reports to support decision-making. **Remedy:** Implement Phoenix in Washington and MACS Auxiliary Ledger enhancements to support Agency-wide financial reporting.	**FY 2001 Revision Required**	**3rd Qtr of FY 2002 Justification:** Implementing Web-based enterprise reporting tool.

Deficiency: The Computer Security Program material weakness, FY 2000 Financial Statement Audit Findings, and preliminary audits findings associated with FY 2001 general controls and financial statement audit work have identified significant deficiencies in the computer security program, general controls environment for mission critical systems, and compliance with Federal requirements.
    Remedy: The Phoenix core financial system will be implemented and guided by a system security plan and risk assessment and certification & accreditation of the system's security and control environment. Access controls/passwords and a designated system security officer will issue user authorizations in writing.
    Remedy: Complete risk assessments, computer security training, staffing, and system security certification & accreditation at all overseas accounting stations.
 	
    Remedy: Complete system and general control environment risk assessments, mitigate risks, and develop disaster recovery plans for mission critical systems.
	1st Qtr of FY 2001 Achieved
	
	FY 2002 Ongoing— Revision Required
	
	FY 2002 Ongoing— Revision Required
		4th Qtr of FY 2003 Justification: Budget constraints necessitate extending scheduled work into FY 2003.
		4th Qtr of FY 2003 Justification: as above.

Deficiency: IG audit findings have identified the lack of an Agency-wide accounting classification structure and the existence of multiple financial systems that cannot exchange data. This has impeded Agency efforts to produce timely, accurate, and useful Agency-wide financial information for decision-making and reporting.
    Remedy: Implement a MACS interface to Phoenix via an intermediate MACS Auxiliary Ledger that captures overseas financial transactions and crosswalks to translate the overseas accounting classification structure into the Agency-wide upper-level accounting classification structure.
    Remedy: Implement further enhancements to MACS Auxiliary Ledger to fully implement crosswalk tables between MACS ACS and Phoenix ACS to support mission strategic objective cost allocations.
    Remedy: Implement accounting classification data standards and common data elements in financial data repositories derived from significant feeder systems as part of a financial management data warehouse.
	4th Qtr of FY 2001 Achieved
	
	3rd Qtr of FY 2002 Ongoing
	
	FY 2002 Ongoing	

Deficiency: IG audit findings indicate that the Agency did not comply with JFMIP requirements for prompt payments. **Remedy:** The Phoenix core financial system is configured and implemented to comply with JFMIP requirements for prompt payments.	**1st Qtr of FY 2001 Achieved**	

USAID CFO GOALS AND STRATEGIES AND FINANCIAL REMEDIATION PLAN

USAID FFMIA Remediation Plan		
Deficiencies & Remedies	**Current Schedule Targets**	**Revised Schedule Targets**
Deficiency: IG audit findings indicate that the Agency did not have an effective methodology for estimating accrued expenditures. **Remedy:** Implement the Phoenix core financial system that calculates and reports accounts payable and accrual expenses in compliance with Federal requirements and standards.	**1st Qtr of FY 2001 Revision Required:** Payment process implemented, statistical accrual estimation methodology for FY 2001, and web-based user productivity tools to support user estimated accruals completed.	**1st Qtr of FY 2002 Justification:** Introducting a new accrual process that requires user reviews of accrual estimates, which requires additional change management and user training.

Deficiency: IG audit findings indicate that the Agency is not able to attribute costs to organizations, locations, programs, and activities.
    Remedy: Implement the Phoenix core financial system with a managerial cost accounting subsystem.
 	
    Remedy: Develop cost allocation models with cost drivers to attribute costs to Agency goals.
    Remedy: Update cost allocation model to allocate the costs of Agency programs to the operating unit and strategic objective level for Washington and missions.
	1st Qtr of FY 2001 Achieved with Revision to Target: Subsystem was implemented in the 4th Qtr of FY 2001 to support preparation of the Statement of Net Costs.
	FY 2001 Achieved
	
	FY 2002 Ongoing
		
		4th Qtr of FY 2002

Deficiency: IG audit findings indicate the Agency is not in compliance with the Debt Collection Acts of 1982 and 1996. Specifically, USAID did not have policies and procedures to ensure that debts in excess of 180 days are automatically referred to Treasury.
    Remedy: Update policies and procedures for billings, receivables and debt collection in the Agency's Automated Directives System.
    Remedy: Continue ongoing work to make further recoveries of Agency debt through the Dept. of the Treasury.
	FY 2002 Ongoing
	
	FY 2002 Ongoing	

Deficiency: The Agency has used manual interface procedures for posting summary level journal vouchers to the general ledger for financial transactions generated outside NMS in various feeder systems. The IG has documented findings that journal voucher postings to the NMS general ledger were not adequately supported, reviewed and authorized.
    Remedy: The design of the Phoenix interfaces to feeder systems in FY 2001 will address controls, procedures and system requirements for audit trails.
    Remedy: Policies and procedures will be issued to ensure that journal vouchers posted in the Phoenix general ledger are properly prepared, supported by data from feeder systems, reviewed for accuracy, and authorized.
	FY 2001 Achieved
	
	FY 2001 Achieved	