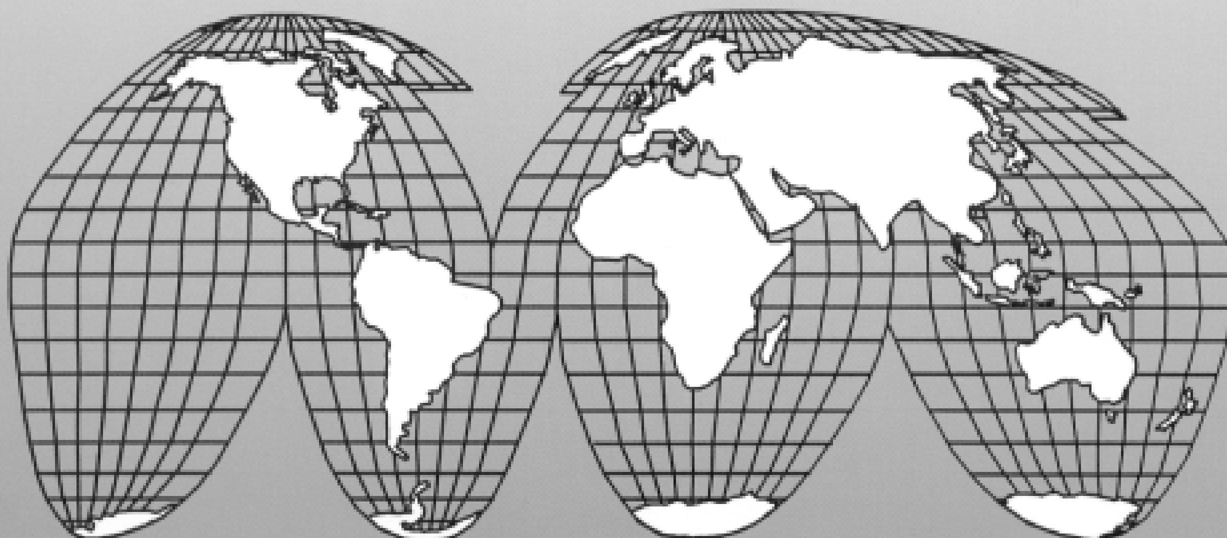
USAID

OFFICE OF INSPECTOR GENERAL

Report on USAID's Consolidated Financial Statements, Internal Controls, and Compliance for the Fiscal Year 2002

Audit Report No. 0-000-03-001-C

January 24, 2003



Washington, D.C.

This page intentionally left blank

January 24, 2003

MEMORANDUM

TO: CFO/FM, Susan J. Rabern

FROM: AIG/A, Bruce N. Crandlemire /s/

SUBJECT: Independent Auditor's Report on USAID's Consolidated Financial Statements, Internal Controls, and Compliance for Fiscal Year 2002 (Report No. 0-000-03-001-C)

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 (FY) 2002 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 FY 2002, USAID is required to submit the audited financial statements to the Office of Management and Budget (OMB) and the U.S. Department of the Treasury (U.S Treasury) by February 1, 2003.

Enclosed are the OIG's reports on USAID's FY 2002 financial statements, related internal controls, and compliance with applicable laws and regulations. We are pleased to report that we are able to issue opinions on all five principal financial statements. This is an important milestone and represents significant progress by USAID. However, on the Statement of Net Costs, the opinion was achieved only through extensive efforts to overcome material weaknesses in internal controls. Although these efforts resulted in auditable information on the statement of net costs, the efforts did not provide timely information to USAID managers to make cost and budgeting decisions throughout the year.

With respect to internal controls, our report discusses seven material weaknesses and three reportable conditions identified during the audit. The material weaknesses were related to USAID's process for (1) allocating Program Expenses on its Statement of Net Costs, (2) reconciling its Fund Balance with the U.S. Treasury, (3) calculating the Allowances for its Credit Program, (4) recording and classifying its Advances to Grantees and Related Expenses, (5) reviewing, analyzing, and deobligating its Unliquidated Obligations as necessary, (6) calculating and reporting its Accounts Payables, and (7) recognizing, recording, and reporting its Accounts Receivable.

The reportable conditions address USAID's needs to (1) establish a monthly general ledger closing procedure, (2) improve its controls over the management of property at USAID overseas missions, and (3) improve its procedures for preparing the Management's Discussion and Analysis section of the Accountability Report required by the Federal Accounting Standards Advisory Board.

We are reporting that USAID is not in substantial compliance with the financial management systems requirements of the Federal Financial Management Improvement Act of 1996 (FFMIA), the Computer Security Act of 1987, and the Debt Collection and Improvement Act of 1996. However, USAID is making progress towards becoming substantially compliant.

This report contains ten recommendations to improve USAID's internal controls for the preparation of its annual financial statement required under the Chief Financial Officer's Act. *(See Appendix III for the status of uncorrected findings and recommendations from our prior audits that affect the current objectives).*

We have received and considered your response to the draft report and the recommendations included therein (see page 49). Based on your response, we have accepted your comments as management decisions. Please forward all information to the Office of Management, Planning, and Innovation for acceptance and final action. *(See Appendix II for USAID's Management Comments).*

We appreciate the cooperation and courtesies that your staff extended to the OIG during our audit. The Office of the Inspector General is looking forward to working with you on the audit of the fiscal year 2003 financial statements (in the agreed-to accelerated schedule) and to seeing improved systems and controls.

Table of Contents

This page intentionally left blank

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 2002 Financial Statements

In our opinion, USAID's balance sheet, statement of changes in net position, statement of budgetary resources, and statement of financing present fairly, in all material respects, the financial position of USAID as of September 30, 2002, in conformity with generally accepted accounting principles.

We were, however, unable to obtain sufficient competent evidential matter to support USAID's allocation of about $384 million to the related responsibility segments on the statement of net costs.

In our opinion, except for the inconsistencies in the process used by USAID to allocate program expenses related to obligations that support multiple Agency goals, USAID's statement of net costs presents fairly, in all material respects, its expenses as of September 30, 2002, in conformity with generally accepted accounting principles. *(See Pages 17 to 20)*

Other Required Supplementary Information

According to the Federal Accounting Standards Advisory Board, Management's Discussion and Analysis (MD&A) is required supplementary information. We did not audit and do not express an opinion on this information. However, we have applied certain limited procedures to determine the methods of measurement and presentation of the supplementary information. As a result of these procedures, we believe that the MD&A materially departs from prescribed guidelines in the following ways:

1. The MD&A did not contain a clear picture of USAID's planned performance for FY 2002.

2. Most performance information contained in the draft FY 2002 MD&A was based on results achieved in FY 2001 or earlier.

3. The MD&A did not link costs to results.

Further information on this finding is included in the Report on Internal Controls and the Report on Compliance with Laws and Regulations *(see pages 32 and 42, respectively)*.

Report on Related Internal Controls

Our audit identified seven material internal control weaknesses *(see pages 17 to 29)* and three reportable conditions *(see pages 29 and 34)* which are included in this report.

The material weaknesses were that improvements are needed in the following USAID processes:

1) Allocating program expenses on its Statement of Net Costs.

2) Reconciling its Fund Balance with the U.S Treasury.

3) Calculating and reporting its Accounts Payable.

4) Recording and classifying Advances to Grantees and related expenses. (Repeat Finding)

5) Reviewing, analyzing, and deobligating its Unliquidated Obligations. (Repeat Finding)

6). Recognizing, recording, and reporting its Accounts Receivable. (Repeat Finding)

7). Calculating Credit Program Allowances.

The reportable conditions related to USAID's need to:

1) Establish a monthly closing procedure.

2) Improve its controls and management of its property at overseas missions.

3) Improve its system for preparing the Management's Discussion and Analysis.

Report on Compliance with Laws and Regulations

USAID's financial management systems did not substantially comply with the Federal Financial Management Improvement Act of 1996. Specifically, USAID's financial management systems did not substantially comply with Federal financial management system requirements, Federal Accounting Standards, or the U.S. Standard General Ledger at the transaction level. However, USAID is making progress towards becoming substantially compliant. *(See Pages 37 and 40)*

Our audit also disclosed three 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.
- The Computer Security Act of 1987.
- The Debt Collection and Improvement Act of 1996.

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 independent auditor's report on internal controls *(see page 15)*.

USAID reported four material weaknesses in its fiscal year 2001 Accountability Report and will report three material weaknesses in its fiscal year 2002 Accountability Report, which will be issued on February 1, 2003.

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 operational and formal accounting stations. In fiscal year 2002, USAID had total obligation authority of about $7.8 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 2002, USAID has prepared the following:

- Balance Sheet,
- Statement of Net Costs,
- Statement of Changes in Net Position,
- Statement of Budgetary Resources,
- Statement of Financing,
- Notes to the financial statements, and
- 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 2002, this Bulletin required us to:

- Determine whether USAID's principal financial statements present fairly in all material respects, and in conformity with generally accepted accounting principles the (1) assets, (2) liabilities and net position, (3) net costs, (4) changes in net position, (5) budgetary resources, and (6) reconciliation of net costs to budgetary obligations.

- Obtain an understanding of USAID's internal control to understand the design of controls relevant to an audit of financial statements and determine 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 controls relating to the existence and completeness assertions relevant to the performance measures included in Management's Discussion and Analysis (MD&A).

- 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 Federal Financial Management Improvement Act 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 2002 financial statements to enable us to form an opinion on those statements.

For the second objective, 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.

For the third objective, we gained an understanding of the internal controls related to the existence and completeness assertions relevant to the performance measures included in the MD&A.

For the fourth and fifth objectives, the OIG determined, among other things, whether USAID’s financial management systems substantially comply 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. *(See Appendix I for our scope and methodology)*

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.

This page intentionally left blank

Audit Findings

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 2002?

We have audited the accompanying balance sheet, statement of changes in net position, statement of net costs, statement of budgetary resources, and statement of financing of USAID for the year ended September 30, 2002. We conducted our 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." We believe that our audit provides a reasonable basis for our opinion.

In our opinion, USAID's fiscal year 2002 balance sheet, statement of changes in net position, statement of budgetary resources, and statement of financing 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 obtain sufficient competent evidential matter to support USAID's allocation of about $384 million to the related responsibility segments on the statement of net costs.

In our opinion, except for the inconsistencies in the process used by USAID to allocate program expenses related to obligations that support multiple agency goals, USAID's statement of net costs present fairly, in all material respects, the expenses of USAID as of September 30, 2002, in conformity with generally accepted accounting principles.

For fiscal year 2001, we audited and issued qualified opinions on, USAID's balance sheet, statement of changes in net position, and statement of budgetary resources. We were also engaged to audit the fiscal year 2001 statement of net costs and statement of financing, on which we disclaimed opinions.

The financial statements are the responsibility of USAID's management. In that regard, USAID's management is responsible for:

1. Preparing the financial statements in conformity with generally accepted accounting principles.

2. Establishing, maintaining, and assessing internal controls to provide reasonable assurance that the broad objectives of the Federal Managers' Financial Integrity Act are met.

3. Establishing and maintaining that USAID's financial management systems comply with Federal Financial Management Improvement Act (FFMIA) requirements.

4. Complying with applicable laws and regulations.

The Office of Inspector General is responsible for obtaining reasonable assurance about whether the financial statements are presented fairly, in all material respects, in conformity with generally accepted accounting principles. In order to fulfill these responsibilities, we:

1. Examined, on a test basis, evidence supporting the amounts and disclosures in the financial statements.

2. Assessed the accounting principles used and significant estimates made by management.

3. Evaluated the overall presentation of the financial statements.

4. Obtained an understanding of internal control related to financial reporting (including safeguarding assets), compliance with laws and regulations (including execution of transactions in accordance with budget authority), and performance measures reported in Management's Discussion and Analysis of the Accountability Report.

5. Tested relevant internal controls over financial reporting and compliance, and evaluated the design and operating effectiveness of internal controls.

6. Considered the process for evaluating and reporting on internal control and financial management systems under the Federal Managers' Financial Integrity Act.

7. Tested whether USAID's financial management systems substantially complied with the three FFMIA requirements.

8. Tested USAID's compliance with selected provisions of the following laws and regulations:

    - Anti-Deficiency Act,

    - Prompt Payment Act,

- Debt Collection and Improvement Act, and

- Federal Credit Reform Act.

We did not evaluate all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act, such as those controls relevant to preparing statistical reports and ensuring efficient operations. Instead, we limited our internal control testing to controls over financial reporting and compliance.

Because of inherent limitations in internal controls, misstatements due to error or fraud, losses, or noncompliance may nevertheless occur and not be detected. We also caution that projecting our evaluation to future periods is subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with controls may deteriorate. In addition, we caution that our internal control testing may not be sufficient for other purposes. *(See the FFMIA section of Compliance Report on USAID's FY 2002 financial statements for additional internal control weaknesses.)*

We did not test compliance with all laws and regulations applicable to USAID. We limited our tests of compliance to those laws and regulations required by OMB audit guidance that we deemed applicable to the financial statements for the fiscal year ended September 30, 2002. We caution that noncompliance may occur and not be detected by these tests and that such testing may not be sufficient for other purposes.

In accordance with *Government Auditing Standards* and the provisions of *OMB Bulletin 01-02*, we have also issued reports, dated January 24, 2003, on our consideration of USAID's internal controls and on its compliance with laws and regulations. *(See pages 15 and 35).*

Management's Discussion and Analysis (MD&A) is required supplementary information according to the Federal Accounting Standards Advisory Board. We did not audit and do not express an opinion on this information. However, we have applied certain limited procedures to determine the methods of measurement and presentation of the supplementary information. As a result of these procedures, we believe that the performance information reported in the MD&A materially departs from prescribed guidelines in the following ways:

1. The MD&A did not contain a clear picture of USAID's planned performance for FY 2002.

2. Most performance information contained in the draft FY 2002 MD&A was based on results achieved in FY 2001 or earlier.

3. The MD&A did not link costs to results.

Further information is included in the Report on Internal Controls and the Report on Compliance with Laws and Regulations. *(See pages 15 and 35, respectively)*.

Bruce N. Crandlemire /s/

Office of Inspector General
January 24, 2003

Audit Findings

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

We have audited the financial statements of USAID for the fiscal year ended September 30, 2002 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 those 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.

Nevertheless—because of inherent limitations in internal controls—, misstatements, losses, or noncompliance may 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. We have also identified material weaknesses and reportable conditions noted in prior Government Management and Reform Act (GMRA) audit reports that continued to exist during FY 2002 as "Repeat Findings." *(See the Federal Financial Management Improvement Act of 1996 [FFMIA] section of the Compliance Report for additional internal control weaknesses.)*

The material weaknesses were that USAID needs to improve its processes for:

1) Allocating program expenses on its Statement of Net Costs .

2) Reconciling its Fund Balance with the U.S Treasury.

3) Calculating and reporting its Accounts Payable .

4) Recording and classifying Advances to Grantees and related Expenses (Repeat Finding).

5) Reviewing, analyzing, and deobligating its Unliquidated Obligations. (Repeat Finding)

6) Calculating Credit Program Allowances.

7) Recognizing, recording, and reporting its Accounts Receivable. (Repeat Finding)

The reportable conditions related to USAID's need to:

1) Establish a monthly closing procedure.

2) Improve its controls and management of its property at overseas missions.

3) Improve its system for preparing the Management's Discussion and Analysis.

Material Weaknesses

USAID's Process for Allocating Program
<u>Expenses on its Statement of Net Costs Needs Improvement</u>

The OIG determined that in some cases USAID's current statement of net costs may not reliably reflect expenses by responsibility segment because USAID had not developed a process to consistently allocate program expenses to its funding sources, strategic objectives, and related Agency goals when it finances grants from multiple sources that are associated with more than one goal. Therefore, USAID cannot be fully assured that program expenses of about $384 million were allocated to the corresponding Agency goals according to their original purpose or that the recorded expense correlates to the activities from which they occurred.

SFFAS No. 4, dated July 13, 1995, states that reliable information on the costs of Federal programs and activities are crucial for effective management of government operations. This standard also requires that "cost be accumulated by responsibility segments." The accumulation is for costs incurred within each responsibility segment and does not involve the assignment or allocation of costs incurred by other supporting segments. The reporting entity may have a centralized accounting system, but the system should be capable of identifying costs within responsibility segments.

USAID's process for recording its Letter of Credit transactions is very complex. Grants are often awarded to support multiple Agency goals and are financed by one or more funding transactions. However, grantees only report expense information at the grant level. USAID uses the pooling method to process drawdown postings in the accounting system (Phoenix). Therefore, both drawdowns and liquidations may not be reliable. The OIG determined that drawdowns in Phoenix matched the information maintained by the Department of Health and Human Services (DHHS)[1].

---

[1] 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.

However, DHHS uses the "first-in-first out" method to record the drawdowns, which usually charges them against incorrect grants. Further, since the grantees are only required to report expenses at the grant level, DHHS had to develop a formula to record expenses against the numerous funding sources within the related contract and grant agreements.

When USAID tries to match DHHS reported expenses against grant agreements through an interface between USAID's and DHHS's systems, the interface locates the grant and then uses the Common Account Number[2] (CAN) to match a Budget Fiscal Year (BFY) under the grant agreements. Initially, the system attempts to match the same fund with the same BFY as identified by DHHS to record the expenses. If there is not match for the same fund and BFY, the system looks for the same fund in any BFY to record the expenses. Finally, if there is not match for the same fund in any BFY, the system will record the expenses against the oldest BFY regardless of the fund. This may lead to expenses crossing several agency goals on the statement of net costs.

Expenses from the DHHS system are interfaced with USAID's Phoenix system. The interface identifies the Phoenix obligation number by using a crosswalk that translates DHHS's document numbers into Phoenix obligation numbers. Using the obligation number, the interface will locate the core grant or grant number within Phoenix. The interface then replaces the obligation number with the DHHS CAN and locates the corresponding BFY. The interface then verifies the accounting lines under the grant and liquidates the obligations in the following order:

1. If the accounting line does not have sufficient funds the interface will liquidate the maximum portion from that accounting line and locate the next accounting line with matching BFY and fund.

2. If no matching BFY is available the interface will then locate an accounting line under the grant with a matching Fund and liquidate the expense against the oldest BFY.

3. If no matching fund is available, the interface will liquidate the expense against the earliest BFY regardless of the type of fund.

4. If no unliquidated obligations are available under the grant the transaction will be rejected for insufficient funds and would require manual posting.

---

[2] The Common Account Number is an eleven-digit number composed of two separate parts. The first seven numbers of the CAN identify the awarding agency. For non-DHHS accounts, the last four numbers of the CAN identify the funding code/source as assigned by the awarding agency.

Further, the OIG determined that for the first four months of the fiscal year DHHS provided expense information to USAID on hard copy reports. The information on these reports was manually entered into the accounting system by voucher examiners. USAID's methodology was to record the expenses against the oldest available funds regardless of the expense allocation indicated on the Payment Management System (PMS) report. Beginning in February 2002, expense information was transferred to the USAID accounting system via an electronic interface. The methodology was altered to a step down approach that would first attempt to record the expenses against the DHHS allocated fiscal year and fund. Next, if sufficient funding were not available, the expenses would be recorded against the fund with an available balance in any fiscal year. Finally, if sufficient funding were not available under the two steps above, the expenses would be posted against any available funding source beginning with the oldest fiscal year.

We sampled and reviewed the expense liquidations as two separate methodologies—the manual process and the automated process. We selected transactions processed through each of the methodologies. Based on our review of the manual processing methodology, we noted that USAID did not consistently record the expenses against the oldest available funds and the corresponding Agency goals. Additionally, we noted that credit amounts were recorded to one funding source. Because credit amounts usually relate to expenses of previous quarters, it would have been more reasonable to apply the credits to the previously recorded expenses. For example, for one manual credit transaction reviewed, about $3.2 million was recorded as expense against USAID goal number five, causing a reduction of $3.2 million in the unliquidated balance of this goal. However, the original $3.2 million transaction was allocated to all USAID goals. Inaccurate postings in the manual process usually have a ripple effect on the transactions processed throughout the year because the funds that are liquidated through the manual postings are no longer available for subsequent liquidations.

The OIG determined that USAID's automated process followed the established methodology to record expenses against the corresponding Agency goals. However, the system did not give preference to similar funds. For example, the system recorded expenses related to development assistance (DV) funds and expenses in the development assistance funds for population (DV-POP) as different funding sources.

Because USAID's process for allocating program expenses on its statement of net costs needs improvement and modifications are needed in its allocation methodology, we are making the following recommendation to USAID management:

<u>Recommendation No. 1:</u> We recommend that the Chief Financial Officer establish requirements to:

1.1 Modify the manual expense distribution methodology, whenever there is no specific fund cite, to match advance liquidation expense reported by U.S. Department of Health and Human Services.

1.2 Ensure that USAID's automated posting process uses the Department of Health and Human Service's posting methodology.

USAID's Process for Reconciling Its Fund
<u>Balance with the U.S. Treasury Needs Improvement.</u>

The OIG determined that USAID has not implemented effective internal controls to ensure that its fund balance with Treasury is reconciled in a timely manner. While USAID has improved in this area, we identified several continuing problems that hindered its ability to reconcile differences with the fund balance account. Specifically, USAID's Office of Financial Management and the overseas missions did not consistently reconcile—research and resolve—differences identified between the records of USAID, the State Department's U.S. Disbursement Office's, and the U.S. Treasury. In fiscal year 2002, USAID's Office of Financial Management made unsupported adjustments of about $45 million net ($203 million in absolute dollar value) to bring its cash balance in agreement with Treasury's balance. According to USAID's Office of Financial Management officials, this adjustment was made because it is necessary for USAID to bring its fund balance in agreement with the U.S. Treasury for the yearend closing statement and the annual financial statement.

The U.S. Department of Treasury's guidance[3] for reconciling fund balances requires that Federal agencies research and resolves differences reported by the U.S. Treasury on a monthly basis. Agencies must also resolve all differences between the balances reported in their general ledger fund balance with the U.S. Treasury accounts and the balances reported by the U.S. Treasury. This guidance stipulates three months as a reasonable period for clearing the differences.

The reconciliation process contains two steps: (1) identifying the differences between USAID's records and the U.S. Department of Treasury's records and (2) researching and resolving these differences.

---

[3] <u>Fund Balance with Treasury Reconciliation Procedures, A Supplement to the Treasury Financial Manual</u>, ITFM 2-5100, August 1999.

Some of the differences are timing differences that will be eliminated with the passage of time, while other differences are accounting and posting errors that must be corrected. The U.S. Treasury reconciliation procedures state that an agency may not arbitrarily adjust its Fund Balance with the U.S. Treasury account. The procedures further state that an agency can adjust its Fund Balance with the U.S. Treasury account balance only after clearly establishing the causes for any errors and properly correcting those errors. In addition, the procedures state that an agency should document "month cleared" (the accounting month that the discrepancy was adjusted), accounting periods, required explanations, and brief narratives that disclose the cause of the discrepancy. USAID did not consistently follow the first and second steps of the reconciliation process.

USAID did not completely reconcile its fund balance with Treasury and research and resolve a difference of about $239 million in its Washington appropriation accounts for the year ended September 30, 2002. Furthermore, according to USAID, as of mid-November 2002, it did not research and resolve the operating expense appropriation differences.

This occurred because USAID had not established a process to close the monthly accounting periods in its accounting system. This lack of monthly closing creates differences between USAID's monthly transaction totals and the U. S. Treasury's monthly records. According to USAID, the accounting periods in its accounting system remained open throughout the subsequent periods because not all financial activities were entered into the accounting system in a timely manner. The Joint Financial Management Improvement Program (JFMIP)[4] "Core Financial System Requirements" require Federal agencies to close accounting periods and prohibit subsequent postings to the closed periods.

Further, some of these differences resulted from overseas transactions that were not reconciled because USAID did not implement the necessary reconciliation procedures to analyze, research, and resolve the outstanding reconciling items reported by its missions. As a result, USAID's Office of Financial Management made unsupported year-end adjustments of about $45 million net ($203 million in absolute dollar value) to bring its September 30, 2002, cash balance in agreement with Treasury's balance. Because USAID needs to continue researching and resolving all outstanding reconciling items, we are making the following recommendation:

---

[4] FFMIA requires that agencies implement and maintain financial management systems that substantially comply with federal financial management systems requirements. These system requirements are detailed in the Financial Management Systems Requirements series issued by JFMIP and OMB Circular A-127.

<u>Recommendation No. 2:</u> We recommend that the Chief Financial Officer:

2.1 Provide detailed guidelines to overseas missions for writing off old reconciling items. These guidelines should include the reconciliation steps that should be completed before USAID missions request write-offs.

2.2 Reconcile the mission adjustment account in the general ledger to the cumulative amounts in the mission ledgers and resolve differences between the general ledger and the mission ledgers.

USAID's Internal Controls over Its Accounts
<u>Payable Process Need Improvement (Repeat Finding)</u>

The OIG determined that USAID's internal controls over its accounts payable process needs improvement. Although progress has been made, we noted that amounts reported for a significant portion of the accounts payable via the Accrual Reporting System (ARS) used by USAID/Washington and via Mission Accounting and Control System (MACS) by its missions were unsupported by financial documentation. In our FY 2001 GMRA audit, this problem related only to USAID missions. We recommended that USAID Office of Financial Management develop standardized documentation requirements for its missions and coordinating with its Office of Procurement and issue detailed guidance for missions to identify obligations that are available for deobligation. USAID has fully implemented this recommendation.

However, after USAID/Washington implemented the ARS, similar problems were identified with the USAID/Washington's accounts payable. This occurred because USAID program managers have not developed an effective process for estimating accounts payable. As a result, USAID's fiscal year 2002 expenses were overstated by about $236 million ($52 million from its missions and $184 million for Washington). USAID management recorded an adjustment for the $236 million to present a more reliable accounts payable balance on its financial statements at September 30, 2002.

Statement of Federal Financial Accounting Standards (SFFAS) No. 1 requires that when an entity accepts title to goods, whether the goods are delivered or in transit, the entity should recognize a liability for the unpaid amount of the goods. If invoices for the goods are not available when financial statements are prepared, the amounts owed should be estimated. Moreover, USAID's Automated Directive System 630.3.2.4 requires that in addition to the sequential schedule/voucher files maintained by fiscal year, paying offices must maintain individual contract obligation and payment records in sufficient detail so that the financial status of each contract can be readily determined and used in deciding whether payment of a given invoice should be approved.

The OIG found that amounts calculated by the Cognizant Technical Officers via the ARS 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, The OIG found that several accounts payable amounts were recorded by USAID 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. The OIG determined that USAID had not conducted the necessary research to determine if the obligations and corresponding accounts payable were necessary.

These conditions resulted because the efforts of USAID were hampered by the inefficiencies of the Mission Accounting and Control System (MACS)[5], and its inability to group various funding instruments of the same project or program. However, some USAID Cognizant Technical Officers had 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.

Furthermore, The OIG determined that USAID did not close several obligations and calculated accounts payable for the entire remaining balance because they have not received disbursement data or the final vouchers from the contractors or grantees. Consequently, the FY 2002 accounts payable reported by USAID were overstated by about $236 million. USAID subsequently made an adjustment to record the $236 million to present a more reliable accounts payable balance in its FY 2002 financial statements. However, because of the recurrence of this internal control weakness, we are restating the following recommendation to USAID management:

<u>Recommendation No 3:</u> We recommend that USAID's Chief Financial Officer coordinate with the Office of Procurement to:

3.1 Develop a standardized documentation requirement for estimating accounts payable in Washington and at its missions on a timely basis.

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

3.2 Issue detailed guidance and instructions for reviewing and reporting to the Office of Procurement those obligations that are available for deobligation.

3.3 Issue detailed guidance requiring its Cognizant Technical Officers to maintain adequate documentation supporting the accounts payable as required by the Automated Directive System.

USAID's Process for Reconciling and Classifying
Advances to Grantees Need Improvement (Repeat Finding)

As of September 30, 2002, USAID had not recorded about $88 million in expenses related to advance liquidations submitted by grantees. Progress has been made in this area. Our FY 2001 GMRA audit identified about $155 million in expenses related to advances that were not recorded by USAID. However, this condition continues to occur because USAID does not have a worldwide integrated financial management system that includes procurement and assistance data. Therefore, obligations established for advances that are managed by DHHS must be manually entered into the Payment Management System (PMS). Nevertheless, USAID has recognized liquidations for about $66 million of the $88 million through its Accrual Reporting System. The remaining $22 million was not recorded as expense or an accrual made by USAID. Consequently, the obligations related to the $88 million had not been entered into the PMS and the expenses were not recognized and reported by DHHS. USAID subsequently made an adjustment to record the $22 million as expenses.

General Accounting Office (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.

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.
- Its final classification in summary records.

Obligations for grant agreements and/or modifications must be entered into DHHS's Payment Management System so that grantees can report advance liquidation expenses related to the corresponding obligations. As of September 30, 2002, USAID had not recorded in the Payment Management System, approximately 105 grant agreements and/or modifications with a net value of about $253 million. USAID has since recorded 78 of the 105 grant agreements and/or modification valued at $112 million. Therefore, at the time of our review, USAID still had about $144 million that was not recorded in the Payment Management System. This occurred because USAID does not have a worldwide integrated financial management system that links its accounting, procurement, and assistance systems as well as all other activities performed by USAID. Additionally, copies of new grants and/or modifications issued by USAID's Office of Procurement were not submitted to the Office of Financial Management in a timely manner.

One USAID official stated that ten business days would be a reasonable amount of time for the Contracting Officers to submit grants and/or modifications (needing to be entered into the Payment Management System) to the Office of Financial Management and that ten business days would also be a reasonable amount of time for the Office of Financial Management to record the grants and/or modifications into the DHHS Payment Management System. Because USAID does not have an integrated financial management system, there is no assurance that all obligations managed by DHHS established for USAID's grants were submitted to USAID's Office of Financial Management, Cash Management and Payment Division.

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. Because USAID does not have a worldwide integrated financial management system that includes procurement and assistance data, this internal control deficiency continues to exist. Therefore, we are restating the following recommendations to USAID management:

<u>Recommendation No. 4:</u> We recommend that the USAID Chief Financial Officer in coordination with the Office of Procurement, establish procedures to ensure that all new grant agreements and/or modifications are submitted to its Cash Management and Payment Division within ten business days after their execution.

<u>Recommendation No. 5:</u> We recommend that the USAID Chief Financial Officer establish procedures for the Cash Management and Payment Division to enter all new grants and/or modifications in the Payment Management System within ten business days after receiving them.

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

USAID records showed unliquidated obligations that may no longer be needed for their original obligation purpose. This occurred because, as of September 30, 2002, USAID had not completed its process for reviewing, analyzing, and deobligating unneeded obligations. As a result, as of September 30, 2002, there still remain about $153 million in unliquidated obligations that had no payment activity against them for more than one year. This is a reduction from the $186 million in unliquidated obligations that our FY 2001 GMRA audit identified. The $153 million in unliquidated obligations, identified by our FY 2002 GMRA audit, may no longer be needed for its original obligation purpose.

USAID's Automated Directive System (ADS) 621 states, "As part of the annual budget process, Assistant 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.

As of September 30, 2002, USAID's internal control process as it relates to the management of unliquidated obligations needs improvement. Specifically, there were about $153 million in unliquidated obligations that had no activity during FY 2002 and may not be needed for the original obligation purpose. USAID is in the process of reviewing the unliquidated obligations through its Business Transformation Executive Committee (BTEC) working group led by the Office of Financial Management. The working group reviewed 576 awards that ended on or before September 30, 2000 and had unliquidated obligations of $100,000 or more. As a result of the group's review, USAID deobligated about $100 million of the reported unliquidated obligations related to the 576 awards. We have also seen improvements in USAID's missions in their efforts to reduce their old unliquidated obligations
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 specific fund cite that gave rise to those payments. Consequently, unliquidated obligations may be carried forward each year even after the payments that would have fully depleted them were made by USAID.

USAID has implemented an Accrual Reporting System to require review and approval of a system-generated accounts payable based on the unliquidated obligations. If this system is maintained as intended, it should enable USAID to routinely identify obligations that could be deobligated. Because USAID is in the process of reviewing the unliquidated obligations through its working group, and we have also seen improvements in the missions to reduce their old unliquidated obligations, we are not including a recommendation for corrective action by USAID management.

USAID's Process for Recognizing and Reporting
<u>Its Accounts Receivable Needs Improvement (Repeat Finding)</u>

As of September 30, 2002, USAID continues to lack an integrated financial management system with the ability to account for its worldwide accounts receivable. This internal control weakness was reported in our previous GMRA reports. Because this systemic weakness continues to exist, we have included it as a material weakness in this GMRA audit report. Because USAID lacked a worldwide integrated system and had not established and implemented policies and procedures for its missions and the Office of Procurement to immediately recognize accounts receivable, USAID had to rely on data calls to its missions to determine the year-end accounts receivable balance. Therefore, USAID has no assurance that the amount reported for accounts receivable in its FY 2002 financial statements represents all receivables due to USAID. USAID management has contended that accounts receivable is not material to the financial statements. We do not believe that this amount would cause a material misstatement to the financial statements. During our FY 2003 GMRA audit, we will expand our audit work in this area.

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 them at the end of each accounting period.

Currently, USAID records accounts receivable after the missions and the Office of Procurement notify the Office of Financial Management that employees, vendors, contractors, and grantees owe funds to USAID. This notification to the Office of Financial Management occurs when the receivables are significantly past due—ranging from 90 to 2190 days. Because USAID has not yet developed an integrated financial management system that would allow for the immediate recognition of accounts receivable, this systemic problem continues to exist. Therefore, we are restating the following recommendations to the USAID Office of Financial Management:

<u>Recommendation No. 6:</u> We recommend that the USAID Chief Financial Officer develop and implement a system for the immediate recognition and reporting of all accounts receivable that are due to USAID at the end of each accounting period.

<u>Recommendation No. 7:</u> We recommend that the USAID Chief Financial Officer, in coordination with the Office of Procurement develop and implement procedures to ensure that the necessary information is forwarded to the Office of Financial Management for the establishment of accounts receivable whenever agreement is reached with contractors and grantees that funds are owed to USAID.

USAID's Process for Calculating Its
<u>Credit Program Allowances Needs Improvement</u>

USAID had a significant decrease in the net loan receivable balances for fiscal year 2002. The reduction was caused by a significant increase in the FY 2002 allowance amounts from what was calculated in FY 2001. For fiscal year 2002, USAID calculated and reported about $6.8 billion in allowances for its credit programs. Of this amount, about $5.9 billion was for the Direct Loan program and about $947 million for the Urban Environment loan guarantee program. These allowances were significantly higher than the fiscal year 2001 calculated allowance amounts of about $4.5 billion. We requested that USAID's Loan Management Division (LMD) provide us with reasons for the significant increases in the allowance amounts for FY 2002. We also requested that the Division recalculate the allowance for fiscal year 2001 and provide additional disclosure in the fiscal year 2002 financial statements for the $2.3 billion increase in the allowance calculation between FY 2001 and FY 2002.

As a result of our request, LMD had additional discussions with OMB about the formula and rates used in the calculation of the allowances for USAID's direct loan and loan guarantee liabilities. Based upon these discussions, LMD discovered that OMB did not provide the information required to correctly calculate the allowances. Further, USAID staff who knew that OMB's formula and rate changes caused significant decreases in the fiscal year 2002 subsidy expenses did not inform LMD of those changes. However, LMD was aware that OMB had changed its subsidy formula and methodologies in fiscal year 2001 but LMD did not know the details of the changes, nor had it assess the impact of the changes on the yearend calculation of allowances for the guaranteed loans. The original allowance calculation for fiscal year 2002 resulted in a significant increase over the fiscal year 2001 calculated allowances.

Using the revised OMB formula and rates, LMD correctly recalculated the fiscal year 2002 allowances and loan guarantee liability amounts. This resulted in a decrease of about $2.8 billion in the direct loan allowance and a decrease of about $619 million in the loan guarantee liability for a net change of about $3.5 billion in amounts due to the U.S Treasury for fiscal year 2002.

GAO's Internal Control Standards state that pertinent information should be identified, captured, and distributed so that individuals can perform their duties efficiently. Further, effective communication is necessary and should occur across the organization. The standards further state that, in addition to internal communications, management should ensure that adequate means of communication exist with external parties who may have a significant impact on the Agency achieving its goals. Finally, the internal control standards require management at the functional or activity level to compare actual results and analyze significant differences.

Because USAID had not implemented an effective process for calculating its credit program allowance for fiscal year 2002—a process that would have resulted in a reasonable presentation of the net credit program balances—, we are including the following recommendation to USAID management:

Recommendation No. 8: We recommend that USAID's Chief Financial Officer establish procedures to:

8.1 Inform all credit program personnel of changes in the government policies and procedures that may have an impact on its credit and loan programs.

8.2 Require an assessment of the impact on the financial information presented in internal and external reports.

8.3 Conduct second-party reviews of final credit program and loan balance amounts at the end of the fiscal year before the annual financial statements are prepared.

Reportable Conditions

USAID's Monthly and Year-end
Closing Procedure Needs Improvement

USAID's financial statements, accompanying footnotes, and worksheets were difficult to audit. On October 24, 2002, the Office of Inspector General received the unadjusted trial balance for fiscal year 2002. USAID informed us that this was the date the general ledger was officially closed.

However, the general ledger was not closed on that date. Additionally, USAID has not implemented the manual process of closing the general ledger that would close the accounting period; rather, it has established a system for only a few employees to make changes to the general ledger.

According to JFMIP, "General Ledger Management Function," with functional management of the general ledger, the system should *close accounting periods and prohibit subsequent postings to the closed periods.* The closing of an accounting period provides the Agency with the capability to automatically determine an accounting period's opening balances based on the prior accounting period's closing balances, without user intervention or adjustment.

Since October 24, 2002, we have received unadjusted trial balances dated November 15, 2002, November 17, 2002, and finally November 27, 2002. Our analysis of these trial balances showed that there were many changes to general ledger accounts at each of the above dates. Also, because the system was not consistently closed on a monthly basis, expenses recorded on November 18, 2002, were for transactions made in prior accounting periods as early as October 2001. The FY 2002 adjusting journal entries should have supported the changes in the general ledger. However, to date the changes in USAID's system have not been documented. In addition, we were provided footnotes and adjusting journal entries in intervals, which made it difficult to follow all the changes that were made to the information in USAID's accounting system.

According to the USAID official, USAID did not close its general ledger on a monthly basis. This decision was made by management because not all financial data was entered in the accounting system in a timely manner. Because all prior accounting periods remained open throughout the fiscal year, USAID employees were able to make changes and adjustments at any given time. These adjustments could be officially made through authorized journal vouchers, or they could have been made unofficially to transactions without authorization and without an audit trail.

Because USAID did not close its general ledger monthly the information on the Standard Form (SF)-224, Statement of Transactions is not readily identified to a specific accounting period. In addition, the SF-6653, Undisbursed Appropriation Account Ledger cannot be readily reconciled with USAID's information. Consequently, many year-end adjustments and unsupported general ledger changes and adjustments were needed. Therefore, we are making the following recommendation:

<u>Recommendation No. 9:</u> We recommend that the Chief Financial Officer establish written procedures to:

9.1 Close monthly accounting periods on the dates established by the U.S. Treasury and prepare adjusting journal entries for any changes, corrections, or adjustments made after an accounting periods is closed.

9.2 Establish final dates for entering transactions into the general ledger before monthly closings. The final dates should be provided to all employees responsible for entering transactions that may affect the general ledger.

USAID's Controls and Management of Certain
<u>Computer Equipment at Its Missions Need Improvement</u>

The OIG determined that USAID's controls and management of certain computer equipment at its missions needs improvement. During our fiscal year 2002 GMRA audit at selected missions, the OIG determined that 6 of the 13 selected missions had two pieces of computer equipment: Reduced Instruction Set Computer (RISC) System 6000 R-20-Lan Server, with a cost of $112,507 each, and an IBM subsystem cabinet with a cost of $42,844 each (total cost of $155,351). Both were used for the New Management System. The two pieces of computer equipment were purchased in fiscal year 1996 and have been fully depreciated. The computer equipment was included in the inventory of non-expendable property reported by those missions. Another mission had the items on their property inventory, but the items could not be located. Furthermore, other missions, not included in our sample, also reported the computer equipment on the data call from Washington as part of their non-expendable property.

USAID Automated Directives System 629.3.5, "Disposal of Capitalized PP&E," requires that Property, Plant and Equipment (PP&E) that no longer provides service because it has suffered damage, become obsolete in advance of expectations, or is identified as excess must be removed from the general ledger accounts, retired, and removed from service. In addition, the value of such property and the accumulated depreciation must be removed from the financial records.

The computer equipment was included in inventory and non-expendable property because USAID did not inform its missions to segregate and dispose of non-expendable property that were no longer needed. As a result, USAID fiscal year 2002 PP&E and the related depreciation were overstated by about $932,106. Furthermore, because other missions that were not included in our audit sample had the computer equipment in their inventory and included them in their data call, the related general ledger account was overstated. Therefore, we are making the following recommendation:

<u>Recommendation No. 10:</u> We recommend that the Chief Financial Officer coordinate with the Office of Overseas Management Support and establish a process for all missions to dispose of and remove from their respective non-expendable property inventories and financial records equipment that is no longer needed.

USAID's System for Preparing Management's
<u>Discussion and Analysis (MD&A) Needs Improvement</u>

OMB Bulletin No. 01-02 requires the OIG to (a) obtain an understanding of the components of internal controls relating to the existence[6] and completeness[7] assertions relevant to the performance measures included in the MD&A and (b) report on those internal controls that have not been properly designed and placed in operation.

The MD&A is a narrative overview, prepared by management, which describes the reporting entity and its mission, activities, program and financial results, and financial condition. 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. 01-09 provides additional guidance for preparing the MD&A.

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

- USAID's current system does not allow for reporting fiscal year 2002 performance results by USAID's operating units until fiscal year 2003. The majority of the performance information contained in the draft fiscal year 2002 MD&A was based on Annual Reports submitted by USAID operating units in Spring 2002, reporting on performance data from fiscal year 2001 or earlier. The OIG reported this deficiency in timeliness in prior years. There is an outstanding OIG recommendation[8] calling on USAID to establish procedures to ensure that (1) operating units submit fiscal year

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

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

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

performance results in time for MD&A reporting and (2) the results that are reported in the MD&A section of USAID's financial statements and Annual Performance Report relate to the fiscal year under review.

- According to OMB Circular A-11, Section 200, a final 2002 performance plan should have been sent to Congress by April 2001. USAID did not prepare an Annual Performance Plan for fiscal year 2002. Instead, it issued one for fiscal year 2003 in August 2002 and noted that the plan would also apply retroactively to fiscal year 2002. As a result, except for a few cases, the draft MD&A did not contain a clear picture of USAID's planned performance goals for fiscal year 2002 and therefore did not include a comparison of planned goals with actual results for fiscal year 2002, as required by OMB Bulletin No. 01-09.

- The draft MD&A included the USAID operating units' self-assessments of progress (pertaining, as explained above, to years prior to 2002) toward meeting certain strategic objectives. Several OIG audits at selected USAID operating units over the past year have identified deficiencies in operating unit performance measurement systems. These deficiencies–such as not performing required data quality assessments–could result in reporting unreliable performance information or incorrectly assessing progress toward meeting certain strategic objectives. According to USAID, approximately 1,300 employees have been trained in performance measurement and strategic planning during the last year and one-half. USAID management believes this training will improve the operating units' performance reporting.

- Except for a few cases, the draft MD&A did not contain financial information to relate costs to results. There was not a clear linkage to cost categories featured in the Statement of Net Costs. Therefore, the cost efficiency or cost effectiveness of obtaining results could not be determined.

In conclusion, as the OIG reported in previous years, USAID needs to improve its system for collecting, summarizing, and preparing performance information included in the MD&A. Specifically, USAID needs to revise its current system so that the MD&A contains a clear picture of USAID's planned performance goals/targets for the current year and a comparison of these goals with actual results for the current year. We did not include a recommendation in this report regarding the MD&A, as we intend to address the larger issue of performance reporting in a separate audit report.

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.

Bruce N. Crandlemire /s/

Office of Inspector General
January 24, 2003

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, 2002 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 contained in the Federal Financial Management Improvement Act (FFMIA) of 1996, the Computer Security Act of 1987, and the Debt Collection and Improvement Act 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[9] 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.

[9] 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.

The results of our tests disclosed instances, described below, in which 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.

Nature, Extent, and Causes of Noncompliance

FFMIA 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.
- The United States Government Standard General Ledger at the transaction level.

Office of Management and Budget Circular A-127, "Financial Management Systems," prescribes policies and standards for agencies to follow in developing, operating, evaluating, and reporting on financial management systems. Section 7 of the Circular identifies which requirements Federal financial systems should meet. In January 2001, the Office of Management and Budget issued "Revised Guidance for the Federal Financial Management Improvement Act" to supplementing Office of Management and Budget Circular No. A-127 to help determine whether financial systems substantially comply with FFMIA requirements. That guidance identifies various requirements that an agency must meet, including those concerning Joint Financial Management Improvement Program systems.

Since 1997, the Office of the Inspector General has reported that USAID's financial management systems did not substantially comply with system requirements under FFMIA.[10] In the past, the reason for USAID's noncompliance was that the agency's core financial management system[11] did not operate effectively. Therefore, USAID had to rely on a combination of outdated, legacy systems; informal, unofficial records; and

[10] 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).

[11] Called the New Management System

a core financial management system—which suffered from technical and operational problems.

USAID has been pursuing an effort to modernize the Agency's systems and meet FFMIA requirements. Specifically, in December 2000, USAID implemented a new core financial system in Washington. In addition, during fiscal years 2001 and 2002, USAID completed efforts to upgrade or interface five major systems (which process transactions outside of the core financial system) to the core system. Those systems were:

1. Acquisition and Assistance System (procurement system),
2. National Finance Center Payroll System (payroll system),
3. Management Accounting and Control System,
4. Letter of credit grant processing system, and
5. Loan processing system.

Federal Financial Management System Requirements

According to FFMIA, Federal agencies must implement and maintain financial management systems that comply substantially with Federal financial management system requirements. These requirements state that Federal agencies shall ensure that security over financial management information systems is in accordance with OMB Circular A-130, Appendix 3. Further, the guidance states that users should have on-line access to the status of funds or receive daily reports on the status of funds in order to perform analysis or decision-making.

Although, USAID has enhanced its financial systems over the past two years, further improvements are needed to:

- Integrate the systems to further strengthen funds control.
- Strengthen computer security controls.
- Further enhance reporting capabilities.

As a result, USAID's financial system may not provide users with complete, accurate, timely financial information needed for decision-making purposes. The following paragraphs discuss some of the progress USAID made during fiscal year 2002 as well as some of the problems that continued to exist.

Funds Control - According to Office of Management and Budget Circular No. A-11, Preparation, Submission, and Execution of the Budget, each Federal agency is responsible for establishing a funds control system that will ensure that the agency does not obligate or expend funds in excess of those appropriated or apportioned. In addition, the Circular states that at year-end multi-year funds not obligated that remain available must be reapportioned in the upcoming fiscal year.

In February 2002, the OIG reported two problems that USAID's core financial system had with respect to funds control. USAID was aware of these problems and took some action to correct these deficiencies, as described below.

First, the OIG reported that USAID's system did not properly display the funding available after appropriation transfer transactions.[12] Although the system prohibited a user from obligating more funds than apportioned, it displayed an incorrect available amount at the appropriation level after the users processed appropriation transfers. In March 2002, USAID applied a fix to its core financial system, correcting the calculation of available amount after an appropriation transfer, thereby correcting this problem.

Second, OIG reported that USAID's system did not roll up multi-year unobligated balances, allowing the funds to remain available for obligation. In June 2002, USAID upgraded its system to correct the roll-up of unobligated balances at year-end. This upgrade provided the Agency with a means to automatically roll up uncommitted funds at any point during the fiscal year. The upgrade also included new accounting events[13] that allowed the budgetary accounts in the general ledger to be updated. However, the posting models[14] associated with two accounting events were incorrect, causing an abnormal balance in a general ledger account. USAID made appropriate adjustments to the general ledger account and plans to correct the posting models.

However, because USAID did not have an integrated financial management system and used a separate system to process obligations for its overseas missions. The appropriation amount displayed as available after the roll-up was overstated by the amount of the mission obligations. To compensate for this weakness, USAID allowed only a few users to apportion funds. Further, those users had access to "cuff records" [15] to track mission obligations and determine the correct amount available for apportionment. Because this issue should be corrected with the deployment of the core financial system to the overseas missions, we will not make any recommendations.

Computer Security Weaknesses – Office of Management and Budget (OMB) Circular A-130, Appendix III, requires agencies to implement and

---

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

[13] An accounting event links accounting entries with updates to budgets, plans, and projects.

[14] Posting models are debit and credit general ledger account pairs associated with a predefined accounting transaction.

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

maintain a program to assure that adequate security is provided for all agency information systems. However, during recent audit work, the OIG found that USAID has not yet fully developed and implemented an Agency-wide security program for information systems as required. Further, the OIG reported that USAID's general controls[16] had serious weaknesses. Although USAID has begun to take corrective actions to address these weaknesses, the OIG determined that serious general control weaknesses continue to exist. Such weaknesses place USAID's financial management systems at significant risk of unauthorized disclosure and modification of sensitive data, misuse or damage of resources, or disruption of critical operations. As a result of these weaknesses, USAID was not substantially compliant with Federal financial management system requirements under FFMIA.

Reports - 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.

However, in February 2002 the OIG reported that users were not always able to readily obtain data to manage Agency operations. This occurred because the system was operational for a short period and Agency resources were focused on implementation and operation rather than reporting. As a result, some system users maintained, "cuff records" to supplement the core financial system.

Although some users still maintain "cuff records" to supplement USAID's financial management systems, the Agency has made progress in providing users access to needed information. For example, among other things USAID:

- Enhanced the MACS Auxiliary Ledger data repository allowing mission transactions to be viewed at the strategic objective and operating unit levels.

- Established a web-based report portfolio that allows users to generate financial reports from USAID/Washington and mission data.

---

[16] General controls are the structure, policies, and procedures that affect the overall effectiveness and security of computer operations.

- Developed a listing of new requirements as well as current reports needing enhancement.

Further, USAID prioritized and approved three reports for development. To date, two of the three reports are currently available for users, while the Agency continues to develop the third.

Because USAID continues to address the need to provide useful information to system users, we are not making a recommendation. The OIG will continue to monitor USAID's progress in improving its reporting capabilities.

Federal Accounting Standards

Standard No. 1, Accounting for Selected Assets and Liabilities – USAID's advances and accounts receivable did not comply with Statement of Federal Financial Accounting Standards (SFFAS) No. 1, as discussed below.

Advances - USAID did not recognize (record) all expenses related to advance liquidations during fiscal year 2002. During fiscal year 2002 USAID did not record about $22 million in expenses (advance liquidations). Several USAID grantees could not report their related expenses because the corresponding obligations were not recorded in the Department of Health and Human Services' Payment Management System. USAID lack of an integrated financial management system also hindered expense reporting. Therefore, obligations established for advances to grantees that are managed by DHHS must be manually entered into the Payment Management System.

SFFAS No. 1 states that federal agencies should record advances as assets when goods or services are received, contract terms are met, progress is made under a contract, or prepaid expenses expire. The standard further states that amounts of advances that are subject to refund should be transferred to accounts receivable.

USAID recorded a $22 million year-end adjusting journal entry to decrease advances and increase expenses for these advance liquidations that were not submitted by grantees and processed in the system during the fiscal year.

Accounts Receivable – USAID does not have an adequate system or process 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 situation occurred because USAID lacked coordination and integration of various systems, an adequate policy and procedural guidance; and, as previously stated, 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. USAID did not comply with the accounts receivable aspects of SFFAS No. 1.

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. In addition, USAID does not have a system to identify and report all costs against the appropriate Agency goals. USAID did not record and report about $384 million in program expenses in accordance with its 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 $384 million in accordance with that methodology on its fiscal year 2002 Statement of Net Costs. Instead, USAID allocated those costs based on a predetermined percentage rate. The $384 million in program expenses may not have been properly recorded against the appropriate Agency goals in USAID's Fiscal Year 2002 Statement of Net Costs. The information needed to properly allocate these expenses was not available to USAID at the time the financial statements were prepared.

Additionally, USAID had about $22 million in expenses associated with the advances managed by DHHS that were not identified and recorded by USAID during fiscal year 2002. 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 advancing funds must be entered into the Payment Management System before the liquidation of the advance funds can occur.

Standard No. 10, Accounting for Internal Use Software – In February 2002, the OIG reported that USAID did not accurately compile and report the proper amount for capitalized software for fiscal year 2001. Specifically, the amount did not include costs funded in prior years for services received in fiscal year 2001 (accrual basis of accounting). Furthermore, USAID did not capitalize cost by fiscal year, did not have all the required support documentation readily available, and did not reconcile the property records with the financial records.

According to Federal Accounting Standards Advisory Board (FASAB) 10, Federal agencies are required to capitalize the cost of internal use software, whether 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.

During fiscal year 2002, USAID developed detailed procedures to meet the requirements of the standard. By implementing these procedures, USAID was able to determine the proper costs to report. For fiscal year 2002, $4.2 million was capitalized in accordance with the requirements of Standard 10, Accounting for Internal Use Software. Therefore, USAID was in compliance with the Standard for fiscal year 2002.

Standard No. 15, Management's Discussion and Analysis (MD&A) - According to SFFAS 15, each general purpose federal financial report should include financial statements and a section devoted to the MD&A. SFFAS 15 states that the MD&A is required supplementary information and should include, among other things, information on performance goals and results that relate to the financial statements.

Based on our review of a draft of the MD&A, dated December 2, 2002, The OIG determined that the draft MD&A did not provide a clear and concise description of program performance that related to the financial statements included in the Performance and Accountability Report. Specifically, the program results reported:

a. Represented, for the most part, program activities that took place prior to fiscal year 2002.

b. Did not reflect the achievements of program funds expended during fiscal year 2002.

Additionally, the draft MD&A contained few performance goals or targets for fiscal year 2002.

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 at the transaction level. This requires the agency's recording of financial events to be consistent with all applicable account descriptions and posting models/attributes reflected in the standard general ledger issued by the Financial Management Service, Department of the Treasury.

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

As a result, USAID cannot ensure that transactions are posted properly and consistently. Therefore, USAID needs to record mission activities using the standard general ledger at the transaction level to support financial reporting and meet requirements. However, until USAID deploys its core financial system worldwide, the Mission Accounting and Control System will continue to operate as the financial system for overseas missions.

In fiscal year 2002, USAID conducted a business modernization study to identify opportunities for improving the Agency's financial management areas. That study recommended the accelerated deployment of the core financial system to the missions in order to comply with FFMIA. However, subsequent to that study, in a joint memorandum issued by the OIGs of the Department of State and USAID the OIGs recommended additional studies to consider the possibility of jointly deploying the system overseas as a means to maximize potential efficiencies. Consequently, such studies may impact the timeframe for deploying the core financial system overseas.

Feeder Systems - The Joint Financial Management Improvement Program "Framework for Federal Financial Management Systems" (FFSMR-0, January 1995) describes an interface as occurring when "one system feeds data to another system following normal business/transaction cycles." Further, interface linkages must be electronic unless the number of transactions is so small that it is not cost-beneficial to automate the interface.

USAID uses two material feeder systems that have been automatically interfaced with the core financial system: (1) the letter of credit grant processing system and (2) the loan processing system.[17] These two feeder systems meet the Office of Management and Budget indicators used to decide whether the systems are in compliance with revised FFMIA requirements.

Remediation Plan

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 dates must be within three years of the date when the system was determined not to be substantially compliant.

According to USAID (and as shown in the table below), USAID achieved five of the seven remediation targets for fiscal year 2002. Although USAID has made progress in becoming FFMIA compliant, the Agency did not fully meet two of the seven major targets established in USAID's remediation plan for completion in fiscal year 2002. According to the remediation plan, two targets were revised and scheduled to be completed the next quarter.

[17] Office of Management and Budget determined that these two systems met the definition of a feeder system.

			USAID's Targets for Fiscal Year 2002 [18]		
			Remediation Plan – September 2002		
	Remedy	Was Target Achieved?	Target Date	Revised Date	Comments
1	Conduct a study to make more effective use of capital planning, enterprise architecture, and modern business practices to modernize the Agency's business systems and accelerate deployment of Phoenix Agency-wide.	No, but only minor slippage	4th Qtr FY 2002	1st Qtr FY 2003	Schedule includes implementing the system in pilot missions in FY 2003 and further deployment in FY 2004 and FY 2005, based on the availability of adequate funding in the Capital Investment Fund. Additional studies are being sought to further maximize use of fund resources.
2	Implement electronic interfaces between Phoenix and feeder systems.	Yes	1st Qtr FY 2002	Completed	N/A
3	Implement Phoenix in Washington and MACS Auxiliary Ledger (MAL) enhancements to support Agency-wide financial reporting.	Yes	4th Qtr FY 2002	Completed	The Agency closed this at end of FY 2002. MAL Release 3.0 was deployed in July 2002. This provided a common accounting classification structure via crosswalks at the operating unit and Strategic Objective (SO) levels. The Consolidated Pipeline report was implemented in August 2002, which provides the ability to perform Agency-wide strategic objective-level reporting and allows users to make decisions at the operational level. USAID fully implemented the web-based reporting tool, Crystal Enterprise. The coordination of the web-based enterprise reporting tool implementation with the MAL Release 3.0 schedule delayed this remedy.
4	Implement further enhancements to MACS Auxiliary Ledger to fully implement crosswalk tables.	Yes	3rd Qtr FY 2002	Completed	In July 2002, the Mission Accounting and Control Auxiliary Ledger expanded its ability to crosswalk monthly field data to Phoenix operating units and SOs. More time for development and testing was required than anticipated.
5	Implement the Phoenix core financial system that calculates and reports accounts payable and accrual expenses.	Yes	1st Qtr FY 2002	Completed	The accrual process was implemented in Dec. 2001. The Accruals Report System was enhanced to post accrual information at both the contract and contract line

[18] All the data in this table was not verified as part of the audit.

USAID's Targets for Fiscal Year 2002 [18]					
			Remediation Plan – September 2002		
	Remedy	Was Target Achieved?	Target Date	Revised Date	Comments
					level in July 2002. The development and testing process was longer than anticipated.
6	Update cost allocation model to allocate costs of Agency programs to the operating unit and strategic objective level for Washington and missions.	No, due to funding constraints	4th Qtr 2002	1st Qtr FY 2003	The Agency created a cost allocation model using Phoenix's Cost Allocation module. The model under its current form, allocates indirect costs recorded in the Management Bureau to benefiting bureaus. Using off-line cost allocation techniques, these costs are then allocated to strategic objectives, which are linked to Agency goals. In FY 2001, mission costs were directly assigned to an Agency goal without first being associated with strategic objectives. The final mapping between mission projects and strategic objectives was completed July 2002. As a result, the Agency is able to assign mission direct costs to strategic objectives and produce Statement of Net Cost. The cost drivers and allocation module will need to be updated to account for the missions' indirect costs when Phoenix is implemented in the field.
7	Update policies and procedures for billings, receivables and debt collection in the Agency's Automated Directives System.	Yes	3rd Qtr FY 2002	Completed	USAID's ADS Chapter 625 was updated in July 2002 to address due process demands, referral of debt to the U.S. Treasury, and reporting to consumer credit agencies.

In addition, in a joint Department of State - USAID OIG memorandum, the OIGs recommended additional studies to consider the possibility of jointly deploying the system overseas as a means to maximize Federal resources. Consequently, such studies may impact the timeframe for deploying the core financial system overseas and USAID's overall target of becoming substantially compliant with FFMIA.

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.

Since September 1997, the OIG has reported that USAID did not implement an effective computer security program as required. In response to OIG audits, USAID has made substantial computer security improvements. For example, USAID:

- Upgraded its system software for USAID/Washington and most of its overseas missions, and, according to USAID management, USAID is ahead of scheduled.

- Built a set of web-based surveys that migrate information directly into a formalized draft security plan.

- Developed on-line classes for the annual computer security awareness training and for new user training.

- Conducted certification and accreditation of its core financial system and Mission Accounting and Controls System at USAID/Washington.

- Selected a new Information System Security Officer.

- Implemented practices to standardize the security configurations of computer operating systems.

Also, according to USAID, the Agency conducted a certification and accreditation of the General Support System and Mission Accounting and Controls Systems at nine overseas missions. In addition, USAID is revising its risk assessment methodology for determining the appropriate level of controls based on the evaluation of risk compared to the cost-benefit to be expected from reducing the risk.

However, recent audit work has shown that, although USAID has taken steps to improve computer security, more work is needed to ensure that sensitive data are not exposed to unacceptable risks of loss or destruction. As of September 30, 2002, USAID has stated it plans to correct this material weakness by September 2004. The OIG will continue to monitor USAID's progress to improve its computer security, compliance with FFMIA, and the Debt Collection and Improvement Act.

Debt Collection and Improvement Act of 1996

The Debt Collection Improvement Act of 1996 and the Federal Claims Collection Standards authorize USAID to:

1. Collect debts owed to the Agency by means of administrative offset.

2. Assess interest, penalties, and administrative costs on overdue debts against its debtors.

3. Contract for private collection services.

4. Disclose information on debts to credit reporting agencies.

5. Report compromises to the Internal Revenue Service.

USAID's Claims Collection Standards, 22 CFR 213, cover the due process rights of debtors and procedures for collecting delinquent debt.

USAID has not complied with all elements of the Debt Collection and Improvement Act of 1996 that require federal agencies to report to the Department of Treasury any receivables that should be included in the Treasury's offset program. This situation occurred primarily because USAID does not have an effective process for establishing accounts receivable.

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.

Bruce N. Crandlemire /s/

Office of the Inspector General
January 24, 2003

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. Management commented that recommendation No. 5 and No. 6 could not 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 ten 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 ten recommendations included in this report and our evaluation of those comments.

Recommendation No. 1

USAID management agreed with Recommendation No. 1 and commented that it will implement Recommendation Nos. 1.1 and 1.2 by June 30, 2003. We will review USAID's methodologies and automated posting process during our fiscal year 2003 GMRA audit.

Recommendation No. 2

USAID management agreed with Recommendation No. 2 and commented that it will implement Recommendation Nos. 2.1 and 2.2 by October 1, 2003. During our fiscal year 2003 GMRA audit, we will review USAID's guidelines for overseas missions and process to reconcile the mission adjustment account in the general ledger to the cumulative amounts in the mission ledgers and resolve differences between those two ledgers.

Recommendation No. 3

USAID management agreed with Recommendation Nos. 3.1, 3.2, and 3.3 and commented that it issued improved guidance in January 2002, in the revision to the Automated Directive System No. 621, *Obligations*, that addresses the intent of this recommendation. Second, that it will review documentation of several Automated Directive System guidance for accounts payable to ensure that adequate guidance and instructions are in place and these recommendations are properly implemented. Lastly, it will implement this recommendation by March 31, 2003. We agree with USAID's management decision on Recommendation Nos. 3.1, 3.2, and 3.3. During our fiscal year 2003 GMRA audit, we will review USAID's progress of reviewing unliquidated obligations and documentation of guidance that properly supports the implementation of this recommendation.

Recommendation No. 4

In regards to this recommendation, USAID management commented that there are still some problems with getting documentation from Grant Officers in a timely manner and that Grant Officers are not under the control of the Office of Financial Management. In addition, USAID commented that this recommendation was transferred to the Office of Financial Management to the Office of Procurement and that the Office of Procurement agreed to issue additional guidance to ensure that grant officers send the documentation to the Office of Financial Management within ten business days. We agree with their management decision on this recommendation and the revision to Recommendation No. 4 to identify the Office of Procurement taking this corrective action. Further, USAID commented that it implement this recommendation by March 31, 2003. During our fiscal year 2003 GMRA audit, we will review USAID's progress of sending documentation to the Office of Financial Management and documentation of guidance that properly supports the implementation of this recommendation. USAID management commented that a new recommendation was not necessary. We included Recommendation No. 4 because we believed that action is needed by USAID's Chief Financial Officer to reduce the problem of not recording grants and/or modifications in the DHHS Payment Management System in a timely manner.

Recommendation No. 5

USAID management commented that the situation likely continues until a worldwide integrated accounting system is deployed. Further, USAID commented that it continues to review the situation and will determine additional interim measures that can be implemented. Management commented that this recommendation is a duplicate from last year's report that was closed on September 30, 2002. During our FY 2002 audit, the OIG found that USAID established a system to enter new grants and/or modification in the DHHS Payment Management System in a timely manner. However, this system has not been fully implemented. For example, our FY 2002 audit found that USAID had not recorded 105 grants and/or modification valued at about $253 million in the DHHS Payment Management System. Therefore, we are restating this recommendation to bring this issue to management's attention again. USAID management commented that it plans to implement Recommendation No.5 by March 31, 2003. We agree with the management decision on this recommendation and plan to review USAID's progress in recording grants and/or modification in the Payment Management System during our FY 2003 GMRA audit.

Recommendation No. 6

USAID management commented that it will review and update guidance on establishing and reporting on accounts receivable in the Automated Directive System no. 625, *Accounts Receivable* and implement this recommendation by June 30, 2003. We agree with this management decision regarding this additional action needed. USAID further commented that this recommendation duplicates Recommendation No. 4 in Audit Report 0-000-02-006-F and remains open because USAID does not have a worldwide integrated accounting system until Phoenix is deployed. However, USAID continues to rely on data calls to obtain accounts receivable data from overseas missions. During our fiscal year 2003 GMRA audit, we will review USAID's progress of establishing and reporting accounts receivable.

Recommendation No. 7

USAID management agreed with Recommendation No. 7 and commented that it will consult with the Office of Procurement and expand and update the guidance under Automated Directive System. USAID commented that it would implement this recommendation by June 30, 2003. We agree with the management decision on this recommendation and will review USAID's updated guidance and progress towards establishing accounts receivable in a timely manner.

Recommendation No. 8

USAID management agreed with Recommendation Nos. 8.1, 8.2, and 8.3 and commented that they plan to make appropriate revisions to the Automated Directive System guidance for credit programs and implement these recommendations by July 31, 2003. We agree with the management decision on this recommendation and will review USAID's updated guidance that supports the implementation of this recommendation.

Recommendation No. 9

USAID management agreed with Recommendation Nos. 9.1 and 9.2 and commented that it had encountered problems in monthly closing in the early months of the fiscal year due to conflicting priorities (e.g., development of the Congressional Budget Justification) and will carefully adjust dates for Mission Accounting Control System and Auxiliary Ledger closings and dates for monthly Phoenix closing. Despite the challenges, USAID agreed that monthly closing reduces the number of reconciling items. USAID expects to close this recommendation by June 30, 2003. We agree with the management decision on this recommendation. During our FY2003 GMRA audit, we will review USAID's progress in closing the monthly general ledger.

Recommendation No. 10

USAID management agreed to implement Recommendation No. 10 by March 31, 2003. During our FY 2003 GMRA audit, we will review USAID's progress in disposing of and removing computer-related properties from its non-expendable property inventories and financial records.

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

Scope and Methodology

Scope

This audit was conducted in accordance with generally accepted government auditing standards. Following those standards, we assessed the reliability of USAID's fiscal year (FY) 2002 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 2002 financial statements. The OIG 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 2002 financial statements and financial related activities at USAID/Washington and 16 USAID missions[19]. A planning materiality threshold of five percent and testing materiality threshold of three percent was calculated. These materiality thresholds were based on USAID FY 2001 total assets net of intergovernmental balances. Any amount over $75 million was considered material and included in our audit of USAID's FY 2002 financial statements. All exceptions were considered in the aggregate to determine whether USAID's FY 2002 financial statements were reliable.

With respect to the Management's Discussion and Analysis (MD&A), we did not perform an audit. However, we gained an understanding of USAID's system of collecting and reporting performance information. We did not assess the quality of the performance indicators and performed only limited tests to assess the controls established by USAID. Based on our limited tests of the measurement and presentation of performance results reported in the MD&A**,** we identified certain deficiencies that, in our

[19] The 16 missions selected were USAID: Georgia, Hungary, Bulgaria, Bosnia, Egypt, Jordan, The Philippines, Ethiopia, Uganda, Serbia, Kosovo, Kazakhstan, Cambodia, Bolivia, Honduras, and Peru. USAID Bulgaria, Bosnia, and Serbia were visited only during the internal control phase of the audit.

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 2002 financial statements. These financial statements include Balance Sheet, Statement of Net Costs, 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 the Federal Financial Management Improvement Act.

- Conducted internal control reviews at USAID/Washington and 16 statistically selected missions and detailed audit tests of selected account balances at USAID/Washington and the 13 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 on USAID's fiscal year 2002 financial statements.

- Conducted meetings with USAID management, employees, contractors, grantees, and other parties associated with the information presented in the FY 2002 financial statements.

- Followed-up on previous financial statement audit recommendations and restated those recommendations that were not implemented by USAID management.

- Conducted a limited review of the internal controls related to the existence and completeness assertions relevant to the performance measures included in the MD&A. We also reviewed the December 2, 2002, draft of the MD&A.

This page intentionally left blank

USAID's Management Comments

U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

MEMORANDUM January 21, 2003

TO: AIG/A, Bruce N. Crandlemire

FROM: CFO, Susan J. Rabern /s/

SUBJECT: Management Response to Draft Independent Auditor's Report on USAID's Consolidated Financial Statements, Internal Controls, and Compliance for Fiscal Year 2002 (Report No. 0-000-03-001-C)

Thank you for the opportunity to respond to the draft report. We are extremely pleased that you are able to issue opinions on all of USAID's five principal financial statements. We appreciate the spirit of cooperation and level of dedication and effort between OIG and Agency staff that made this significant milestone possible.

Following are our management decisions regarding the proposed audit recommendations:

USAID's Process for Allocating Program Expenses on its Statement of Net Costs Needs Improvement

Recommendation 1: We recommend that the CFO establish requirements to:

1.1 Modify the manual distribution methodology, when there is no fund cite, to match expenses related to advances reported by the U.S. Department of Health and Human Services (DHHS); and

1.2 Ensure that USAID's automated posting process uses the DHHS posting methodology.

Management Decision: We agree to implement recommendations 1.1 and 1.2. Target completion date is June 30, 2003.

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

Recommendation 2: We recommend that the CFO:

2.1 Provide detailed guidelines to overseas missions for writing off old reconciling items. These guidelines should include the reconciliation steps that should be completed before write-offs are requested by USAID missions.

2.2 Reconcile the mission adjustment account in the general ledger to the cumulative amounts in the mission ledgers and resolve differences between the general ledger and the mission ledgers.

Management Decision: We agree to implement recommendations 2.1 and 2.2. Target completion date is October 1, 2003.

USAID's Internal Controls Over its Accounts Payable Process Need Improvement (Repeat Finding)

Recommendation 3: We recommend that the CFO coordinate with M/OP and:

3.1 Develop a standardized documentation requirement for estimating accounts payable in Washington and missions on a timely basis.

3.2 Issue detailed guidance and instructions for reviewing and reporting to M/OP obligations that are available for deobligation.

3.3 Issue detailed guidance requiring CTO's to maintain adequate documentation supporting accounts payable as required by the ADS.

Management Decision: We agree to implement recommendations 3.1, 3.2, and 3.3. Improved guidance issued on January 17, 2002, in the revision to ADS 621, Obligations, addresses the intent of these recommendations. This revised and expanded guidance is the result of extensive work done this year by the Agency's deobligation/reobligation quick hit team. To ensure that these recommendations are properly implemented, we will review ADS 621, Obligations, ADS 630, Payables Management, and ADS 631, Accrued Expenditures, to ensure that adequate guidance and instructions are in place. Target completion date is March 31, 2003.

USAID's Process for Reconciling and Classifying Advances to Grantees Needs Improvement (Repeat Finding)

Recommendation 4: We recommend that the CFO, in coordination with the Director, M/OP, establish procedures to ensure that all new grant agreements and/or modifications are submitted to M/FM/CMP within ten business days after their execution.

Management Decision: Although this is a repeat finding from last year, we have shown significant improvement. As the draft report indicates, on September 30, 2002, USAID had not recorded approximately 105 grant agreements or amendments in the Payment Management System (PMS). The report indicates that since then, 78 of the 105 agreements have been recorded. This is a vast difference from the 278 agreements that had not been recorded at the end of FY 2001. In fact, recommendation 4 is a duplicate of recommendation 2.2 from last year's report, 0-000-02-006-F. This recommendation currently remains open despite improvements and the issuance of guidance (Contract Information Bulletin 01-18), because there are still some problems with getting documentation from grants officers in a timely manner. In an attempt to improve this process further, and because grants officers are not under the control of M/FM, the open audit recommendation was transferred from M/FM to M/OP on December 18, 2002. M/OP has agreed to issue additional guidance stressing the need to forward this documentation to M/FM within ten business days. For this reason, we do not believe that a new recommendation is necessary, but if the recommendation appears in the final audit report, it should be directed to M/OP, rather than to the CFO. The target closure date is March 31, 2003.

Recommendation 5: We recommend that the CFO establish procedures to ensure that M/FM/CMP enters all new grants and/or modifications in the Payment Management System within ten days of receiving them.

Management Decision: This recommendation is also a duplicate from last year's report. Recommendation 2.3 from audit report 0-000-02-006-F was closed on September 30, 2002, based on the following:

- A system was established to monitor the amount of time it took M/FM/CMP staff to enter data into the PMS. Between March and August 2002, the number of working days averaged between six and thirteen days. The monthly average was less than nine days.

- To facilitate the receipt of documentation, a central email box was set up so that grants officers could scan and email awards to FM, a drop box was set up in FM to receive hardcopy documentation, and web-based data gathering from grantees was established.

As the draft report indicates, this situation will likely continue until a fully integrated, worldwide system is deployed. In the meantime, we will continue to review the problem and determine if there are additional interim measures that can be implemented. Target closure date is March 31, 2003.

USAID's Process for Recognizing and Reporting Accounts Receivable Needs Improvement (Repeat Finding)

Recommendation 6: We recommend that the CFO develop and implement a system for the immediate recognition and reporting of all accounts receivable that are due to USAID at the end of each accounting period.

Management Decision: This recommendation duplicates recommendation 4 from audit report 0-000-02-006-F, which remains open. Last year we related that we cannot fully implement this recommendation until a worldwide integrated accounting system is deployed. Until then, we will continue to rely on data calls to obtain accounts receivable data for financial statement preparation. As an additional action, we will review and update guidance on establishing and reporting on accounts receivable in ADS 625, Administrative Accounts Receivable. Target closure date for this action is June 30, 2003.

Recommendation 7: We recommend that the CFO, in coordination with the Director, M/OP, develop and implement procedures to ensure that the necessary information is forwarded to M/FM for the establishment of accounts receivable whenever agreement is reached with contractors and grantees that funds are owed to USAID.

Management Decision: We agree to implement this recommendation. Although policy guidance exists in ADS 625, Administrative Accounts Receivable, and ADS 595, Audit Management Program, we will consult with M/OP and expand and update the guidance. The target closure date for this recommendation is June 30, 2003.

USAID's Process for Calculating Credit Program Allowances Needs Improvement

Recommendation 8: We recommend that the CFO establish procedures to ensure that:

8.1 All credit program and management personnel are cognizant of changes in government policies and procedures that may have an impact on credit and loan programs;

8.2 An assessment of the impact on the financial information presented in internal and external reports is required; and

8.3 Second party reviews are conducted for final credit program and loan balances amounts at the end of the fiscal year before the annual financial statements are prepared.

Management Decision: We agree to implement recommendations 8.1, 8.2 and 8.3 by making appropriate revisions to ADS 623, Financial Management of Credit Programs. Target closure date is July 31, 2003.

USAID's Monthly and Year End Closing Procedure Needs Improvement

Recommendation 9: We recommend that the CFO establish written procedures to:

9.1 Close monthly accounting periods on the dates established by the U.S. Treasury and prepare adjusting journal entries for any changes, corrections, or adjustments that are made after an accounting period is closed.

9.2 Include final dates for entering transactions into the general ledger before closing. The final dates should be provided to all employees responsible for entering transactions that may affect the general ledger.

Management Decision: We agree to implement recommendations 9.1 and 9.2. It has been our experience that the process of monthly closing has not been effective in the early months of the fiscal year, due to conflicting priorities during the first quarter, such as the development of the Congressional Budget Justification (CBJ) and focusing critical attention on the previous year's closing and audit. We will also need to carefully adjust dates for MACS and MAL postings when establishing procedures and dates for a monthly close. Despite the challenges, we agree that this is a good idea and will reduce the number of reconciling items. Target closure date is June 30, 2003.

USAID's Controls and Management of Certain Computer Equipment at Missions Need Improvement

Recommendation 10: We recommend that the CFO coordinate with the Office of Overseas Management Services (M/OMS) and notify all missions to dispose of and remove the Reduced Instruction Set Computer System 6000 R-20 Lan Server and the IBM subsystem cabinet from their respective non-expendable property inventories and financial records.

Management Decision: We agree to implement recommendation 10. Target closure date is March 31, 2003.

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

Office of Management and Budget's (OMB) 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, 2002. 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 the New Management System, 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. 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 overview 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.

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, provide 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.

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 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 for USAID's Fiscal year 2002 budget submission to OMB.

Recommendation is pending final action by USAID.

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 monitoring controls, intrusion detection, and additional sensors for sensitive systems.

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 infrastructure 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.

Report on USAID'S Consolidated Financial Statements, Internal Controls And Compliance for Fiscal-Year 2001 Audit Report No. 0-000-02-006-F, February 25, 2002

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

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.

Recommendation is pending final action by USAID.

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.

Recommendation is pending final action by USAID.

<u>Recommendation No. 7:</u> 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.

Recommendation is pending final action by USAID.

UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

Consolidated Financial Statements for Fiscal Year 2002

This page left intentionally blank.

TABLE OF CONTENTS

This page left intentionally blank.

Financial Highlights

USAID prepares consolidated financial statements that include a Balance Sheet, a Statement of Net Cost, a Statement of Changes in Net Position, a Statement of Budgetary Resources, and a Statement of Financing. These statements summarize the financial activity and position of the agency. Highlights of the financial information presented on the principal statements are provided below.

Balance Sheet

The Balance Sheet presents amounts available for use by USAID (assets) against the amounts owed (liabilities) and amounts that comprise the difference (net position). Major line items include Fund Balance with Treasury and Loans Receivable. Fund Balance with Treasury is the net funding available in the Department of Treasury accounts from which USAID is authorized to make expenditures and pay liabilities. The majority of Loans Receivables are for loans for which funds have been disbursed under the Direct Loan Programs.

Assets. The assets showing the most significant change from FY 2001 to FY 2002 are Fund Balance with Treasury and Loans Receivable. Fund Balance with Treasury increased by about $684 million, or about 6 percent. This was primarily due to funds received from the Department of State for the Andean Counter Drug Initiative which is new for FY 2002 and an increase in the amount of funds transferred from the Department of Agriculture's Commodity Credit Corporation.

Loans Receivable (net) increased by $464 million in FY 2002. This increase occurred because of a net decrease in bad debt allowance accruals in FY 2002, the amount of which exceeded net reductions in Loans Receivable arising from principal and interest collections during the year. The allowance is the estimated future losses from default and is based on credit risks assigned to countries by the federal government.

Liabilities and Equity. Credit program liabilities represent 83 percent of USAID's total liabilities. Most of these liabilities are reported as both Due to U.S. Treasury and Loan Guarantee Liabilities. Due to U.S. Treasury represents the cumulative FY 1992 difference between credit program assets and liabilities. Loan Guarantee liability is comprised of an allowance established for potential defaults on loan guarantees obligated before FY 1992 and the estimated subsidy cost of loan guarantees obligated after FY 1991.

Two Credit Program liability line items showing the most significant change in activity from FY 2001 to FY 2002 are the Due to U.S. Treasury and Loan Guarantee Liability. Due to U.S. Treasury increased by about 11 percent from FY 2001 primarily due to the decrease in bad debt allowance accruals for pre-1992 Direct Loans. Loan Guarantee Liability decreased 10 percent during FY 2002, resulting from a decrease in estimated future loan defaults on pre-1992 loan guarantees. Both are calculated in accordance with the Credit Reform Act of 1990.

Federal Accounts Payables increased by $34 million primarily due to increased debt to the U.S. Departments of Interior, Agriculture, and Health and Human Services. Other Liabilities also increased by $70.6 million primarily because of the establishment of a new foreign currency account at the Bosnia Herzegovina mission.

Equity. Cumulative Results of Operations increased from FY 2001 generally because of a change in accounting principle applied in FY 2002. In prior years, transfer of funds for the Commodity Credit Corporation was treated as unexpended appropriations. During FY 2002, the U.S. Treasury determined that USAID should account for the transfer as revolving-type funds not as appropriated-type funds. Therefore, a total of $484 million was removed from unexpended appropriations to cumulative results of operations.

Statement of Net Cost

This statement provides the reader with an understanding of the full cost of operating USAID programs. In FY 2002, approximately 84 percent of all USAID costs incurred were directly related to support of USAID programs. Costs incurred for the agency's general operations (e.g., salaries, training, support for the Office of Inspector General) accounted for approximately 15 percent of the total USAID cost. Overall, costs increased by 13 percent from FY 2001, which is consistent with the increase in appropriated funds for additional program and operational activity.

During FY 2002, USAID further improved the reporting accuracy and implemented several improvements to the Statement of Net Costs. One significant improvement is that expenses reported by the missions are now directly linked to an agency goal. In prior years, allocations were used based on mission-wide ratios.

Statement of Changes in Net Position

This statement identifies those items that caused USAID's net position to change from the beginning to the end of the reporting period. The most significant change was the increase in cumulative results of operations. As discussed previously, Cumulative Results of Operations increased from FY 2001 generally because of a change in accounting principle applied in FY 2002. In prior years, transfer of funds for the Commodity Credit Corporation was treated as unexpended appropriations. During FY 2002, the U.S. Treasury determined that USAID should account for the transfer as revolving-type funds not as appropriated-type funds. Therefore, a total of $484 million was removed from unexpended appropriations to cumulative results of operations.

Statement of Budgetary Resources

The Statement of Budgetary Resources provides information on how budgetary resources were made available for the year and what the status of budgetary resources was at year-end. During Fiscal Year 2002, USAID received over $7.9 billion in direct appropriations, and an additional $820 million for transferred appropriations. USAID obligated over 86 percent of all available budgetary resources for the year. Among the unobligated funds, over 97 percent is available for new programming and obligating in future years.

Appropriations Received from the U.S. Treasury increased by 13% from FY 2001. This was primarily because of increased funding in the following major appropriations:

- $715 million for the Economic Support Fund
- $581 million for the Child Survival and Health Programs
- $193 million for the Assistance for the Independent States of the Former Soviet Union.

Consequently, the increase in appropriated funds also caused increases in the Obligations Incurred and Net Outlays.

Statement of Financing

The statement of Financing reconciles net obligations as reported on the Statement of Budgetary Resources to net costs reported on the Statement of Net Costs. Generally, net obligations increased by 40 percent from FY 2001, due to increased appropriations received as discussed above. Changes in the Credit Program collections and an increase in undelivered orders unpaid from FY 2001 account for a significant portion of the $1.1 billion difference in total resources used to finance items not part of the net cost of operations.

Limitations to the Financial Statements

The financial statements have been prepared to report the financial position and results of operations of USAID, pursuant to the requirements of 31 U.S.C. 3515(b). While the statements have been prepared from the books and records of USAID, in accordance with generally accepted accounting principles (GAAP) for Federal entities and the formats prescribed by the Office of Management and Budget (OMB), the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records. The statements should be read with the realization that USAID is a component of the U.S. Government, a sovereign entity.

This page intentionally left blank

U.S. Agency for International Development
CONSOLIDATED BALANCE SHEET
As of September 30, 2002 and 2001
(in thousands)

	2002 (Audited)	2001 (Audited)
ASSETS		
Intragovernmental		
Fund Balance with Treasury (Note 2)	$ 11,897,972	$ 11,214,407
Accounts Receivable (Note 3)	496,369	423,577
Other (Note 4)	46,527	76,838
Total Intragovernmental	12,440,868	11,714,822
Cash and Other Monetary Assets (Note 5)	262,088	213,177
Accounts Receivable, Net (Note 3)	31,116	31,017
Loans Receivable, Net (Note 6)	5,997,453	5,533,169
Inventory and Related Property (Note 7)	20,241	26,099
General Property, Plant, and Equipment, Net (Note 8 and 9)	54,449	45,373
Advances and Prepayments (Note 4)	329,762	270,237
Total Assets	19,135,977	17,833,894
LIABILITIES (Note 16)		
Intragovernmental		
Accounts Payable (Note 10)	69,572	35,496
Debt (Note 11)	16,744	64,528
Due to U.S. Treasury (Note 11)	5,859,175	5,278,463
Other (Note 12, 13, and 14)	50,253	30,872
Total Intragovernmental	5,995,744	5,409,359
Accounts Payable (Note 10)	1,101,961	1,160,274
Loan Guarantee Liability (Note 6)	1,048,751	1,167,235
Federal Employees and Veteran's Benefits (Note 14)	28,251	30,905
Other (Note 12)	317,635	266,437
Total Liabilities	8,492,342	8,034,210
Commitments and Contingencies (Note 15)		
NET POSITION		
Unexpended Appropriations	10,065,290	9,789,358
Cumulative Results of Operations	578,345	10,326
Total Net Position	10,643,635	9,799,684
Total Liabilities and Net Position	**$ 19,135,977**	**$ 17,833,894**

The accompanying footnotes are an integral part of these statements

U.S. Agency for International Development
CONSOLIDATED STATEMENT OF NET COST
For the years ended September 30, 2002 and 2001
(in thousands)

Costs:	2002 (Audited)	2001 (Unaudited)
Goal 1: Broad-Based Economic Growth and Agricultural Development		
Intragovernmental	$ 132,431	$ 142,665
With the public	2,808,027	2,969,869
Total	2,940,458	3,112,534
Less earned revenues	(59,673)	(9,970)
Net program costs	2,880,785	3,102,564
Goal 2: Strengthen Democracy and Good Governance		
Intragovernmental	60,947	29,678
With the public	641,207	666,444
Total	702,154	696,122
Less earned revenues	(11,210)	
Net program costs	690,944	696,122
Goal 3: Human Capacity Built Through Education and Training		
Intragovernmental	75,921	18,059
With the public	737,461	349,582
Total	813,382	367,641
Less earned revenues	(8,876)	-
Net program costs	804,506	367,641
Goal 4: Stabilizing World Population and Protecting Human Health		
Intragovernmental	82,005	51,124
With the public	1,472,830	1,026,046
Total	1,554,835	1,077,170
Less earned revenues	(48,687)	(14,611)
Net program costs	1,506,148	1,062,559
Goal 5: Protect the Environment for Long-Term Sustainability		
Intragovernmental	38,791	25,032
With the public	498,318	434,982
Total	537,109	460,014
Less earned revenues	(24,860)	(5,805)
Net program costs	512,249	454,209
Goal 6: Promote Humanitarian Assistance		
Intragovernmental	70,924	38,269
With the public	1,538,770	1,319,788
Total	1,609,694	1,358,057
Less earned revenues	(81,077)	(39,421)
Net program costs	1,528,617	1,318,636
Less earned revenues not attributed to programs	(5,890)	(12,196)
Net Cost of Operations (Note 17)	$ 7,917,359	$ 6,989,535

The accompanying footnotes are an integral part of these statements

U.S. Agency for International Development
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
For the years ended September 30, 2002 and 2001
(in thousands)

	2002 Cumulative Results of Operations (Audited)	2002 Unexpended Appropriations (Audited)	2001 Cumulative Results of Operations (Audited)	2001 Unexpended Appropriations (Audited)
Beginning Balances	$ 10,326	$ 9,789,358	$ (13,169)	$ 9,989,029
Prior period adjustments (Note 18)	483,897	(483,782)	11,040	-
Beginning Balances, as adjusted	494,223	9,305,576	(2,129)	9,989,029
Budgetary Financing Sources:		7,936,485		7,035,798
Appropriations Received		213,366		(271,119)
Appropriations transferred-in/out	-	(70,739)	-	(22,657)
Other adjustments (recissions, etc)	7,319,398	(7,319,398)	6,941,693	(6,941,693)
Appropriations used	104,919		47,917	
Donations and forfeitures of cash and cash equivalents	565,633		-	
Transfers-in/out without reimbursement				
Other Financing Sources:				
Transfers-in/out without reimbursement	(1,928)			
Imputed financing from costs absorbed by others	13,459		12,380	
Total Financing Sources	8,001,481	759,714	7,001,990	(199,671)
Net Cost of Operations	7,917,359		6,989,535	
Ending Balances	$ 578,345	$ 10,065,290	$ 10,326	$ 9,789,358

The accompanying footnotes are an integral part of these statements

U.S. Agency for International Development
COMBINED STATEMENT OF BUDGETORY RESOURCES
For the period ended September 30, 2002
(in thousands)

	2002 Budgetary (Audited)	2002 Credit Program Financing (Audited)	2001 Budgetary (Audited)	2001 Credit Program Financing (Audited)
Budgetary Resources				
Budget Authority				
Appropriations Received	$ 7,971,616	$ -	$ 7,079,139	$ -
Borrowing Authority (Note 19)	-	465		
Net Transfers	669,622	-	(221,876)	-
Other	32,525	-	-	-
Total Budget Authority	8,673,763	465	6,857,263	-
Unobligated Balance:				
Beginning of Period	1,769,666	796,958	1,427,179	801,380
Net Transfers, Actual	(4,599)	-	-	-
Total Unobligated Balance	1,765,067	796,958	1,427,179	801,380
Spending Authority from Offsetting Collections:				
Earned				
Collected	1,029,293	129,867	954,775	113,985
Receivable from Federal Sources	(678)	(11,327)	(5,799)	-
Change in Unfilled Customer Orders				
Advance Received	-	-	331	-
Subtotal	1,028,615	118,540	949,307	113,985
Recoveries of Prior Year Obligations	128,325	5,904	105,605	-
Permanently Not Available	(987,596)	(48,249)	(934,135)	(51,957)
Total Budgetary Resources	10,608,174	873,618	8,405,219	863,408
Status of Budgetary Resources:				
Obligations Incurred				
Direct (Note 19)	9,012,090	74,639	6,737,588	66,450
Unobligated Balance, Available	1,544,909	793,076	1,653,948	796,958
Unobligated Balance, Unavailable	51,175	5,903	13,683	-
Total Status of Budgetary Resources	10,608,174	873,618	8,405,219	863,408
Relationship of Obligations to Outlays:				
Obligated Balance, Net, Beginning of Period (Note 19)	8,887,092	14,665	9,318,003	8,311
Obligated Balance, Net, End of Period:				
Accounts Receivable	(9,987)	11,327	(3,706)	-
Undelivered Orders	8,341,194	14,733	7,980,270	14,091
Accounts Payable	1,100,015	808	1,232,202	573
Outlays:				
Disbursements	8,340,309	67,860	6,746,601	60,095
Collections	(1,029,292)	(129,868)	(955,106)	(113,986)
Subtotal	7,311,017	(62,008)	5,791,495	(53,891)
Less: Offsetting Receipts	-			
Net Outlays	$ 7,311,017	$ (62,008)	$ 5,791,495	$ (53,891)

The accompanying footnotes are an integral part of these statements

U.S. Agency for International Development
CONSOLIDATED STATEMENT OF FINANCING
For the years ended September 30, 2002 and 2001
(in thousands)

	2002 (Audited)	2001 (Unaudtied)
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations Incurred (Note 21)	$9,086,729	$6,804,038
Appropriations transferred to/from other agencies (net)	117,337	
Total Obligations Incurred	9,204,066	6,804,038
Less: Spending authority from offsetting collections and recoveries (Note 21)	(1,147,155)	(1,068,761)
Spending authority transferred to/from other agencies (net)	3,503	
Total Spending authority from offsetting collections and recoveries	(1,143,652)	(1,068,761)
Net Obligations	8,060,414	5,735,277
Other Resources		
Donated and Credit Program Revenue	(74,574)	(174,440)
Imputed Financing From Costs Absorbed by Others	13,459	12,380
Net other resources used to finance activities	(61,115)	(162,060)
Total resources used to finance activities	7,999,299	5,573,217
Resources Used to Finance Items not Part of the Net Cost of Operations:		
Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided	(1,111,255)	264,667
Resources that fund expenses recognized in prior periods	(995)	(6,007)
Budgetary offsetting collections and receipts that do not affect net cost of operations		
Credit program collections which increase liabilities for loan guarantees or allowances for subsidy	959,754	1,235,045
Other	6,275	
Resources that finance the acquisition of assets	33,413	(17,372)
Total resources used to finance items not part of net cost of operations	(112,808)	1,476,333
Total resources used to finance net cost of operations	**7,886,491**	**7,049,550**
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Periods (Note 21): Increase in annual leave liability	1,206	1,086
Upward/Downward reestimates of credit subsidy expense	(22,947)	(62,202)
Increase in exchange revenue receivable from the public	39,221	
Total components of net cost of operations that will require or generate resources in future periods	17,480	(61,116)
Components not Requiring or Generating Resources		
Depreciation and Amortization	10,525	6,863
Revaluation of assets or liabilities	(2,056)	-
Other	4,919	(5,761)
Total components of net cost of operations that will not require or generate resources	13,388	1,101
Total components of net cost of operations that will not require or generate resources in the current period	30,868	(60,015)
Net Cost of Operations	$ 7,917,359	$ 6,989,535

The accompanying footnotes are an integral part of these statements

U.S. Agency for International Development
CONSOLIDATING BALANCE SHEET
As of September 30, 2002
(In thousands)

	Credit Program Funds	Program Funds	Operating Funds	Revolving Funds	Trust Funds	Other Funds	Eliminating Entries	Total
ASSETS								
Intragovernmental								
Fund Balance with Treasury (Note 2)	$ 972,540	$ 10,485,870	$ 433,985	$ 4,269	$ 17,631	$ (16,323)		$ 11,897,97
Accounts Receivable (Note 3)	16,383	36,040	500,066	-	-	20,913	(77,033)	496,36
Other (Note 4)	-	46,015	512	-	-	-		46,52
Total Intragovernmental	988,923	10,567,925	934,563	4,269	17,631	4,590	(77,033)	12,440,86
Cash and Other Monetary Assets (Note 5)	50	-	262,038	-	-	-		262,08
Accounts Receivable, Net (Note 3)	10,458	9,609	9,725	-	-	1,324	-	31,11
Loans Receivable, Net (Note 6)	5,997,453	-	-	-	-	-		5,997,45
Inventory and Related Property (Note 7)	-	11,550	8,691	-	-	-		20,24
General Property, Plant, and Equipment, Net (Note 8 and 9)	-	273	54,176	-	-	-		54,44
Advances and Prepayments (Note 4)	821	351,342	(22,505)	102	2	-		329,76
Total Assets	6,997,705	10,940,699	1,246,688	4,371	17,633	5,914	(77,033)	19,135,97
LIABILITIES (Note 16)								
Intragovernmental								
Accounts Payable (Note 10)	19,007	100,117	24,647	(3)	-	2,418	(76,614)	69,57
Debt (Note 11)	16,744	-	-	-	-	-		16,74
Due to U.S. Treasury (Note 11)	5,859,175	-	-	-	-	-		5,859,17
Other (Note 12, 13, and 14)	42,733	331	7,155	-	-	453	(419)	50,25
Total Intragovernmental	5,937,659	100,448	31,802	(3)	-	2,871	(77,033)	5,995,74
Accounts Payable (Note 10)	3,517	945,333	152,770	132	209	-		1,101,96
Loan Guarantee Liability (Note 6)	1,048,751	-	-	-	-	-		1,048,75
Federal Employees and Veteran's Benefits (Note 14)	-	-	28,251	-	-	-		28,25
Other (Note 12)	1,856	-	294,906	-	17,830	3,043		317,63
Total Liabilities	6,991,783	1,045,781	507,729	129	18,039	5,914	(77,033)	8,492,34
Commitments and Contingencies (Note 15)							-	
NET POSITION								
Unexpended Appropriations	29,836	9,875,994	159,460	-	-	-		10,065,29
Cumulative Results of Operations	(23,914)	18,924	579,499	4,242	(406)	-		578,34
Total Net Position	5,922	9,894,918	738,959	4,242	(406)	-	-	10,643,63
Total Liabilities and Net Position	$ 6,997,705	$ 10,940,699	$ 1,246,688	$ 4,371	$ 17,633	$ 5,914	$ (77,033)	$ 19,135,97

U.S. Agency for International Development
CONSOLIDATING STATEMENT OF NET COST
For the year ended September 30, 2002
(in thousands)

	Credit Program	Program Funds	Operating Expenses	Revolving Funds	Trust Funds	Other	Eliminating Entry	Total
Costs:								
Goal 1: Broad-Based Economic Growth and Agricultural Development								
Intragovernmental	$ 5,234	$ 59,628	$ 68,652	$ -	$ -	$ -	$ (1,083)	$ 132,431
With the public	32,651	2,422,311	170,083	2,003	959	-	-	2,628,007
Total	37,885	2,481,939	238,735	2,003	959	-	(1,083)	2,760,438
Less earned revenues	(7,314)	(52,359)	-	-	-			(59,673)
Net program costs	30,571	2,429,580	238,735	2,003	959	-	(1,083)	2,700,765
Goal 2: Strengthen Democracy and Good Governance								
Intragovernmental	-	37,143	24,178	-	-		(374)	60,947
With the public	-	581,015	59,925	-	267	-		641,207
Total	-	618,158	84,103	-	267	-	(374)	702,154
Less earned revenues	-	(11,210)	-	-	-			(11,210)
Net program costs	-	606,948	84,103	-	267	-	(374)	690,944
Goal 3: Human Capacity Built Through Education and Training								
Intragovernmental	-	46,749	29,631	-	-		(459)	75,921
With the public	-	663,679	73,438	-	344	-	-	737,461
Total	-	710,428	103,069	-	344	-	(459)	813,382
Less earned revenues	-	(8,876)	-	-	-			(8,876)
Net program costs	-	701,552	103,069	-	344	-	(459)	804,506
Goal 4: Stabilizing World Population and Protecting Human Health								
Intragovernmental	-	33,807	48,956	-	-	-	(758)	82,005
With the public	-	1,351,000	121,326	-	464	-	-	1,472,790
Total	-	1,384,807	170,282	-	464	-	(758)	1,554,795
Less earned revenues	-	(48,657)	-	-	-			(48,657)
Net program costs	-	1,336,150	170,282	-	464	-	(758)	1,506,138
Goal 5: Protect the Environment for Long-Term Sustainability								
Intragovernmental	-	15,169	23,993	-	-	-	(371)	38,791
With the public	34,745	403,860	59,466	-	247	-		498,318
Total	34,745	419,029	83,459	-	247	-	(371)	537,109
Less earned revenues	(19,265)	(5,595)	-	-	-			(24,860)
Net program costs	15,480	413,434	83,459	-	247	-	(371)	512,249
Goal 6: Promote Humanitarian Assistance								
Intragovernmental	-	49,174	22,092	-	-	-	(342)	70,924
With the public	39,217	973,070	526,247	-	216	-		1,538,750
Total	39,217	1,022,244	548,159	-	216	-	(342)	1,609,694
Less earned revenues	(39,217)	(41,860)	-	-	-			(81,077)
Net program costs	-	980,384	548,159	-	216	-	(342)	1,528,617
Less earned revenues not attributed to programs	-	-	(7,197)	(2,060)	0	-	5,367	(3,890)
Net Cost of Operations (Note 17)	$ 46,051	$ 6,468,048	$ 1,220,820	$ (57)	$ 2,497	$ -	$ -	$ 7,737,359

The accompanying footnotes are an integral part of these statements.

U.S. Agency for International Development
CONSOLIDATING STATEMENT OF CHANGES IN NET POSITION
For the year ended September 30, 2002
(in thousands)

	Credit Program Funds	Program Funds	Operating Funds	Revolving Funds	Trust Funds	Other Funds	Total
Beginning Balances	17,935	9,158,372	619,197	4,185	(5)	-	9,799,684
Prior period adjustments (Note 18)	115	-	-	-	-	-	115
Beginning Balances, as adjusted	18,050	9,158,372	619,197	4,185	(5)	-	9,799,799
Budgetary Financing Sources:							
Appropriations Received	13,105	7,291,000	632,380	-	-	-	7,936,485
Appropriations transferred-in/out	2,761	183,837	26,768	-	-	-	213,366
Other adjustments (recissions, etc)	(15)	(70,243)	(481)	-	-	-	(70,739)
Donations and forfeitures of cash and cash equivalents	-	-	102,823	-	2,096	-	104,919
Transfers-in/out without reimbursement	-	-	565,633	-	-	-	565,633
Other Financing Sources:							
Transfers-in/out without reimbursement	(1,928)	-	-	-	-	-	(1,928)
Imputed financing from costs absorbed by others	-	-	13,459	-	-	-	13,459
Total Financing Sources	13,923	7,404,594	1,340,582	-	2,096	-	8,761,195
Net Cost of Operations	26,051	6,668,048	1,220,820	(57)	2,497	-	7,917,359
Ending Balances	5,922	9,894,918	738,959	4,242	(406)	-	10,643,635

The accompanying footnotes are an integral part of these statements.

U.S. Agency for International Development
CONSOLIDATING STATEMENT OF BUDGETARY RESOURCES
For the period ending September 30, 2002

	Credit Program Funds	Program Funds	Operating Funds	Revolving Funds	Trust Funds	Other Funds	Credit-Financing	Total
Budgetary Resources:								
Budget Authority	$ 45,866	$ 7,963,617	$ 659,149	$ -	$ 5,131	$ -	$ 465	$ 8,674,228
Unobligated Balances - Beginning of Period	187,844	1,536,328	35,218	3,490	2,187	-	796,958	2,562,025
Spending Authority from Offsetting Collections	841,222	177,378	7,956	2,059	-	-	118,540	1,147,155
Recoveries of Prior-Year Obligations	1,368	106,320	20,637	-	-	-	5,904	134,229
Temporarily Not Available Pursuant to Public Law	-	-	-	-	-	-	-	-
Permanently Not Available	(910,234)	(76,881)	(481)	-	-	-	(48,249)	(1,035,845)
Total Budgetary Resources	166,066	9,706,762	722,479	5,549	7,318	-	873,618	11,481,792
Status of Budgetary Resources:								
Obligations Incurred	43,377	8,277,698	683,346	2,287	5,382	-	74,639	9,086,729
Unobligated Balances	122,175	1,379,935	37,601	3,262	1,936	-	793,076	2,337,985
Unobligated Balances	514	49,129	1,532	-	-	-	5,903	57,078
Total Status of Budgetary Resources	166,066	9,706,762	722,479	5,549	7,318	-	873,618	11,481,792
Relationship of Obligations to Outlays:								
Obligated Balance, Net, Beginning of Period	33,428	8,642,360	198,177	885	12,242	-	14,665	8,901,757
Obligated Balance, Transferred, Net	-	-	-	-	-	-	-	-
Obligated Balance, Net, End of Period	23,561	9,212,860	178,099	1,007	15,695	-	26,868	9,458,090
Outlays:								
Disbursements	51,875	7,605,446	678,895	2,164	1,929	-	67,860	8,408,169
Collections	(841,221)	(181,948)	(4,065)	(2,058)	-	-	(129,868)	(1,159,160)
Less: Offsetting Receipts	-	-	-	-	-	-	-	-
Net Outlays	$ (789,346)	$ 7,423,498	$ 674,830	$ 106	$ 1,929	$ -	$ (62,008)	7,249,009

The accompanying notes are an integral part of these statements.

U.S. Agency for International Development
CONSOLIDATING STATEMENT OF FINANCING
For the year ended September 30, 2002
(In thousands)

	Credit	Program	Operating	Revolving	Trust	Other	Total
Resources Used to Finance Activities:							
Budgetary Resources Obligated							
Obligations Incurred (Note 21)	118,016	8,277,698	683,346	2,287	5,382	-	9,086,72
Appropriations transferred to/from other agencies (net)	54	(489,880)	607,163	-	-	-	117,33
Total Obligations Incurred	118,070	7,787,818	1,290,509	2,287	5,382	-	9,204,06
Less: Spending authority from offsetting collections and recoveries (Note 21)	(959,762)	(177,378)	(7,956)	(2,059)	-	-	(1,147,15
Spending authority transferred to/from other agencies (net)	-	3,503	-	-	-	-	3,50
Total Spending authority from offsetting collections and recoveries	(959,762)	(173,875)	(7,956)	(2,059)	-	-	(1,143,65
Net Obligations	(841,692)	7,613,943	1,282,553	228	5,382	-	8,060,414
Other Resources							
Donated and Credit Program Revenue	(65,796)	(2,406)	(6,572)	-	-	-	(74,574
Imputed Financing From Costs Absorbed by Others	-	-	13,659	-	-	-	13,65
Net other resources used to finance activities	(65,796)	(2,406)	7,087	-	-	-	(61,11
Total resources used to finance activities	(907,488)	7,611,537	1,289,640	228	5,382	-	7,999,29
Resources Used to Finance Items not Part of the Net Cost of Operations:							
Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided	7,820	(950,999)	(164,506)	(285)	(3,285)	-	(1,111,25
Resources that fund expenses recognized in prior periods	-	-	(995)	-	-	-	(99
Budgetary offsetting collections and receipts that do not affect net cost of operations							
Credit program collections which increase liabilities for loan guarantees or allowances for subsidy	959,754	-	-	-	-	-	959,754
Other	(28)	2,406	3,892	-	-	-	6,27
Resources that finance the acquisition of assets	(11,132)	328	44,225	-	-	-	33,41
Total resources used to finance items not part of net cost of operations	956,419	(948,273)	(117,384)	(285)	(3,285)	-	(112,80
Total resources used to finance net cost of operations	48,931	6,663,264	1,172,256	(57)	2,097	-	7,886,491
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:							
Components Requiring or Generating Resources in Future Periods (Note 21):							
Increase in annual leave liability	57	-	749	-	400	-	1,20
Upward/Downward reestimates of credit subsidy expense	(22,947)	-	-	-	-	-	(22,94
Increase in exchange revenue receivable from the public	-	-	39,221	-	-	-	39,221
Total components of net cost of operations that will require or generate resources in future periods	(22,890)	-	39,970	-	400	-	17,48
Components not Requiring or Generating Resources:							
Depreciation and Amortization	-	141	10,384	-	-	-	10,52
Revaluation of assets or liabilities	-	-	(2,056)	-	-	-	(2,05
Other	10	4,643	266	-	-	-	4,91
Total components of net cost of operations that will not require or generate resources	10	4,784	8,594	-	-	-	13,38
Total components of net cost of operations that will not require or generate resources in the current period	(22,880)	4,784	48,564	-	400	-	30,86
Net Cost of Operations	26,051	6,668,048	1,220,820	(57)	2,497	-	7,917,35

The accompanying notes are an integral part of these statements

USAID FY 2002 FOOTNOTE TO THE FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

These financial statements report USAID's financial position and results of operations. They have been prepared using USAID's books and records in accordance with Agency accounting policies, the most significant of which are summarized in this note. The statements are presented in accordance with the applicable form and content requirements of OMB Bulletin 01-09, Form and Content of Agency Financial Statements, and the Government Management Reform Act of 1994.

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

1. FASAB Statements and Interpretations as well as AICPA and Financial Accounting Standards Board (FASB) pronouncements if made applicable to Federal governmental entities by a FASAB Statement or Interpretation
2. FASAB Technical Bulletins and the following pronouncements if specifically made applicable to Federal governmental entities by the AICPA and cleared by the FASAB: AICPA Industry Audit and Accounting Guides and AICPA Statements of Position
3. AICPA Accounting Standards Executive Committee (AcSEC) Practice Bulletins if specifically made applicable to Federal governmental entities and cleared by the FASAB as well as Technical Releases of the Accounting and Auditing Policy Committee of the FASAB
4. Implementation guides published by the FASAB staff and practices that are widely recognized and prevalent in the Federal government
5. Other accounting literature, including FASAB Concept Statements; pronouncements in categories 1-4 above when not specifically made applicable to Federal governmental entities; FASB Concepts Statements; GASB Statements, Interpretations, Technical Bulletins, and Concepts Statements; AICPA Issues Papers; International Accounting Standards of the International Accounting Standards Committee; pronouncements of other professional associations or regulatory agencies; AICPA Technical Practice Aids; and accounting textbooks, handbooks, and articles

USAID FY 2002 FOOTNOTE TO THE FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

B. Reporting Entity

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

Programs

The financial statements reflect USAID's program activities, shown by appropriation in the financial statements, which include such programs as the Economic Support Fund, Development Assistance, Assistance for the New Independent States of the Former Soviet Union, Special Assistance Initiatives, International Disaster Assistance, Child Survival and Disease, Central America and the Caribbean Emergency Disaster Recovery Fund, Transition Initiatives, and Direct and Guaranteed Loan Programs. This classification is consistent with the Budget of the United States

Economic Support Fund

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

Development Assistance

This account provides economic resources to developing countries with the aim of bringing the benefits of development to the poor. DA-funded programs promote broad-based, self-sustaining economic growth and support initiatives intended to stabilize population growth, protect the environment and foster increased democratic participation in developing countries. DA resources are concentrated in those areas in which the United States has special expertise and which promise the greatest opportunity for the poor to better their lives.
Assistance for the New Independent States of the Former Soviet Union

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

USAID FY 2002 FOOTNOTE TO THE FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Special Assistance Initiatives

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

International Disaster Assistance

International Disaster Assistance funds provide relief, rehabilitation, and reconstruction assistance to foreign countries struck by disasters, such as famines, floods, hurricanes and earthquakes. This account also provides assistance in disaster preparedness, and prevention and mitigation.

Child Survival and Disease

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

This account was established by a FY 1999 emergency supplemental bill and is for necessary expenses to provide relief and reconstruction after natural disasters in Central America, South America, and Colombia.

Transition Initiatives

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

USAID FY 2002 FOOTNOTE TO THE FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Direct and Guaranteed Loans:

- **Direct Loan**

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

- **Urban and Environmental**

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

- **Micro and Small Enterprise Development**

  The Micro and Small Enterprise Development (MSED) Program supports private sector activities in developing countries by providing direct loans and loan guarantees to support local micro and small enterprises.

- **Israeli Loan Guarantee**

  Congress enacted the Israeli Loan Guarantee Program in Section 226 of the Foreign Assistance Act to support the costs for immigrants resettling in Israel from the former Soviet Union, Ethiopia, and other countries. Under this program, the U.S. Government guaranteed the repayment of up to $10 billion in loans from commercial sources, to be borrowed in $2 billion annual increments. Borrowing was completed under the program during Fiscal Year 1999, with approximately $9.2 billion being guaranteed. Guarantees are made by USAID on behalf of the U.S. Government, with funding responsibility and basic administrative functions resting with USAID.

- **Ukraine Loan Guarantee**

  The Ukraine Export Credit Insurance Program was established with the support of the Export-Import Bank of the United States to assist Ukrainian importers of American goods. The program commenced operations in Fiscal Year 1996 and expired in Fiscal Year 1999.

USAID FY 2002 FOOTNOTE TO THE FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

- **Development Credit Authority**

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

Fund Types

The accompanying consolidated financial statements for USAID include the accounts of all funds under USAID's control. The Agency maintains 28 general fund appropriations, 1 special fund, 13 revolving funds, 3 trust funds, and 5 deposit funds, 2 receipt accounts, and 4 budget clearing accounts.

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

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

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

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

USAID FY 2002 FOOTNOTE TO THE FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

C. Basis of Accounting

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

D. Budgets and Budgetary Accounting

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

Pursuant to Public Law 101-510, unobligated balances associated with appropriations that expire at the end of the fiscal year remain available for obligation adjustments, but not new obligations, until that account is canceled. When accounts are canceled five years after they expire, amounts are not available for obligations or expenditure for any purpose and are returned to the Department of Treasury.

Pursuant to Section 511 of USAID’s Appropriations Act for fiscal years 1994 through 1999, or Section 517 for USAID’s Appropriations Act for fiscal years 1987 through 1993, funds appropriated for certain purposes under the Foreign Assistance Act of 1961, as amended, shall remain available until expended if such funds are initially obligated within their period of availability.

USAID FY 2002 FOOTNOTE TO THE FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

E. Revenues and Other Financing Sources

USAID receives the majority of its funding through Congressional appropriations—annual, multi-year, and no-year appropriations—that may be used within statutory limits. Appropriations are recognized as revenues at the time the related program or administrative expenses are incurred. Appropriations expended for capitalized property and equipment are not recognized as expenses. In addition to funds warranted directly to USAID, the Agency also receives allocation transfers from the Commodity Credit Corporation and the Department of State.

Additional financing sources for USAID's various credit programs and trust funds include amounts obtained through collection of guaranty fees, interest income on rescheduled loans, penalty interest on delinquent balances, permanent indefinite borrowing authority from the U.S. Treasury, proceeds from the sale of overseas real property acquired by USAID, and advances from foreign governments and international organizations.

Revenues are recognized as financing sources to the extent that they were payable to USAID from other agencies, other governments and the public in exchange for goods and services rendered to others.

F. Fund Balances with the U.S. Treasury

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

G. Foreign Currency

The Direct Loan Program has foreign currency funds, which are used to disburse loans in certain countries. Those balances are reported at the U.S. dollar equivalents using the exchange rates prescribed by the U.S. Treasury. A gain or loss on translation is recognized for the change in valuation of foreign currencies at year-end.

H. Accounts Receivable

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

USAID FY 2002 FOOTNOTE TO THE FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

I. Loans Receivable

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

For loans obligated on or after October 1, 1991, the loans receivable are reduced by an allowance equal to the present value of the subsidy costs (due to the interest rate differential between the loans and Treasury borrowing, the estimated delinquencies and defaults net of recoveries, the offset from fees, and other estimated cash flows) associated with these loans. This allowance is re-estimated when necessary and changes reflected in the operating statement.

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

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

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

J. Advances and Prepayments

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

USAID FY 2002 FOOTNOTE TO THE FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

K. Inventory and Related Property

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

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

L. Property, Plant and Equipment

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

M. Liabilities

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

USAID FY 2002 FOOTNOTE TO THE FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

N. Liabilities for Loan Guarantees

The Credit Reform Act (CRA) of 1990, which became effective on October 1, 1991, has significantly changed the manner in which USAID's loan programs finance their activities. The main purpose of CRA was to more accurately measure the cost of Federal credit programs and to place the cost of such programs on a basis equivalent to other Federal spending. Consequently, commencing in FY 1992, the loan program's funding for activities changed so that activities are funded through direct appropriation provided for that year only, rather than through cumulative appropriations granted in prior years and accumulated under the Revolving Fund.

For USAID's loan guarantee programs, when guarantee commitments are made, the program records a guarantee reserve in the program account. This reserve is based on the present value of the estimated net cash outflows to be paid by the program as a result of the loan guarantees, except for administrative cost, less the net present value of all revenues to be generated from those guarantees. When the loans are disbursed, the program transfers from the program account to the financing account the amount of the subsidy cost related to those loans. The amount of the subsidy cost transferred, for a given loan, is proportionate to the amount of the total loan disbursed.

For loan guarantees made before the CRA, liabilities for loan guarantees for pre-1992 loans represent unfunded liabilities. Footnote 5 presents the unfunded amounts separate from the post-1991 liabilities. The amount of unfunded liabilities also represents a future funding requirement to USAID. The liability is calculated using a reserve methodology that is similar to OMB prescribed method for post-1991 loan guarantees.

O. Annual, Sick, and Other Leave

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

P. Retirement Plans and Post Employment Benefits

USAID employees are covered by one of four retirement plans. There are two Civil Service plans, the Civil Service Retirement System (CSRS) and Federal Employees Retirement System (FERS); and two Foreign Service plans, the Foreign Service Retirement and Disability System (FSRDS) and Foreign Services Pension System (FSPS).

USAID FY 2002 FOOTNOTE TO THE FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The Agency contributes approximately 7.5 percent of an employee's gross salary for CSRS and FSRDS, and approximately 24 percent of an employee's gross salary for FERS and FSPS.

Employees may elect to participate in the Thrift Savings Plan (TSP). Under this plan, FERS and FSPS employees may elect to have up to 12 percent, but not to exceed $11,000, of gross earnings withheld from their salaries and receive matching contributions from a minimum of one percent to a maximum of 5 percent. CSRS and FSRDS employees may elect to have up to 7 percent of gross earnings withheld from their salaries, but they do not receive matching contributions.

USAID funds a portion of employee post employment benefits (PEB) and makes necessary payroll withholdings. It has no liability for future payments, nor is it responsible for reporting the assets, accumulated plan benefits, or unfunded liabilities, if any, applicable to its employees for these programs. Reporting of such amounts is the responsibility of the Office of Personnel Management and the Federal Retirement Thrift Investment Board. Current year operating expenses are charged for the full amount of employer PEB costs with the unfunded portion being charged to Other Revenue Sources-Imputed Financing in accordance with SFFAS Numbers 5 and 7.

Foreign Service National and Third County Nationals at overseas posts who were hired prior to January 1, 1984, may be covered under CSRS. Employees hired after that date are covered under a variety of local governmental plans in compliance with host country laws and regulations. In a limited number of cases where no plans are regulated by the host country or where such plans are inadequate, the employees are covered by a privately managed pension plan to conform to prevailing practices by employers.

The Foreign Service National Separation Pay Trust Fund (FSNSPTF) was established in 1991 by Public aw 102-138 to finance separation payments for eligible individuals, primarily Foreign Service Nationals employed by USAID. The FSNSPTF finances separation liabilities to employees who resign, retire, or lose their jobs due to a reduction-in-force; and is applicable only in those countries that, due to local law, require a lump sum voluntary payment based on years of service.

USAID FY 2002 FOOTNOTE TO THE FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Q. Net Position

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

- Unexpended appropriations are the portion of the appropriations represented by undelivered orders and unobligated balances.

- Cumulative results of operations are also part of net position. This account reflects the net difference between 1) expenses and losses and 2) financing sources, including appropriations, revenues and gains, since the inception of the activity.

R. Non-entity Assets

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

Program Costs

Program costs are presented on the Statement of Net Cost by Agency goal. The six Agency goals that support USAID objectives are:

- Broad-based economic growth and agricultural development encouraged
- Improve basic education
- Protect the global environment
- Stabilize world population and protect human health
- Strengthen democracy and good governance
- Save lives, reduce suffering associated with natural or man-made disasters, and reestablish conditions necessary for political and/or economic development

Mission-related program expenses by goal area are obtained from the Mission Accounting and Control system (MACS). USAID/Washington program expenses by goal area are obtained directly from Phoenix. A cost allocation model is used to distribute Management Bureau operating costs to specific goals. Expenses related to Credit Reform and revolving funds are directly applied to specific Agency goals based on their objectives. Trust funds and remaining operating expenses are allocated based on established program and operating ratios.

USAID FY 2002 FOOTNOTES TO THE FINANCIAL STATEMENTS
NOTE 2. FUND BALANCES WITH TREASURY (In Thousands)

Fund Balances with Treasury as of September 30, 2002 and 2001 consisted of the following:

Fund Balances	**2002**	**2001**
Trust Funds	$ 17,631	$ 14,429
Revolving Funds	948,819	1,012,026
Appropriated Funds	10,947,817	10,245,763
Other Funds	(16,295)	(57,811)
Total	$ 11,897,972	$ 11,214,407

Status of Fund Balance:

	2002	**2001**
Unobligated Balance		
Available	$ 2,264,796	$ 2,499,633
Unavailable	14,487	13,679
Obligated Balance Not Yet Disbursed	9,618,689	8,701,095
Total	$ 11,897,972	$ 11,214,407

As of September 30, 2002 there was a cash reconciliation difference of $45.1 million between USAID and the Department of Treasury's Fund Balances. The difference as of September 30, 2001 was $38 million. For FY 2002 and FY 2001 reporting purposes, USAID adjusted its fund balance downward by these differences to equal the Department of Treasury's fund balance. By adjusting USAID's fund balance to equal Treasury's fund balance, there is consistency between various published reports. Also, based on past experience, the Department of Treasury's balances are more accurate and the differences are usually cleared when USAID processes the required disbursements.

The $45.1 million cash reconciliation difference was posted to separate Fund Balance sub-accounts and the cash differences remain identified as such. USAID is currently performing a reconciliation of the $45.1 million total amount in these accounts and will make adjustments accordingly.

USAID FY 2002 FOOTNOTES TO THE FINANCIAL STATEMENTS
NOTE 3. ACCOUNTS RECEIVABLE, NET (In Thousands)

The primary components of USAID's accounts receivable as of September 30, 2002 and 2001 were as follows:

	Receivable Gross	Allowance Accounts	Receivable Net 2.002	Receivable Net 2.002
Entity				
Intragovernmental				
Appropriation Reimbursements from Federal Agencies	$ 334	N/A	$ 334	$ 202
Accounts Receivable from Federal Agencies	209	N/A	209	7,596
Disbursing Authority Receivable from USDA	495,826	N/A	495,826	415,779
Total Intragovernmental	496,369	N/A	496,369	423,577
Accounts Receivable	41,779	(11,987)	29,792	28,286
Total Entity	538,148	(11,987)	526,161	451,863
Total Non-Entity	**3,683**	**(2,359)**	**1,324**	**2,731**
Total Receivables	**$541,831**	**$ (14,346)**	**$ 527,485**	**$ 454,594**

Reconciliation of Uncollectible Amounts (Allowance Accounts)

	2002	2001
Beginning Balance	**$ 13,090**	**$ 11,463**
Additions	4,444	1,954
Reductions	(3,188)	(327)
Ending Balance	$ 14,346	$ 13,090

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

All other entity accounts receivable consist of amounts managed by missions or USAID/Washington. These receivables consist of non-program related receivables such as overdue advances, unrecovered advances, audit findings, and any interest related to these types of receivables. A 100 percent allowance for uncollectible amounts is estimated for governmental accounts receivable which are more that one year past due. Accounts receivable from missions are collected and recorded to the respective appropriation.

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

USAID FY 2002 FOOTNOTES TO THE FINANCIAL STATEMENTS
NOTE 4. ADVANCES AND PREPAYMENTS (In Thousands)

Advances and Prepayments as of September 30, 2002 and 2001 consisted of the following:

	2002	2001
Intragovernmental		
Advances to		
Federal Agencies	$46,527	$76,838
Total Intragovernmental	46,527	76,838
Advances to Contractors/Grantees	252,639	190,000
Travel Advances	2,240	3,920
Advances to Host Country Governments and Institutions	53,988	42,071
Prepayments	7,932	20,627
Advances, Other	12,963	13,619
Total Advances and Prepayments	$376,289	$347,075

Advances to Host Country Governments and Institutions represent amounts advanced by USAID missions to host country governments and other in-country organizations, such as educational institutions and voluntary organizations. Other Advances consist primarily of amounts advanced for living quarters and home service.

USAID FY 2002 FOOTNOTES TO THE FINANCIAL STATEMENTS
NOTE 5. CASH AND OTHER MONETARY ASSETS (In Thousands)

Cash and Other Monetary Assets as of September 30, 2002 and 2001 are as follows:

Cash and Other Monetary Assets	**2002**	**2001**
Imprest Fund- Headquarters	$0	$10
UE and Micro and Small Enterprise Fund Cash w/Fiscal Agent	50	50
Foreign Currencies	262,038	213,117
Total Cash and Other Monetary Assets	$262,088	$213,177

USAID has imprest funds in various overseas locations. These funds are provided by the Department of State overseas U.S. Disbursing Officers to which USAID is liable for any shortages. USAID's portion of the Department of State imprest funds provided to USAID was $4.1 million in FY 2002 and $3.8 million in FY 2001. These imprest funds are not included in USAID's Balance Sheet.

Foreign Currencies are related to Foreign Currency Trust Funds and this amounted to $262 million in FY 2002 and $213 million in FY 2001. USAID does not have any non-entity cash or other monetary assets.

USAID FY 2002 FOOTNOTES TO THE FINANCIAL STATEMENTS

NOTE 6. LOANS RECEIVABLE AND LIABILITIES FOR LOAN GUARANTEES (In Thousands)

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

Direct Loan Program (Direct Loan)
Urban and Environmental Program (UE)
Micro and Small Enterprise Development Program (MSED)
Ukraine Export Insurance Credit Program (Ukraine)
Israeli Loan Guarantee Program (Israeli Loan)
Development Credit Authority Program (DCA)

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

The Credit Reform Act of 1990 prescribes an alternative method of accounting for direct loans and guarantees resulting from obligations made after FY 1991. Subsidy cost, which is the net present value of the cash flows (i.e. interest rates, interest supplements, estimated defaults, fees, and other cash flows) associated with direct loans and guarantees, is required by the Act to be recognized as an expense in the year in which the direct loan or guarantee is disbursed. Subsidy cost is calculated by agency program offices prior to obligation using a model prescribed by the Office of Management and Budget (OMB). Subsidy relating to existing loans and guarantees is generally required to be reestimated on an annual basis to adjust for changes in risk and interest rate assumptions. Direct loans are reported net of an allowance for this subsidy cost (allowance for subsidy). The subsidy costs associated with loan guarantees are reported as loan guarantee liability.

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

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

USAID FY 2002 FOOTNOTES TO THE FINANCIAL STATEMENTS

NOTE 6. LOANS RECEIVABLE AND LIABILITIES FOR LOAN GUARANTEES (In Thousands) - Continued

Direct Loans

Direct Loans Obligated Prior to FY 1992 (Allowance for Loss Method) as of September 30, 2002:

Loan Programs	Loans Receivables Gross	Interest Receivable	Allowance For Loan Losses	Value of Assets Related to Direct Loans
Direct Loans	$ 8,843,329	$ 350,800	$ 3,428,309	$ 5,765,820
MSED	1,386	83	1,838	(369)
Total	$ 8,844,715	$ 350,883	$3,430,147	$ 5,765,451

Direct Loans Obligated Prior to FY 1992 (Allowance for Loss Method) as of September 30, 2001:

Loan Programs	Loans Receivables Gross	Interest Receivable	Allowance For Loan Losses	Value of Assets Related to Direct Loans
Direct Loans	$ 9,390,950	$ 348,328	$ 4,398,560	$ 5,340,718
MSED	1,488	74	2,280	(718)
Total	$ 9,392,438	$ 348,402	$ 4,400,840	$ 5,340,000

Direct Loans Obligated After FY 1991: as of September 30, 2002:

Loan Programs	Loans Receivables Gross	Interest Receivable	Allowance For Subsidy Cost (Present Value)	Value of Assets Related to Direct Loans
Direct Loans	$ 120,667	$ -	$ 186,673	$ (66,006)
MSED	311	25	468	(131)
Total	$ 120,979	$ 25	$ 187,141	$ (66,137)

Direct Loans Obligated After FY 1991 as of September 30, 2001:

Loan Programs	Loans Receivables Gross	Interest Receivable	Allowance For Subsidy Cost (Present Value)	Value of Assets Related to Direct Loans
Direct Loans	$ 176,058	$ -	$ 180,622	$ (4,564)
MSED	657	35	468	224
Total	$ 176,715	$ 35	$ 181,089	$ (4,340)

USAID FY 2002 FOOTNOTES TO THE FINANCIAL STATEMENTS

NOTE 6. LOANS RECEIVABLE AND LIABILITIES FOR LOAN GUARANTEES (In Thousands) – Continued

Total Amount of Direct Loans Disbursed

Direct Loan Programs	FY 2002	FY 2001
Direct Loans	$ 8,963,997	$ 9,567,008
MSED	1,697	2,144
Total	$ 8,965,694	$ 9,569,152

Subsidy Expense for Direct Loans by Program and Component:

Modifications and Reestimates (FY 2002)

Direct Loan Programs	Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates
Direct Loans	$ -	$ -	$ (3,618)	$ (3,618)
Total	$ -	$ -	$ (3,618)	$ (3,618)

Modifications and Reestimates (FY 2001)

Direct Loan Programs	Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates
Direct Loans	$ -	$ -	$ -	$ -
Total	$ -	$ -	$ -	$ -

Total Direct Loan Subsidy Expense

Direct Loan Programs	FY 2002	FY 2001
Direct Loans	$ (3,618)	$ -
Total	$ (3,618)	$ -

USAID FY 2002 FOOTNOTES TO THE FINANCIAL STATEMENTS

NOTE 6. LOANS RECEIVABLE AND LIABILITIES FOR LOAN GUARANTEES (In Thousands) - Continued

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

	FY 2002		
	Direct Loan	MSED	Total
Beginning Balance, Changes, and Ending Balance			
Beginning balance of the subsidy cost allowance	$ 180,622	$ 468	$ 181,089
Add: subsidy expense for direct loans disbursed during the reporting years by component:			
(a) Interest rate differential costs			
(b) Default costs (net of recoveries)			
(c) Fees and other collections			
(d) Other subsidy costs			
Total of the above subsidy expense components			
Adjustments:			
(a) Loan modifications	$ 6,627		$ 6,627
(b) Fees received			
(c) Foreclosed property acquired			
(d) Loans written off	(6,343)		(6,343)
(e) Subsidy allowance amortization	267		267
(f) Other	5,500		5,500
Ending balance of the subsidy cost allowance before reestimates	$ 186,673	$ 468	$ 187,141
Add or subtract subsidy reestimates by component:			
(a) Interest rate reestimate			
(b) Technical/default reestimate			
Total of the above reestimate components			
Ending balance of the subsidy cost allowance	$ 186,673	$ 468	$ 187,141

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

	FY 2001		
	Direct Loan	MSED	Total
Beginning Balance, Changes, and Ending Balance			
Beginning balance of the subsidy cost allowance	$ 162,471	$ 347	$ 162,817
Add: subsidy expense for direct loans disbursed during the reporting years by component:			
(a) Interest rate differential costs			
(b) Default costs (net of recoveries)			
(c) Fees and other collections			
(d) Other subsidy costs			
Total of the above subsidy expense components			
Adjustments:			
(a) Loan modifications	$ 20,967		$ 20,967
(b) Fees received			
(c) Foreclosed property acquired			
(d) Loans written off			
(e) Subsidy allowance amortization	(5,537)	121	(5,415)
(f) Other	2,721		2,721
Ending balance of the subsidy cost allowance before reestimates	$ 180,622	$ 468	$ 181,089
Add or subtract subsidy reestimates by component:			
(a) Interest rate reestimate			
(b) Technical/default reestimate			
Total of the above reestimate components			
Ending balance of the subsidy cost allowance	$ 180,622	$ 468	$ 181,089

USAID FY 2002 FOOTNOTES TO THE FINANCIAL STATEMENTS

NOTE 6. LOANS RECEIVABLE AND LIABILITIES FOR LOAN GUARANTEES (In Thousands) - Continued

Defaulted Guaranteed Loans

Defaulted Guaranteed Loans from Pre-1992 Guarantees (Allowance for Loss Method): FY 2002

	Loan Guarantee Programs	Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Allowance For Loan Losses	Value of Assets Related to Defaulted Guaranteed Loans Receivable, Nets
UE		$ 442,358	$ 70,485	$ 214,7	$ 298,139
	Total	$ 442,358	$ 70,485	$ 214,7	$ 298,139

Defaulted Guaranteed Loans from Pre-1992 Guarantees (Allowance for Loss Method): FY 2001

	Loan Guarantee Programs	Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Allowance For Loan Losses	Value of Assets Related to Defaulted Guaranteed Loans Receivable, Nets
UE		$ 425,258	$ 47,587	$ 275,3	$ 197,509
	Total	$ 425,258	$ 47,587	$ 275,3	$ 197,509

Defaulted Guaranteed Loans from Post-1991 Guarantees

In FY 2002, the UE Program experienced $6.5 million in defaults on payments, and the DCA Program experienced $.25 million in defaults
on payments on post-1991 guaranteed loans.
In FY 2001, the UE Program experienced $2.9 million in defaults on payments on post-1991 guaranteed loans.

Guaranteed Loans Outstanding:

Guaranteed Loans Outstanding (FY 2002):

	Loan Guarantee Programs	Outstanding Principal, Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
UE		$ 2,093,798	$ 2,093,798
MSED		115,700	58,150
Israel		9,206,027	9,206,027
DCA		297,620	106,110
	Total	$ 11,713,145	$ 11,464,085

USAID FY 2002 FOOTNOTES TO THE FINANCIAL STATEMENTS

NOTE 6. LOANS RECEIVABLE AND LIABILITIES FOR LOAN GUARANTEES (In Thousands) - Continued

Guaranteed Loans Outstanding (FY 2001):

Loan Guarantee Programs	Outstanding Principal, Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
UE	$ 2,160,006	2,160,006
MSED	118,650	59,325
Israel	9,226,200	9,226,200
DCA	135,750	63,025
Total	$ 11,640,606	$ 11,508,556

New Guaranteed Loans Disbursed (FY 2002):

Loan Guarantee Programs	Outstanding Principal, Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
UE	$ 21,500	$ 21,500
MSED	9,000	4,500
DCA	38,420	19,210
Total	$ 68,920	$ 45,210

New Guaranteed Loans Disbursed (FY 2001):

Loan Guarantee Programs	Outstanding Principal, Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
DCA	$ 23,156	$ 11,578
Total	$ 23,156	$ 11,578

USAID FY 2002 FOOTNOTES TO THE FINANCIAL STATEMENTS

NOTE 6. LOANS RECEIVABLE AND LIABILITIES FOR LOAN GUARANTEES (In Thousands) – Continued

Liability for Loan Guarantees (Estimated Future Default Claims for pre-1992 guarantees)
As of September 30, 2002:

Loan Guarantee Programs	Liabilities for Losses on Pre-1992 Guarantees, Estimated Future Default Claims	Liabilities for Loan Guarantees for Post-1991 Guarantees, Present Value	Total Liabilities for Loan Guarantees
UE	$ 328,083	$ 58,315	$ 386,399
MSED	-	(431)	(431)
Israel	-	665,267	665,267
DCA	-	(2,484)	(2,484)
Total	$ 328,083	$ 720,668	$ 1,048,751

Liability for Loan Guarantees (Estimated Future Default Claims for pre-1992 guarantees)
As of September 30, 2001:

Loan Guarantee Programs	Liabilities for Losses on Pre-1992 Guarantees, Estimated Future Default Claims	Liabilities for Loan Guarantees for Post-1991 Guarantees, Present Value	Total Liabilities for Loan Guarantees
UE	$ 465,765	$ 74,945	$ 540,709
MSED	-	289	289
Israel	-	626,050	626,050
DCA	-	188	188
Total	$ 465,765	$ 701,471	$ 1,167,236

USAID FY 2002 FOOTNOTES TO THE FINANCIAL STATEMENTS

NOTE 6. LOANS RECEIVABLE AND LIABILITIES FOR LOAN GUARANTEES (In Thousands) - Continued

Subsidy Expense for Loan Guarantees by Program and Component:

Subsidy Expense for New Loan Guarantees (FY 2002):

Loan Guarantee Programs	Interest Supplements	Defaults	Fees and Other Collections	Other	Total
UE	$ -	$ 1,613	$ (114)	$ -	$ 1,499
DCA	-	1,125	(285)	-	839
Total	$ -	$ 2,737	$ (399)	$ -	$ 2,338

Subsidy Expense for New Loan Guarantees (FY 2001):

Loan Guarantee Programs	Interest Supplements	Defaults	Fees and Other Collections	Other	Total
DCA	$ -	$ 1,021	$ (321)	$ -	$ 700
Total	$ -	$ 1,021	$ (321)	$ -	$ 700

Modifications and Reestimates (FY 2002):

Loan Guarantee Programs	Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates
UE	$ -	$ 2,080	$ 7,257	$ 9,337
MSED	-	(1,324)	2,078	754
Total	$ -	$ 756	$ 9,335	$ 10,091

Modifications and Reestimates (FY 2001):

Loan Guarantee Programs	Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates
UE	$ -	$ 612	$ 3,538	$ 4,150
MSED	-	1,470	(963)	508
Total	$ -	$ 2,083	$ 2,575	$ 4,658

USAID FY 2002 FOOTNOTES TO THE FINANCIAL STATEMENTS
NOTE 6. LOANS RECEIVABLE AND LIABILITIES FOR LOAN GUARANTEES
(In Thousands) - Continued

Total Loan Guarantee Subsidy Expense:

Loan Guarantee Programs	FY 2002	FY 2001
DCA	$ 839	$ 700
UE	10,835	4,150
MSED	754	508
Total	$ 12,429	$ 5,358

Subsidy Rates for Loan Guarantees by Program and Component:

Budget Subsidy Rates for Loan Guarantees for the Current Year's Cohorts:

Loan Guarantee Programs	Interest Supplements (%)	Defaults (%)	Fees and Other Collections (%)	Other (%)
DCA	-	2.96%	(0.75)%	-

Schedule for Reconciling Loan Guarantee Liability Balances
(Post-1991 Loan Guarantees)

	FY 2002			
	DCA	MSED	UE	Israel
Beginning Balance, Changes, and Ending Balance				
Beginning balance of the loan guarantee liability	$ 212	$ 289	$ 74,945	$ 626,050
Add: subsidy expense for guaranteed loans disbursed reporting years by component:				
(a) Interest supplement costs				
(b) Default costs (net of recoveries)	839		1,499	
(c) Fees and other collections				
(d) Other subsidy costs	-	-	-	
Total of the above subsidy expense components	$ 839	$ -	$ 1,499	$ -
Adjustments:				
(a) Loan guarantee modifications				
(b) Fees received			2,673	

USAID FY 2002 FOOTNOTES TO THE FINANCIAL STATEMENTS
NOTE 6. LOANS RECEIVABLE AND LIABILITIES FOR LOAN GUARANTEES
(In Thousands) - Continued

Schedule for Reconciling Loan Guarantee Liability Balances
(Post-1991 Loan Guarantees)

	FY 2001			
	DCA	MSED	UE	Israel
Beginning Balance, Changes, and Ending Balance				
Beginning balance of the loan guarantee liability	$ 103	$ 2,633	$ 65,507	$ 586,629
Add: subsidy expense for guaranteed loans disbursed reporting years by component:				
(a) Interest supplement costs				
(b) Default costs (net of recoveries)				
(c) Fees and other collections				
(d) Other subsidy costs	700			
Total of the above subsidy expense components	$ 700	$ -	$ -	$ -
Adjustments:				
(a) Loan guarantee modifications				
(b) Fees received	$ 159	$ 201	$ 2,499	
(c) Interest supplements paid				
(d) Foreclosed property and loans acquired				
(e) Claim payments to lenders			(2,935)	
(f) Interest accumulation on the liability balance		19	4,919	39,421
(g) Other	(0)	(2,038)	9,262	
Ending balance of the loan guarantee liability before reestimates	$ 962	$ 815	$ 79,253	$ 626,050
Add or subtract subsidy reestimates by component:				
(a) Interest rate reestimate		1,690	(15,484)	
(b) Technical/default reestimate	(750)	(2,216)	11,176	
Total of the above reestimate components	$ (750)	$ (526)	$ (4,308)	$ -
Ending balance of the loan guarantee liability	$ 212	$ 289	$ 74,945	$ 626,050

Administrative Expense

Loan Programs	FY 2002	FY 2001
DCA	$ 3,066	$ 3,083
UE	1,156	548

USAID FY 2002 FOOTNOTES TO THE FINANCIAL STATEMENTS
NOTE 6. LOANS RECEIVABLE AND LIABILITIES FOR LOAN GUARANTEES (In Thousands) - Continued

Other Information

1 Allowance for Loss for Liquidating account (pre-Credit Reform Act) receivables have been calculate accordance with OMB guidance using a present value method which assigns risk ratings to receivabl upon the country of debtor. Thirteen countries are in violation of Section 620q of the Foreign Assista (FAA), owing $87.2 million that is more than six months delinquent. Eleven countries are in violatio Brooke-Alexander Amendment to the Foreign Operations Export Financing and Related Programs Appropriations Act, owing $486 million that is more than one year delinquent. Outstanding direct loa receivable for countries in violation of Section 620q totaled $76.5 million. Outstanding direct loans r for countries in violation of the Brooke Amendment totaled $432.9 million.

2 The MSED Liquidating Account general ledger has a loan receivable balance of $1.4 million. This in loans pending closure. These loans are being carried at 100% bad debt allowance.

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

4 For FY 2002, USAID used a net present value model, pursuant to OMB guidance, to calculate liquid bad debt accruals. The FY 2002 accruals derived from this model , and the resulting allowance balan follows:

Program Allowance		FY 2002 Accrual		FY 2
Direct Loan Program loans receivable	$	(869,853)	$	
UE Program estimated loan guarantee defaults	$	(182,027)	$	

Because this model was not available in FY 2001, an alternative methodology was used. Had this mo available, the FY 2001 allowances would have been as follows:

Program Allowance		FY 2001 Balance
Direct Loan Program loans receivable	$	2,992,102
UE Program estimated loan guarantee defaults	$	308,642

USAID FY 2002 FOOTNOTES TO THE FINANCIAL STATEMENTS
NOTE 7. INVENTORY AND RELATED PROPERTY (In Thousands)

USAID's Inventory and Related Property is comprised of Operating Materials and Supplies. Operating Materials and Supplies as of September 30, 2002 and 2001 are as follows:

	2002	2001
Items Held for Use		
Office Supplies	$8,691	$7,225
Items Held in Reserve for Future Use		
Disaster assistance materials and supplies	5,909	7,478
Birth control supplies	5,641	11,396
Total	$20,241	$26,099

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

USAID FY 2002 FOOTNOTES TO THE FINANCIAL STATEMENTS
NOTE 8. GENERAL PROPERTY, PLANT AND EQUIPMENT, NET (In Thousands)

The components of PP&E at September 30, 2002 were:

	Useful Life	Cost	Accumulated Depreciation	Net Book Value
Classes of Fixed Assets				
Equipment	3 to 5 years	$40,631	($27,988)	$12,643
Buildings, Improvements, & Renovations	20 years	41,557	(18,671)	22,886
Land and Land Rights	N/A	4,056	-	4,056
Assets Under Capital Lease		7,081	(958)	6,123
Construction in Progress	N/A	647	-	647
Internal Use Software		10,526	(2,432)	8,094
Total		$104,498	($50,049)	$54,449

The components of PP&E at September 30, 2001 were:

	Useful Life	Cost	Accumulated Depreciation	Net Book Value
Classes of Fixed Assets				
Equipment	3 to 5 years	$37,390	($25,912)	$11,478
Buildings, Improvements, & Renovations	20 years	37,060	(15,887)	21,173
Land and Land Rights	N/A	4,056	-	4,056
Assets Under Capital Lease		3,399	(424)	2,975
Construction in Progress	N/A	-	-	-
Internal Use Software	5 years	6,323	(632)	5,691
Total		$88,228	($42,855)	$45,373

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

For FY 2002, USAID capitalization criteria for assets was $25,000 except for internal use software. The capitalization criteria for internal use software was $300,000. Assets meeting these criteria are depreciated using the half-year straight line depreciation method.

Equipment consists primarily of electric generators, ADP hardware, vehicles and copiers located at the overseas field missions.

USAID FY 2002 FOOTNOTES TO THE FINANCIAL STATEMENTS
NOTE 8. GENERAL PROPERTY, PLANT AND EQUIPMENT, NET (In Thousands) Continued

Structures and Facilities include USAID owned office buildings and residences at foreign missions, including the land on which these structures reside. These structures are used and maintained by the field missions. USAID does not separately report the cost of the building and the land on which the building resides.

Land consists of property owned by USAID in foreign countries. Usually the land is purchased with the intention of constructing an office building at the site.

USAID FY 2002 FOOTNOTES TO THE FINANCIAL STATEMENTS
NOTE 9. LEASES (In Thousands)

Leases as of September 30, 2002 and 2001 consisted of the following:
Entity as Lessee:

CAPITAL LEASES:	2002	2001
Summary of Assets Under Capital Lease:		
Buildings	$7,081	$3,399
Accumulated Depreciation	958	424
Future Payments Due:		

Fiscal Year	Future Costs	Future Costs
2002	N/A	$2,411
2003	$1,185	1,185
2004	567	567
2005	144	144
2006 -	-	-
2007 -	-	N/A
After 5 Years	-	
Net Capital Lease Liability	$1,896	$4,307
Lease Liabilities Covered by Budgetary Resources	$1,896	$4,307
Lease Liabilities Not Covered by Budgetary Resources	-	-

The capital lease liability is reported on USAID's Balance Sheet under Other Liabilities.

Operating Leases:	2002	2001

Future Payments Due:

Fiscal Year	FUTURE COSTS	Future Costs
2002	N/A	$70,090
2003	$70,470	65,182
2004	66,525	62,977
2005	64,486	58,538
2006	59,155	57,006
2007	58,091	N/A
After 5 Years	254,747	184,754
Total Future Lease Payments	$573,474	$498,547

USAID FY 2002 FOOTNOTES TO THE FINANCIAL STATEMENTS
NOTE 9. LEASES (In Thousands) Continued

Of the $573 million in future lease payments, $421 million is attributable to the Ronald Reagan Building in Washington D.C., USAID's headquarters. This building is leased by the General Services Administration (GSA). USAID is charged rent intended to approximate commercial rental rates. Lease payments for FY 2002 and 2001 amounted to $33 million and $32.8 million respectively. An approximate increase of 9.8% will take effect in FY 2003. The remaining $152 million relates to other USAID Washington activity and mission related operating leases.

USAID FY 2002 FOOTNOTES TO THE FINANCIAL STATEMENTS
NOTE 10. ACCOUNTS PAYABLE (In Thousands)

The Accounts Payable covered by budgetary resources as of September 30, 2002 and 2001 consisted of the following:

	2002	**2001**
Intragovernmental		
Accounts Payable	$69,572	$35,496
Disbursements in Transit	-	-
Total Intragovernmental	69,572	35,496
Accounts Payable	1,101,961	1,160,263
Disbursements in Transit	-	11
Total Accounts Payable	$1,171,533	$1,195,770

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

All other Accounts Payable represents liabilities to other non-federal entities

USAID FY 2002 FOOTNOTES TO THE FINANCIAL STATEMENTS
NOTE 11. DEBT (In Thousands)

USAID Intragovernmental debt as of September 30, 2002 and 2001 consisted of the following borrowings from Treasury for post-1991 loan programs, which is classified as other debt:

	2001 Beginning Balance	Net Borrowing	2001 Ending Balance	Net Borrowing	2002 Ending Balance
Urban & Environmental	$ -	$ -	$ -	$ -	$ -
Direct Loan	114,772	(51,957)	62,815	(47,255)	15,560
MSED	1,713	-	1,713	(529)	1,184
Total Debt	$116,485	($51,957)	$64,528	($47,784)	$16,744

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

The above disclosed debt is principal payable to Treasury, which represents financing account borrowings from the Treasury under the Credit Reform Act. In addition, there is net liquidating account equity in the amount of $5.9 billion, which under the Credit Reform Act is required to be recorded as Due to Treasury. Both of these accounts are used exclusively for credit reform activity. All debt shown is intragovernmental debt.

USAID FY 2002 FOOTNOTES TO THE FINANCIAL STATEMENTS
NOTE 12. OTHER LIABILITIES (In Thousands)

As of September 30, 2002 and 2001 Other Liabilities consisted of the following:

Intragovernmental	**2002**	**2001**
OPAC Suspense	($2,901)	($35,876)
Deposit and Clearing Accounts	2,030	3,578
Unfunded FECA Liability	6,421	7,416
Other	44,703	55,754
Total Intragovernmental	50,253	30,872
Accrued Funded Payroll/Benefits	4,841	11,746
Deferred Credit	1,692	1,793
Liability for Deposit Funds and Suspense Accounts – Non-Entity	3,044	(100)
Foreign Currency Trust Fund	262,038	213,116
Trust Fund Balances	17,424	14,388
Unfunded Leave	26,696	25,490
Capital Lease Liability	1,896	-
Other	4	4
Total Other Liabilities	$367,888	$297,309

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

USAID FY 2002 FOOTNOTES TO THE FINANCIAL STATEMENTS
NOTE 13. ACCRUED UNFUNDED ANNUAL LEAVE AND SEPARATION PAY (In Thousands)

Accrued unfunded benefits for annual leave and separation pay as of September 30, 2002 and 2001 are:

	2002	2001
Liabilities Not Covered by Budgetary Resources		
Accrued Annual Leave	$26,291	$25,485
FSN Separation Pay Liability	405	5
Total Accrued Unfunded Annual Leave and Separation Pay	$26,696	$25,490

USAID FY 2002 FOOTNOTES TO THE FINANCIAL STATEMENTS
NOTE 14. ACCRUED UNFUNDED WORKERS' COMPENSATION BENEFITS (In Thousands)

The provision for workers' compensation benefits payable, as of September 30, 2002 and 2001 are as follows:

	2002	2001
Liabilities Not Covered by Budgetary Resources		
Accrued Unfunded Workers' Compensation	$6,421	$7,416
Future Workers' Compensation Benefits	28,251	30,905
Total Accrued Unfunded Workers Compensation Benefits	$34,672	$38,321

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

USAID's total FECA liability is $34.7 million as of September 30, 2002 and comprises of unpaid FECA billings for $6.4 million and estimated future FECA costs of $28.3 million.

For FY 2001, USAID's total FECA liability was $38.3 million and comprised of unpaid FECA billings for $7.4 million and estimated future FECA costs of $30.9 million.

Estimated future FECA costs are determined by the Department of Labor. This liability is determined using a paid losses extrapolation method calculated over a 37 year period. This method utilizes historical benefit payment patterns related to a specific incurred period to predict the ultimate payments related to that period. These annual benefit payments have been discounted to present value. The interest rate assumptions used for discounting were 5.50% in year 1 and year 2, 5.55% in year 3, and 5.60% in year 4 and thereafter.

The decrease of $2.6 million for Future Workers' Compensation Benefits is shown as a financing source yet to be provided on the Statement of Financing.

USAID FY 2002 FOOTNOTES TO THE FINANCIAL STATEMENTS
NOTE 15. COMMITMENTS AND CONTINGENCIES

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

USAID is involved in a group of cases before the US Court of Federal Claims which disputes appropriate indirect cost rates to be charged where contract rates do not match Negotiated Indirect Cost Rate Agreement (NICRA) rates. It is reasonably possible that USAID might lose this case. Any adverse judgment would likely be paid out of the Department of Treasury's Judgment Fund, but then be reimbursed by the Agency. In this case the amounts claimed are $2.2 million, exclusive of Equal Access to Justice Fees. To date, discovery has officially concluded on one of the cases in this group. Agreement was not reached during settlement discussions, and dispositive motions were filed by both parties. The Court entered summary judgment in favor of the Government. The Government expects the plaintiff to appeal the lower court's ruling to the Federal Circuit.

USAID settled a case before the Armed Service Board of Contract Appeals to dispute a matter related to fair opportunity to compete an indefinite quantity, multiple award, task order contract for advisory services, technical assistance, and training in the area of sustainable urban management.

USAID FY 2002 FOOTNOTES TO THE FINANCIAL STATEMENTS
NOTE 16. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES (In Thousands)

Liabilities not covered by budgetary resources as of September 30, 2002 and 2001 are as follows:

	2002	**2001**
Contingent Liabilities for Loan Guarantees	$328,083	$465,765
Accrued Unfunded Annual Leave and Separation Pay	26,696	25,490
Accrued Unfunded Workers Compensation Benefits	34,672	38,321
Total Liabilities not covered by Budgetary Resources	389,451	529,576
Total Liabilities covered by Budgetary Resources	8,102,891	7,504,634
Total Liabilities	$8,492,342	$8,034,210

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

USAID FY 2002 FOOTNOTES TO THE FINANCIAL STATEMENTS
NOTE 17. TOTAL COST AND EARNED REVENUE BY BUDGET FUNCTIONAL CLASSIFICATION
(In Thousands)

Total Cost and Earned Revenue by Budget Functional Classification, as of September 30, 2002 are as follows:

Function Classification	Gross Cost	Earned Revenue	Net Cost
International Development and Humanitarian Assistance- 151	$5,176,694	($81,359)	$5,095,335
International Security Assistance- 152	2,935,308	(158,914)	2,776,394
Conduct of Foreign Affairs- 153	44,880	-	44,880
Federal Employee Retirement and Disability- 602	750	-	750
Total	$8,157,632	($240,273)	$7,917,359

Total Cost and Earned Revenue by Budget Functional Classification, as of September 30, 2001 are as follows:

Function Classification	Gross Cost	Earned Revenue	Net Cost
International Development and Humanitarian Assistance- 151	$4,722,391	($81,653)	$4,640,738
International Security Assistance- 152	2,302,752	(350)	2,302,402
Conduct of Foreign Affairs- 153	44,489	-	44,489
Federal Employee Retirement and Disability- 602	1,906	-	1,906
Total	$7,071,538	($82,003)	$6,989,535

USAID FY 2002 FOOTNOTES TO THE FINANCIAL STATEMENTS
NOTE 18. PRIOR PERIOD ADJUSTMENTS

Two prior period adjustments were made in FY 2002.

The Department of Treasury advised USAID and the Department of Agriculture on new guidelines for recording transfers from the Department of Agriculture's Commodity Credit Corporation. Since the transfer of funds is not a transfer of appropriated funds, the Unexpended Appropriation Net Position account 3100 should not be used. An adjustment of $483,707,031.18 for changes in accounting principles was made to reduce the Unexpended Appropriation balance via posting to account 3109 Unexpended Appropriations - Prior Year Adjustments and to account 7400 Prior Period Adjustment - Not Restated. This adjustment does not have an effect on the Agency's net position.

A credit adjustment of $190,041.25 was made during FY 2002 to the Micro and Small Enterprise Development financing fund to correct an equity posting error that occurred in FY 2001. This adjustment does not have a material effect on the Agency's net position.

Three prior period adjustments were made in FY 2001 involving credit program funds.
Reversals of accrued year-end FY 2000 re-estimated subsidy liabilities in the Micro and Small Enterprise Development program fund for $1,143,000 and also in the Urban and Environmental program fund for $9,897,000 were made. These amounts had already been closed to cumulative results of operations as part of the FY 2000 year-end closing process. FY 2001 adjustments for upward re-estimates of subsidy liability are reflected in year-end account balances for future funded expenses. Future funded expenses are closed to cumulative results of operations at year-end.

An adjustment for $242,211 was made to establish unfunded annual leave in the Development Credit Authority (DCA) program fund. In previous years, unfunded annual leave was recorded in the Urban and Environmental (UE) program fund.

USAID FY 2002 FOOTNOTES TO THE FINANCIAL STATEMENTS
NOTE 19. STATEMENT OF BUDGETARY RESOURCES (In Thousands)

A. Apportionment Categories of Obligations Incurred:

	2002*	2001
Category A, Direct	$1,352,128	$600,374
Category B, Direct	7,556,091	6,158,155
Category A, Reimbursable	9,921	12,112
Category B, Reimbursable	168,589	33,397
Total	$9,086,729	$6,804,038

* 2002 includes allocations from other agencies, which were not included in 2001.

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

Borrowing authority for FY 2002 was $464,645 for Credit Financing Activities. There was no borrowing authority in FY 2001.

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

C. Adjustments to Beginning Balance of Budgetary Resources:

A difference exists between the FY 2001 Ending Obligated Balance and the FY 2002 Beginning Obligated Balance. This difference exists due to the exclusion of 6 appropriations (0091, 0113, 0535, 1075, 1154, and 4336) from USAID's FY 2002 Statement of Budgetary Resources that were allocated from other Federal agencies. The parent agencies include these funds in their Statement of Budgetary Resources.

The amounts related to other agency activity as of September 30, 2002 were as follows:

Ending Balance, per FY 2001 Financial Statements:	$9,223,430
Less: Transferred Funds	(321,673)
Beginning Balance, per FY 2002 Financial Statements:	$8,901,757

USAID FY 2002 FOOTNOTES TO THE FINANCIAL STATEMENTS
NOTE 19. STATEMENT OF BUDGETARY RESOURCES (In Thousands) – Continued

D. Permanent Indefinite Appropriations:

USAID has permanent indefinite appropriations relating to specific Credit Reform Program and Liquidating appropriations. USAID is authorized permanent indefinite authority for Credit Reform Program appropriations for subsidy reestimates, and Credit Reform Liquidating appropriations for potential claims in excess of funds availability. Both are authorized under the Credit Reform Act of 1990.

E. Legal Arrangements Affecting the Use of Unobligated Balances:

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

USAID FY 2002 FOOTNOTES TO THE FINANCIAL STATEMENTS
NOTE 20. STATEMENT OF BUDGETARY RESOURCES - OTHER INFORMATION

Beginning in the 2002 Fiscal Year, changes were made to present USAID's Statement of Budgetary Resources (SBR) information consistent with the Budget of the United States Government. Allocated appropriations from other federal agencies were excluded from the face of the SBR and allocated appropriations to other federal agencies were included in the statement. This is a departure from prior years, where allocations to and from other federal agencies were regarded as differences between the Budget of the United States Government and the SBR and disclosed in a footnote.

USAID has identified $69.5 million cumulative remaining balance of undelivered orders (unliquidated obligations) for Washington managed funds that may be in excess of amounts required under these obligations. These amounts will need to be reviewed for possible deobligation in FY 2003.

USAID FY 2002 FOOTNOTES TO THE FINANCIAL STATEMENTS
NOTE 21. STATEMENT OF FINANCING - OTHER

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

A portion of net increase in contingent liabilities for loan guarantees from FY 2001 includes the $22,947,070.20 for credit subsidy expense reestimates requiring resources in future periods which is shown on the Statement of Financing. Accrued Unfunded Annual leave on the balance sheet is shown as a cumulative balance, with the current period changes of $1,205,919.24. This increase is shown on the Statement of Financing as a change in components requiring resources in future periods. Increase in exchange revenue from the Public includes current-period increases in Accrued Unfunded Workers Compensation Benefits of $3,648,531.20, which is shown as liabilities not covered by budgetary resources, with other non-related expenses that require future resources.

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

In order to reconcile to Budget of the United States Government, appropriations that are transferred from other Federal Agencies to USAID are not shown on the Statement of Budgetary Resources, but are shown on the Balance Sheet and Statement of Net Cost. Appropriations that are transferred to other agencies are shown on the Statement of Budgetary Resources, but are not shown on the Balance Sheet or the Statement of Net Cost. Below is a reconciliation of obligations and spending authority from offsetting collections between the Statement of Budgetary Resources and the Statement of Financing.

Net Obligations Per Statement of Budgetary Resources		9,086,729
Less: Transfers to Other Agencies		
Dept of State	(698,049)	
Independent Agencies	(447)	
Nuclear Regulatory Commission	(3,394)	(701,890)
Add: Transfers from Other Agencies		
Dept of State	211,500	
Dept of Agriculture	606,276	
Dept of State	884	
Executive Office of the President	400	
Other	167	819,227
Net Obligations Per Statement of Financing		9,204,066

USAID FY 2002 FOOTNOTES TO THE FINANCIAL STATEMENTS
NOTE 21. STATEMENT OF FINANCING - OTHER – Continued

Spending Authority from Offsetting Collections Per Statement of Budgetary Resources		1,147,155
Less: Transfers to Other Agencies		
Dept of State	(3,948)	
Other	45	(3,903)
Add: Allocations from Other Agencies		
Executive Office of the President	400	400
Spending Authority from Offsetting Collections Per Statement of Financing		1,143,652

This page intentionally left blank

U.S. Agency for International Development
REQUIRED SUPPLEMENTARY INFORMATION: STATEMENT OF BUDGETARY RESOURCES
For the period ended September 30, 2002

	Program						Operating	Credit Financing	Other	Allocations to Other Agencies	Consolidated Total
	1010	1021	1035	1037	1093	1095	1000				
Budget Authority	427,094	1,188,719	421,251	3,004,914	640,082	1,443,905	582,789	468	277,189	707,358	9,974,228
Unobligated Balances - Beginning of Period	142,702	142,780	14,023	882,125	287,234	50,355	32,289	796,958	228,111	98,469	2,660,026
Spending Authority from Offsetting Collections	601	18,110	3	158,181	26	3,851	7,985	110,840	840,335	3,803	1,147,158
Recoveries of Prior-Year Obligations	8,969	31,780	10,676	9,891	18,821	2,836	17,944	5,804	13,765	17,383	134,229
Temporarily Not Available Pursuant to Public Law	-	-	-	-	-	-	-	-	-	-	-
Permanently Not Available	(9,124)	(17,157)	(29)	(10,254)	(15,626)	(10,091)	(450)	(46,249)	(918,240)	(6,636)	(1,035,646)
Total Budgetary Resources	570,263	1,332,572	445,924	4,018,387	960,817	1,489,434	640,412	815,818	441,317	820,088	11,481,192
Status of Budgetary Resources:											
Obligations Incurred	469,806	1,185,663	391,996	3,388,591	683,411	1,421,915	605,070	74,639	284,739	701,890	9,088,729
Unobligated Balances - Available	107,605	143,019	53,928	687,871	244,887	68,519	34,231	750,076	158,181	85,368	2,337,685
Unobligated Balances - Unavailable	1,862	3,880	-	1,688	3,189	-	1,122	8,803	1,237	38,619	57,878
Total, Status of Budgetary Resources	570,263	1,332,572	445,924	4,018,387	960,817	1,489,434	640,412	815,818	441,317	820,088	11,481,192
Relationship of Obligations to Outlays:											
Obligated Balance, Net, Beginning of Period	604,235	2,382,365	353,914	2,548,133	586,180	1,265,365	188,550	14,665	387,064	159,707	8,961,157
Obligated Balance, Transferred, Net	-	-	-	-	-	-	-	-	-	-	-
Obligated Balance, Net, End of Period	574,033	2,306,543	326,383	3,286,802	624,116	1,663,627	187,684	20,668	260,614	244,319	9,488,890
Outlays:											
Disbursements	492,042	1,208,872	406,852	3,036,020	668,476	1,022,679	604,138	67,893	412,404	616,017	8,608,169
Collections	(601)	(9,054)	(3)	(169,181)	(26)	(2,201)	(8,013)	(129,868)	(843,334)	(10,079)	(1,169,150)
Less: Offsetting Receipts	-	-	-	-	-	-	-	-	-	-	-
Net Outlays	491,441	1,199,818	406,849	2,866,839	668,450	1,020,478	596,125	(61,975)	(430,930)	605,938	7,349,088

MAJOR FUNDS

Program Fund

1010	Special Assistance Initiatives
1021	Development Assistance
1035	International Disaster Assistance
1037	Economic Support Fund
1093	Assistance for the N.I.S. Of The Former Soviet Union
1095	Child Survival and Disease Programs Funds

Operating Fund

1000	Operating Expenses of USAID

Credit-Financing Funds

4119	Israel Guarantee Financing Fund
4137	Direct Loan Financing Fund
4266	DCA Financing Fund
4342	MSED Direct Loan Financing Fund
4343	MSED Guarantee Financing Fund
4344	UE Financing Fund
4345	Ukraine Financing Fund

OTHER FUNDS

Operating Funds

1007	Operating Expenses of USAID Inspector General
1036	Foreign Service Retirement and Disability Fund

Program Funds

1012	Sahel Development Program
1014	Africa Development Assistance
1015	Food and Nutrition Development Assistance
1024	Population and Planning & Health Dev. Asst.
1025	Education and Human Resources, Dev. Asst.
1027	Transition Initiatives
1028	Global Fund to Fight HIV / AIDS
1029	Central American Reconciliation Assistance
1040	Sub-Saharan Africa Disaster Assistance
1096	Latin American/Caribbean Disaster Recovery
1500	Demobilization and Transition Fund

Trust Funds

8342	Foreign Natl. Employees Separation Liability Fund
8502	Tech. Assist. - U.S. Dollar Advance from Foreign
8824	Gifts and Donations

OTHER FUNDS (cont'd)

Credit Program Funds

0400	MSED Program Fund
0401	UE Program Fund
0402	Ukraine Program Fund
1264	DCA Program Fund
4103	Economic Assistance Loans - Liquidating Fund
4340	UE Guarantee Liquidating Fund
4341	MSED Direct Loan Liquidating Fund
5318	Israel Admin Expense Fund

Revolving Funds

4175	Property Management Fund
4513	Working Capital Fund
4590	Acquisition of Property, Revolving Fund

ALLOCATIONS TO OTHER AGENCIES

1000	Operating Expenses of USAID
1010	Special Assistance Initiatives
1014	Africa Development Assistance
1021	Development Assistance
1027	Transition Initiatives
1032	Peacekeeping Operations
1035	International Disaster Assistance
1037	Economic Support Fund
1093	Assistance for the N.I.S. Of The Former Soviet Union
1095	Child Survival and Disease Programs Funds
1500	Demobilization and Transition Fund

U.S. Agency for International Development
REQUIRED SUPPLEMENTARY INFORMATION: INTRAGOVERNMENTAL AMOUNTS
As of September 30, 2002
(in thousands)

Intragovernmental assets:

Agency	Fund Balance with Treasury	Accounts Receivable, Net	Advances and Prepayments	Totals
Treasury	11,897,972	-	481	11,898,4 53
Dept of Agriculture	-	495,826	1,932	497,758
Dept of Commerce	-	-	18,604	18,604
Dept of State	-	-	12,298	12,298
Other	-	543	13,212	13,755
Total	11,897,972	496,369	46,527	12,440,8 68

Intragovernmental liabilities:

Agency	Due to Treasury	Accounts Payable	Debt	Other	Totals
Treasury	5,859,175	-	16,744	41,417	5,917,336
GSA	-	10,698	-	-	10,698
Dept of Agriculture	-	18,588	-	-	18,588
Dept of Labor	-	3,136	-	6,421	9,557
Dept of Health and Human Services	-	13,646	-	-	13,646
Other	-	23,504	-	2,415	25,919
Total	5,859,175	69,572	16,744	50,253	5,995,744