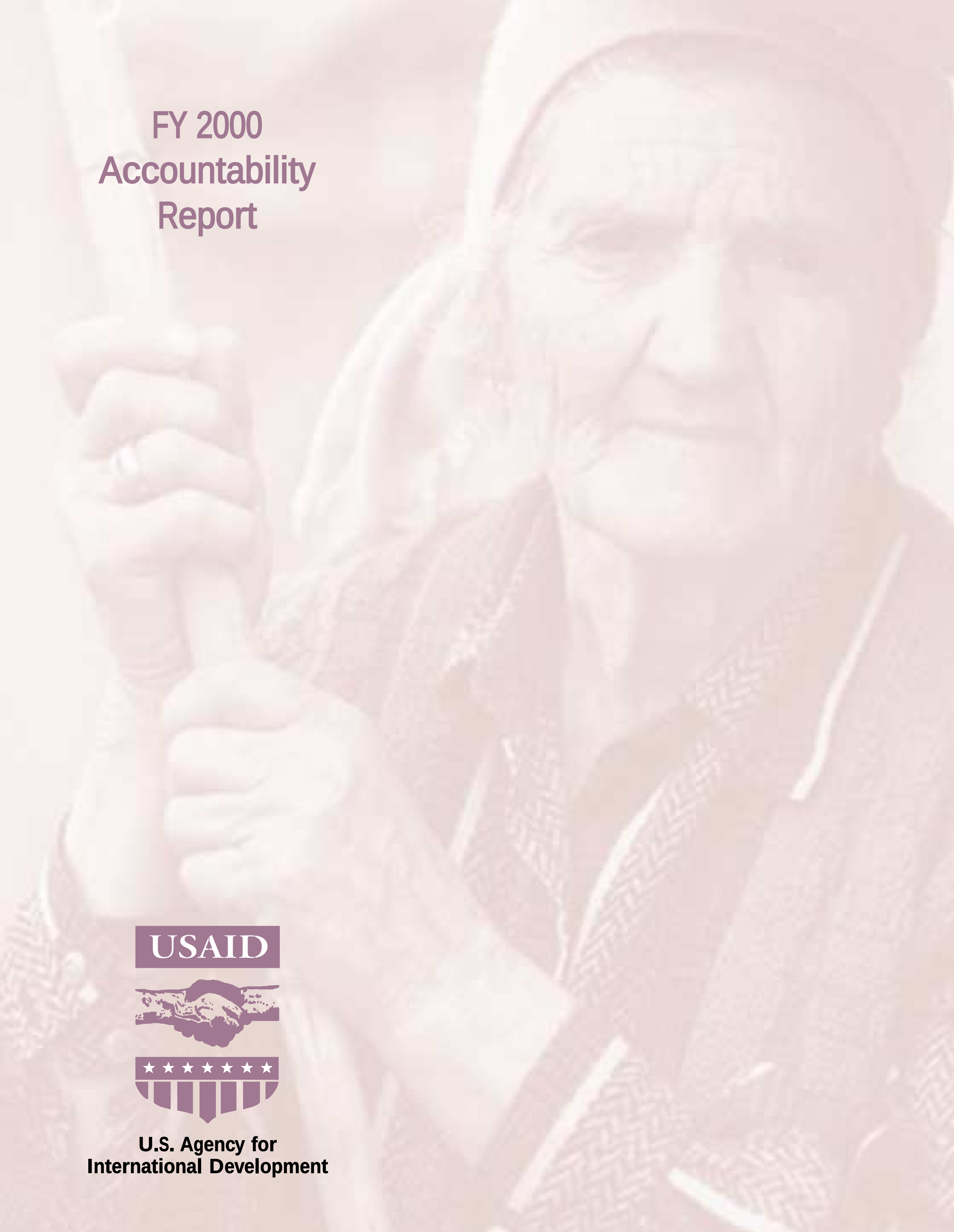
FY 2000 Accountability Report

U.S. Agency for International Development



FY 2000 Accountability Report

USAID

U.S. Agency for International Development

Foreword

The Fiscal Year (FY) 2000 Accountability Report is one of three reports the United States Agency for International Development (USAID) prepares annually to describe its financial position and the results of its operations. For FY 2000, the two other reports are the Agency's FY 2000 Performance Overview and its FY 2002 Budget Justification.

The focus of the Accountability Report is on the Agency's consolidated financial statements and the adequacy of its controls over the obligation and expenditure of budgetary resources. However, the Accountability Report also includes brief descriptions of USAID and the results of its operations during FY 2000, management's discussion and analysis of the Agency's financial and program performance, the Inspector General's reports on USAID's financial statements, internal controls and compliance, and USAID's plans to strengthen its financial systems. This additional information is intended to help the public, the Administration and the Congress assess management performance and stewardship. The Performance Overview and Budget Justification documents, on the other hand, provide detailed descriptions of the results achieved by USAID programs around the world at the country, operating unit and strategic objective levels.

Electronic copies of all three of these documents are available through the Agency's World Wide Web site: *www.usaid.gov*.

All comments regarding the content and presentation of this report are welcome. Comments may be addressed to:

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I am pleased to present the U.S. Agency for International Development's Accountability Report for fiscal year (FY) 2000.

In last year's Accountability Report, I said that we have solid success stories to tell that will convince people that foreign aid is a good thing they can support. In our reporting this year, we have tried to make our successes more apparent by focusing on the results achieved by our operating units at the field level, rather than the higher-level global goals included in our strategic plan.

On the ground, our successes range from Agency efforts in Malawi, which contributed to a 15% increase in rural incomes, to those that prevented outbreaks of major diseases in Honduras and Nicaragua following a devastating hurricane. They include, among others, those that enabled 45 grassroots organizations to participate in Sierra Leone's peace negotiations; increased primary school enrollments among young girls in Ethiopia, Malawi, Mali, South Africa, Peru and Guatemala; reduced maternal mortality in Slovakia; increased the number of births attended by medically-trained personnel in Indonesia, Uganda, Bolivia, and elsewhere; generated 100,000 home loans in Poland; and brought an additional 12 million hectares of land, primarily in Latin America and Indonesia, under improved management.

However, we were not always as successful as we had hoped to be. Depending upon the sector, up to 20 percent of our operating unit objectives did not meet our performance expectations. We do not expect to meet all of our targets —this would mean we are not challenging ourselves enough— but we will be using our performance monitoring and evaluation processes to enhance the performance of lagging objectives.

A year ago, I also said that I believed that it was vitally important to the Agency's mission that we efficiently and effectively manage our programs to achieve a solid return on taxpayer funds. A critical step in this regard is our use of a new core financial management system. We began using this system on December 15, 2000. It will greatly improve the quality of our financial information. We were also able to establish, through collaboration with the Office of the Inspector General, a basis for auditing our FY 2000 financial statements. With these two steps and the improvements achieved last year to our program performance reporting systems, I believe that we are better able to report the results and costs of our programs. Nevertheless, we must do more to meet federal requirements for financial reporting fully, and we shall continue to work on this problem.

We also moved to improve the Agency's internal control environment by eliminating three management vulnerabilities and closing a record number of audit recommendations —738. The audit recommendations closed in FY 2000 resulted in collections or efficiencies valued at over $209 million.

However, we must continue to address those management challenges that limit our ability to manage our resources more efficiently and effectively. We must continue to improve our ability to recruit, train, and retain appropriately skilled and knowledgeable people for all of the Agency's jobs. We must increase the security of our computer systems as well as our capacity to manage knowledge and share it with our partners without compromising security. And, we must expand our ability to do business electronically.

To meet these challenges, we focused the management goal and objectives of our revised strategic plan on these challenges. We present in this report our discussion of our FY 2000 management performance against our new management objectives and performance goals.

USAID remains committed to managing for results and to conforming its systems and operations to Federal requirements and regulations. Although it will take USAID several more years to accomplish all that is required of it, I believe we made substantial progress against these requirements during FY 2000.

J. Brady Anderson
Administrator
U.S. Agency for International Development

As the Chief Financial Officer of the United States Agency for International Development (USAID), my goals are to provide high-quality financial services and information to Agency managers, promote the efficient management of Agency resources, enhance the Agency's financial policies and systems, and incorporate continual business process improvements. During fiscal year (FY) 2000, USAID emphasized improving financial systems and policies and revising its management objectives to focus on those functions that it must execute well to be a high-performing and efficient agency. Guidelines provided by the General Accounting Office and audit findings of the USAID Inspector General helped in this regard. I am pleased to report that we made significant progress in these areas.

The core components of our new financial management system, known as "Phoenix," were installed in fiscal year 2000 and began to support the Agency's Washington operations on December 15, 2000. Phoenix is paving the way for the worldwide integration of USAID's financial information and will enable our greater use of electronic processing of financial and other business transactions. However, full modernization and integration of USAID's financial systems will require continuing management and budgetary priority.

We continued to improve our financial policies through new or revised chapters in our Automated Directive System (ADS) by publishing eight new ADS chapters and updating two existing ones. We improved the quality of our financial data by reducing the discrepancies between USAID's and the Department of the Treasury's records. We improved our loan management records. We adopted a new Standard General Ledger posting model for credit programs, eliminated our backlog of debt-rescheduling notations, and migrated the new loan general ledger to the Phoenix system.

We improved our internal management controls by correcting vulnerabilities related to financial management policies, Year 2000 (Y2K) compliance, and security and access controls to our financial information. Financial management policies and essential procedures were documented. Approximately 400 Agency employees were trained in the management of obligations, including expenditure projections and accruals, while 630 USAID Washington-based employees were trained in operations, procedures, and controls prior to implementation of the Phoenix core financial system. We closed a record number of audit recommendations (738), which resulted in collections or efficiencies valued at more than $209 million. We came close to our FY 2000 target for closing recommendations within one year (90 percent planned versus 86.4 percent actual).

We also continued to streamline and outsource selected Agency financial operations. Through the Chief Financial Officers' Council, we commissioned a study of the Agency's financial management operations designed to introduce "best practices" and make our financial operations more efficient. We transferred the processing of (1) our payroll to the Department of Agriculture's National Finance Center and (2) advances to our grantees to the Department of Health and Human Services. In collaboration with Treasury and the State Department, we established a new Treasury Account to simplify program budget transfers to the State Department. In other areas affecting Agency costs, 85 percent of USAID's overseas missions were connected to the Agency's central telecommunications network. The Agency adopted a policy of using commercial off-the-shelf (COTS) information management/technology packages to the maximum extent possible, and the number of the Agency's mainframe computer systems was reduced.

FY 2000 closed with USAID being closer to our goals of enhanced financial policies, systems, and services and more efficient operations, but we have more to do to be better managed. We look forward to continuing to implement our financial modernization strategic plan (as described in Part E of this Report) and to reporting our additional progress next year.

Michael T. Smokovich
Chief Financial Officer
U.S. Agency for International Development

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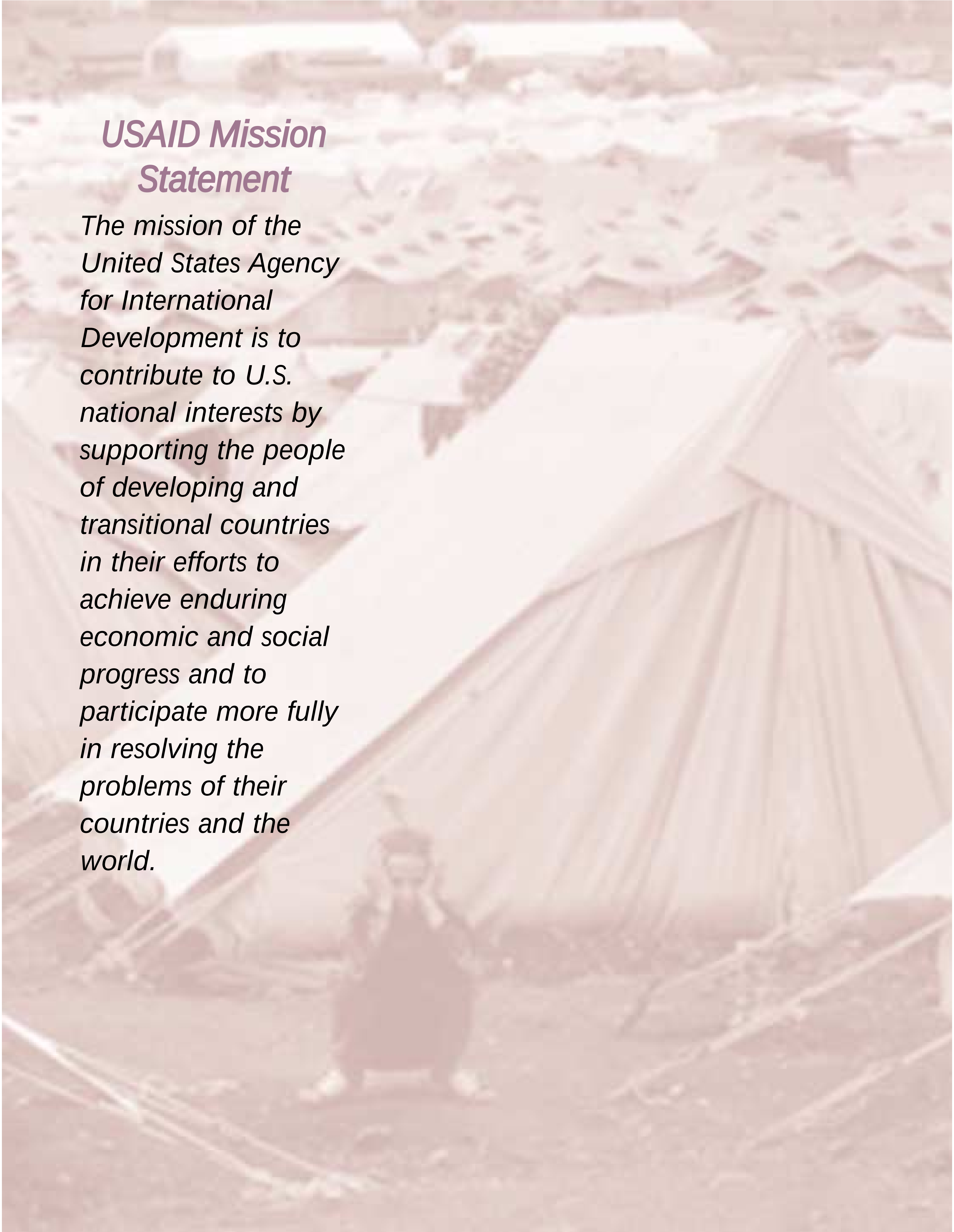


USAID Mission Statement

The mission of the United States Agency for International Development is to contribute to U.S. national interests by supporting the people of developing and transitional countries in their efforts to achieve enduring economic and social progress and to participate more fully in resolving the problems of their countries and the world.

Part A

Management Discussion and Analysis

What Is USAID?

The U.S. Agency for International Development (USAID) is the U.S. federal agency that implements America's foreign economic and humanitarian assistance programs. USAID's history goes back to the Marshall Plan reconstruction of Europe after World War Two and the Truman Administration's Point Four Program. In 1961, President John F. Kennedy signed the Foreign Assistance Act into law and created USAID by executive order.

Since that time, USAID has been the principal U.S. agency to extend assistance to countries recovering from disaster, trying to escape poverty, and engaging in democratic reforms.

USAID is an independent federal government agency that receives overall foreign policy guidance from the Secretary of State. The Agency works in the following six principal areas, supporting sustainable development, providing humanitarian assistance, and advancing U.S. foreign policy objectives:

- Economic growth and agricultural development
- Population, health and nutrition
- Environment
- Democracy and governance
- Education and training
- Humanitarian assistance.

What Does USAID Do?

USAID pursues its mission by supporting a variety of activities related to its six principal areas in presence and non-presence countries. Such activities are summarized below for each of the Agency's six principal areas.

1. **Encourage Broad-Based Economic Growth and Agricultural Development (EGAD).** To achieve the goal of broad-based economic growth and agricultural development, USAID undertakes programs to expand and strengthen private markets, encourage more rapid and enhanced agricultural development, and expand access to economic opportunity for the rural and urban poor. A strong policy environment and strong institutions within recipient countries are two of the most important determinants of the overall success of USAID programs. Therefore, the Agency continues to place a high priority on EGAD programs that address policy and institutional reforms.

2. **Strengthen Democracy and Good Governance (DG).** To achieve the broad goals of democracy, USAID supports programs that strengthen democratic practices and institutions and that ensure the full participation of women and other groups lacking full access to the political system. The Agency's programming reflects its understanding that genuine democracy requires not only competitive political processes, but also respect for citizens, human rights, and the right of dissent. It requires both a robust civil society supported by the rule of law and citizen security characterized by an independent judiciary. USAID also supports the promotion of good governance through work fostering transparent and accountable government, improved legislative processes, and genuine civilian control of the security sector.

3. **Build Human Capacity through Education and Training (HCD).** To help develop human capacity in USAID-assisted countries, the Agency works to expand access to quality basic education for under-served populations, especially girls and women; and to enhance the contribution of host-country colleges and universities to the process of development. With regard to basic education, USAID concentrates on improving host-country policies and institutions that affect basic education, supporting the adoption of improved educational practices, and increasing community participation in educational decision-making. Regarding higher education, the Agency encourages the formation of effective partnerships between U.S. and host-country institutions of higher education. In certain countries, USAID also supports improvements in the overall capacity and performance of colleges and universities.

4. **Stabilize World Population and Protect Human Health (HPN).** For several decades, USAID has been the leader among donors in addressing the critical issues of family planning, health, and nutrition in the developing world. Success has come from maintaining a field presence that enables strong relationships with host country counterparts. Combining this front line

experience with programs to research and test innovative technologies has given USAID a unique advantage in designing its programs. In the five priority areas of international public health—population, child health, maternal health, HIV/AIDS and infectious diseases, with concurrent investments in systems development and sustainability—USAID is recognized as working at the forefront of technical innovation.

5. **Protect the Environment for Long-Term Sustainability (ENV).** USAID provides technical and financial assistance in close partnership with a range of development partners, including host country governments, non-governmental organizations (NGOs), donors, and international organizations. USAID focuses its efforts where the need is greatest and where the Agency can have the most long-term impact. USAID's approaches to addressing environmental problems vary according to the level of environmental concern and according to regional priorities. In the Latin America and Caribbean (LAC) region and Africa, biological diversity and natural resource management programs dominate. Both these regions contain threatened forests that, in many cases, are the last refuge for endangered species. In Africa, USAID is giving particular attention to traditional community property rights, and emphasizes community-based natural resource management approaches. In the Asia and Near East (ANE) and LAC regions, urban environmental problems such as sanitation and vehicular pollution are of particular concern. In the Europe and Eurasia (E&E) region, programs concentrate on policy issues and strengthening environmental standards. Supporting the adoption of cleaner, more efficient technologies for energy production is an integral part of these policy-related efforts as is supporting industrialized urban applications of environmental practices, especially in the private sector.

6. **Promote Humanitarian Assistance (HA).** The Agency provides essential food, shelter, water, and health services to reduce suffering and save lives during disasters. While providing the basics for survival, USAID improves the capacity of countries to plan and prepare for disasters, mitigate their impact, and respond when disaster strikes. In addition, USAID supports longer-term rehabilitation and recovery for countries in transition, many of which are emerging from complex emergencies. Programs address the special needs of countries emerging from crises caused by political and ethnic strife. USAID helps local institutions promote economic, political, and social stability.

How Does USAID Work?

USAID is headed by an Administrator and Deputy Administrator, who are appointed by the President and confirmed by the U.S. Senate. It is headquartered in Washington, D.C. and maintains field offices in many of the countries where it has programs. It works in close partnership with private voluntary organizations, indigenous organizations, universities, American businesses, international agencies, other governments, and other U.S. government agencies. It has working relationships with more that 3,500 American companies and more than 300 U.S.-based private voluntary organizations.

In Washington, USAID's major organization units are called "bureaus." Each bureau houses the staffs responsible for major subdivisions of the Agency's activities. USAID has both geographic bureaus (which are responsible for the overall activities in the countries where the Agency has programs) and functional bureaus (which conduct Agency programs that are world-wide in nature or that cross geographic boundaries). The Agency has four geographic bureaus:

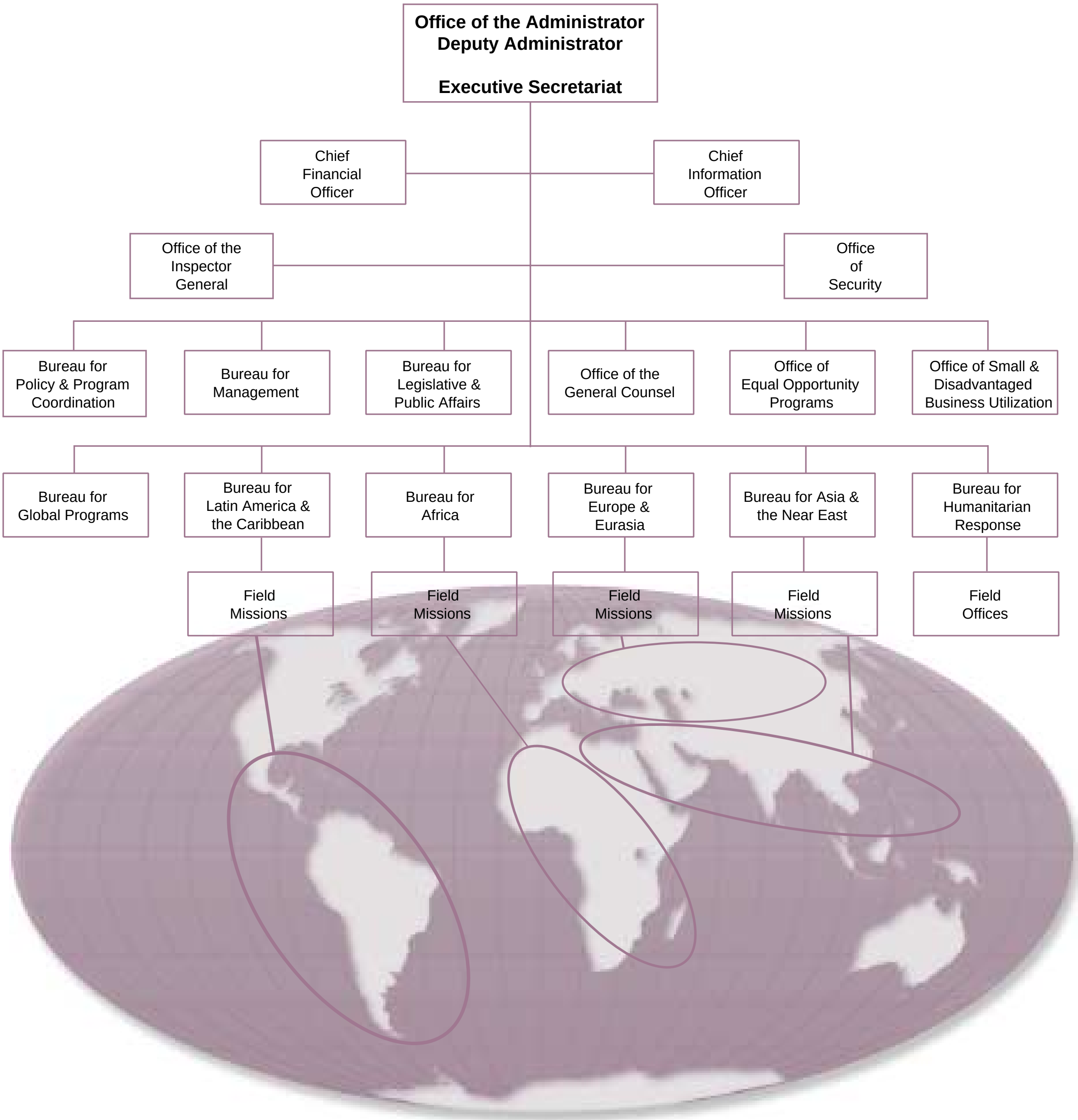
- Africa (AFR)
- Asia and the Near East (ANE)
- Latin America and the Caribbean (LAC)
- Europe and Eurasia (E&E)

USAID has two functional bureaus:

- Global Programs, Field Support and Research (G)
- Humanitarian Response (BHR)

In addition, certain major functions which serve all bureaus and country programs are assigned to three headquarters bureaus:

- Management (M)
- Legislative and Public Affairs (LPA)



- Policy and Program Coordination (PPC)

Each bureau is headed by an Assistant Administrator who is appointed by the President and confirmed by the U.S. Senate. In addition to these bureaus, USAID has several independent offices that carry out discrete functions for the Agency. These five independent offices are headed by Directors who are appointed by the USAID Administrator.

- Office of the Executive Secretariat (ES)
- Office of Equal Opportunity Programs (EOP)
- Office of the General Counsel (GC)
- Office of Small and Disadvantaged Business Utilization/Minority Resource Center (OSDBU)
- Office of Security (SEC)

The Office of the Inspector General reviews the integrity of Agency operations through audits, appraisals, investigations, and inspections.

Finally, in Washington, two legislatively mandated positions also provide support to the Administrator. These are the Chief Financial Officer, responsible for ensuring that management of the Agency's finances conforms to federal standards, and the Chief Information Officer, responsible for ensuring the Agency's information management and technology conform to federal standards.

USAID programs overseas are grouped into various types of country organizations:

- Countries where USAID provides an integrated package of assistance to sustainable development countries. Assistance is based on an integrated strategy that includes clearly defined program objectives and performance targets.
- Countries where USAID's presence is limited, but where aid to non-governmental sectors is necessary to facilitate the emergence of a civic society, help alleviate repression, meet basic humanitarian needs, enhance food security, or influence a problem with regional or global implications.
- Countries that have recently experienced a national crisis, a significant political transition, or a natural disaster and/or where timely assistance is needed to reinforce institutions and national order.
- USAID's multi-country missions administer USAID programs and services involving multiple countries or provide regional services to other overseas organizations.
- Various international development organizations and bilateral donors that represent U.S. and USAID interests in development assistance matters. These offices may be only partially staffed by USAID personnel and may be headed by employees of other U.S. Government agencies.
- Field offices of the Inspector General (such as the following) carry out comprehensive programs of audits and investigations.
  - Regional Inspector General for Audit offices and
  - Investigative Field Offices.

Managing USAID for Results

To maximize the return on taxpayers' investments, USAID must plan, implement, and assess its programs efficiently and effectively. This goal was part of the Agency's 1997 Strategic Plan. Since the Government Performance and Results Act (GPRA) became law and USAID's original Strategic Plan was prepared, concerns about how U.S. agencies can better manage for results have become a more important element in assessing agency performance.[1] Accordingly, USAID took advantage of the GPRA requirement to update Agency strategic plans at least once every three years to focus its management objectives much more explicitly on challenges identified by the Agency's internal control review process and external reviewers. These include financial management, information management, human capital and results reporting. The Agency also decided to continue to emphasize improvements to its assistance and acquisition policies, systems and procedures. The Agency's FY 2000 achievements against these management challenges are described in Section C.7 below. The Agency's management improvement plans are more fully described in its revised Strategic Plan, while activities planned for FYs 2001 and 2002 are described more fully in its FY 2000 Performance Overview.

The approach and philosophy embodied in USAID's results-based programming system evolved from innovative techniques developed by USAID staff as they sought more effective ways to work in extremely varied and changing development environments. This system has five objectives:

- Establish strategic and budgetary priorities for the Agency based on U.S. national interests as reflected in USAID's legislative mandates, the Strategic Plan for International Affairs,[2] and Congressional and Administration priorities.
- Within Agency-wide priorities, limit the bureau approval process to higher-level objectives, as

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[1] See, for example, the General Accounting Office's list of major management functions for "high performing organizations (undated exposure draft of "Determining Performance and Accountability and High Risks", page 2).

[2] Strategic Plan for International Affairs, Department of State, February 1999.

opposed to activity-level inputs and outputs

- Link bureau budget allocations to objectives and performance as opposed to activities with defined inputs and outputs
- Delegate activity design, approval, and budgeting decisions to Operating Units
- Establish teams that bridge organizational boundaries both within and outside of USAID as the basic organizational unit to manage development programs.

The system is designed to promote clarity in defining objectives at the operating unit level and to provide flexibility in selecting and implementing the activities to achieve them. A dynamic cycle of three management functions lies at the heart of the system.

- Planning
- Achieving
- Assessing and Learning

These three functions operate within the context of two elements of management leadership–defining an organizational mission and vision and taking management initiatives. Figure A.1 illustrates this model.

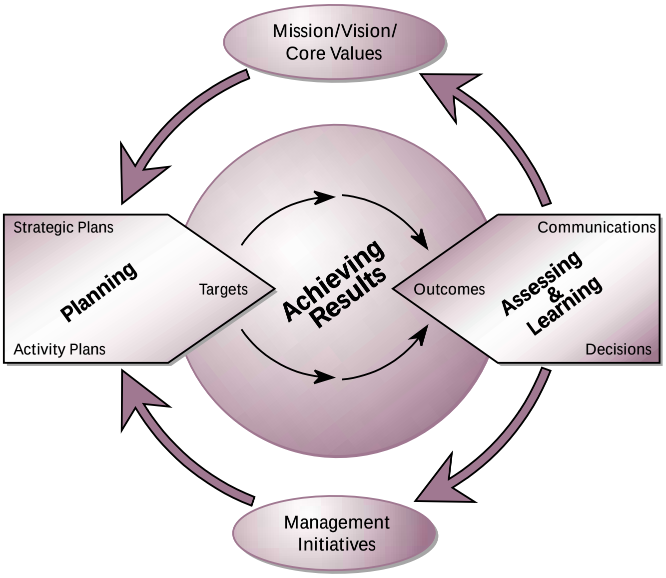

Figure A.1: Dynamic Management

USAID Program Results

A. Assessing Performance: A Revised Approach

For each of its six principal areas, USAID in 1997 identified a limited set of performance goals and indicators. These goals, and the associated indicators and targets typically capture progress at the *country* level. Such progress is mainly the result of self-help efforts by the recipient country supported by USAID and other partners and donors. These indicators are broad development performance indicators. They shed considerable light on the results of overall efforts at development cooperation. Furthermore, they are common across countries, they are typically available from published sources, and they enable the Agency to report on development performance in a fairly compact set of tables that can be readily summarized and aggregated. Some of them correspond to internationally agreed-upon development goals and targets that USAID supports.

Notwithstanding these favorable attributes, there has been considerable, valid criticism of using these indicators and targets as the ones against which Agency performance would be judged, because one cannot reasonably attribute overall country progress in these areas to USAID programs alone. While the Agency supports and contributes to these goals, their achievement is not usually the result of only USAID programs and resources. In other words, they are beyond its manageable interest. This drawback was acknowledged and discussed when USAID formulated its 1997 Strategic Plan.

The obvious alternative has been to use actual operating unit strategic objectives as the Agency performance goals. Operating unit objectives, targets, and indicators highlight the specific results that USAID seeks in country, regional, or global settings. Indicators and targets are developed by individual operating units and their partners, with guidance and technical support from Washington, and are reviewed and approved in Washington. Through their Results Review and Resource Request (R4) Reports, operating units report annually on how their programs are progressing relative to the agreed performance targets. Their R4 reports include self-assessments of an objective's performance based on reported progress towards planned targets and other factors known to the operating unit. These annual reports help form the basis on which operating units request resources. Thus, the reports inform the overall resource request and allocation process.

The main drawback is that there are many different objectives and performance indicators. Even though the Agency explicitly and systematically uses these performance measures to manage for results, the measures—based on programs that are tailored to local needs and circumstances—typically do not aggregate into a compact set of common performance indicators that can convey the cumulative value-added of USAID's assistance. After years of effort, USAID has found that as a general rule common indicators cannot be meaningfully applied across programs that may be broadly similar but are designed to respond to individual country circumstances.

Considering the advantages and limitations of alternative approaches to performance reporting, USAID will henceforth use the operating unit strategic objectives as the Agency's annual performance goals for purposes of performance reporting. Targets will be set for these performance goals, and the Agency is prepared to be held accountable for progress in achieving these targets.

Accordingly, the Agency's FY 2000 Accountability Report reports performance against operating unit strategic objectives, rather than the performance goals identified in the FY 2000 Annual Performance Plan. The relative measure of the Agency's FY 2000 performance is the percentage of operating unit objectives that met or exceeded planned targets for the year. Detailed performance information for the operating units' strategic objectives is provided in Part C, Summary of FY 2000 Program Performance by Operating Unit Objectives.

B. Verifying Performance Data

Agency policy encourages operating units to assess data quality when establishing performance measures and data collection procedures during their strategic planning process (which is when their objectives are established). Data quality and collection procedures are further assessed after the unit's objectives are approved and while it establishes formal performance monitoring plans (PMPs) for each objective. These assessments are intended to ensure that performance information is sufficiently complete, accurate, and consistent and meet the Agency's indicator quality standards.[3]

USAID operating units typically use three different sources of data (each source has unique limitations).

- In some instances, a mission will contract for *primary data* to be collected scientifically to serve as a baseline or as an interim or final evaluation of an operating unit's objective's achievement. Typical examples of these include demographic and health surveys as well as educational achievement testing or agricultural surveys. The Agency's experience is that the quality of primary data improves over the life of an objective (or related objectives) as the methodology improves and as data anomalies are identified and corrected.
- *Partner data* includes data coming from implementing partners, including contractors, cooperating agencies, and grantees. Line ministries, such as those of Health, Education, or Agriculture, may also provide partner data if USAID is working closely enough with the government body to have some control over its data collection, analysis, and reporting processes. Partner data are typically derived from ongoing performance monitoring systems established as part of the workflow of a particular activity. The Agency's experience is that the quality of partner data improves over the life of an objective as data sets are standardized and as collection and reporting procedures are regularized.
- *Secondary data* comes from sources over which the Agency has no control. These typically include government sources, such as Ministries of Finance or Planning or the Central Bank, where USAID cannot audit the sources or intensively review the data collection and analysis procedures. Some line ministries,

[3] These standards are set forth in USAID's Automated Directive Systems (ADS), Section 203.3.6.3. These standards can be viewed electronically at *www.usaid.gov* by clicking on the USAID Policies and Procedures choice.

or some programs in line ministries may also be beyond what USAID can reasonably inspect. Similarly, data from other bodies, such as the World Bank or the UN agencies, are also beyond USAID's control. International organizations, however, also use the data that they report for programming resources and, therefore, have a vested interest in collecting and reporting the most current and reliable information available. Operating units typically use secondary information of this type to describe general trends within a country or program and primary data directly associated with specific objectives to assess the performance of these objectives.

C. Summary Performance Assessments[4]

The performance information summarized below is based upon R4 reports submitted by the Agency's operating units to USAID/ Washington during spring of calendar year 2000. The timing of these submissions is geared to the annual budget cycle. Hence the results summarized below are as of September 30, 1999. Detailed information describing the performance of the strategic objectives of USAID's operating units is provided in Part C of this Report. Typically, operating unit objectives are multi-year undertakings beginning in one fiscal year, ending seven to ten years later, and drawing funds from different fiscal years. By convention, USAID's FY 2000 Accountability Report focuses on the Agency's financial position as of September 30, 2000, but it should be recognized that the program results summarized herein were as of September 30, 1999 and were most likely funded across several fiscal years.

1. Encourage Broad-Based Economic Growth and Agricultural Development

The Agency has a total of 152 economic growth and agricultural development objectives carried out by 75 operating units around the world. The net costs for these objectives were $2.9 billion and $3.3 billion in FYs 1999 and 2000 respectively. Eighty-eight percent of EGAD objectives met or exceeded operating unit expectations in FY 1999. Overall, USAID objectives under the Economic Growth and Agricultural Development area are meeting expectations.

2. Strengthen Democracy and Good Governance

The Agency has a total of 107 democracy and governance objectives carried out by 75 operating units around the world. The net costs for these objectives were $495.3 million and $349.6 million in FYs 1999 and 2000 respectively. Eighty percent of Agency DG objectives met or exceeded operating unit expectations in FY 1999. Overall, USAID objectives under the democracy and governance area are meeting expectations.

3. Build Human Capacity through Education and Training

A total of 23 Agency operating units reported on 30 strategic objectives in basic education. No operating unit reported specific objectives related to increasing the contribution of higher education institutions to sustainable development. The net costs for these objectives were $294.3 million and $125.5 million in FYs 1999 and 2000 respectively. Ninety-five percent of basic education objectives met or exceeded operating unit expectations in FY 1999. Overall, USAID objectives under the human capacity development area are meeting expectations.

4. Stabilize World Population and Protect Human Health

The Agency has a total of 80 health, population or nutrition objectives carried out by 60 operating units around the world. The net costs for these objectives were $1.0 billion and $1.4 billion in FYs 1999 and 2000 respectively. Ninety-four percent of HPN objectives met or exceeded operating unit expectations in FY 1999. Overall, USAID objectives under the health, population and nutrition area are meeting expectations.

5. Protect the Environment for Long-Term Sustainability

The Agency has a total of 48 environmental objectives carried out by 36 operating units around the world. The net costs for these objectives were $612.2 million and $448.5 million in FYs 1999 and 2000 respectively. Ninety-two

[4] The summary performance assessments presented in this report are drawn from USAID's FY 2000 Performance Overview: Consolidated FY 2002 Annual Performance Plan/FY 2000 Annual Program Performance Report.

percent of the ENV objectives met or exceeded operating unit expectations in FY 1999. Overall, USAID objectives under the environmental area are meeting expectations.

6. Promote Humanitarian Assistance

The Agency had a total of 30 humanitarian assistance objectives carried out by 27 operating units around the world (excluding the Bureau for Humanitarian Assistance). The net costs for these objectives were $823.6 million and $1.0 billion in FYs 1999 and 2000 respectively. In FY 1999, eighty-seven percent of HA objectives met operating unit expectations. Overall, USAID objectives under the humanitarian assistance area are on track and meeting expectations.

7. Achieve Management Excellence

During FY 2000, USAID revised significantly its management objectives and performance goals as part of its effort to update its Strategic Plan. Nevertheless, many of the management activities included in its FY 2000 performance plan went forward. The FY 2000 outputs of these activities are reported below against the Agency's revised management objectives.

a) Accurate program performance and financial information reflected in Agency decisions:

- A new program performance management workshop curriculum was developed and implemented.
- Agency policies and procedures on Managing for Results were revised and reissued through its Automated Directives System (Series 200).
- Technical assistance on performance measurement for operating units was expanded.
- New core financial system software was installed, configured, tested, and readied to support Washington financial operations beginning in FY 2001.
- A new Standard General Ledger posting model was adopted for credit programs; the backlog of debt rescheduling activities was caught up; and the loan general ledger is ready to migrate to the new automated core financial system.
- First full year of loan servicing by a commercial bank was completed successfully.
- 738 audit recommendations valued at more than $209 million, comprising $202.4 million in efficiencies and $6.6 million in collections, were closed.
- At the end of FY 2000, 86.4 percent of the Agency's open recommendations were less than one year old, slightly off the Agency's target of closing 90 percent of audit recommendations within one year.
- The Agency expanded its capacity to plan, allocate, and report resources by Congressional directives.
- Revised financial management policies and procedures were issued.
- An interim system to capture field procurement data was implemented.

b) USAID staff skills, Agency goals, and core values better aligned to achieve results efficiently:

- 85 New Entry Professionals (NEPs) joined the Agency during FY 2000.
- The Agency target for on-board Foreign Service Officers was met.
- 101 senior executives were trained.
- 140 supervisors were trained.
- 435 technical officers were trained on obligations management including expenditure projections and accruals.
- Over 600 USAID Washington-based employees were trained on the operations, procedures and controls prior to implementation of the Agency's new core financial system.
- 80 percent of the Agency's contract officers were certified.
- 75 employees were trained in management accountability and control.
- The Agency's payroll function was outsourced thereby reducing costs.

c) Agency goals and objectives served by well-planned and managed acquisition and assistance (A&A):

- 700 employees were trained in A&A rules and procedures.
- 30% of FY 2000 funds was obligated in first three quarters; the balance in the final quarter as follows: 14% in July; 27% in August, and 29% in September.
- 80% of the Agency's contract officers were certified.

d) Agency goals and objectives supported by better information management and technology:

- Developed an information management strategic plan.

- Developed a target information architecture.
- Completed "Y2K" transition successfully.
- Completed information system security risk assessments at three overseas missions.
- Developed a web-based systems security course.
- Completed an analysis of Agency connectivity options.

e) Collaboration with partners and stakeholders strengthened:

- The new program process fully incorporates development partners.
- Communications with partners were expanded.
- Training in managing for results and Agency systems incorporates partners.

Financial Highlights

A. Program Resources

Congress appropriates resources to USAID through several different accounts. USAID's more traditional development work in the Third World is funded through the Sustainable Development Assistance (DA) and Economic Support (ESF) accounts. The Agency's assistance to the transitional economies and societies of Eastern Europe and Eurasia is provided through the Support for East European Democracy (SEED) and Freedom Support (FSA) Acts. USAID also manages Public Law 480 resources appropriated to the U.S. Department of Agriculture. In FY 2000, USAID's available budgetary resources totaled $5.5 billion compared to $5.1 billion in FY 1999. USAID's net costs for these years were $6.7 billion and $6.2 billion in FYs 2000 and 1999 respectively. Net costs by Agency goals are shown above.

United States Agency for International Development
Net Cost of Operations by Fiscal Year Summary
(In millions, rounded)

Goal Centers	FY 1999	FY 2000
Encourage broad-based economic growth and agricultural development	$2,979	$3,320
Strengthen democracy and good governance	495	350
Build human capacity through education and training	294	125
Stabilize world population and protect human health	1,048	1,437
Protect the environment for long-term sustainability	612	448
Promote humanitarian assistance	824	1,056
Less earned revenues not attributed to programs	(3)	(6)
Net Cost of Operations	**$6,249**	**$6,730**

* Source: FY 2000 Accountability Report, Statement of Net Costs

B. Financial Statements

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). Two major line items, Fund Balance with Treasury and Credit Program Receivables, represent 92% of USAID's assets. Fund Balance with Treasury is funding available in the Department of Treasury accounts from which USAID is authorized to make expenditures and pay liabilities. The majority of Credit Program Receivables are loans for which funds have been disbursed under the Urban and Environmental (UE), Micro and Small Enterprise Development (MSED), and Direct Loan programs.

The assets line-item with the most significant change in activity from FY 1999 to FY 2000 is Accounts Receivable with the public. This line-item decreased 60 percent, from $122.8 million to $48.6 million. This decrease is due to collections of $80 million during the year for the Polish American Enterprise Fund (PAEF). This collection caused a corresponding decrease in an intragovernmental liability for the same amount since the funds are to be returned to Treasury.

Credit program liabilities represent 82 percent of USAID's total liabilities. The bulk of these liabilities are reported as Estimated Liability for

Loan Defaults, Resources Payable to Treasury and Liability for Loan Guarantees. Estimated Liability for Loan Defaults is an allowance established for potential defaults on loan guarantees obligated before fiscal year 1992. Resources Payable to Treasury represents the cumulative difference between pre-fiscal year 1992 credit program assets and liabilities, and revenue and expense, that is considered payable to the U.S. Treasury. Liability for Loan Guarantees represents the estimated subsidy cost of loan guarantees obligated after fiscal year 1991, as calculated in accordance with the Credit Reform Act of 1990.

The liabilities line-item with the most significant change in activity from FY 1999 to FY 2000 is Intragovernmental Debt. The decrease in Intragovermental Debt from $197.9 million to $116.5 million is due to principal repayments of $105 million made to the Treasury during the year, netted against new borrowings from the Treasury of $23 million, resulting in a total net reduction of $82 million.

Statement of Net Cost

This statement provides the reader with an understanding of the full cost of operating USAID programs. In FY 2000, approximately 90 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 10 percent of the total USAID cost. This illustrates USAID's commitment to efficiency and success in using financial resources for the direct promotion of its mission.

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. A significant item to note is the 81 percent decrease in the Increase in Unexpended Appropriations line-item from FY 1999 to FY 2000. This $886 million decrease is primarily due to USAID receiving a new appropriation for the Central America and Caribbean Emergency Disaster Recovery Fund and supplemental funds to provide humanitarian assistance to Kosovo in FY 1999. No new appropriations or supplemental funds were received by USAID during FY 2000.

Another significant change in activity from FY 1999 to FY 2000 is due to Imputed Financing. This line-item increased by approximately 30 percent. This increase is largely due to the settlement of a class-action suit brought on behalf of Foreign Service Officers who were separated from the Agency in a Reduction-In-Force (RIF). The Court approved the settlement amount of $5.5 million. This event was incorporated into the financial statements and is reflected in the Imputed Financing line-item.

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. USAID obligated 70 percent of all available budgetary resources for the year. The remaining 30 percent of funds are unobligated. 17 percent of the unobligated funds are available only to adjust or liquidate obligations from a prior year and the remaining 13 percent are available for new programming and obligating in future years.

The Adjustment line-item on the Statement of Budgetary Resources includes Actual Payments to Treasury, which were approximately $400 million less in FY 2000 than in FY 1999. Payments to the Treasury were unusually high in FY 1999 due to increased collections in the Direct Loan Liquidating account.

Statement of Financing

The Statement of Financing reconciles proprietary information to budgetary accounting information. Refinements in reporting Credit Reform amounts were made for the FY 2000 reporting period. These changes in presentation account for the significant differences in activity between FY 1999 and FY 2000 within the Resources That Do Not Fund Net Cost of Operations section of the statement.

C. 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 the entity in accordance with 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 they are for a component of the U.S. Government, a sovereign entity. One implication of this is that liabilities cannot be liquidated without legislation that provides resources to do so.

Management Controls

USAID maintains an active management control program in response to the Federal Managers' Financial Integrity Act (FMFIA). USAID's FMFIA program uses external audits, annual internal reviews conducted by each of its operating units, special studies, and observations of daily operations to identify control weaknesses. It then develops and implements detailed corrective action plans for all weaknesses identified. The Agency's Management Control Review Committee, chaired by the Deputy Administrator, monitors the status of corrective actions Agency-wide and determines when they have been successfully completed. Parallel committees operate within the Agency's overseas operating units. During FY 2000, management control assessments were conducted by the Agency's operating units worldwide in compliance with Agency policy and FMFIA standards.

No new material weaknesses were identified during FY 2000, while three outstanding material weaknesses were resolved successfully. A material weakness related to the Agency's *financial management procedures* identified in 1993 was resolved by issuing new financial policies and procedures guidance during FY 2000. *Year 2000 compliance* was addressed by developing and implementing aggressive plans to identify and fix Y2K transition problems before December 31, 1999. As a result, the Agency's critical systems incurred no significant Y2K transition problems. On the third weakness, *NMS security and access controls,* USAID eliminated the high-risk aspects of its Washington-based financial system (NMS) through a series of actions that enhanced database administrator accountability, introduced audit trails of system activity, and implemented security enhancements relating to sensitive data and password controls. An independent verification and validation of NMS was completed in May 2000, resolving this material weakness.

Table A.1: Pending Material Weaknesses

Title	Fiscal Year First Reported	Fiscal Year Resolved	Fiscal Year Targeted for Correction
USAID's primary accounting system	1998		2001
Financial management procedures	1993	2000	
USAID's NMS security and access controls	1997	2000	
USAID's reporting and resource management capabilities	1997		2001
Information resources management processes	1997		2001
Computer security program	1997		2003
Year 2000 compliance	1998	2000	

During FY 2000, the Agency also continued to implement its plans to resolve four other material weaknesses. The status of progress against these material weaknesses is as follows.

A. USAID's Primary Accounting System

USAID's primary accounting system fails to comply with some important financial management systems requirements, applicable federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level.

USAID expects to fully resolve this weakness by the end of FY 2001. To this end, during FY 2000, it installed, configured, tested, and readied new, core financial system software. This new system began supporting Washington financial operations on December 15, 2000. Key financial data including obligation, expenditure and loan information have been migrated to the new system.

B. USAID's NMS Reporting and Resource Management Capabilities

The Agency's financial reports have not always been timely, accurate or sufficiently useful to manage the Agency. Numerous special query capabilities and reports have been developed to lessen this weakness, but the Agency's ability to use financial information for decision making remains impaired. USAID's long term strategy to address this weakness is to implement its new, integrated financial management and accounting system. Progress made in this regard is described in item A above. The target date for resolving this weakness is FY 2001.

Table A.2: Summary of Agency Performance in Correcting Weaknesses

Fiscal Year	Material Weaknesses Beginning of Year	Material Weaknesses Added	Material Weaknesses Corrected	Pending Material Weaknesses
1996	10	-	-	10
1997	10	4	7	7
1998	7	2	-	9
1999	9	-	2	7
2000	7	-	3	4

C. Information Resources Management (IRM) Processes.

USAID plans to implement by June 2001 (1) procedures to select, manage, and evaluate information technology investments and (2) a means for senior managers to monitor the Agency's progress in terms of costs, system capabilities, timeliness, and quality. USAID's Capital Investment Review Board, Chief Information Officer and Office of Information Management have successfully achieved many of the Agency's strategic plans to improve its IRM processes as required by the Clinger-Cohen Act. Internal verification and validation of IRM processes have demonstrated an 80 percent rating in key processes and progress is continuing. Reengineering the Agency from a systems integration organization to a technology acquisition organization will help in achieving a Software Engineering Capability Maturity Model Level 2, a rating target representative of the top one-third of all technical organizations.

D. Computer Security Program

USAID has targeted FY 2003 for implementing an information system security program that complies with the Computer Security Act of 1987, its administrative policy, and requirements of the OMB Circulars A-123, 127 and 130. The Agency's progress has been noted throughout the federal government. Recent accomplishments include: (1) establishing an effective Information Systems Security Office structure and an advisory group to set strategy, (2) developing a risk assessment to evaluate computer security, and (3) spearheading the Federal Best Security Practices Initiative.

E. Material Nonconformance of Financial Management System

USAID's financial management systems do not fully comply with some federal financial management system requirements, standards, and the U.S. Government Standard General Ledger at the transaction level. The Agency has identified the current primary accounting system as a material weakness. It will be replaced by a new core financial system, Phoenix, in the first quarter of FY 2001.

F. Annual Assurance Statement

As of September 30, 2000, the management accountability and control systems of the Agency for International Development provided reasonable assurance that the objectives of the Federal Managers' Financial Integrity Act were achieved, with the exception of the material weaknesses noted. This statement is based on the results of an Agencywide management control assessment, inspector General audits, and input from senior officials

–J. Brady Anderson
Administrator

Audit Follow-Up Program

The Office of the Inspector General (OIG) uses the audit process to help USAID managers improve the efficiency and effectiveness of Agency operations and programs. USAID management and OIG staff work in partnership to ensure timely and appropriate responses to audit recommendations.

The OIG contracts with the Defense Contract Audit Agency to audit U.S.-based contractors and relies on nonfederal auditors to audit U.S.-based grant recipients. Foreign-based organizations are audited by either local auditing firms or the supreme audit institutions of host countries. OIG staff conduct audits of USAID programs and operations, including the Agency's financial statements, related systems and procedures, and Agency performance in implementing programs, activities, or functions.

During FY 2000, USAID received 593 audit reports; 528 of these reports covered financial audits of contractors and recipients and 65 covered Agency programs or operations.

During FY 2000, the Agency closed 738 audit recommendations, 209 more than it closed in FY 1999. Of the audit recommendations closed in FY 2000, 225 were from audits performed by OIG staff and 513 were from financial audits of contractors or grant recipients. The Agency collected $6.6 in disallowed costs and $202.4 million were put to better use during the fiscal year.

At the end of FY 2000, there were 440 open audit recommendations, 183 fewer than at the end of FY 1999 (623). Of the 440 audit recommendations open at the end of FY 2000, only 60, or 13.6 percent, had been open for more than one year. The number of recommendations open for more than one year at the end of FY 2000 was one-third less than the number at the end of FY 1999, and just shy of the Agency's FY 2000 target of closing 90 percent of audit recommendations within one year. As regards the 60 recommendations open for more than one year at the end of FY 2000, the Agency must collect funds from contractors or recipients to complete actions on 27 of these recommendations. The remaining 33 require improvements in Agency programs and operations. Many of these are tied to the implementation of an integrated financial management system while others are deficiencies that could not be corrected within one year.

Table A.3: Management Action on Recommendations That Funds Be Put to Better Use

	Recommendations	Dollar Value ($000)
Beginning balance 10/1/99	18	194,660
Management decisions during fiscal year	7	8,380
Final action	21	202,436
Recommendations implemented	21	202,436
Recommendations not implemented	-	-
Ending balance 9/30/00	4	604

Table A.4: Management Action on Audits with Disallowed Costs

	Recommendations	Disallowed Costs ($000)
Beginning balance 10/1/99	142	17,433
Management decisions during fiscal year	323	23,182
Final action	327	6,576
Collections/offsets/other	303	4,372
Write-offs	24	2,204
Ending balance 9/30/00	138	34,039

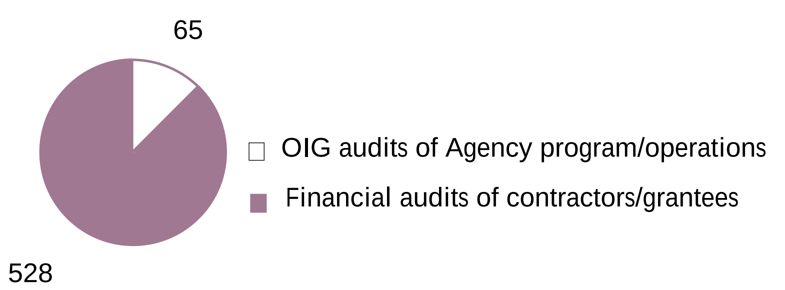

Figure A.2: Audit Reports Issued in 2000