



Part E

USAID's Financial Remediation Plan



TABLE OF CONTENTS

1. OVERVIEW
2. CFO GOALS AND STRATEGIES
 - 2.1 Background
 - 2.2 USAID CFO Vision
 - 2.3 USAID Strategic Goals and Management Objectives
3. AUDITED FINANCIAL STATEMENTS
4. FINANCIAL MANAGEMENT SYSTEMS STRUCTURE
 - 4.1 Current Financial Management Systems Structure
 - 4.2 Target Financial Management Systems Structure
 - 4.3 Financial Management Systems Strategy
 - 4.4 Planned Major Systems Investments
 - 4.5 FFMIA Remediation Plan
5. GRANTS MANAGEMENT

List of Figures

- Figure E.1 Current Financial Management Systems Structure
- Figure E.2 FMIA Material Weaknesses
- Figure E.3 IG Audit Findings and Recommendations
- Figure E.4 Target Financial Management Systems Structure
- Figure E.5 Logical Business Architecture
- Figure E.6 Target Financial Management Systems Architecture
- Figure E.7 Financial Management System Compliance
- Figure E.8 FFMIA Remediation Planning

List of Tables

- Table E.1 Planned Work to Achieve Substantial Compliance with FFMIA
- Table E.2 Financial Management Systems Remediation Plan Summary



1. Overview

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

The goal of the USAID CFO's strategic plan is to dramatically improve financial accountability and services throughout the Agency and to enable stakeholders and partners to exchange information and to conduct business with USAID electronically. USAID's modernization plan for an integrated financial management system is succeeding. Since its inception at the start of FY 2000, obsolete personnel and payroll systems have been

replaced and a new core financial system has been implemented in Washington. The new core financial system implementation paves the way for Agency-wide integration of financial information. It will be an enabler for linking Missions to customers through electronic processing of business transactions. Fulfillment of the modernization plan will require sustained management focus and emphasis in each succeeding budget request over the next five years.

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

The objectives recognize the need for accountability and integrity in meeting financial management standards and performance objectives in programs managed by the CFO and others. The accountability framework established in the plan presumes strong collaboration between financial and program personnel and an overarching commitment to effective working relationships with the Inspector General and stakeholders. Accordingly, the CFO organization

must play significant operational, advisory and liaison roles in accomplishing results through the Agency's management goal if accurate program performance and financial information is to be consistently reflected in agency decisions.

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

The plan sets out specific objectives, intermediate results, and indicators USAID will use to annually assess progress or performance against the objectives of the plan. Where appropriate, the plan suggests preliminary performance targets. These targets will be refined and possibly modified through USAID's Annual Performance Plans. Results achieved by USAID against the plan will be reported in its annual Accountability Report and its Annual Performance Report.

Michael Smokovich
Chief Financial Officer

2. CFO Goals and Strategies

2.1 Background

The long-term goals of recent Federal legislation are to encourage Federal entities to disclose the results of their operations and financial position; provide information which guides the effective allocation of resources and enhances cost-effectiveness; and enables Congress, agency managers, the public and others to assess management performance and stewardship.¹ Incomplete financial information and non-integrated financial systems compromise USAID's ability to achieve the long-term goals envisioned by Congress. It is the function and responsibility of the Chief Financial Officer working in concert with other Agency bureaus, offices and missions to correct these problems. The reference to CFO herein, unless indicated otherwise, reflects the combined efforts of the CFO and Agency staff engaged in financial management stewardship.

In addition to these considerations, USAID must align itself with government-wide financial management procedures and improvement priorities as recommended by the Chief Financial Officers' Council. The CFO has kept this Council's recommendations in mind as it developed the strategic plan presented in this document. The CFO and USAID consider this strategic plan to be consistent with government-wide priorities identified by the CFO Council and to support objectives for implementing each priority established by the Office of

Management and Budget (OMB) in its Federal Financial Management Status Report and Five-Year Plan. USAID's financial management improvement program (FMIP) performance goals are aligned to the CFO Council's priorities and the FMIP performance indicators address key OMB objectives and significant financial management challenges facing the Agency.

2.2 USAID CFO Vision

The vision for USAID's Chief Financial Officer organization is to provide an environment in which USAID officials use high quality financial and performance information to make and implement effective policy, management, stewardship, and program decisions. This vision directly supports:

- USAID's mission and mandate as expressed in its Strategic Plan; and
- Government-wide financial management improvement programs

2.3 USAID Strategic Goals and Management Objectives

USAID recently revised its Strategic Plan to establish a new management goal. Its new management goal is to achieve its sustainable development and humanitarian assistance goals in the most efficient and effective manner. USAID's sustainable development and humanitarian assistance goals are:

- Broad-based economic growth and agricultural development encouraged.

- Democracy and good governance strengthened.
- Human capacity built through education and training.
- World population stabilized and human health protected.
- The world's environment protected for long-term sustainability.
- Lives saved, suffering associated with natural or man-made disasters reduced, and conditions necessary for political and/or economic development re-established.

To achieve its management goal, USAID has identified five objectives. These are:

- Accurate program performance and financial information reflected in Agency decisions.
- USAID staff skills, Agency goals, and core values better aligned to achieve results efficiently.
- USAID goals and objectives served by well-planned and managed acquisition and assistance.
- USAID goals and objectives supported by better information management and technology.
- Collaboration with partners and stakeholders strengthened.

This strategy document focuses on the objectives, intermediate results and activities planned by the CFO to

¹ Relevant legislation includes the Chief Financial Officer's Act (1990), the Government Performance and Results Act (1993), Federal Financial Management Improvement Act (1996), and the Government Management Reform Act (1994). See also Office of Management and Budget Bulletin 97-01 and Circular A-127.



help achieve USAID's first management objective; i.e., to provide accurate financial information to USAID managers.

2.4 CFO Strategic Objectives

The CFO has identified three strategic objectives necessary to improve the accuracy of USAID's financial information. These are:

1. USAID's financial management systems effectively support Agency decisions and reporting.
2. USAID's capacity to assess cost-effectiveness enhanced.
3. USAID's financial management human resource capacity strengthened.

These three CFO objectives fully support the Agency's Strategic Plan and its management goal. They are also fully consistent with the financial management improvements and priorities recommended by the Chief Financial Officers' Council. The CFO expects to accomplish these objectives over the five year period between Fiscal Year (FY) 2001 and FY 2005.

The following discussion focuses on the intermediate results, tasks and initiatives the CFO organization will undertake independently or in collaboration with other USAID offices to achieve its objectives. The discussion will also indicate how the CFO will measure progress against its planned results. While some performance indicators and targets will require work in FY 2003 and beyond, the tasks and initiatives

detailed under each intermediate result are largely for work to be accomplished by the end of FY 2002.

CFO Objective 1: USAID's Financial Management Systems Effectively Support Agency Decisions and Reporting.

Progress against this objective will be assessed using the following three indicators:

- Indicator 1.1: USAID's core financial system compliant with Federal requirements and standards.
- Indicator 1.2: The security and general control environment for the Agency's core financial system and significant internal feeder systems are compliant with Federal system security requirements and standards.
- Indicator 1.3: USAID's financial information is complete, accurate, reliable and timely.

To achieve this objective, the CFO plans to accomplish the following Intermediate Results (IRs).

- IR 1.1: Improve financial accountability.
- IR 1.2: Improve financial management systems.
- IR 1.3: Improve management of receivables.
- IR 1.4: Improve financial administration of grant programs.
- IR 1.5: Expand use of electronic commerce for financial transactions.

Each of these IRs is discussed in greater detail below.

IR 1.1: Improve Agency Financial Accountability

Background:

The Agency has reported a material weakness in its financial management procedures under Federal Managers' Financial Integrity Act (FMFIA) since 1993. The Inspector General (IG) identified 83 open audit recommendations that affected their FY 1999 financial statement audit objectives². The Agency classified 31 of these open audit recommendations as being related to deficiencies in financial management policies and procedures.

The IG did not express an opinion on USAID's FY 1999 financial statements because the Agency's financial management systems could not produce complete, reliable, timely, and consistent financial information (See Section 3). The Agency's financial management systems did not comply with Federal financial management system requirements, applicable federal accounting standards and the U.S. Standard General ledger at the transaction level. The CFO and the IG agreed to focus audit work on the major Balance Sheet accounts. This focus should enable the Agency to establish an improved opening balance that in turn will greatly increase the likelihood that the auditors will be in a position to express an opinion on the FY 2001 consolidated financial statements.

² USAID OIG, Reports on USAID's Consolidated Financial Statements, Internal Controls, and Compliance for Fiscal Year 1999, Report No. 0-000-00-006-F, February 18, 2000.



In 1998, the Agency reported a material weakness in program performance reporting requirements under the Government Performance and Results Act (GPRA). Program performance reporting did not adequately link the Agency's performance goals with its programs, nor did it ensure sufficiently current results or adequate performance indicators. Similarly, the IG reported that USAID did not have adequate internal controls to measure and report program performance under GPRA. Specifically, USAID did not have an effective system to measure and report achievements that are attributable to USAID-funded activities. The Agency classified 13 of the 83 open IG audit recommendations that affected the financial statement audit objectives as being related to deficiencies in program performance reporting.

Accomplishments:

- Agency performance reporting is no longer considered a material weakness. USAID clarified and streamlined reporting requirements to better link activities with the Agency's strategic plan. Policies and guidance were issued on the use of indicators to measure performance and performance data quality. Improved training programs have incorporated revised materials on performance measurement and reporting.
- The Agency closed 9 of 12 open audit recommendations in FY 2000 related to performance reporting that were impairing the IG's FY 1999 financial statement audit objectives. The three

remaining open audit recommendations will be closed in 2002 concurrent with Agency-wide implementation of managerial cost accounting.

- The Agency issued eleven (11) financial management chapters in its Automated Directives System in FY 2000. The issuance of these chapters significantly reduces the materiality of the material weakness in financial management policies and procedures. The chapters include:
 - Financial Management Principles and Standards
 - Obligations
 - Financial Management of Credit Programs
 - Local Currency Trust Fund Management
 - Gifts and Donations and Dollar Trust Funds
 - Accounting for USAID-Owned/Controlled Property
 - Payables Management
 - Accruals
 - Financial Management Aspects of Travel
 - Administrative Control of Funds
 - Program Funded Advances
- The Agency closed 15 of 31 open audit recommendations in FY 2000 related to financial management policies and procedures that were impairing the IG's audit objectives.
- The Agency issued the FY 1999 Accountability Report.

Tasks and Initiatives:

- Publish four additional ADS chapters in FY 2001:

- Billings, Receivables and Debt Collection
- Payroll Related Activities
- Foreign Currency
- Managerial Cost Accounting

- Assess impact of Phoenix implementation on financial management policies and procedures and develop/revise chapters where needed.

Performance Indicators and Targets:

- Indicator 1.1.1: Audit opinion on USAID financial statements.
- Target: Unqualified opinion for FY 2001 financial statements.

IR 1.2: Improve Agency Financial Management Systems.

Background:

The Agency has reported a material weakness in its primary accounting system under Federal Managers' Financial Integrity Act (FMFIA) since 1988. The A.I.D. Worldwide Accounting and Control System (AWACS) is the core accounting subsystem of the New Management System (NMS) and has served as the Agency's primary accounting system through FY 2000. NMS AWACS does not comply with Federal core financial systems requirements, produce accurate and timely reports, and contain adequate controls. Although NMS AWACS principally supports the Agency's Washington financial operations, these deficiencies are deemed to be material to the Agency as a whole.

The IG reported in 1999³ that the Agency's remediation plan to correct financial management system deficiencies was inadequate. The

³ USAID IG, Audit of USAID's Progress Implementing a Financial Management System That Meets Federal Financial Management Improvement Act Requirements, Audit Report No. A-000-99-003-P, March 1, 1999.



Agency also lacked an information technology architecture, a financial management systems portfolio that met Office of Management and Budget's (OMB) guidelines for selecting information technology investments, a modular acquisition strategy and a program management office to oversee the development of an integrated financial management system. The IG reported in 2000⁴ that the Agency made progress in correcting these planning deficiencies. The accomplishments are noted below along with planned tasks to correct the remaining planning deficiencies.

The Agency's unsuccessful experience with implementing NMS in 1996 across its global telecommunication network demonstrated the enormous technical and business risks associated with implementing an Agency-wide integrated financial management system (IFMS). The interplay of an evolving target enterprise-wide architecture, alternative concepts of operation, a diverse telecommunications infrastructure, disciplined system engineering practices, business process reengineering, alternative system designs, rigorous configuration management, thorough testing, and change management are critical to the successful implementation of an Agency-wide IFMS.

Accomplishments:

- Successfully retired 8 financial management systems on the FY

1999 financial management systems inventory following an analysis of mission criticality and the cost-effectiveness of making them Year 2000 compliant. All remaining systems in the Agency's financial management systems inventory were made Year 2000 compliant.

- The New Management System underwent a system security certification and accreditation process. A risk assessment was conducted, system security improvements were implemented, and internal controls were strengthened. The CFO authorized NMS to process sensitive and mission-critical financial information.
- Successfully acquired, configured and implemented in early FY 2001 a modern core financial system utilizing American Management Systems, Inc. Momentum® Financials software products certified compliant with Joint Financial Management Improvement Program (JFMIP) requirements. The system is referred to as Phoenix and is implemented initially to support the Agency's Washington financial operations.
- The Agency's core financial system, Phoenix, received a security certification and accreditation for Washington operations in accordance with Federal requirements and coincident with the deployment of Phoenix in early FY 2001.
- A program office, reporting directly to the CFO, oversees the IFMS Program and the Financial Systems Integration (FSI) Project acquiring and implementing the core financial system, Phoenix. An executive level steering committee, consisting of the CFO, Chief Information Officer (CIO) and the Assistant Administrator for Management (AA/M) monitors performance of program activities.
- Updated the Agency's Integrated Financial Management Systems Modernization Plan. The IFMS Modernization Plan provides an improved description of the Agency's target financial management systems structure (see Section 4), projects, cost estimates, sequencing plans, and intermediate target dates.
- Successfully implemented a cross-serving agreement with the U.S. Dept. of Agriculture's National Finance Center (NFC) for personnel and payroll transaction processing services. The NFC provides improved service quality at lower overall transaction costs. The Agency will retire its legacy personnel and payroll systems and the mainframe that supports them.
- Received statutory authority to establish a Working Capital Fund (WCF) for the expenses of personal and non-personal services and supplies for International Cooperative Administrative Support Services. The CFO has established a

⁴ USAID IG, Audit of USAID's Actions to Correct Financial Management System Planning Deficiencies, Audit Report No. A-000-00-003-P, August 24, 2000.

working group to develop the operating procedures for the WFC.

- Successfully completed the second full year of loan servicing under the outsourcing contract with a commercial bank. The IG has indicated that their audit work has determined that the credit program balances are reasonably accurate.
- Documented “as-is” procurement business processes for acquisition and assistance, conducted market surveys, completed best practices surveys, and completed a cost/benefit analysis of alternatives for improving the Agency’s procurement system. A determination was made that a commercial software product will be acquired to replace the Agency’s custom-developed NMS Acquisition & Assistance subsystem.

Tasks and Initiatives:

- Collaborate with the CIO to develop and implement a process for prioritizing and selecting financial management system investments within an IT portfolio in FY 2001⁵.
- Collaborate with the CIO and others during FY 2001 to further define authorities, roles, responsibilities, and structure of the Change Management Team and Office of Financial Systems Integration to direct the planning,

design, development, and deployment of all financial management systems⁶.

- Implement an Enterprise Solution Integration Lab (ESIL) and associated system engineering practices in FY 2001 to support the planning, prototyping, design, configuration and testing of components of the Agency’s IFMS.
- During 2001 and 2002, conduct solution demonstrations to evaluate alternative concepts of operation, system design concepts, reengineered processes, and technologies to deliver business solutions for:
 - Piloting the Agency’s core financial system at two overseas accounting stations.
 - The next generation procurement system fully integrated with the Agency’s core financial system, Phoenix.
 - Integrating multiple financial management data repositories into a data warehouse architecture.
 - Third party electronic commerce applications operating over the Agency’s technical infrastructure.
- Implement the Mission Accounting and Control System (MACS) Auxiliary Ledger in FY 2001. The MACS Auxiliary Ledger will generate general ledger postings for the core financial

system, Phoenix, in accordance with the Agency-wide accounting classification structure (ACS).

- Further enhance the MACS Auxiliary Ledger in FY 2001 and FY 2002 to support translation of the MACS accounting classification structure to the lower levels of the ACS (i.e. strategic objective level), allocation of costs to the strategic objective level, and generating consolidated Agency-wide financial reporting at the strategic objective level.
- Implement electronic interfaces between the core financial system and significant internal feeder systems (e.g. NMS Acquisition & Assistance subsystem) and external feeder systems (e.g., Treasury Direct-Connect System, Riggs National Bank M&I System for loan servicing, Dept. of Health and Human Services Payment Management System for grantee letters of credit processing, NFC Payroll System) in FY 2001. This will ensure efficient financial transaction entry, improved data quality, and reduced data reconciliation workload.
- Enhance the systems security and control environment at overseas accounting stations through risk assessments, information technology upgrades, training, and data encryption. Complete a security certification and

5 Audit Recommendation No. 1: IG, Audit of USAID’s Action to Correct Financial Management System Planning Deficiencies, Audit Report No. A-000-00-003-P, August 24, 2000.

6 Audit Recommendation No. 3: IG, Audit of USAID’s Action to Correct Financial Management System Planning Deficiencies, Audit Report No. A-000-00-003-P, August 24, 2000.



accreditation of MACS at 38 overseas accounting stations in 2002.

- During FY 2001, complete solution demonstrations, business planning, and acquisition planning for the Agency's next generation modern procurement system.
- During FY 2002, evaluate proposals, award contracts for commercial software products and technical services, and begin software configuration for the new procurement system.
- Update the Agency's FFMI Remediation Plan to implement an IFMS as part of the FY 2003 financial management budget justification.
- The Agency will implement the WCF in three or four Missions in FY 2001 and plans to expand its usage in future fiscal years.

Performance Indicator and Targets:

- *Indicator 1.2.1:* Compliance with Federal financial management system requirements, accounting standards and U.S. Standard General Ledger at the transaction level.
 - Target: Substantially compliant by FY 2003.
- *Indicator 1.2.2:* Number of financial management system material weaknesses.
 - Targets:
 - ✓ Material weaknesses outstanding as of September 30, 2000 resolved by FY 2003;

- ✓ No new material weaknesses identified during the life of this plan.

IR 1.3: Improve Management of Receivables

Background:

USAID continues to face challenges on reporting accounts receivable accurately and timely. The IG has documented these challenges through audit recommendations and external reporting. Much has been done since the IG first identified these challenges in 1996. The Agency's FMFIA material weakness in its direct loan program was sufficiently corrected in FY 1999 to remove this area as a material weakness. The Agency has more to do in the area of financial management policies and procedures to implement the requirements of the Debt Collection Improvement Act of 1996.

Accomplishments:

- The Agency's new core financial system, Phoenix, implemented in early FY 2001 includes a subsystem for receivables management. The new system builds Agency capacity to properly establish and report outstanding accounts receivable.
- USAID issued agency policies and procedures governing the management of loans and Agency account receivables.
- During FY 2000 the Agency maintained accurate information on servicing direct loan receivables using Riggs National Bank to manage these accounts. USAID has \$11 billion in loan receivables under management.

- Utilized the Department of Treasury to cross service debt on agency accounts receivable.
- In FY 2000 USAID engaged a public accounting firm to assist in developing cash reconciliation procedures for Washington operations, implementing these procedures and reducing the balance of reconciling items. In addition, the public accounting firm was also engaged to assist USAID in reconciling its advance balances with letter of credit recipients. Significant progress has been made in reducing the value of the cash reconciling items. The absolute difference in cash between Treasury and USAID was reduced from \$266 million at September 30, 1999 to \$83 million at September 30, 2000.

Tasks and Initiatives:

- In FY 2001, USAID will account for Washington issued bills for collection using the core financial system, Phoenix.
- Continue on-going work to make further recoveries of Agency debt through increased cross servicing with the US Department of the Treasury.
- Issue financial management policies and procedures in FY 2001 to ensure adherence to the requirements of the Debt Collection Act of 1982 and the Debt Collection Improvement Act of 1996. These policies and procedures will enable Agency management to close three IG audit recommendations related to financial management policies and procedures.

- Implement an electronic interface between the core financial system and the Riggs National Bank system in FY 2001.

Performance Indicators and Targets

- *Indicator 1.3.1:* Percent of reconciling amounts between subsidiary ledger maintained at Riggs National Bank and the Phoenix general ledger.
 - Target: Reconciling amount to no more than 3% of loan balance outstanding.

IR 1.4: Improve Administration of Agency Grant Programs

Background:

In 1999, the Agency entered into a cross-servicing agreement with the Department of Health and Human Services (DHHS) for payment services to recipient organizations. The DHHS is serving as the fiscal intermediary between the Agency and its grantees. DHHS manages the payments against letters of credit issued by USAID to grantees through its Payment Management System (PMS). This has greatly improved the timeliness and accuracy of grantee payments and data reconciliation.

Accomplishments:

- The Department of Health and Human Services contracted to process the draw-down and liquidation of advances to grantees.
- USAID began the process of converting letter of credit recipients from the pooled advance methodology to the individual grant methodology in FY 2000. This action was taken based on an agreement between the CFO and the IG that the

pooled advance methodology did not provide adequate internal controls over the grant payment process. USAID suspended work on this project when OMB issued an exposure draft revision to Circular A-110 making it mandatory for federal program agencies to offer the pooled advance methodology to grantees. USAID will determine further action on this initiative once OMB makes a decision regarding its proposed revision to Circular A-110.

Tasks and Initiatives:

- Implement an electronic interface between the core financial system and the DHHS PMS in FY 2001.

Performance Indicators and Targets:

- *Indicator 1.4.1:* Percent of reconciling amounts between subsidiary ledger maintained at DHHS and the Phoenix general ledger.
 - Target: Reconciling amount to no more than 3% of total advances.

IR 1.5: Expand Use of Electronic Commerce for Financial Transactions.

Background:

The Debt Collection Improvement Act, the Government Paperwork Elimination Act (GPEA), and opportunities in the marketplace for electronic commerce have guided the CFO Council and OMB to adopt priorities and objectives for improving electronic services to individuals and electronic payments and collections. The Agency is addressing these legislative mandates and commercial opportunities within the framework of its Information

Management Strategic Plan, IFMS Modernization Plan, capital investment planning process and target enterprise-wide information technology architecture. Electronic commerce requires a specialized technical infrastructure, new technologies and application systems capable of interfacing with the systems of commercial service providers. An Agency distributed across the globe in over 70 locations with very diverse local technical infrastructure and system capabilities presents unique challenges for both implementing electronic commerce solutions and realizing the promised return on investments.

The Agency's core financial system, Phoenix, utilizes automated form and workflow tools that come bundled with the American Management System Momentum® Financials software and support some paperwork elimination goals largely for Agency users. The Agency has concluded that it is more cost-effective and lower risk to work through the government-wide Momentum Users Group to influence and prioritize future enhancements to the baseline Momentum® Financials software instead of embarking on custom-developed solutions or alterations to baseline software tailored to meet only Agency requirements for GPEA compliance. Future releases of Momentum® Financials will provide incremental enhancements in support of GPEA compliance and will be incorporated into subsequent releases of Phoenix.

Because USAID is a small agency, it will use larger agencies best practices and proven solutions when



implementing electronic commerce. The Agency will examine special targets of opportunity for innovative electronic commerce solutions that respond to the Government's strategies and initiatives. Solution demonstrations that ensure interoperability with Agency network systems without requiring significant capital investments will be used to evaluate and select initiatives.

Accomplishments:

- plan considers costs, benefits and risks at a high level for specific initiatives in response to GPEA.

Tasks and Initiatives:

- Conduct feasibility studies, benefit/cost analyses, solution demonstrations involving third party service providers of financial transactions services that can be implemented over the Agency's information technology architecture without significant capital investments.
- USAID will implement IPAC (Treasury system to perform intra-governmental transfers) on June 1, 2001. IPAC will enable USAID to collect information needed to record inter-agency transfers in a timely manner and will help facilitate account reconciliation with our governmental trading partners.
- Expand the use of credit cards for reimbursing contractors and other recipients for work performed on USAID funded activities. Specific proposals and pilot projects will be developed.

Performance Indicator and Target:

- *Indicator 1.5.1:* Agency executes a comprehensive business plan for utilizing electronic commerce for financial transactions.
 - *Target:* Electronic Commerce Plan developed and approved by FY 2002.

CFO Objective 2: USAID's Capacity to Assess Cost-Effectiveness Enhanced.

Progress against this objective will be assessed using the following indicator:

- *Indicator 2.1:* Costs attributable to strategic objectives, performance centers, and USAID goals.

To achieve this objective, the CFO plans to accomplish the following intermediate result:

IR 2.1: Agency financial management system captures and reports costs by objective, performance center and USAID goal.

IR 2.1: Agency Financial Management System Captures and Reports Costs by Objective, Performance Center and USAID Goal.

Background:

Through the Chief Financial Officer's Act, Congress called for the production of financial statements that fully disclose a Federal entity's financial position and results of operations, and provide information not only for the effective allocation of resources, but also with which Congress, agency managers, the public and other can assess

management performance and stewardship. Against this backdrop, the Office of Management and Budget (OMB) guidance encourages Federal agencies to develop and report information about the cost effectiveness of their programs.⁷ Although USAID cannot now attribute costs to its objectives, performance centers or goals, the financial management systems it is building under CFO objective 1 are designed to have the capacity to do so. This objective, therefore, has a single intermediate result.

Accomplishments:

- accounting subsystem that is compliant with JFMIP requirements for cost management.

Tasks and Initiatives:

- During FY 2001, USAID is developing and utilizing Phoenix cost allocation subsystem and other tools to allocate administrative costs to Washington-based benefiting organizations and strategic objectives. Washington-based operating units will be able to accurately determine administrative and program cost for their operations.
- During FY 2002, USAID will further extend these cost allocation tools to utilize detailed administrative and program cost information from overseas accounting stations. This financial information will be extracted from the MACS Auxiliary Ledger used in generating summary general ledger postings in Phoenix.

Missions will be able to accurately determine the costs of their program strategic objectives. The Agency will be able to capture and report costs by strategic objective, operating unit, and Agency goal.

Performance Indicator and Target:

- *Indicator 2.1.1:* Core financial system reports reflect costs by strategic objective, operating unit, and USAID goals.
 - *Target:* Such reports readily available by FY 2002.

CFO Objective 3: USAID's Financial Management Human Resource Capacity Strengthened.

Progress against this objective will be assessed using the following two indicators:

- *Indicator 3.1:* Percent of USAID financial managers professionally certified.
- *Indicator 3.2:* Percent of designated strategic objective team leaders certified in financial management.

To achieve this objective, the CFO plans to accomplish the following intermediate results:

IR 3.1: USAID recruitment and retention programs maintain adequate levels of qualified financial managers.

IR 3.2: Training and communications promote an understanding of financial management policies and procedures.

Each of these IRs is discussed in greater detail below.

I.R. 3.1: USAID Recruitment and Retention Programs Maintain Adequate Levels of Qualified Financial Managers.

Background:

Retaining USAID's highly skilled financial management staff and recruiting qualified financial management personnel are among the significant challenges facing the Agency. The IG has reported to Congress that continued staff reductions and limited hiring could greatly affect USAID's capacity to operate effectively.

The Agency's staffing levels have declined 38 percent over the past eight fiscal years. It achieved these lowered levels through attrition augmented by a major reduction-in-force in FY 1996, early-out retirement authority in FY 1996, 1999 and 2000, and buyout authority in FY 1996 and FY 2000. As a result of these actions, the demographic make up of USAID's staff has changed dramatically. At the start of FY 2001, the average employee is age 49 with 19 years of service. Thus, the Agency expects voluntary attrition to increase in each of the next five fiscal years.

These trends have affected USAID's financial management staff.

Accordingly, USAID's Office of Human Resources in cooperation with the CFO has taken steps to fill vacancies as quickly as possible by establishing a recruitment pipeline for financial management staff. As a result, the Agency expects to reduce the time it takes to complete the currently on-going recruitment for 15 financial management positions.

The Agency's recruitment efforts cover all grades, from entry level to

journeyman (GS-5 to 12) and senior level, i.e., GS-13/14 or 15. The Agency also plans to hire 17 entry-level Foreign Service controllers in FY 2001 and recruit annually for this category of financial management employees to meet anticipated departures.

The CFO expects to achieve this objective through collaboration with the USAID Office of Human Resources. Together, these offices will pursue two intermediate results.

Accomplishments:

- Financial manager needs assessed and projected for Civil Service and Foreign Service.
- Financial managers' recruitment pipeline established.

Tasks and Initiatives:

- Bring on board by the end of FY 2001 17 new financial professionals via the Foreign Service New Entry Professionals Program.
- Complete 15 Civil Service recruitment actions in FY 2001.
- Develop a FY 2002 recruitment plan for Foreign Service New Entry Professionals Program.
- Develop a FY 2002 recruitment, retention and development plan for Civil Service professionals.
- Continue Civil Service recruitment efforts. Look at different entry routes including Presidential Management Interns.

Performance Indicators and Targets:

- *Indicator 3.1.1:* Critical financial manager positions filled.



- Target: At least 90% of critical positions filled annually.

IR 3.2: Training and Communications Promote an Understanding of Financial Management Policies and Procedures.

Background:

As USAID modernizes its financial management systems, the financial management role of the Agency's technical officers is also being changed. These individuals are now more responsible for the obligation of program funds, financial pipeline management, and projecting expenditures (accruals). They need to understand their new responsibilities for financial management, financial data stewardship, and be trained in the skills they need to fulfill these responsibilities. In addition, mainline financial managers need to be trained on the use of the Agency's new financial systems.

Accomplishments:

- During fiscal year 2000, the Agency provided training to headquarters and overseas staff on audit management, management accountability and control, and the management of obligations. In collaboration with the Office of the Inspector General, over 1,000 USAID staff and partners were trained on the various aspects of audit management. The training has resulted in improved performance in the management of audit recommendations.
- The Agency trained 180 people to date in a new course on management accountability and control. The course is giving USAID managers and staff a better understanding of the management

control program and their responsibilities for implementing and evaluating Agency controls.

- Over 600 USAID staff members (e.g., technical officers, managers, auditors, and others) received training on the management of obligations. Among other things, the training emphasized compliance with forward funding guidelines and the de-obligation of unnecessary funds.
- Over 630 USAID employees in Washington received training on Phoenix System operations, procedures and controls prior to the implementation of the System.
- Over 200 USAID employees received training on revised performance measurement and reporting policies and guidance. Another 100 employees and partners in Africa attended a workshop on improving program performance.
- Conducted a USAID Worldwide Controllers' Conference in 2000 for over 90 USAID Controllers and over 30 foreign financial professionals leading and supporting the Agency's financial operations. The conference gave a broad cross-section of the Agency's financial managers an opportunity to learn about the Washington deployment of the new core financial system, the target financial management system strategy and an array of electronic commerce options in the marketplace.

Tasks and Initiatives:

- A comprehensive course on financial management for non-

financial personnel which will be implemented during FY 2001.

- Additional workshops on improving program performance will be conducted for Agency employees and partners in FY 2001.
- The Office of the CFO will continue to provide training in Audit Management, FMFIA, and Obligations Management as well as provide support for staff to attend external training courses and events. In addition, training courses are being developed for other financial management topics, in particular the financial management role in USAID for the contract technical officer. Also, USAID will be developing internal training courses to compliment federal financial management training courses commercially available.
- The Agency will provide regular on-going user training for the core financial system, Phoenix, and financial procedures supported by the system.

Performance Indicators and Targets:

- *Indicator 3.2.1:* Quality of core financial system training rated by users.
 - *Target:* Average rating of training by trainees is very good or better.
- *Indicator 3.2.2:* Strategic objective team leaders trained in their assigned financial management responsibilities.
 - *Target:* Conduct five courses per year.

3. Audited Financial Statements

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

objective and will facilitate the preparation of financial statements. In the interim, we will continue to work with the Inspector General to improve the overall process for generating financial statements while we work to implement this new system. For the FY 1999 statements, we agreed with the Inspector General to focus audit work on the major Balance Sheet accounts. This focus helped us to establish good opening balances for FY 2000 as well as helping to focus staff and contractor resources towards addressing the accounting and control weakness associated with these balance sheet accounts. In

As for the FY 2000 financial statements, we have again agreed with the IG to focus on the major balance sheet accounts. At this time it is too early in the audit process to know if the IG will be able to express an opinion on the balance sheet. However, it is fairly certain that the IG will not be able to express an opinion on the statements as a whole. In fiscal 2001, the Phoenix system will serve as the basis for preparation of the financial statements. Since Phoenix will maintain all accounts in Standard General Ledger format, a transaction level basis, we are optimistic that the IG will be in a position to conduct a full audit and express an opinion on the FY 2001 statements as a whole.

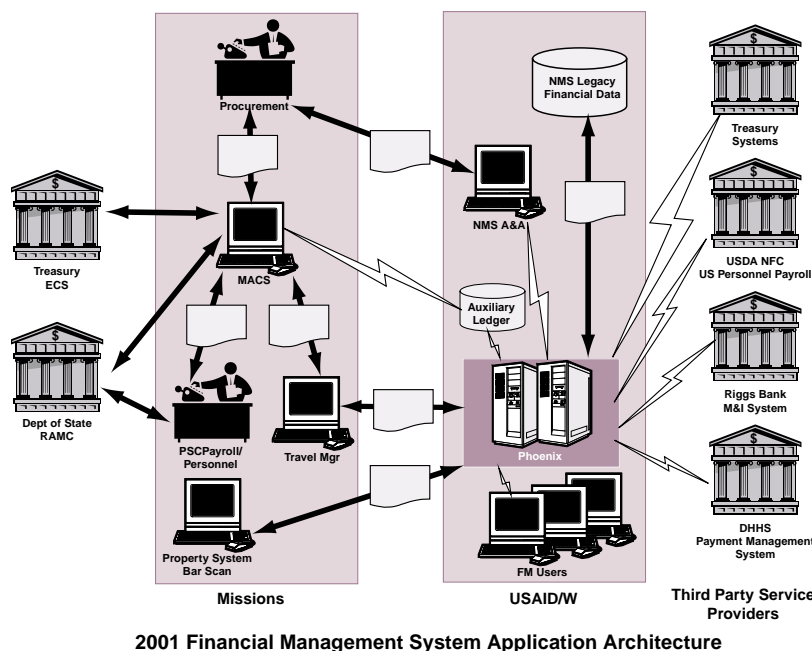


Figure E.1: Current Financial Management Systems Structure

The Inspector General cited the lack of an integrated core accounting system as an impediment to completing his audit. The lack of such systems, however, does not preclude the preparation of statements, which will continue. The full implementation of a replacement financial management system is our

addition, placing the audit emphasis on the major balance sheet accounts helped establish accurate opening balances for FY 2000 and greatly increases the likelihood that the auditors will be in a position to express an opinion on the FY 2001 consolidated financial statements.

4. Financial Management Systems Structure

4.1 Current Financial Management Systems Structure

Baseline Financial Management Systems

In 1999 USAID selected the American Management System's (AMS) Momentum® Financials product line as the Agency's new core financial management system and the cornerstone of its integrated financial management system. USAID is now transitioning from its legacy financial management systems to a financial management structure built around Phoenix, other commercial software products and third-party service providers. The major systems and their relationships are shown in Figure E.1.

Phoenix: Phoenix is the new core financial system of USAID. Phoenix was implemented in Washington in December 2000. Phoenix will eventually replace MACS installed at



overseas accounting stations. The standard ad-hoc reporting tool for use with Phoenix is Business Objects. The Phoenix application modules include accounts payable, accounts receivable, automated disbursements, budget execution, cost allocation, general ledger, planning, project cost accounting, and purchasing.

New Management System (NMS):

The NMS is an integrated suite of custom-built financial and mixed financial applications. Intended for worldwide deployment, NMS has been restricted to Washington because of technical difficulties. Four subsystems comprise NMS:

- *AID Worldwide Accounting and Control System (AWACS).* AWACS subsystem was replaced by Phoenix as the Agency's primary accounting system of record. AWACS will remain in use for reporting and queries against historical data until the AWACS historical data can be migrated to a data repository and AWACS retired in 2001.
- *Acquisition and Assistance (A&A).* The A&A subsystem will be interfaced to Phoenix and will continue to be used in Washington to support procurement until a replacement procurement system is implemented and integrated with Phoenix in 2003.
- *Budget (BUD).* The Budget subsystem was retired with the implementation of Phoenix. Phoenix will handle agency budget distribution and budget execution. Support for agency budget formulation will be

provided through spreadsheets and bureau systems until USAID acquires a standard budget formulation system and integrates it with Phoenix.

- *Operations (OPS).* The NMS Program Operations module was retired with the implementation of Phoenix. The establishment of accounting structures for strategic objectives will be done in Phoenix. Strategic objective results will be reported through the Results Reporting and Resource Request (R4) that is sent annually from operating units to Washington. Plans for providing for standardized management tools and results reporting mechanisms are still in the formulation stage.

Mission Accounting and Control System (MACS):

MACS will remain the primary accounting system for field missions worldwide until replaced by Phoenix. MACS incorporates allowance accounting, operating expense accounting, project accounting, and a feeder system to the Agency's general ledger. MACS was implemented in 1981 and has not been significantly enhanced over the years to remain fully compliant with Federal requirements for a core accounting system. MACS does not support the Agency's accounting classification structure thereby requiring ancillary record-keeping systems to support consolidated financial statement preparation and external reporting. The related MACS Voucher Tracking System (MACSTRAX) automates voucher management and payment scheduling. To ensure security and financial integration with Phoenix, USAID will undertake two key

enhancements in parallel. These are the MACS Auxiliary Ledger and MACS Security Improvements:

- *MACS Auxiliary Ledger:* The MACS Auxiliary Ledger is a new subsystem of Phoenix being implemented in FY 2001. It will provide a means of routing MACS transaction data from the missions to Washington for summary-level postings in Phoenix. The initial use will be for summarized monthly reporting and Treasury reconciliation, replacing the mainframe-based Country Financial Reporting System (CFRS). Subsequently, the MACS Auxiliary Ledger will be enhanced through schedule releases to provide cross-walks between the Phoenix accounting classification code structure and MACS and improved management reporting.
- *MACS Security Improvements:* MACS security improvements will enhance the systems security and control environment at overseas accounting stations through risk assessments, information technology upgrades, training, and data encryption. A security certification and accreditation of MACS at each (38) overseas accounting stations will be completed in 2002.

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

- *Travel Manager:* The GELCO commercial software products, Travel Manager, is currently used in Washington and in missions to

provide travel management support. It is used either as a standalone application or operating as a shared application over a local area network. Currently, Travel Manager does not have an electronic interface with any Agency financial systems.

- **Non-Expendable Property (NXP):** The NXP program is USAID's custom-developed property management system. It is currently in use at many missions around the world but is planned for replacement. It was implemented in 1989 and is not compliant with JFMIP requirements for a property management system. NXP does not have an electronic interface with any Agency financial system.
- **BAR/SCAN:** USAID currently uses the commercial software product, BAR/SCAN, for property management of non-expendable property in Washington. BAR/SCAN maintains an inventory of bar-coded property. The program is being piloted for use in missions as a replacement for the Agency's legacy NXP system. BAR/SCAN is substantially compliant with JFMIP requirements for a property management system. Currently, BAR/SCAN does not have an electronic interface with any Agency financial systems. Missions will acquire and implement the software as an inexpensive non-integrated solution to their property management needs. The budget for this initial deployment is not included in the estimated costs in Table E.2.

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

- **Department of Agriculture National Finance Center (NFC):** USAID has cross-serviced its personnel and payroll processes for US direct hire (USDH) employees to NFC. The NFC systems, are executed at the NFC's New Orleans facility and at the USAID Washington facility, maintain personnel records, process employee time and attendance data, and transact payroll services. The payroll accounting interface to Phoenix is automated.
- **Riggs National Bank:** USAID has outsourced standard Credit Reform transactions to Riggs National Bank. The Riggs Loan Management System provides services to the Agency for collections, disbursements, claims, and year-end accruals. The services have replaced the USAID Loan Accounting Information System (LAIS) and the Housing Guarantee Program Management System (HGPMMS). The interface to Phoenix is automated.
- **Department of Health and Human Services (DHHS):** USAID has cross-serviced its letter of credit (LOC) processing of grantee

advances and liquidations to the DHHS Payment Management System. An electronic interface to Phoenix will be implemented in FY 2001.

Other Baseline Financial Management Systems:

- **Mission Personal Services Contractor (PSC) Personnel and Payroll Systems:** USAID missions currently use a variety of systems to manage and pay PSC personnel. These range from spreadsheets to custom-built applications and databases to commercial off-the shelf packages. Typically, US citizen PSC employees and Foreign Service National (FSN) PSC employees are managed and paid through different systems. Some missions obtain FSN payroll services from the US Department of State's Regional Administrative Management Centers (RAMC). Some missions have developed electronic interfaces from their payroll systems to MACS. USAID is in the process of implementing a standardized mission developed and maintained FSN personnel system with streamlined procedures for State's RAMC payroll systems. State's RAMC will become the standard Agency-wide third party service provider for FSN PSC payroll processing.
- **Mission Procurement Information Collection System (MPICS):** Pending the fielding of an Agency-wide procurement system, a manual procurement process is used in the missions. MPICS is the data entry mechanism for USAID field missions to enter their past and current award data into a



single Washington database for reporting purposes.

- *ProDoc and RegSearch*: These procurement support systems from Distributed Solutions Inc. (DSI) are being deployed in Washington

Information Management System (CIMS).

Deficiencies in Baseline Financial Management Systems

Material Weaknesses: Figure E.2 lists the material weaknesses identified by

weakness. Figure E.2 indicates the current fiscal year for correction and the fiscal years for correction in italics that was reported in the Agency's *FY 1999 Accountability Report*.

Primary Accounting System: USAID lacks an effective, integrated financial management system. AWACS does not (1) comply substantially with federal financial management systems requirements, applicable federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level; (2) produce accurate and timely reports; (3) contain adequate controls; or (4) allow for accurate and timely, documented migration of data from legacy systems. The lack of an integrated financial system has hindered the Agency's ability to manage assets effectively and efficiently.

Information Resources Management Processes: The Agency identified a material weakness in its information

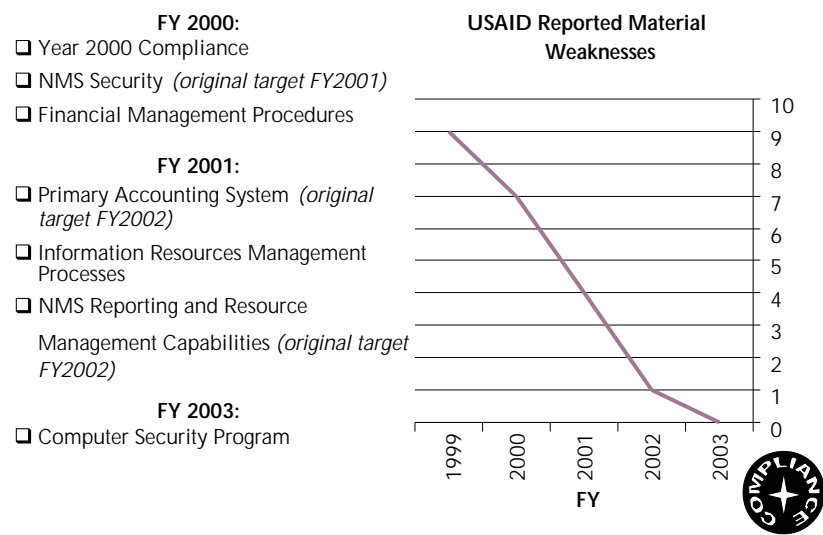


Figure E.2: Planned Corrections of Material Weaknesses Reported by USAID

and the missions to generate solicitations and awards. They will replace the Agency's Document Generation System (DGS). These commercial software products have capabilities that will enable the Agency to replace MPICS once ProDoc is fully implemented.

- *Legacy Financial Data Repository*: The legacy Financial Data Repository enables access to historical information from financial management systems that have been retired. The data repositories include data from systems (e.g., LAIS, LOCSS, and HGPMS), which were replaced by the third party service providers. It also holds data from the retired Financial Accounting and Control System (FACS) and Contract

the Agency as required by the Federal Managers' Financial Integrity Act. USAID has developed and is implementing detailed corrective action plans for each material

- The OIG identified 83 open audit recommendation that affected their FY 1999 financial statement audit objectives
- OIG recommendations address findings in:
 - Policies & Procedures
 - Core Financial System & Other Feeder Systems
 - Data Reconciliation
 - Performance Reporting
 - System Security & Controls

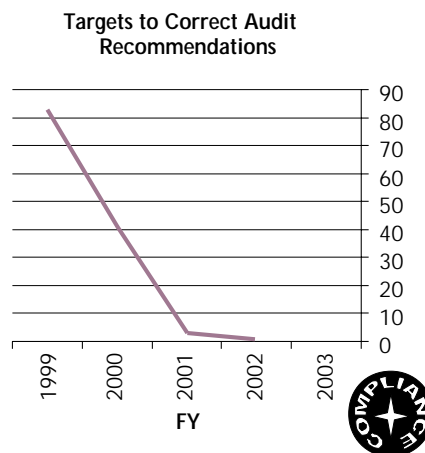


Figure E.3: Planned Corrections for OIG Audit Findings and Recommendations

resources management processes in 1997. Considerable progress has been made improving general controls over software, implementing disciplined software practices, selecting IT investments in accordance with Federal requirements, monitoring IT projects. Additional work is planned in FY 2001 that will enable the Agency to close this material weakness.

Reporting and Resource

Management Capabilities: NMS was designed to replace or supplant legacy information systems for financial management, budgeting, procurement and program operations; but the components of NMS operate only in USAID/Washington. Some aspects of this weakness have been mitigated through the implementation of a system for capturing and reporting mission procurement actions. NMS reports are not always timely, accurate, or sufficiently useful to manage the Agency. The financial management component of NMS does not always produce reliable obligation and expenditure information, forcing users to employ "cuff record" systems to serve as backups to NMS. The combined implementation of the new core financial system with an interface to the overseas accounting system and a system for capturing mission procurement information will substantially mitigate this material weakness. This work is planned to be completed in FY 2001 and will enable the Agency to close this material weakness.

Computer Security Program: In 1997, USAID did not have an adequate Information System

Security Program (ISSP) mandated by the Computer Security Act and various OMB Circulars. Substantial progress has been made in institutionalizing disciplined system security practices, identifying critical and sensitive systems, assigning security responsibilities, implementing system security plans, and conducting risk assessments of Agency's information systems. Additional risk assessments, system security certifications and accreditation of networks and systems at overseas accounting

statement audit objectives. The Agency developed a strategy and plan to systematically correct many of these deficiencies and close the audit recommendations. During FY 2000, 38 of these audit recommendations were successfully closed. All but three of the remaining audit recommendations will be closed in FY 2001. The remaining three related to performance reporting will be closed in FY 2002.

The following summarizes key deficiencies highlighted in open

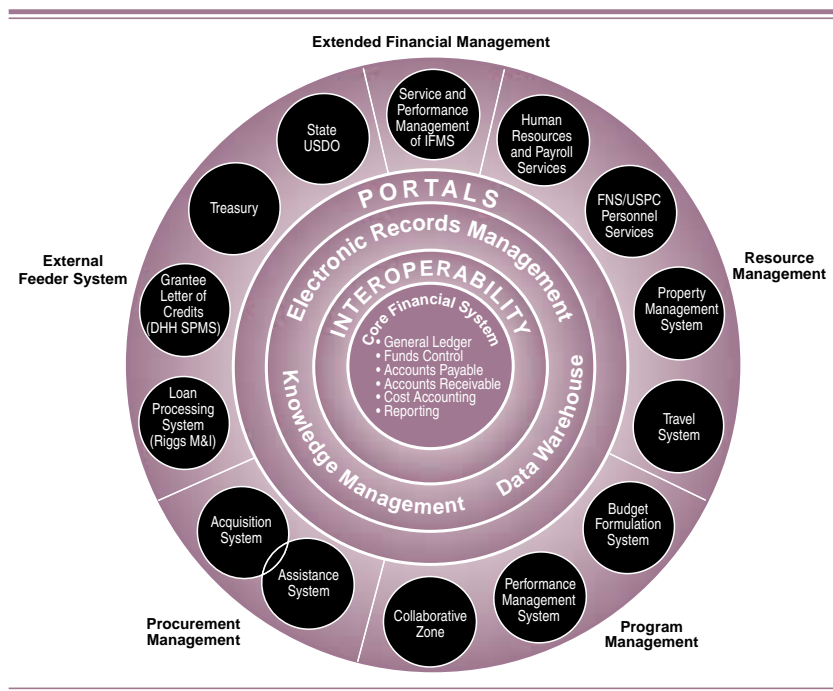


Figure E.4: Target Integrated Financial Management System Logical Model

stations is planned for FY 2001 and FY 2002 to substantially mitigate this material weakness.

Audit Findings: During IG's audit of the Agency's FY 1999 financial statements, 83 audit recommendations were identified as remaining uncorrected from prior audits that affected their financial

audit recommendations that will largely be closed in FY 2001:

- **Policies & Procedures:** Document procedures and controls and conduct training and supervision over journal vouchers postings to the general ledger. Develop a methodology for calculating accruals. Implement policies and



procedures to ensure adherence to DCIA. Implement procedures to ensure timely data reconciliation. Develop procedures to ensure grant agreements and amendments are properly recorded in financial systems. Establish a system to ensure data integrity at overseas accounting stations. Clarify CFO authorities and resources to carry out CFO Act responsibilities.

- Core Financial System & Other Feeder Systems:** Apply disciplined practices to system planning, project management and system development. Ensure core financial system can manage and report on interagency agreements. Record financial transactions in accordance with the U.S. Standard General Ledger. Record accruals in the general ledger. Improve FFMI Remediation Plan.
- Data Reconciliation:** Ensure subsidiary ledgers and general ledger reconcile. Complete loan rescheduling and ensure Riggs National Bank system reflects this information. Ensure adjustments are recorded at Riggs National Bank. Verify unliquidated obligation balances at DHHS.
- Performance Reporting:** Establish common performance indicators by operating unit. Identify the full cost of USAID programs, activities and outputs.
- System Security & Controls:** Incorporate system security requirements, processes and resources in system planning, and implementation processes. Ensure adequate skills and resources are assigned to the computer security

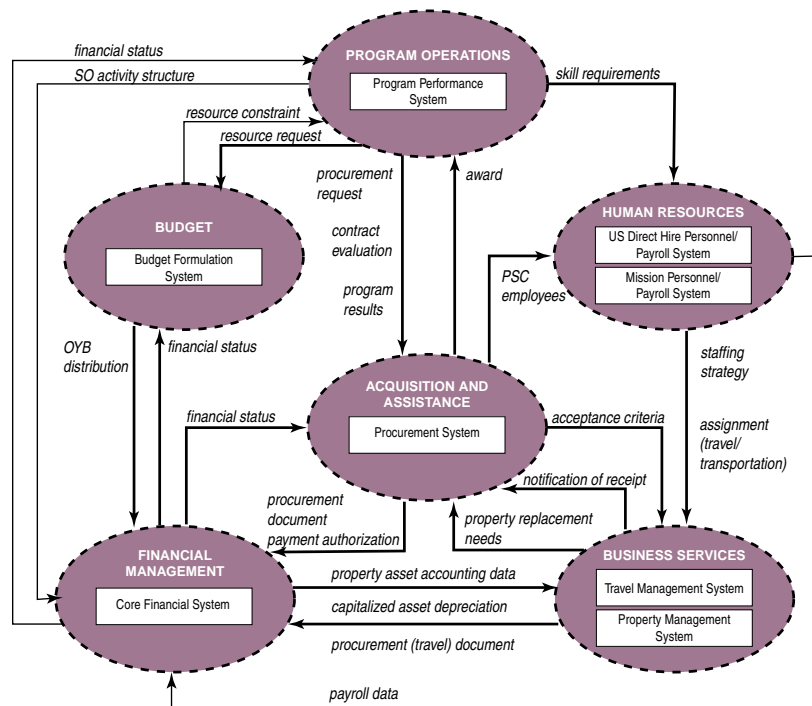


Figure E.5: Logical Business Architecture

program. Ensure existing systems are in full compliance. Strengthen MACS system security. Clarify security roles and responsibilities.

remain focused on information needs to support Agency decisions.

The target financial management system will:

4.2 Target Financial Management Systems Structure

The primary goal of financial management system modernization at USAID is a single, integrated financial management system that supports the mission of the Agency and complies with Federal requirements and standards. The goal is achieved by adherence to the disciplines of architectural planning, capital investment planning, and systems engineering. This will ensure that plans are business-driven rather than technology-driven, data-driven rather than process-driven, developed by business representatives rather than technology specialists alone and

- Provide complete, reliable, timely, and consistent information.
- Apply consistent internal controls to ensure the integrity and security of information and resources.
- Utilize a common data classification structure to support collection, storage, retrieval and reporting of information.
- Provide an information portal to the Agency's financial management data resources with a similar look and feel accessible wherever USAID operates.

- Utilize an open framework and industry standards for data interchange and interoperability.
- Provide, on demand, value-added information products and services.
- Ensure standardized processes are utilized for similar kinds of transactions.
- Remain flexible and modifiable to business changes.
- Support timely, accurate, and cost-effective electronic exchange of information with customers and external partners.

To achieve this vision, the data, systems, services and technical infrastructure must be engineered, configured and optimized to operate in an integrated fashion to deliver Agency-wide financial management support. Figure E.5 describes the logical business model that the target IFMS will support. A high-level target system architecture is shown in Figure E.6. It is guided by and consistent with the Agency's target enterprise information architecture. This target financial management system architecture will be implemented in a modular fashion to achieve the target financial management system structure and is described in more detail in the *Agency's IFMS Modernization Plan*.

The business functions of the Agency will increasingly be supported by a combination of commercial software products and third party service providers. Public sector and private sector third party service providers will provide essential feeder systems to the Agency's core financial system. The increasing reliance of foreign affairs agencies on shared

telecommunication infrastructure, co-located facilities overseas and common financial transaction processing services may suggest alternative implementation strategies for the IFMS. An interoperability framework consisting of policies, standards, practices, hardware and software will enable the Agency to more effectively utilize commercial software products and third party service providers to evolve the IFMS as both technologies and service providers evolve.

Enterprise Solution Integration Lab:

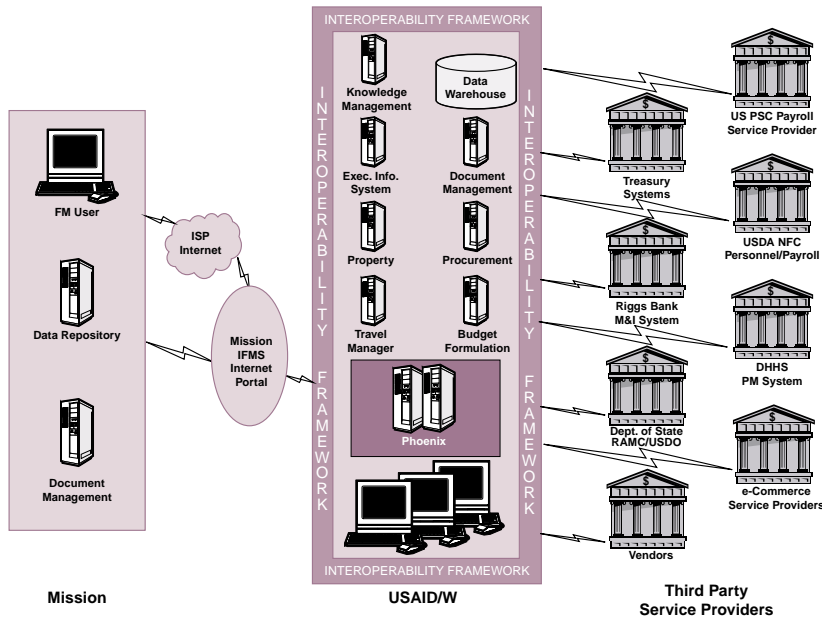
Given the global nature of USAID's mission, its overseas operations and diverse technical infrastructure an enterprise systems engineering approach is needed for designing the IFMS. This approach will involve users and technical staff in evaluating alternative concepts of operation, system design approaches, reengineered processes, and new technologies operating over the Agency's current and planned network systems and telecommunications infrastructure. An Enterprise Solution Integration Lab (ESIL) and associated system engineering practices will be established in FY 2001 to support the planning, prototyping, design, configuration and testing of components of the Agency's IFMS. This test-bed environment that models the Agency's current and intermediate target architecture along with disciplined engineering practices will mitigate the significant risks of deploying the IFMS over the Agency's global network. It will provide a cost-effective approach for conducting solution demonstrations that validate the application of new technologies for satisfying business

needs, developing performance measures, refining requirements, improving the reliability of cost and schedule estimates, and assuring that planned returns on investment are realized. The ESIL is a critical enabler for implementing an IFMS.

4-3 Financial Management Systems Strategy

The Agency's financial management system strategy is aligned to the *Agency's Strategic Plan, IM Strategic Plan, and Target Enterprise Information Architecture* and expressed in the *IFMS Modernization Plan*. The essential elements of the strategy:

- Utilize public and private sector third party service providers whenever cost-effective.
- Require solution demonstrations to manage risks and engineer system components within target enterprise architecture.
- Acquire proven commercial software products rather than build custom-developed applications.
- Re-engineer Agency business processes before altering the baseline commercial software product.
- Implement major systems in Washington before deploying systems to missions.
- Implement network and telecommunication infrastructure upgrades to support the financial management systems architecture.
- Leverage the system architecture and the planned technology



2005 Financial Management System Application Architecture

Figure E.6: Target Financial Management System Architecture

evolution of commercial software products.

- Utilize a data warehouse to integrate information outside of the applications.
 - Acquire system components in an incremental fashion.
 - Plan enhancements to system capabilities as releases within the framework of enterprise configuration management practices.
- Financial Systems Integration Project:** Complete implementation of Phoenix in Washington with interfaces to major feeder systems and pilot Phoenix at two missions. Improve overall systems security at overseas accounting stations, certify and accredit MACS security, and enhance MACS auxiliary ledger interface with Phoenix.
 - Wide Area Renovation Project:** Deploy dedicated, scalable, secure, manageable, and faster telecommunication services overseas.
 - NOS/Exchange Upgrade Project:** Upgrade overseas network operating systems and e-mail software.
 - Procurement Systems Improvement Project:** Replace NMS A&A with a modern commercial procurement software

During 2000, Agency business area representatives under the leadership of the Chief Information Officer (CIO) ranked and sequenced the IT investment priorities for FY 2001 through FY 2003. The significant IT projects that the Agency is requesting funding in the FY 2002 budget submission include:

product and integrate it with Phoenix.

4.4 Planned Major System Investments

The following paragraphs provide a brief narrative of the approaches to implement the target financial management system structure. Implementing the target structure will take more than the 5-years covered by this system plan. The *IFMS Modernization Plan* provides more detailed descriptions of performance requirements, benefits, planned releases, compliance requirements addressed, dependencies, assumptions, schedules and costs.

Phoenix: Phoenix will be matured over a series of releases to provide support to all USAID missions and locations and to interface with significant feeder financial management systems. Agency financial transactions will be recorded in the Phoenix general ledger in Washington at a detail or summary level. Missions will interact with Washington to reference and capture the financial data. The concept of operation and the overall distribution of data schema will be developed and refined. Phoenix will be piloted at two missions to determine the architectural approach and a feasible schedule for transitioning mission accounting support to Phoenix. Technical options for fielding Phoenix include client-server deployment and web browser application interface. Interoperability with feeder financial systems will be effected through a commercially available AMS Momentum® Application Programming Interface (API) that utilizes publish-subscribe queues



and message broker middle-ware to provide application transparency. This application-to-application interface method will allow the agency to support interoperability within the constraints of the low-bandwidth communications environment it faces in many locations.

Procurement System: A commercial software product will be selected that supports both acquisition and assistance procurement activities of the Agency. This new procurement system will initially replace NMS A&A in Washington, and be integrated with Phoenix and various contract writing tools. It will later be deployed Agency-wide along with Phoenix.

Budget Formulation System: USAID needs a set of tools and standard business processes to improve the efficiency and effectiveness of Agency-wide budget formulation, budget consolidation, budget submission and loading of upper level budget information in Phoenix. USAID's budget formulation process is integrated with its program operations and performance management processes for collecting information on the performance of its programs. USAID operating units submit annual Results Review and Resource Requests (R4s) that describe any adjustments to the operating units strategic plans and request funds for the strategic planning period. This process has already been reengineered and tailored to support USAID's strategic planning and budget formulation process. Solutions demonstrations in the ESIL will be used to assess feasibility, impacts and risks of

various technology alternatives to support budget formulation and performance reporting.

Financial Management Data

Warehouse: The Agency is currently completing the retirement of legacy financial management systems operating on the Agency's mainframe and transferring data to a series of data repositories. Third party feeder systems will generate data that will need to be stored in data repositories to support data reconciliation, audits, ad hoc queries, and reporting requirements. Other financial management systems will capture data that will not be electronically exchanged with other systems and will need data repositories to facilitate integrated reporting. USAID will implement an enterprise-wide data warehouse for financial management data that will link multiple data repositories using common data elements.

USAID already utilizes a set of tools for collecting, monitoring, evaluating, and sharing program results and indicator data. Collectively these tools will continue to support USAID's performance reporting requirements and management decision-making. Performance data will be extracted, transformed and loaded into the data warehouse and linked with cost data through the use of common data elements that conform to the Agency's accounting classification structure (e.g. strategic objectives) for tracking and reporting program performance. While Phoenix will maintain the accounting classification structure for the Agency, the Agency's data warehouse will capture and maintain detail and

summary data on program indicators, performance and the costs of Agency programs.

The data from core financial, procurement, budget formulation, performance, and property systems along with data from third party service providers will be extracted/collected, transformed, and loaded into the data warehouse. The data warehouse will be web-enabled and available across the Agency. It will be the medium of integration across the portfolio of financial management systems.

Executive Information Systems: With the implementation of the financial management data warehouse, the Agency will be able to use commercial software products that provide business consolidation, and financial intelligence with online analytical processing to view the business from many perspectives.

Business Support Services: The major initiatives in the business services area will be enterprise-wide deployment of the Agency's travel and property management systems. Current plans call for the Travel Manager and BAR/SCAN applications to become standard enterprise applications. The Agency will rely on joint vendor efforts to integrate commercial software products with the AMS Momentum® Financials commercial software product. Future releases of Phoenix will include these enhancements. Initially these applications will be deployed in each mission and will not be integrated with Phoenix or MACS.



- Travel Manager:** The vendor, GELCO, is developing a version of Travel Manager that will interface with AMS Momentum® Financials in a release planned for the 4th quarter of FY 2001. It is expected to use Momentum® Financials APIs and other middle-ware tools to support electronic exchange of information. This version will bring Travel Manager tables and screens into agreement with the AMS Momentum® financial structure. USAID plans to implement this capability in a release of Phoenix in the 4th quarter of FY 2001 to support USAID/Washington operations. A non-integrated version of Travel Manager will continue to be used in some missions. Further integration engineering, central software license purchases and training will be done coincident with deployment of Phoenix Agency-wide.

- BAR/SCAN:** USAID will field Bar/Scan to all missions to replace the NXP program. Each mission will acquire and implement the software. Integration with other financial management systems will depend on AMS Momentum® Financials product development strategies, in part. Further investment analysis may suggest that periodic data calls or capturing Agency-wide property data in the financial management data warehouse for annual reporting requirements may be adequate for reporting the value of Agency property in the financial statements.

Third-party service providers: The agency is expected to continue to rely on its current third-party service

providers NFC, Riggs National Bank, and DHHS for the foreseeable future. Improvements to the interface mechanisms through the use of intermediate data repositories will be scheduled for implementation to improve the efficiency and effectiveness of data integration. In the case of NFC, these include improving the agency's current methods of collecting time and attendance data and providing it to NFC. The agency also expects to take advantage of improved functional capabilities as NFC makes them available. The Agency will continue to rely on State's RAMC for FSN PSC payroll processing. The major new initiative for the target financial system is the selection a third-party provider for US PSC personnel, payroll, and benefits processing services.

systems have been prepared as part of the IFMS Modernization Plan. The FY 2001 and FY 2002 costs represent current year and budget year levels in the Agency's FY 2002 budget submission, Exhibit 53 and Exhibit 300Bs. The FY 2003 through FY 2005 cost estimates for major financial management systems will be included in subsequent budget submissions as projects are added to the Agency's IT portfolio and approved for funding. Currently, multiple financial management system modernization projects are scheduled to begin in FY 2004 and FY 2005. Table E.2 details the costs of achieving substantial compliance with FFMIA.

4.5 FFMIA Remediation Plan

The Federal Financial Management Improvement Act (FFMIA) requires USAID to implement and maintain a

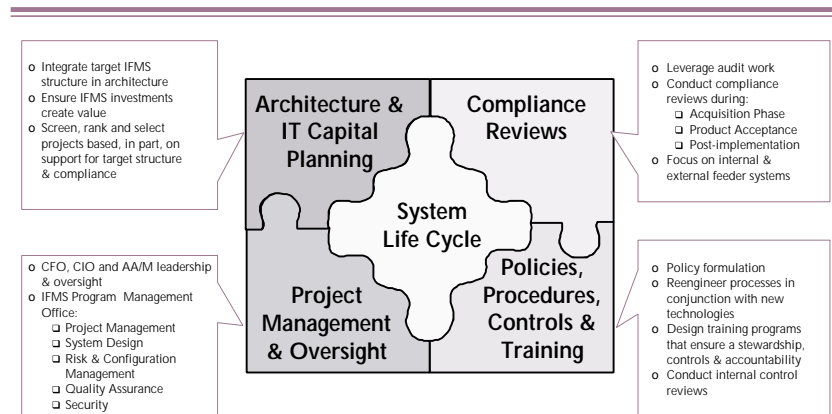


Figure E.7: Life Cycle Approach to Financial Management System Compliance

Financial Management System

Costs: Estimates for the costs for major system planning, modernization, enhancements and steady state operations for current and planned financial management

financial management system that complies substantially with:

- Federal requirements for an integrated financial management system.

- Applicable Federal accounting standards.
- Requirements to post transactions to the U.S. Standard General Ledger at the transaction level.

These requirements are further detailed in OMB Circular A-127, *Financial Management Systems*. The IG is required under FFMIA to report on compliance with these requirements as part of the audit of USAID's financial statements. In the audit of USAID's FY 1999 financial statements⁸ the IG determined that USAID's financial management systems did not substantially comply with FFMIA accounting and system requirements. The Agency reported the material non-conformance of its

financial management systems in the *FY 1999 Accountability Report*.

Achieving Substantial Compliance with FFMIA: The IG has identified deficiencies in the Agency's baseline financial management systems that encompass policies, procedures, controls and practices. These are summarized in Section E.2 and further detailed in Table E.1. Since the IG has identified examples of non-compliance and not necessarily all instances of non-compliance, additional deficiencies may be identified through additional audit work or financial management system reviews. JFMIP issued an exposure draft in 1999 entitled, "*Financial Management Systems Compliance Review Guide*." This

guidance suggests that a life cycle approach to financial management system compliance is needed to ensure that the Agency achieves and retains substantial compliance. Life Cycle Approach to Financial Management System Compliance: OMB guidance⁹ on implementing FFMIA sets forth requirements and indicators for substantial compliance. While the IG is required to report on the Agency's compliance with FFMIA in the audit of the Agency's financial statements, OMB Circular A-127 also requires agencies to conduct reviews of their financial management systems. The increasing importance given to third party service providers to support Agency financial management operations requires their systems to be periodically reviewed as well. The IG has identified examples of non-compliance and not necessarily all instances of non-compliance. In order to ensure substantial compliance is achieved, the prioritization and sequencing of planned system investments should be informed by a program of USAID financial management system reviews that leverages the valuable role the IG will continue to play in compliance reviews.

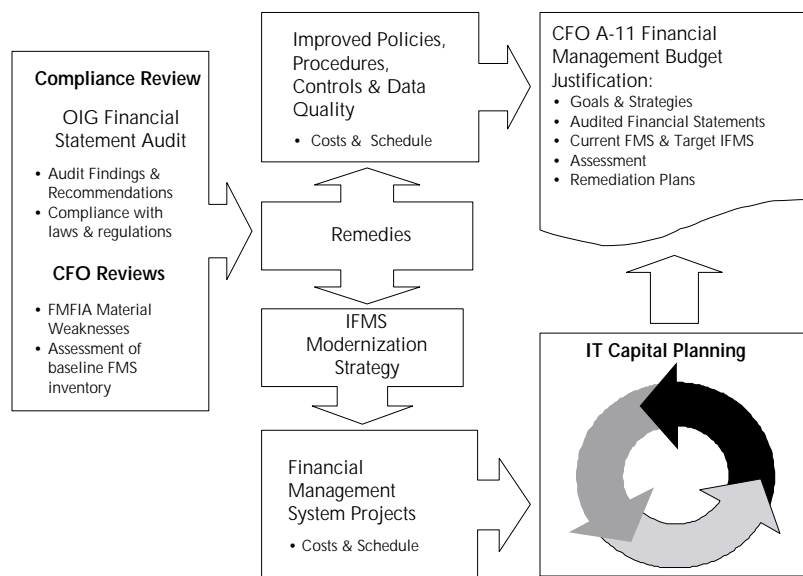


Figure E.8: USAID FFMIA Remediation Planning

Figure E.7 describes a system life cycle approach to financial management system compliance that USAID is developing. It integrates compliance reviews with IT portfolio reviews, ranking, funding, acquisition planning, system

⁸ USAID OIG, Reports on USAID's Consolidated Financial Statements, Internal Controls, and Compliance for Fiscal Year 1999, Report No. 0-000-00-006-F, February 18, 2000

⁹ OMB Memorandum for Heads of Executive Departments and Establishments, Chief Financial Officers and Inspector Generals regarding "Revised Implementation Guidance for the Federal Financial Management Improvement Act" dated January 4, 2001.



acceptance and post-implementation reviews. The Agency has made progress in this effort by:

- Acquiring commercial software certified compliant with applicable JFMIP requirements.
- Incorporating JFMIP requirements and Federal accounting standards in system acceptance test scenarios and scripts.
- Conducting risk assessments and evaluations of management, technical and operational controls as part of the system security certification and accreditation process.

Figure E.8 broadly describes USAID's approach to remediation planning. It relates remediation planning to the Agency's IT capital planning process and annual budget submission process. During FY 2000, the Agency improved the quality and accuracy of its remedies, costs and intermediate target dates. Planned improvements in FY 2001 include further refinement of the scope of the remediation plan through further system reviews, analysis, planning and design of the Phoenix interface with MACS via the MACS Auxiliary ledger and the financial management data warehouse.

FFMIA Remediation Strategy:

Section 4.3 outlines the elements of the target financial management systems strategy. The FFMIA Remediation Strategy embraces this broader strategy and includes additional elements that address areas of non-compliance within the requirements set forth in Section 7 of OMB Circular A-127. Table E.2 provides a summary of Agency

compliance with FFMIA utilizing the indicators provided by OMB. While all of the policies and requirements in A-127 are important, some are essential in addressing specific areas of non-compliance:

Common Data Elements: An Agency-wide standard accounting classification structure and other common data elements will be used in the Agency's financial management systems. Commercial software products and services will be acquired to the maximum extent possible that can capture or generate financial data that meets these standards directly or through cross-walk tables. Data required for external reporting or decision-making that is not captured in the Phoenix core financial system will generally be collected, stored and retrieved in data repositories integrated in a financial management data warehouse framework utilizing standards and common data elements. Phoenix will not be modified to add additional data elements, if such changes would require a unilateral modification to the baseline AMS Momentum® software.

Efficient Transaction Entry: Feeder systems will capture or generate financial and performance data that will be entered in either Phoenix core financial system or the financial management data warehouse. Whenever appropriate and cost-effective, Phoenix will be updated electronically by these feeder systems consistent with the timing requirements of normal business/transaction cycles. When the volume of financial data or its material impact on the financial

statements is low and adequate controls exist for ensuring data quality and reconciliation between Phoenix and a feeder system then manual processes involving duplication of transaction entry are acceptable.

Application of the USG Standard General Ledger at the Transaction Level: Reports produced by system components of the Agency-wide IFMS will provide financial data that can be traced directly to SGL accounts. Financial transaction detail in a feeder system or a corresponding data repository will follow the same account descriptions and posting models/attributes that are reflected in the SGL.

Federal Financial Management Requirements: Commercial software products and services will be selected in part on their capability to support JFMIP requirements. Where JFMIP requirements have not been established, products and services will be selected that support Agency-wide information classification structure, common transaction processing, consistent internal controls, efficient transaction entry, transaction recorded consistent with SGL rules, applicable Federal accounting standards and Computer security Act requirements.

Federal Accounting Standards: Financial data will be captured, generated, and maintained in accordance with standards recommended by the Federal Accounting Standards Advisory Board and issued by OMB.

Computer Security: Each financial management system component will

be evaluated to determine if it contains "sensitive information" as defined by the Computer Security Act. A formal system security certification and accreditation (C&A) process will be followed for each system containing "sensitive information."

Financial Reporting: The Agency's financial management systems and data warehouse will provide financial information to measure program performance, financial performance and financial management performance. Costs will be attributable to and reported by strategic objectives, performance centers and USAID goals.

Remedies, Resources and

Intermediate Target Dates: Table E.2 provides a summary of the remedies and target dates for resolving specific deficiencies against indicators and compliance attributes provided by OMB. Table E.2 provides a summary of financial management system modernization efforts and enhancements that apply to specific deficiencies reported by the IG. Table E.2 also provides a summary of system remediation costs for fiscal years 2001, 2002, and 2003. The resource estimates for these remedies reflect the acquisition of software, hardware, and technical services. Taken together these tables and their associated subsidiary worksheets constitute the Agency's FFMIA Remediation Plan.

The *IFMS Modernization Plan* provides a more detailed treatment of the major financial management system projects, releases, and milestones planned over the next five years. Only a subset of these is evaluated to be essential to achieve

substantial compliance with FFMIA. These judgements were made largely on the materiality that the financial data in these systems have on the preparation of financial statements, the documented deficiencies in these systems, and the adequacy of current processes and systems. Future system reviews of existing financial management systems may disclose deficiencies in which the most cost-effective risk mitigation strategy involves accelerated implementation of planned systems. This would necessarily affect the scope, schedules and resource estimates in the Agency's FFMIA Remediation Plan.



Table E.1: Planned Work to Achieve Substantial Compliance with FFMIA

Deficiencies	Planned Remedies & Targets
Federal Financial Management System Requirements:	
Indicator: Documentation from reviews of financial systems describe how requirements, found in OMB Circular A-127 that are considered applicable, have been implemented.	
<p>The Agency relies on a combination of annual FMFIA management control reviews and IG audits of Agency's financial statements, systems and compliance with Federal laws, requirements and standards.</p> <p>The IG audit of the Agency's FY 1999 financial statements summarized areas of non-compliance with OMB Circular A-127 and indicated that USAID:</p> <ul style="list-style-type: none"> • Lacked an Agency-wide classification structure; • Relied on multiple incompatible systems that cannot exchange data. • Had not implemented a computer security program; • Did not meet JFMIP requirements for prompt pay, external reporting, and cost accounting; • Does not have an effective accrual methodology; • Is not able to attribute costs to organizations, locations, programs, and activities; and • Does not record accounts receivable in accordance with U.S. Standard General Ledger. <p>Agency reported material weaknesses in its <i>FY 1999 Accountability Report</i> that address the three areas covered by FFMIA:</p> <ul style="list-style-type: none"> • Primary Accounting System • Reporting and Resource Management Capabilities • Computer Security Program 	<p>See Table E.2 Financial Management Systems Remediation Plan Summary for a description of planned remedies, intermediate targets and resource estimates.</p> <p>Primary Accounting System Material Weakness: Implement Phoenix in Washington and significant interfaces to internal and external feeder systems in FY 2001.</p> <p>Reporting and Resource Management Capabilities Material Weakness: Implement Phoenix in Washington and MACS auxiliary ledger enhancements to support Agency-wide financial reporting in FY 2001.</p> <p>Computer Security Program Material Weakness: Complete risk assessments, computer security training, staffing, and system security certifications & accreditation at all overseas accounting stations in FY 2001 and FY 2002.</p>
Attribute: User access controls/passwords and user authorizations are authorized in writing and implemented and other financial controls are in place and operating effectively.	
<p>The IG audit of the Agency's FY 1999 financial statements disclosed areas of non-compliance with the Computer Security Act and indicated that USAID needs an effective computer security program to prevent unauthorized access to financial data resources.</p> <p>The IG audit of the overseas accounting system, MACS, identified deficiencies in access and system software controls that could be remedied by developing and implementing standards and providing guidance to mission system managers.</p>	<p>During FY 2000, conducted a security risk assessment, developed computer security plans and completed a system security certification & accreditation for the New Management System. Corrected weaknesses in the general client/server and mainframe control environments.</p> <p>During the 1st quarter of FY 2001, the Phoenix core financial system will be implemented guided by a system security plan and following a risk assessment and certification & accreditation of the system's security and control environment. Access controls/passwords and user authorizations are issued in writing by an designated system security officer.</p> <p>During FY 2001 and FY 2002, complete system and general control environment risk assessments, mitigate risks, develop a MACS system security plan, conduct mission computer security training, ensure delegation of authorities and responsibilities for system security are implemented, certify & accredit the security of the network systems, and MACS at all overseas accounting stations.</p>



Deficiencies	Planned Remedies & Targets
<p>Attribute: Budget execution is integrated in the core financial system with accounts payable, accounts receivable and general ledger.</p>	
<p>The Agency's primary accounting system and overseas accounting systems are not integrated. Standard budget execution information from overseas accounting stations is not provided in a timely basis to enable the Agency to submit the Treasury reports in the timely manner requested.</p>	<p>Implement Phoenix in the 1st quarter of FY 2001 in Washington as the Agency's fully integrated core financial system with budget execution, accounts payable, accounts receivable and general ledger.</p> <p>Utilize a feeder system, the MACS overseas accounting system, to record and report budget execution integrated with accounts payable financial transactions. A MACS Auxiliary Ledger interface to Phoenix will be implemented by the 4th quarter of FY 2001 to post summary level financial data in Phoenix general ledger at the budget FY fund level.</p>
<p>Attribute: Users have on-line access to the status of funds or receive daily reports on the status of funds to perform analyses or decision-making.</p>	
<p>Agency reported material weaknesses in its FY 1999 Accountability Report covered by FFMIA in the area of Reporting and Resource Management Capabilities. Individual senior managers and program managers have access to timely financial information for their specific operating units and programs. To a lesser extent, senior managers and program managers in client missions of regional accounting centers have access to timely financial information following a normal monthly/quarterly business cycle. Washington senior managers do not have timely Agency-wide financial information by operating units and programs.</p>	<p>Implement Phoenix in the 1st quarter of FY 2001 in Washington with improved financial reporting and resource management capabilities for Washington financial operations.</p> <p>Utilize MACS at overseas accounting stations to provide overseas users with regular and ad hoc reports on the status of funds. Enhancements to the MACS Auxiliary Ledger interface to Phoenix will be fully implemented by the 4th quarter of FY 2002 to support Agency-wide financial reporting on the status of funds for decision making at strategic objective or transaction level.</p>
<p>Attribute: Feeder systems are integrated or electronically interfaced with the core financial system.</p>	
<p>The IG has issued audit findings and recommendations related to deficiencies in data reconciliation policies and procedures that impair the financial statement audit objectives. The Agency's primary accounting system (i.e. NMS AWACS) and overseas accounting system (i.e. MACS) were not integrated and interface was not electronic. Furthermore, significant feeder systems to NMS AWACS and MACS did not have electronic interfaces. The manual interfaces require controls and compensatory procedures that were judged inadequate and labor intensive.</p>	<p>During FY 2000, implemented improved reconciliation procedures and significantly reduced cash reconciling items.</p> <p>Implement electronic interfaces between Phoenix and significant feeder systems with associated controls and reconciliation procedures by 4th quarter of FY 2001.</p>
<p>Attribute: A common accounting classification structure is used.</p>	
<p>The IG audit of the Agency's FY 1999 financial statements disclosed areas of non-compliance with FFMIA and implementing policies which indicated that USAID lacked an Agency-wide accounting classification structure. The accounting classification structure implemented in the primary accounting system is different from the one used in the overseas accounting system.</p>	<p>Implement a MACS Auxiliary Ledger interface to Phoenix by the 4th quarter of FY 2001 with cross-walk tables that have the capability to translate the overseas accounting classification structure into the Agency-wide upper-level accounting classification structure.</p> <p>Implement enhancements, reporting tools and updated cross-walk tables in the MACS Auxiliary Ledger interface to Phoenix by the 4th quarter of FY 2002 to support Agency-wide financial reporting against the dimensions of the accounting classification structure.</p> <p>Implement accounting classification data standards and common data elements in financial data repositories derived significant feeder systems as part of a financial management data warehouse in FY 2002.</p>



Deficiencies	Planned Remedies & Targets
<p>Attribute: An audit trail exists from any summary data recorded in the core financial system to detailed source transactions maintained in feeder systems.</p>	
<p>The Agency has used manual interface procedures for posting summary level journal vouchers to the general ledger for financial transactions generated outside NMS in various feeder systems. The IG has documented findings that journal vouchers postings to the NMS general ledger were not adequately supported, reviewed and authorized.</p>	<p>During FY 2001, policies and procedures will be issued to ensure that journal vouchers posted in the Phoenix general ledger are properly prepared, supported by data from feeder systems, reviewed for accuracy and authorized.</p> <p>The design of the Phoenix interfaces to feeder systems in FY 2001 will address controls, procedures and system requirements for audit trails.</p>
<p>Attribute: Debt referred for collection or offset by Federal collections is identified.</p>	
<p>IG audit findings and recommendations indicate USAID is not in compliance with the Debt Collection Acts of 1982 and 1996. Specifically, USAID did have the policies and procedures implemented to ensure those delinquent debts in excess of 180 days are automatically referred to Treasury for the recovery of debts.</p>	<p>During FY 2001, updated policies and procedures for billings, receivables and debt collection will be issued as an update to the Agency's Automated Directives System.</p> <p>During FY 2001 and FY 2002, continue on-going work to make further recoveries of Agency debt through the Dept. of Treasury.</p>
<p>Attribute: Interest on overdue payments and discounts is calculated.</p>	
<p>The IG audit of the Agency's FY 1999 financial statements disclosed areas of non-compliance with FFMA and implementing policies which indicated that USAID did not comply with JFMIP requirements for prompt payments.</p>	<p>The Phoenix core financial system is configured to comply with JFMIP requirements for payment management and will be implemented in the 1st quarter of FY 2001.</p>
<p>Indicator: The Agency can produce auditable financial statements based on data from the Agency's financial system and provide reliable financial information for managing current government operations and preparing financial reports.</p>	
<p>The IG could not express an opinion on the Agency's FY 1999 financial statements because their audit scope was impaired by a poorly functioning accounting and financial management systems from which USAID was unable to produce accurate, complete, reliable, timely and consistent financial information. The uncorrected system deficiencies created a consequential risk that the financial statements could contain material misstatements.</p> <p>Agency reported material weaknesses in its FY 1999 Accountability Report in its Primary Accounting System and Reporting and Resource Management Capabilities.</p>	<p>Implement the Phoenix core financial system in 1st quarter of FY 2001 that calculates and reports accounts payable and accrual expenses in compliance with Federal requirements and standards.</p> <p>Implement MACS auxiliary ledger as an interface to Phoenix for summary level postings to the general ledger in 4th quarter of FY 2001 and make further enhancements to support Agency-wide financial reporting at strategic objective level by the 4th quarter of FY 2002.</p> <p>Improve reconciliation and management of the fund balance with Treasury in FY 2000 and reduce the materiality of cash reconciling items in FY 2001.</p> <p>Implement in FY 2001, based on updated policy guidance from OMB, improvements in accounting for advances to grantees with letter-of-credit agreements to enable the IG to audit advance account balances.</p>



Deficiencies	Planned Remedies & Targets
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Indicator: Existing reviews and audits required by A-130, Appendix 3, do not disclose material deficiencies.

The IG audit of the Agency's FY 1999 financial statements disclosed areas of non-compliance with the Computer Security Act (CSA) and implementing policies. USAID has not implemented an effective computer security program with:

- An organizational structure that clearly delegated responsibility and appropriate authority;
- Planning policies to provide a foundation for an effective security program; and
- Key management processes to ensure security requirements are met.

USAID reported a material weakness in its FY 1999 Accountability Report in its computer security program.

Substantial improvements in the Agency's information system security program were implemented in FY 2000 that address organizational structure, policies and key management processes.

During the 1st quarter of FY 2001, the Phoenix core financial system will receive a system security certification and accreditation by appropriately designated authorities following improved system security planning policies and management processes.

During FY 2001 and FY 2002, planned system and general control environment risk assessments at overseas accounting stations, risk mitigation, MACS system security planning, security training, delegation of authorities, certification and accreditation of the security of the network systems, and MACS at all overseas accounting stations will sufficiently reduce the materiality of this deficiency.

Federal Accounting Standards:

Indicator: An unqualified opinion or a qualified opinion or disclaimer issued by the auditor for reasons other than the Agency's ability to prepare auditable financial statements.

The IG could not express an opinion on the Agency's FY 1999 financial statements because their audit scope was impaired by a poorly functioning accounting and financial management systems from which USAID was unable to produce accurate, complete, reliable, timely and consistent financial information. The uncorrected system deficiencies created a consequential risk that the financial statements could contain material misstatements.

Agency reported material weaknesses in its FY 1999 Accountability Report in its Primary Accounting System and Reporting and Resource Management Capabilities.

Implement the Phoenix core financial system in 1st quarter of FY 2001 that calculates and reports accounts payable and accrual expenses in compliance with Federal requirements and standards.

Improved reconciliation and management of the fund balance with Treasury in FY 2000 and reduce the materiality of cash reconciling items in FY 2001.

Implement in FY 2001, based on updated policy guidance from OMB, improvements in accounting for advances to grantees with letter-of-credit agreements to enable the IG to audit advance account balances.

Indicator: The agency produces managerial cost information consistent with the standards in SFFAS4.

The IG reported in the audit of the FY 1999 financial statements that USAID did not comply with the five elements of managerial cost accounting and had not implemented SFFAS No. 4. USAID's financial system is not able to attribute costs to organizations, locations, projects or activities.

Implement the Phoenix core financial system in 1st quarter of FY 2001 with a managerial cost accounting subsystem.

Develop cost allocation models with cost drivers in FY 2001 to attribute costs to Agency goals.

Implement the MACS Auxiliary Ledger as an interface between Phoenix and the overseas accounting system. Begin capturing transaction level detail in the MACS Auxiliary Ledger by 4th quarter of FY 2001.

Implement further enhancements to MACS Auxiliary Ledger to fully implement cross-walk tables between MACS ACS and Phoenix ACS to support mission strategic objective cost allocations by 4th quarter of FY 2002.

Update cost allocation model in FY 2002 to allocate the costs of Agency programs to the operating unit and strategic objective level.



Deficiencies	Planned Remedies & Targets
<p>Indicator: The audit disclosed no material weaknesses in internal controls that affect the agency's ability to prepare auditable financial statements and related disclosures, budget reports, or other financial information for agency management decision-making purposes that are consistent with Federal accounting standards.</p>	
<p>The IG audit of the Agency's FY 1999 financial statements identified deficiencies that represent material internal control weaknesses:</p> <ul style="list-style-type: none"> USAID did not consistently report reliable performance and financial information Computer security deficiencies continue to exist. <p>Additionally, the IG identified another internal control weakness that should have been considered in the Agency's FY 1999 Accountability Report:</p> <ul style="list-style-type: none"> USAID does not properly identify, record and report advances processed through the Letter of credit (LOC) system. 	<p>Remedies for specific deficiencies in performance and financial information:</p> <ul style="list-style-type: none"> The IG and USAID reached agreement in FY 2000 on a comprehensive plan to prepare the Overview section of the FY 2000 financial statements in accordance with OMB Bulletin 97-01. Acquire, configure, test and implement Phoenix in the 1st quarter of FY 2001 in accordance with Federal requirements and standards for calculating and reporting accounts payable and accrual expenses in compliance with Federal requirements and standards. Improved reconciliation and management of the fund balance with Treasury in FY 2000 and reduce the materiality of cash reconciling items in FY 2001. <p>Remedies for computer security deficiencies:</p> <ul style="list-style-type: none"> During FY 2000 performed a system security certification and accreditation on NMS. During the 1st quarter of FY 2001, complete a system security certification and accreditation for Phoenix. During FY 2001 and FY 2002, complete certification and accreditation of the security of the network systems, and MACS at all overseas accounting stations. <p>A remedy was agreed to with the IG regarding the identification, recording and reporting of advances processed through the LOC system but final implementation is awaiting an OMB update to Circular A-110.</p>
<p>U.S. Government Standard General Ledger (SGL) at the Transaction Level:</p>	
<p>Indicator: If transactions from feeder systems are summarized before recording in the core financial system, then on-site feeder system demonstration or feeder system generated reports indicates that transactions are recorded in a manner consistent with account definitions, posting models/attributes specified in the SGL and are traceable to source documents.</p>	
<p>The IG audit of the Agency's FY 1999 financial statements summarized areas of non-compliance with OMB Circular A-127 and indicated that USAID does not reconcile and record accounts receivable subsidiary ledger balances to the general ledger in accordance with U.S. Standard General Ledger.</p>	<p>Implement Phoenix in the 1st quarter of FY 2001 in Washington as the Agency's fully integrated core financial system with accounts receivable integrated with general ledger configured to use posting models and attributes consistent with those in the general ledger.</p>
<p>Indicator: Transactions posted directly to the core financial system are traceable to source documents.</p>	
<p>The Agency has used manual interface procedures for posting summary level journal vouchers to the general ledger for financial transactions generated outside NMS in various feeder systems. The IG has documented findings that journal vouchers postings to the NMS general ledger were not adequately supported, reviewed and authorized.</p>	<p>During FY 2001, policies and procedures will be issued to ensure that journal vouchers posted in the Phoenix general ledger are properly prepared, supported by data from feeder systems, reviewed for accuracy and authorized.</p> <p>The design of the Phoenix interfaces to feeder systems in FY 2001 will address controls, procedures and system requirements for audit trails.</p>

The important financial management system remedies, planned releases and milestones, and estimated costs to achieve substantial compliance include:

1. Core Financial System - Phoenix:

- Planned Milestones and Releases:
 - Integrated Core Financial System, Phoenix, in USAID/W - 1st Qtr of FY 2001.
 - Electronic interfaces to major feeder systems - 4th Qtr of FY 2001.
 - MACS Auxiliary Ledger Interface to Phoenix to support ACS upper-level general ledger postings - 4th Qtr of FY 2001.
 - Implement Enterprise Solution Integration Lab (ESIL) and associated system engineering practices to perform solution demonstrations - 3rd Qtr of FY 2001.
 - Phoenix solution demonstration and pilot deployment to two overseas accounting stations - 4th Qtr of FY 2001.
 - Material weaknesses in the Agency's primary accounting system and reporting and resource management are corrected - 4th Qtr of FY 2001.
 - MACS system security certification & accreditation (C&A) completed at all overseas accounting stations - 4th Qtr of FY 2002.
 - Material weakness in the Agency's computer security program completed one year ahead of schedule - 4th Qtr of FY 2002.
 - MACS Auxiliary Ledger Interface to Phoenix with ACS crosswalk tables populated to

support costs allocated to the strategic objective level - 4th Qtr of FY 2002.

- Phoenix integrated with the Financial Management Data Warehouse in FY 2003.

- Modernization or enhancement costs by fiscal year (\$ millions):

2001	2002	2003	Total
\$11	\$ 2	\$ 2	\$15

2. Financial Management Data Warehouse:

- Planned Milestones and Releases:
 - Solution demonstration for data warehouse tools and integration of multiple data repositories for reporting - 4th Qtr of FY 2002.
 - Integrate multiple data repositories from financial management feeder systems into the data warehouse in FY 2003.
 - Extract, transform and load Phoenix financial data into data warehouse in FY 2003.
 - Data warehouse system security C&A updated for Agency-wide deployment in FY 2003.
- Modernization or enhancement costs by fiscal year (\$ millions):

2001	2002	2003	Total
\$ 0	\$ 0	\$ 2	\$ 2

Requested Revision Target Date for Substantial Compliance: The Agency is requesting that the target date for substantial compliance with FFMA be changed to the 4th quarter of FY 2003. Subject to OMB approval of this revised target date, the planned

remedies, resource allocations and intermediate target dates will constitute the Agency's FFMA Remediation Plan supported by the *IFMS Modernization Plan* and specific IT capital asset plans.

The estimated cost of remediation plan for the Agency's financial management systems is \$ 17 million over the next three years. There are risks to achieving the cost, schedule and performance goals that will need to be monitored and managed over the next three years. There are also opportunities for accelerated compliance.

Risks to Achieving Substantial Compliance: There are multiple risks that individually or in combination could impact achieving substantial compliance and therefore will need to be closely monitored and managed:

- Budget Risks - Required budgetary allocations for FY 2002 and beyond are sustained and project budget risk reserves are sufficient to mitigate other risks that occur.
- Schedule Risks - Multiple interdependencies in which one project or sub-project delay can impact overall substantial compliance target
- Requirements Risks - Future financial management system reviews disclose additional material deficiencies.
- Technical Risks - Interoperability and integration of commercial software products and systems of third party service providers implemented over Agency network systems and telecommunications infrastructure.



Table E.2: Financial Management Systems Remediation Plan Summary
(\$ in Millions)

Areas of Non-Compliance	FY 2001	FY 2002	FY 2003
USAID lacks an Agency-wide ACS, which standardizes data definitions and formats for financial management systems.	Phoenix in USAID/W - 1 st Qtr MACS Auxiliary Ledger Interface to Phoenix to support ACS upper-level general ledger postings - 4 th Qtr	MACS Auxiliary Ledger Interface to Phoenix with full ACS support - 4 th Qtr	
USAID Relies on multiple incompatible systems that cannot exchange data.	Implement ESIL - 3 rd Qtr Phoenix interfaces to significant feeder systems - 4 th Qtr	Solution demonstration for data warehouse - 4 th Qtr	Integrate multiple data repositories from financial management feeder systems into the data warehouse Extract, transform and load Phoenix financial data into data warehouse
USAID has not implemented an effective computer security program.	Phoenix security C&A - 1 st Qtr MACS security C&A - on-going	MACS Security C&A completed - 4 th Qtr	Agency-wide data warehouse security C&A
USAID does not have a financial system that meets JFMIP requirements to (a) support the Prompt Payment Act, (b) support external reporting needs, and (c) ensure that costs are accumulated and reported with proper matching of periods, segments, and outputs.	Phoenix is JFMIP compliant for Prompt Pay, external reporting and cost accounting - 1 st Qtr	MACS Auxiliary Ledger Enhancements support cost allocations to SO level - 4 th Qtr	
USAID has not implemented an effective accrual methodology.	Phoenix implements accrual methodology - 1 st Qtr		
USAID's financial system is not able to attribute costs to organizations, locations, projects, programs, or activities.	Phoenix implements cost accounting system - 1 st Qtr	MACS Auxiliary Ledger Enhancements support cost allocations to SO level - 4 th Qtr	
USAID did not record Accounts Receivable in accordance with the U.S. Standard General Ledger at the transaction level.	Phoenix records receivables in accordance with US SGL, 1 st Qtr		
System Remediation Costs^J	[1] \$ 11	[1] \$ 2	[1] \$ 2 [2] \$ 2
Cost By Fiscal Year	\$ 11	\$ 2	\$ 4

^J Remediation Costs include only modernization or enhancement costs and do not include steady state costs for on-going or future maintenance and operations.

- Management Risks - Overall program and project management authorities, roles and responsibilities to effectively manage a complex series of interdependent projects.
- Organizational Risks - Changes to Agency-wide financial management operations to implement and support the target financial management system structure.



5. Grants Management

USAID ensures consistency across its programs through the issuance of policies and procedures for award and administration of assistance instruments. USAID's Automated Directives System (ADS) includes a chapter (ADS 303, Grants and Cooperative Agreements to Non-Governmental Organizations) that establishes requirements applicable to grants and cooperative agreements with non-governmental organizations under virtually all USAID assistance programs except those that are exempt by statute. The chapter sets forth the requirements arising from Federal statutes, regulation and management of USAID programs.

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

USAID obtains feedback from recipient organizations fairly regularly which helps to identify

areas of concern. The Advisory Committee on Voluntary Foreign Aid, chaired by a member of the recipient community, with a membership comprised of both recipient organizations and USAID, provides input to USAID on issues that it is concerned about. USAID offices conduct outreach programs from time-to-time that provide recipients the opportunity to discuss issues and concerns.

USAID participates in an informal group of grants policy professionals from virtually all the grant making agencies. The group meets regularly to discuss topics of interest to all agencies. When USAID considers policy changes, the grants policy expert in the Office of Procurement generally researches regulations of other agencies and talks with contacts from other agencies to determine how they may have approached a similar problem.



List of Abbreviations and Acronyms

A&A	Acquisition and Assistance
ACS	Accounting Classification Structure
ADS	Automated Directives System
AIDS	Acquired Immunodeficiency Syndrome
ANE	Asia and the Near East
API	Application Programming Interface
APP	Annual Performance Plan
APR	Annual Performance Report
ASP	Agency Strategic Plan
AWACS	A.I.D. Worldwide Accounting and Control System
BHR	Bureau for Humanitarian Response
BJ	Budget Justification
BUCEN	U.S. Bureau of the Census
CFO	Chief Financial Officer
CFR	Country Financial Reporting Systems
CIMS	Contract Information Management Systems
CDIAC	Carbon Dioxide Information Analysis Center
CDIE	Center for Development Information and Evaluation
CIMS	Contract Information Management System
CIO	Chief Information Officer
CITES	Convention on International Trade in Endangered Species
CO	Contract Officer
CONOPS	Concept of Operations
COTS	Commercial Off-the-Shelf
CS	Civil Service
CTO	Cognizant Technical Officer
DA	Development Assistance
DCIA	Debt Collection Improvement Act
DGS	Document Generation System
DEC	Development Experience Clearinghouse
DFI	Direct Foreign Investment
E&E	Europe and Eurasia
EC	European Commission
EGAD	Economic Growth and Agricultural Development
ESF	Economic Support Fund
ESIL	Enterprise Solution Integration Laboratory
FACS	Financial Accounting and Control System
FFMIA	Federal Financial Management Improvement Act
FMFIA	Federal Managers Financial Integrity Act
FMIP	Financial Management Improvement Program



FP	Family Planning
FS	Foreign Service
FSA	Freedom Support Act
FSI	Financial Systems Integration
FSN	Foreign Service National
FY	Fiscal Year
GPEA	Government Paperwork Elimination Act
GPRA	Government Performance and Results Act
GTN	Global Technology Network
HCD	Human Capacity Development
HIV	Human Immunodeficiency Virus
IDP	Internally Displaced Persons
IFMS	Information Management Strategic Plan
IG	Inspector General
IT	Information Technology
JFMIP	Joint Financial Management Improvement Program
LAC	Latin American and Caribbean
LAIS	Loan Accounting and Information System
MACS	Mission Accounting and Control System
MoH	Ministry of Health
NEAP	National Environmental Action Plan
NEP	New Entry Professional
NER	Net Enrollment Ratio
NFC	National Finance Center
NGO	Nongovernmental Organization
NIS	Newly Independent States
NMS	New Management System
NXP	Non-Expendable Property
OFDA	Office of U.S. Foreign Disaster Assistance
OIG	Office of the Inspector General
OMB	Office of Management and Budget
OTI	Office of Transition Initiatives
OYB	Operating Year Budget
P.L.	Public Law
PAHO	Pan-American Health Organization
PHN	Population, Health, and Nutrition
PMP	Performance Monitoring Plan
PMS	Payment Management System
PPC	Bureau of Policy and Program Coordination
PRM	Population, Refugees, and Migration
PSC	Personal Services Contractor
PVC	Private and Voluntary Cooperation

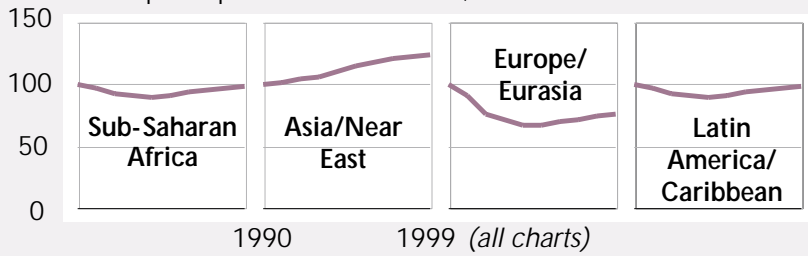


PVO	Private Voluntary Organization
R4	Results Review and Resource Request
SEED	Support for East European Democracy
SFFAS	Statement of Federal Financial Accounting Standards
SO	Strategic Objective
State	U.S. Department of State
STD	Sexually Transmitted Disease
STI	Sexually Transmitted Infection
TEIA	Target Enterprise Information Architecture
TFR	Total Fertility Rate
UNAIDS	Joint United Nations Programme on HIV/AIDS
UNDP	United Nations Development Program
UNEP	United Nations Environment Program
UNESCO	United Nations Educational, Scientific, and Cultural Organization
UNFCCC	United Nations Framework Convention on Climate Change
UNICEF	United Nations Children's Fund
US-AEP	U.S.-Asia Environmental Partnership
USAID	U.S. Agency for International Development
USDH	United States Direct Hire
WCF	Working Capital Fund
WHO	World Health Organization
WID	Women in Development

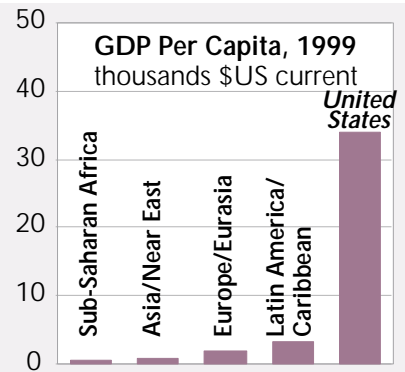
The Development Context

Economic Growth, 1990-1999

GDP per capita index 1990=100, USAID-assisted countries

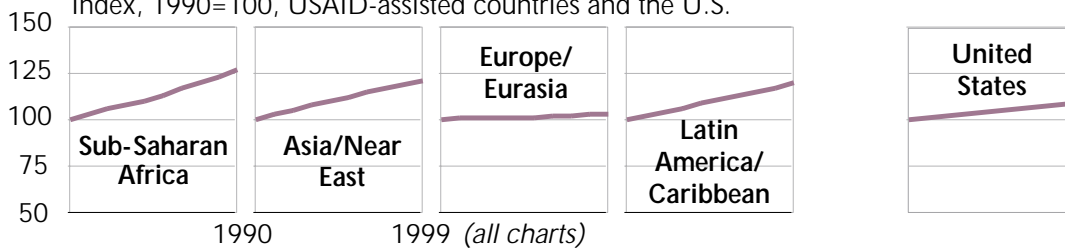


Source: IMF and World Bank



Population, 1990-1999

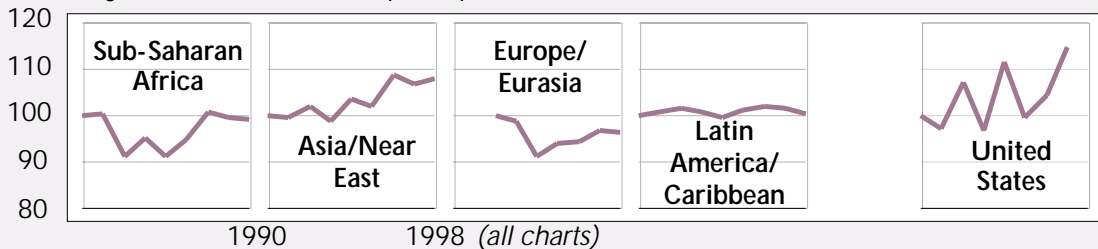
index, 1990=100, USAID-assisted countries and the U.S.



Source: World Bank

Agriculture, 1990-1998

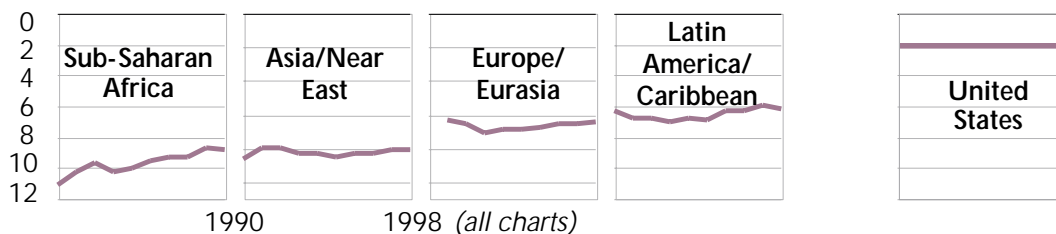
Agriculture, value added, per capita index, 1990=100, USAID-assisted countries and the U.S.



Source: World Bank

Democracy and Governance, 1990-1999

Freedom House combined scores for political rights and civil liberties (1-14), USAID-assisted countries and the U.S.

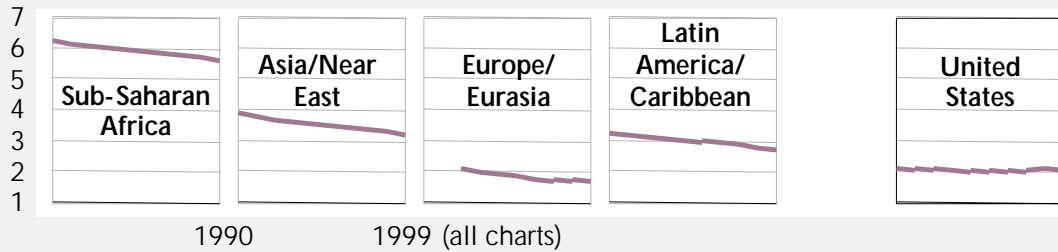


Source: Freedom House Foundation

The Development Context

Total Fertility Rate, 1990-1999

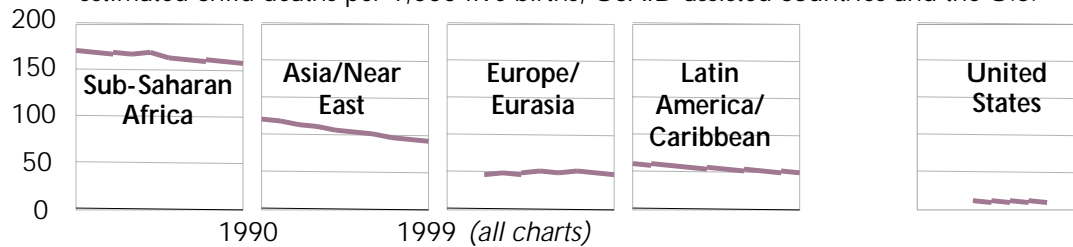
estimated births per woman of child bearing age, USAID-assisted countries and the U.S.



Source: US Bureau of the Census

Under-5 Mortality Rate, 1990-1999

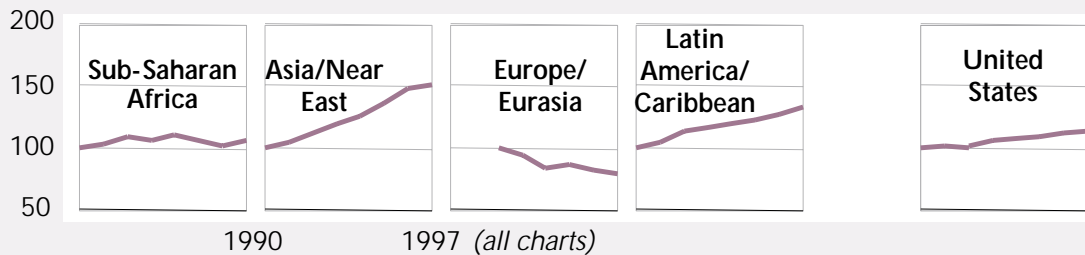
estimated child deaths per 1,000 live births, USAID-assisted countries and the U.S.



Source: US Bureau of the Census

Carbon Dioxide Emissions, 1990-1997

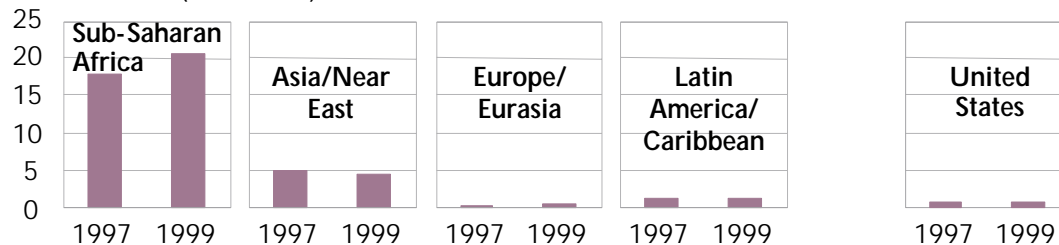
Total emissions index, 1990=100, USAID-assisted countries and the U.S.



Source: US DOE, Carbon Dioxide Information Analysis Center (CDIAC)

Adults Living with HIV/AIDS, 1997, 1999

estimates (in millions), USAID-assisted countries and the U.S.



Source: UNAIDS



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