FINANCIAL SECTION

(Above) **A woman, one of thousands of small loan clients helped by USAID, expands her small store in Ecuador into a profitable business.**

PHOTO: JORGE VINUEZA

(Preceding page) **Indonesian children greet aid workers. USAID is helping to reconstruct tsunami damaged communities.**

PHOTO: U.S. NAVY/M. JEREMIE YODER

MESSAGE FROM THE CHIEF FINANCIAL OFFICER

The *Performance and Accountability Report for Fiscal Year 2006* is the Agency's principal publication and report to the President and the American people on our stewardship and management of the public funds to which we have been entrusted. In addition to financial performance, this Report also covers policy and program performance – how well the Agency implemented its goals and objectives. Consistent with the joint Department of State/USAID strategic framework and plan, the Performance Section of this Report is a collaborative effort between the two agencies.

I am pleased to report that for the fourth year in a row, USAID received an unqualified or "clean" opinion from our Inspector General on all five of the Agency's principal financial statements. In addition, we continue to meet accelerated financial and performance reporting deadlines. With these accomplishments, the American people can have confidence that the financial and performance information presented here is timely, accurate, and reliable. At the same time, we achieved a number of other key goals:

- In keeping with USAID's commitment to implement a unified, integrated financial management system that substantially complies with system requirements under the Federal Financial Management Improvement Act (FFMIA), we successfully completed the worldwide installation of Phoenix, the new financial management system, in June. Phoenix is now the accounting system of record for the Agency, including 51 overseas missions, and all appropriated fund accounting transactions are now recorded in this system.

- USAID is committed to minimizing the risk of making erroneous or improper payments to contractors, grantees, and customers. We have an aggressive system in place to monitor payments, especially for high profile programs, including the Global War on Terror.

- We also implemented a solid program to comply with new requirements for internal controls over financial reporting. Twelve key financial processes have been identified at USAID. We spent the first year implementing this program, documenting processes and controls, and assessing and testing the highest risk areas. We will continue our efforts to implement this program over the next two years, with initial assessments completed by the end of fiscal year 2008.

- In November 2005, the Phoenix hardware and operations were moved to the Department of State's Charleston Financial Services Center. This consolidation will result in cost-savings to the taxpayer. By physically co-locating State and USAID financial system operations, the State team can support many of the aspects of running Phoenix, such as maintaining the hardware, database, and storage, that they already support for their own financial management system.

- With respect to the President's Management Agenda (PMA), USAID has maintained a "green" progress score on the scorecard for Improving Financial Management. To get to a "green" status score, USAID needs to have systems and processes institutionalized that will provide accurate and timely data that is used by managers to answer critical business and management questions. We continue to work hard in order to achieve success in this area.

- We also took aggressive actions to eliminate and reduce vulnerabilities associated with auditor-reported weaknesses identified in the FY 2005 Government Management Reform Act (GMRA) audit.

- In support of foreign assistance reform and the new joint performance reporting system, we worked closely with the Department of State on developing Operational Plan policy guidance and training as well as on designing the new Foreign Assistance Coordination and Tracking System (FACTS) to be used for collecting budget and performance data from the operational plans worldwide.

The Independent Auditor's Report on USAID's Consolidated Financial Statements, Internal Controls, and Compliance for FY 2006 contains one new material weakness related to accounting and reporting of accruals. The audit report also includes several audit recommendations and reportable conditions. We have accepted responsibility for addressing these issues and expect to take final actions by the end of FY 2007. We foresee no major impediments to correcting these weaknesses. Additional details regarding the weaknesses and our specific plans for addressing the audit recommendations can be found in this Report. Actions taken regarding issues from the FY 2005 audit are also included in this Report.

While we are pleased with our accomplishments in FY 2006, we will strive to improve all aspects of performance and to maintain higher financial management standards in FY 2007. We will also continue to promote effective internal controls and focus on implementation of the PMA and other financial management initiatives. I am confident that we will resolve any impediments that could affect the IG's ability to issue an unqualified audit opinion next year, and we will continue to meet the accelerated reporting deadline.

Lisa D. Fiely
Chief Financial Officer
November 15, 2006

Independent Auditor's Report

(Above) **A woman, who participates in a U.S.-funded literacy program held at a clinic in rural Giza, carefully reads books out loud.**

PHOTO: USAID/BEN BARBER

(Preceding page) **School girls in Conakry, Guinea hold language arts textbooks. The USAID-supported Africa Education Initiative produces textbooks for primary students, a scholarship program to encourage girls to complete primary school, and teacher training.**

PHOTO: CHEMONICS/LAURA LARTIGUE

Office of Inspector General

November 15, 2006

MEMORANDUM

TO: M/CFO/ICFO, Lisa D. Fiely

FROM: Deputy AIG/A, Alvin A. Brown, for Joseph Farinella Alvin A. Brown

SUBJECT: Report on the Audit of USAID's Financial Statements for Fiscal Years 2006 and 2005

With this memorandum, the Office of Inspector General (OIG) is transmitting its final report on the *Audit of USAID's Financial Statements for Fiscal Years 2006 and 2005*. Under the Government Management Reform Act of 1994, USAID is required to prepare consolidated fiscal year-end financial statements. In accordance with OMB Circular A-136, USAID is also required to submit a Performance and Accountability Report, including audited financial statements, to the Office of Management and Budget (OMB) and the U.S. Department of the Treasury by November 15, 2006.

The OIG has issued unqualified opinions on all five of USAID's principal financial statements for fiscal years 2006 and 2005.

With respect to internal control, our report discusses one material internal control weakness and five reportable conditions identified during the audit. The material internal control weakness addresses USAID's accounting for accruals. The reportable conditions address USAID's 1) reconciliations of its fund balance with the U.S. Treasury, 2) reconciliations of its intragovernmental transactions, 3) controls over its Treasury symbols, 4) accounting for foreign currency transactions, and 5) Management's Discussion and Analysis data.

The results of our tests indicate that USAID substantially complied with Federal financial management systems requirements, accounting standards, and the U.S. Standard General Ledger at the transaction level, as required by Section 803(a) of the Federal Financial Management Improvement Act. Our report on compliance identifies areas for improvement over several financial system processes, not affecting substantial compliance, and two Antideficiency Act violations.

This report contains seven recommendations to improve USAID's internal control over financial reporting and the preparation of its annual financial statements.

We appreciate the cooperation and courtesies that your staff extended to the OIG during the audit. The Office of Inspector General is looking forward to working with you on our audit of the fiscal year 2007 financial statements.

U.S. Agency for International Development
1300 Pennsylvania Avenue, NW
Washington, DC 20523
http://www.usaid.gov

CONTENTS

SUMMARY OF RESULTS

In our opinion, USAID's consolidated balance sheets, consolidated statements of changes in net position, consolidated statements of net cost, combined statements of budgetary resources, and consolidated statements of financing present fairly, in all material respects, the financial position of USAID as of September 30, 2006 and 2005; and its net cost, net position, and budgetary resources for the years then ended are in conformity with generally accepted accounting principles.

Our audit identified one material internal control weakness and five reportable conditions. The material internal control weakness relates to USAID's accounting and reporting of accruals.

The reportable conditions relate to USAID's:

- Reconciliations of its fund balance with the U.S. Treasury
- Intragovernmental reconciliations
- Controls over Treasury symbols
- Accounting for foreign currency transactions
- Management's Discussion and Analysis data

The results of our tests indicate that USAID substantially complied with Federal financial management systems requirements, accounting standards, and the U.S. Standard General Ledger at the transaction level, as required by Section 803(a) of the Federal Financial Management Improvement Act. Our report on compliance identifies areas for improvement over several financial system processes, not affecting substantial compliance, and two Antideficiency Act violations.

BACKGROUND

The United States Agency for International Development (USAID) was created in 1961 to advance the United States' foreign policy interests by promoting broad-based sustainable development and providing humanitarian assistance. USAID has an overseas presence in approximately 90 countries, almost 50 of which have controller operations. In fiscal year 2006, USAID had total budgetary resources of $14.5 billion.

Under the Government Management Reform Act of 1994, USAID is required to annually submit audited financial statements to the Office of Management and Budget (OMB) and the U.S. Treasury. Pursuant to this Act, for fiscal year 2006, USAID has prepared the following:

- Consolidated Balance Sheets,
- Consolidated Statements of Changes in Net Position,
- Consolidated Statements of Net Cost,
- Combined Statements of Budgetary Resources,
- Consolidated Statements of Financing,
- Notes to the principal financial statements,
- Other Required Supplementary Information, and
- Management's Discussion and Analysis.

AUDIT OBJECTIVE

Did USAID's principal financial statements present fairly the assets, liabilities, net position, net costs, changes in net position, budgetary resources, and reconciliation of net costs to budgetary resources for fiscal years 2006 and 2005?

In our opinion, the financial statements referred to above present fairly, in all material respects and in conformity with generally accepted accounting principles, USAID's assets, liabilities, and net position; net costs; changes in net position; budgetary resources; and reconciliation of net costs to budgetary resources as of September 30, 2006 and 2005 and for the years then ended.

In accordance with *Government Auditing Standards*, we have also issued reports (dated November 15, 2006) on our consideration of USAID's internal control over financial reporting and on our tests of USAID's compliance with certain provisions of laws and regulations. These reports are an integral part of an overall audit conducted in accordance with *Government Auditing Standards* and should be read in conjunction with this report.

Independent Auditor's Report on USAID's Financial Statements

We have audited the accompanying consolidated balance sheets of USAID as of September 30, 2006 and 2005, and the consolidated statements of changes in net position, consolidated statements of net cost, combined statements of budgetary resources, and consolidated statements of financing of USAID for the years ended September 30, 2006 and 2005.

We conducted our audits in accordance with auditing standards generally accepted in the United States; *Government Auditing Standards* issued by the Comptroller General of the United States; and the Office of Management and Budget (OMB) Bulletin No. 06-03. *Audit Requirements for Federal Financial Statements*. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, in conformity with U.S. generally accepted accounting principles, USAID's assets, liabilities, and net position; net costs; changes in net position; budgetary resources; and reconciliation of net costs to budgetary resources as of September 30, 2006 and 2005 and for the years then ended.

Management's Discussion and Analysis, Required Supplementary Information, and other accompanying information contain a wide range of data, some of which are not directly related to the financial statements. We do not express an opinion on this information. However, we compared this information for consistency with the financial statements and discussed the methods of measurement and presentation with USAID officials. Based on this limited work, we found no material inconsistencies with the financial statements or nonconformance with OMB guidance.

In accordance with *Government Auditing Standards*, we have also issued our reports, dated November 15, 2006, on our consideration of USAID's internal control over financial reporting and on our tests of USAID's compliance with certain provisions of laws and regulations. These reports are an integral part of an overall audit conducted in accordance with *Government Auditing Standards* and should be read in conjunction with this report.

USAID, Office of Inspector General

USAID, Office of Inspector General
November 15, 2006

Report on Internal Control

We have audited the consolidated balance sheets of USAID as of September 30, 2006 and 2005. We have also audited the consolidated statements of changes in net position, consolidated statements of net cost, combined statements of budgetary resources, and consolidated statements of financing for the fiscal years ended September 30, 2006 and 2005, and have issued our report thereon dated November 15, 2006. We conducted the audits in accordance with generally accepted auditing standards; *Government Auditing Standards* issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 06-03, *Audit Requirements for Federal Financial Statements.*

In planning and performing our audits of USAID's financial statements for the fiscal years ended September 30, 2006 and 2005, we considered its internal control over financial reporting by obtaining an understanding of the agency's internal control, determined whether internal controls had been placed in operation, assessed control risk, and performed tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. We limited our system of internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin 06-03. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982 (FMFIA), such as those controls relevant to ensuring efficient operations. The objective of our audit was not to provide assurance on internal control. Consequently, we do not provide an opinion on internal control.

Our consideration of internal control over financial reporting would not necessarily disclose all matters in internal control over financial reporting that might be reportable conditions. Under standards established by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect the Agency's ability to record, process, summarize, and report financial data consistent with the assertions by management in the financial statements. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of inherent limitations in internal control, misstatements, losses, or noncompliance may occur and not be detected. Our consideration of internal control over financial reporting would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. We identified one matter involving internal control and its operation that we consider to be a material weakness, and five matters that we consider to be reportable conditions.

The material internal control weakness relates to USAID's accounting and reporting of accruals. This issue was also identified by USAID during its OMB Circular A-123 assessment. The reportable conditions relate to USAID's:

- Reconciliations of its fund balance with the U.S. Treasury
- Intragovernmental reconciliations
- Controls over Treasury symbol information
- Accounting for foreign currency transactions
- Management's Discussion and Analysis data

With respect to internal control related to performance measures included in the Management's Discussion and Analysis (MD&A) Section of USAID's Performance and Accountability Report, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions, as required by OMB Bulletin 06-03, and determined whether they have been placed in operation. Our procedures were not designed to provide assurance on internal control over reported performance measures and, accordingly, we do not provide an opinion on such controls.

We also noted other matters involving the internal control over financial and performance reporting which we reported to USAID management in a separate letter dated November 15, 2006.

Material Weakness

USAID's Accounting for Accruals Needs Improvement

Summary: USAID's Accruals System in Phoenix produced erroneous information that limited the ability of Cognizant Technical Officers (CTOs) to accurately calculate estimates of accrued expenditures and accounts payable for recording in USAID's general ledger. In our testing of accruals in Washington, DC, the OIG determined that Phoenix did not always produce obligation information with the level of detail or reliability necessary for USAID's CTOs to make informed quarterly accrual estimates, and amounts identified as obligated in Phoenix did not always include contract modifications. We also noted that accruals maintained in the Phoenix Accruals System did not always post to the general ledger because of a programming error. Further, some USAID CTOs used incorrect or inaccurate information in estimating some quarterly accruals. As a result, USAID's accrued expenditures and accounts payable contained inaccuracies, and the OIG recommended a $123 million adjustment to more accurately reflect USAID's accrual activity as of September 30, 2006.

OMB's Core Financial System Requirements stipulate that an agency's core financial system must be able to provide timely and useful financial information to support: management's fiduciary role; budget formulation and execution functions; fiscal management of program delivery and program decision making; and internal and external reporting requirements. External reporting requirements include the requirements for financial statements prepared in accordance with the form and content prescribed by OMB, reporting requirements prescribed by Treasury, and legal, regulatory and other special management requirements of the agency. The core financial system must provide complete, reliable, consistent, timely and useful financial management information on operations.

According to USAID's Automated Directives System (ADS) 631, financial documentation represents any documentation that impacts on or results in financial activity. It is not limited to documentation within the financial management operations but includes any source material resulting in a financial transaction. CTOs, Loan Officers, Grants Officers, Strategic Objective teams, and others are responsible for retaining financial documentation and ensuring its availability for audit. ADS 631 states that these individuals must gather cost data—such as supporting project documentation, activity reports, delivery reports, or fixed reoccurring expenses—for the quarterly accruals exercise and then compare the data to payment histories and advances to estimate quarterly accruals.

At USAID, accrued expenditures are accounting estimates of services or goods rendered which have not yet been paid. In conducting quarterly accrual estimates, USAID relied on the efforts of its CTOs at overseas missions and in Washington, DC. The OIG found that amounts accrued via accrual worksheets prepared by CTOs sometimes lacked sufficient documentation to support accrual estimates and that such documentation could often not be produced subsequent to the recording of the estimates.

Not all of the accruals generated by the Phoenix Accruals System were posted to the general ledger for the fiscal year 2006 4th quarter. The OIG noted that only \$2.1 billion of the \$2.2 billion generated by the Phoenix Accruals System were correctly batched and processed in USAID's general ledger. The difference was caused by a programming error that USAID corrected before preparing its 4th quarter financial statements. USAID subsequently posted an appended version of its accrual system that ultimately captured the correct accrual amounts in the general ledger.

Obligation amounts recorded in the Phoenix Accruals System were not correctly captured because periodic modifications to obligation amounts were not updated timely. As a result, CTO accrual modifications and system estimates were not always based on reliable unliquidated obligation information. We identified this condition in a significant number of the items we reviewed in 2006, but did not identify this condition in previous reports. With respect to CTO estimates for other accruals, we found documentation errors, incorrect calculations, misinterpretations of grantee information, and incorrect comparisons of estimated expenditure reports. Based on the projected errors of accruals estimated by CTOs in Washington and the differences associated with inaccurate obligations, the OIG recommended a \$123 million adjustment to accounts payable and accrued expenditures.

USAID has worked to improve the quality of its CTO information, allowing the OIG to more easily locate the USAID managers responsible for maintaining accrual estimates and to perform a more complete analysis of the accrual information. However, USAID only trained 78 CTOs in Washington, DC during 2006 and some CTOs that we contacted had still never been trained.

The OIG has made previous recommendations to correct deficiencies in the former Accruals Reporting System[1], and to ensure that CTOs were properly trained in the

[1] *Audit of USAID's Financial Statements for Fiscal Years 2005 and 2004*, p. 7, November 14, 2005, http://www.usaid.gov/oig/public/fy06rpts/0-000-06-001-c.pdf

process of estimating accruals[2]. The calculations within the Phoenix Accruals System that caused the majority of the problems in 2005 are now operating correctly. To address the deficiencies of USAID's current system for recording and processing accruals, we are making the following recommendations:

Recommendation No. 1.1: We recommend that USAID's Office of the Chief Financial Officer prepare a quarterly reconciliation of its Phoenix Accruals System with the Phoenix general ledger, and document and resolve all differences.

Recommendation No. 1.2: We recommend that USAID's Office of the Chief Financial Officer update its Accruals training course to ensure that Cognizant Technical Officers can make reasonable accrual estimates when contract modifications result in changes to obligation levels.

Reportable Conditions

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

Summary: USAID had large undocumented differences between its Fund Balance and its cash balance reported by Treasury throughout 2006. As of September 30, 2006, these differences totaled to a cumulative net value of $66 million. The differences remained undocumented because USAID was not consistently investigating and resolving reconciling items, and is not completing reconciliations of its Fund Balance in accordance with Treasury Financial Manual (TFM) 2-5100. As a result, USAID recorded adjustments at the 2006 fiscal year-end to ensure that its Fund Balance with the U.S. Treasury reported on its Form 2108, *Year End Closing Statement*, agreed with the balance in Treasury's records, without fully documenting and investigating the reasons for the differences.

U.S. Treasury reconciliation procedures state that an agency (1) may not arbitrarily adjust its fund balance with the U.S. Treasury account, and (2) can adjust its fund balance with the U.S. Treasury account balance only after clearly establishing the causes for any errors and properly correcting those errors. Treasury's guidance for reconciling fund balances requires that Federal agencies research and resolve differences reported by the U.S. Treasury on a monthly basis.

USAID Chief Financial Officer Bulletin 06-1001, *Reconciliation With U.S. Treasury*, requires USAID to perform timely monthly reconciliations with the U.S. Treasury. The Bulletin also requires a written justification for carrying forward unpaid and unsupported transactions over 90 days old, provides specific written guidance for write-offs, and requires a certification that reconciliations have been performed in accordance with TFM Volume 1, Part 2-5100. Bulletin 06-1001 has not been fully implemented.

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[2] *Independent Auditor's Report on USAID's Financial Statements for Fiscal Years 2004 and 2003*, p. 12, November 15, 2004, http://www.usaid.gov/oig/public/fy05rpts/0-000-05-001-c.pdf

As of the fiscal 2006 year-end, USAID reported its Fund Balance as $19.3 billion - $66 million more than the balance reported by Treasury on its September 30, 2006 account statement. This occurred partly because Treasury symbol changes were not routinely updated to ensure that transactions in Phoenix were recorded against the correct appropriation (see finding in Reportable Conditions Section). Also, $12 million of cash transactions were fully processed at the Department of Treasury, as of the fiscal year-end, but remained in a suspense status at USAID pending additional information. USAID could not identify the reasons for many other differences, including some items that have not been reconciled with Treasury since 2002. For financial reporting purposes, USAID adjusted its Fund Balance to match the cash balance reported by Treasury without fully documenting the reasons for the unreconciled conditions.

USAID made some attempts to resolve unreconciled Treasury items by working with accounting divisions in Washington, but did not always document the efforts made to investigate and reconcile the differences. USAID's overseas missions also continue to have large unreconciled balances which are not resolved in a timely manner. Of the ten missions that were audited, five had total unreconciled differences of approximately $50 million and one mission was not performing any fund balance reconciliations.

Recommendation No. 2.1: We recommend that USAID's Office of the Chief Financial Officer document monthly reconciliations of its Fund Balance with Treasury as required by TFM 2-5100, and ensure that overseas missions are performing and documenting monthly Fund Balance reconciliations.

Recommendation No. 2.2: We recommend that USAID's Office of the Chief Financial Officer implement policies to ensure that all transactions recorded in the general ledger are reported to Treasury on the SF 224 and that all differences and suspense items are investigated and resolved in a timely manner.

USAID's Intragovernmental Transactions Remain Unreconciled (Repeat Finding)

Summary: The U.S. Treasury reported a $2.8 billion net difference in intragovernmental transactions between USAID and other Federal agencies at the 2006 fiscal year-end, with an absolute value of $6.1 billion. OMB Circular A-136 requires Federal agencies to perform quarterly reconciliations of intragovernmental transactions in accordance with the *FMS Federal Intragovernmental Transactions Accounting Policies Guide*. The differences between USAID's records and those of its trading partners occurred because USAID did not consistently reconcile material differences identified by FMS in its quarterly Material Differences/Status of Disposition Certification (MD/SD) Report and other differences equal to or greater than $50 million, and it did not consistently reconcile other significant differences by reciprocal category with its Federal trading partners throughout FY 2006. USAID did demonstrate significant progress from 2005, when fiscal year-end unreconciled net differences were $6.0 billion. Until intragovernmental transactions are reconciled, USAID's financial statements are subject to error.

Treasury FMS has informed Federal agencies that if trading partner "confirmed reporting" exceeds the $50 million threshold it has established, Agency CFOs will be required to provide FMS a "plan of action" to address these differences, as required by

Treasury Financial Manual, Vol. I, Part 2-Chapter 4700, Section 4706.30, *Agency Reporting Requirements for the Financial Report of the United States Government*.

USAID has made some progress in reconciling its trading partner activities and has reduced the difference reported by Treasury by 46 % from the third quarter to the fourth quarter of 2006. Significant differences persist, however. While some timing differences may ultimately be resolved, differences due to accounting errors or different accounting methodologies require a special effort by USAID and its trading partners for timely resolution. The Federal Intragovernmental Transactions Accounting Policy Guide suggests that agencies should work together to estimate accruals and to record corresponding entries in each set of records so that they are in agreement and so that long term accounting policy differences can be identified. Until these reconciliations are complete, USAID's year-end balances related to intragovernmental line items reported on the financial statements are subject to error.

Although we identified $4 billion of unreconciled general fund transactions between USAID and Treasury that are not required to be reconciled, FMS does suggest that Federal agencies confirm that these differences represent general fund activities. USAID did not consistently document these confirmations.

We made a recommendation to improve the intragovernmental reconciliation process in our previous audit report[3]. We will not make a new recommendation, but will continue to monitor USAID's progress in reducing intragovernmental balances, in future audits.

USAID's Controls Over Treasury Symbols Need Improvement

Summary: USAID experienced difficulty accounting for the activity under its many different Treasury symbols which provide the underlying support for its Statement of Budgetary Resources. This occurred because the processes employed by USAID to update and maintain information on appropriation Treasury symbols did not contain adequate controls to consistently ensure their accuracy. As a result, USAID's Treasury symbol appropriation information in Phoenix required significant adjustments throughout the year and impacted USAID's ability to accurately report to OMB on its quarterly budget activity.

Treasury symbols are numeric codes which contain unique accounting information that identify: 1) a Federal agency, 2) a period of availability of funds, and 3) a four-digit appropriation number. Under Section 511 of the Foreign Operations Appropriation Act (P.L. 109-102 for 2006), USAID may extend the availability of its appropriations, as identified by its Treasury symbols, by four years from the original appropriation before the funds move to an expired status and become unavailable for new obligations. Phoenix does not have the ability to automatically convert existing appropriations to those with extended availability so Treasury symbol conversions are performed manually at USAID.

[3] *Audit of USAID's Financial Statements for Fiscal Years 2005 and 2004*, p. 9, November 14, 2005, http://www.usaid.gov/oig/public/fy06rpts/0-000-06-001-c.pdf

Like all Federal agencies, USAID must submit a Report on Budget Execution and Budgetary Resources (SF 133) to OMB each quarter for every one of its open appropriation Treasury symbols. These SF 133s are combined each quarter in developing a Federal Agency's Statement of Budgetary Resources. As a result, the compilation of a Federal Agency's SF 133s should generally agree with an Agency's Statement of Budgetary Resources. At year-end, Budgetary Resources are also reported separately for certain Treasury symbols as Required Supplementary Information in accordance with OMB Circular A-136.

USAID made significant adjustments to its Treasury symbol information in Phoenix during the 4th quarter of 2006. These adjustments were necessary to correct transactions posted to valid appropriations with invalid Treasury symbols. Errors with Treasury symbol information occurred primarily because so many valid USAID appropriation numbers change during their life to accommodate the Section 511 flexibility available to USAID. This requires USAID to account for two Treasury symbols for every appropriation. This is difficult to manage within USAID, but Section 511 flexibility makes it even more difficult for other Federal agencies to stay updated on USAID's currently valid Treasury symbols when they use the Intragovernmental Payment and Collection Process. Activity under this process appears first at Treasury, then at USAID, and requires a reconciliation between USAID and Treasury appropriation information to correct any errors.

When invalid appropriation Treasury symbols appeared in Phoenix, either internally or as a result of intragovernmental activity, USAID did not effectively review or monitor the transactions to ensure that the correct appropriations were impacted. USAID currently has no process for reviewing the output related to valid and invalid Treasury symbols and only makes corrections if errors are noted either during the process of reconciling with U.S. Treasury information, or the process of preparing quarterly financial statements.

CFO officials have expressed concerns with Section 511 authority granted to USAID that requires the management of so many appropriation Treasury symbols. The officials believe that, because Section 511 accounting conditions are not managed in other Federal agencies, there is and will be no government-wide or core accounting system approach to handling appropriations that change during their life. We therefore expect Treasury symbol reporting errors to continue, but recognize that the process is almost unmanageable from an accounting perspective without a significant financial and human resource commitment. Some progress can be made immediately, however, so we are making the following recommendation.

Recommendation No. 3: We recommend that USAID's Office of the Chief Financial Officer develop and implement monthly payment review procedures to identify transactions that have been posted in Phoenix to invalid appropriation Treasury symbols.

USAID's Process for Accumulating Foreign Currency Information in Phoenix Needs Improvement

Summary: USAID's process for accumulating foreign currency information in Phoenix needs improvement. USAID prepares an adjustment using information reported via e-mail from its overseas missions on a quarterly basis, instead of using foreign currency information already in Phoenix. This is because USAID's foreign currency information in Phoenix is incomplete and inaccurate. As a result, USAID did not use Phoenix to assist in compiling foreign currency information for its FY 2006 financial statements. The quarterly email information does not report the balance per the mission's books but reports the balance per the mission's bank statement. This process eliminates USAID's ability to separately identify interest earned and currency exchange gains or losses affecting the accounts. As long as the information in Phoenix is incorrect, USAID will continue to rely on external sources for foreign currency assets and liabilities, and will not have complete accounting information.

USAID's foreign currency balances represent cash held in local banks throughout the world. These accounts are owned and managed by USAID on behalf of local governments. As a result, USAID records an asset and a liability for the balances in these accounts.

We observed that, despite the accounting migration to Phoenix, USAID continues to collect foreign currency balance information by requesting the data from the Missions via e-mail. Because Phoenix foreign currency information is considered to be unreliable, many USAID missions maintain cuff records of the foreign currency accounts they manage locally. However, when USAID/Washington requests quarterly balance information from these missions, it is only looking for the mission's cash balance per the mission's bank statement. This would not allow the missions to account for reconciling items between its bank statements and cuff records. To record this activity, USAID makes one accounting entry for the net change in the cash balances between the current quarter and the previous quarter by charging the foreign currency asset against Other Liabilities, and records a second entry against Operating and Administrative Expenses and Donated Revenue. By simply recording the differences in the account value between quarters, USAID does not provide information on interest earned or on the difference in the value of the cash balances due to currency market fluctuations.

We also noted that, in the event that a Mission fails to respond to the request, M/CFO/CAR uses the amount reported on the R0010 (Trust Fund Status Report – Status of Funds/U-106) report downloaded from USAID's Phoenix reporting tool (Business Objects Enterprise). Because Business Objects Enterprise contains the same information as that recorded in Phoenix, the amounts reported on the R0010 are only as reliable as the information in Phoenix. USAID's total Foreign Currency asset balance, as well as its corresponding liability balance as of September 30, 2006, was $327 million.

The Missions are not entering their foreign currency transactions in Phoenix because staff members do not believe that the system is working properly. USAID agrees that the transactions ideally should be processed by the system. We also inquired as to why there was no entry posted to record the interest expense and the fluctuation in the foreign currency. USAID responded by saying that the funds do not really belong to the Agency, and that the CFO's Office is only really interested in ensuring that the cash balance is properly reflected, and that revenue and expenses are accurate in total. As a result, USAID does not have a complete accounting of its foreign currency accounts, and cannot identify the amount of interest earned on these accounts, or the periodic differences associated with currency exchange gains and losses. USAID has already instructed its overseas Missions to use Phoenix for all foreign currency transactions.

Recommendation No. 4: We recommend that USAID's Office of the Chief Financial Officer perform monthly reconciliations of local bank balances with the same information in Phoenix and record, in Phoenix, interest earned and gains or losses associated with foreign currency fluctuations for each of its foreign currency accounts.

Support and Quality of Performance Data Used In the Management's Discussion & Analysis Need Improvement

Summary: OIG obtained an understanding of the significant internal controls of the FY 2006 performance measures reported in the MD&A section of USAID's Performance and Accountability Report and determined whether they were operational, as required by OMB Bulletin 06-03. Our procedures were not designed to provide assurance on internal controls over reported performance measures and, accordingly, we do not provide an opinion on such controls. We reviewed the FY 2006 MD&A, and selected data from the addendum to the FY 2005 Performance and Accountability Report, which was issued in April 2006, and which provided final performance data for FY 2005.

Our review found that while USAID took actions to improve its controls over data management, the Bureau needs to improve these controls to ensure that data submitted to the missions' Annual Report system are accurate and adequately supported, and that required data quality assessments are performed.

In 7 missions reviewed, officials did not ensure the accuracy of reported data, as required by USAID's Automated Directives System 596. Specifically, for 19 of the 42 performance indicators we reviewed at the 7 missions, data from source documents did not match the data presented in the addendum to the FY 2005 Performance and Accountability Report. This occurred because, according to mission officials, managers did not review data before input into the Annual Report system to ensure accuracy; staff made data entry errors; and missions collected information by telephone or email without subsequently reviewing supporting documentation.

In addition, at 4 of 7 missions, data quality assessments were not conducted in accordance with Automated Directives System 203.3.8. These assessments should be conducted at least every three years to determine the strengths and weaknesses of the data in general, and whether the data can be trusted. Mission officials said, among other causes, that these assessments were not conducted because they had overlooked the requirement, did not have sufficient time to conduct assessments, or did not have a Performance Management Plan prepared.

Based on our limited review, USAID cannot be reasonably assured that all performance data reported in the MD&A section in USAID's Performance and Accountability Report are accurate. Without reliable information, stakeholders will not be able to make informed decisions regarding USAID's programs and budget. At present, USAID does not require its bureaus and missions to certify whether Annual Report data has been reviewed for accuracy and that data quality assessments have been performed at least every three years.

Recommendation No. 5: We recommend that USAID require all bureaus and missions to certify that performance data submitted for publication are accurate, adequately supported, and that the required data quality assessments have been performed.

This report is intended solely for the information and use of the management of USAID, OMB and Congress, and is not intended to be and should not be used by anyone other than those specified parties. This report is a matter of public record, however, and its distribution is not limited.

USAID, Office of Inspector General

USAID, Office of Inspector General
November 15, 2006

Report on Compliance with Laws and Regulations

We have audited the consolidated balance sheets of USAID as of September 30, 2006 and 2005. We have also audited the consolidated statements of changes in net position, consolidated statements of net cost, combined statements of budgetary resources, and consolidated statements of financing for the fiscal years ended September 30, 2006 and 2005, and have issued our report thereon. We conducted the audit in accordance with generally accepted auditing standards. *Government Auditing Standards*, (issued by the Comptroller General of the United States) and Office of Management and Budget (OMB) Bulletin No. 06-03, *Audit Requirements for Federal Financial Statements*.

The management of USAID is responsible for complying with laws and regulations applicable to USAID. As part of obtaining reasonable assurance about whether USAID's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations—noncompliance with which could have a direct and material effect on the determination of financial statement amounts and with certain other laws and regulations specified in OMB Bulletin 06-03, including the requirements referred to in the Federal Financial Management Improvement Act (FFMIA) of 1996. We limited our tests of compliance to these provisions and did not test compliance with all laws and regulations applicable to USAID.

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

Our tests disclosed instances of noncompliance considered to be reportable under *Government Auditing Standards*, including Antideficiency Act violations. However, our objective was not to provide an opinion on overall compliance with laws and regulations. Accordingly, we do not express such an opinion.

OMB Circular A-123, *Management's Responsibility for Internal Control*, implements the requirements of the Federal Managers' Financial Integrity Act (FMFIA). Appendix A of OMB Circular A-123 contains an assessment process that management should implement in order to properly assess and improve internal controls over financial reporting. The assessment process should provide management with the information needed to properly support a separate assertion on the effectiveness of the internal controls over financial reporting, as a subset of the overall FMFIA report.

USAID elected to complete its assessment in accordance with OMB Circular A-123, Appendix A over three years. This plan provides for identifying, testing, and assessing a significant percentage of USAID's key business processes and controls in each year and demonstrates how USAID will meet the A-123, Appendix A requirements by September 2008.

USAID's A-123 assessment process was implemented in substantial accordance with the OMB-approved plan. USAID's Statement of Assurance accurately reflects the amount of work completed and the results of the assessment, and includes an appropriate scope limitation.

Federal Financial Management Improvement Act of 1996

The results of our tests disclosed that USAID's core financial system substantially complied with the Office of Management and Budget's (OMB) November 2001 Federal financial management systems requirements. OMB issued new requirements in January 2006 and the results of our work related to these new requirements are documented in a separate letter dated November 14, 2006. We also identified areas for improvement over several financial system processes not affecting substantial compliance with FFMIA.

Account De-obligation and Closing Processes Need Improvement

Summary: USAID's account de-obligation, budget carryover, and annual account closing processes need improvement. FY 2005 budget and obligation post-closing balances in Phoenix were not accurate because of obligation reporting issues between USAID missions and USAID/Washington. This had occurred at a time in fiscal year 2006 when USAID was still not using Phoenix worldwide. Throughout fiscal year 2006, USAID then experienced difficulty accounting for the budget activity providing the underlying support for its Statement of Budgetary Resources. As a result of post-closing problems, Phoenix budget and obligation opening balances at the start of fiscal year 2006 were not accurate. USAID later posted manual adjustments to reflect accurate budget and obligation balances. Budget and obligation balances from seven of USAID's fund accounts were still not successfully carried forward at the beginning of FY 2007. As a result, USAID continued to perform a manual adjustment for these seven fund accounts at the start of FY 2007.

Core financial system requirements under FFMIA require Federal agency systems to have the ability to:

- Collect accurate, timely, complete, reliable, and consistent information;
- Provide for adequate agency management reporting;
- Support government-wide and agency level policy decisions;
- Support the preparation and execution of agency budgets;
- Facilitate the preparation of financial statements, and other financial reports in accordance with Federal accounting and reporting standards;
- Provide information to central agencies for budgeting, analysis, and government-wide reporting, including consolidated financial statements; and
- Provide a complete audit trail to facilitate audits.

In accordance with ADS 621, deobligations are entered in Phoenix using information on funding sources and fiscal year. For prior-year unilateral obligations, deobligations are recorded as recoveries and returned to the correct appropriation. USAID's CFO then compiles a "Recoveries" report and requests apportionment from OMB to make the funds available for re-obligation. Further, it states that, after program funds have been deobligated, apportioned by OMB, and made available in the accounting system for reprogramming, USAID will return 50 percent of each of its Bureau's remaining current year recoveries, after taking out amounts necessary to fund upward adjustments, and 100 percent of originating Bureau's fund accounts that are designated for specific Bureaus. Operating expense funds, however, are not available for return to recovering offices since projected recoveries of prior year balances are incorporated into the Operating Year Budget levels.

USAID had difficulty properly recording deobligated funds. We identified no activity during the year in Account 4871 (Recoveries), and discovered that Phoenix was systematically recording Recoveries of prior-year obligated funds improperly against Account 4801 (Undelivered Orders – Obligations, Unpaid).

We noticed significant activity in Account 4119 (Other Appropriations Realized) not supported by Treasury warrants and discovered that much of this activity should have been posted to different accounts as part of the automated account closing in Phoenix. The automated closing process in Phoenix contained errors that posted accounts more regularly to 4119 than to the proper accounts, however, so USAID had to make manual adjustments for this activity also.

Some USAID transactions systematically posted to the 2006 general ledger after the financial statements were prepared, creating many differences between reported 2005 year-end balances and 2006 beginning balances. This occurred because USAID's general ledger remained open for new fiscal year 2005 activity after the 2005 financial statements were prepared. USAID also did not have a policy to review and delete unprocessed held transactions from Phoenix in a timely manner. Our analysis showed that over 9,000 held and rejected transactions were residing in Phoenix as of October 20, 2006. USAID is currently developing policies to address the management of all held and rejected documents.

> *Recommendation No 6: We recommend that the Office of the Chief Financial Officer (a) research Phoenix problems causing manual adjustments to the account closing and deobligation processes and implement a plan to resolve these deficiencies in FY 2007 and (b) ensure that Phoenix properly records Recoveries of prior year obligations throughout the year.*

Lease Obligation Antideficiency Act Violations

USAID incurred two Antideficiency Act violations when it improperly executed a lease for office space outside of the Ronald Reagan Building during FY 2005. The lease contained indemnification clauses that subjected USAID to unlimited liability and did not contain language conditioning future lease payments as "subject to availability of funds." The results of these violations are documented in reports to the USAID Administrator prepared by the Office of Inspector General and USAID General Counsel, as a result of work conducted separately from this audit.

USAID also created separate administrative funds control violations when it executed the Homer Building Lease without obligating funds for future lease costs. USAID/M/AS had $2.03 million available in its operating expense budget at the 2005 fiscal year-end to cover costs associated with USAID offices moving to the Homer Building. With $579,000 originally obligated and the unobligated $2.03 million, USAID would have sufficiently covered the $2.5 million originally intended for obligation. However, because USAID did not obligate the entire $2.5 million as stated in its June 29, 2005 notification to Congress, it does not appear that USAID was ready to execute a lease agreement for outside office space.

USAID also did not record an obligation in Phoenix when it executed the Homer Building Lease. As specified in Automated Directives System (ADS) 621.3.6, obligations are to be recorded when the Federal government places an order for an item or service, awards a contract, or enters into similar transactions that will require payments in the same or a future period. ADS 634.3.5.2 then states that an administrative funds control violation occurs in the following circumstances:

a. Over-obligation or over-expenditure of a budget allowance,
b. Obligations or expenditures in excess of an operational year budget,
c. Obligations incurred prior to the commitment of funds, and
d. Failure to record an obligation in the accounting system.

By signing a lease agreement prior to the recording of an obligation, USAID was in violation of USAID funds control policies, as specified in (c) and (d) above. Congress has since included bill language prohibiting USAID from using appropriated funds to lease space domestically, in response to USAID's attempt to lease additional space in Washington, DC.

Recommendation No. 7: We recommend that USAID's Office of the Chief Financial Officer direct each of USAID's missions and offices in Washington to ensure that obligations are not incurred prior to the commitment of funds and valid obligations are recorded in Phoenix as required by Automated Directive System 634.3.5.2.

This report is intended solely for the information and use of the management of USAID, OMB and Congress, and is not intended to be and should not be used by anyone other than those specified parties. This report is a matter of public record, however, and its distribution is not limited.

USAID, Office of Inspector General

USAID, Office of Inspector General
November 15, 2006

EVALUATION OF MANAGEMENT COMMENTS

We have received USAID's management comments to the findings and recommendations included in our draft report. We have evaluated USAID management comments on the recommendations and have reached management decisions on all of the recommendations. The following is a brief summary of USAID's management comments on each of the recommendations included in this report and our evaluation of those comments.

USAID management agreed to implement **Recommendation No. 1.1** and have already begun a reconciliation effort for January 2007.

USAID management agreed to implement **Recommendation No. 1.2** and has agreed to enhance training and identify other means to develop effective accruals practices

USAID management has agreed to implement **Recommendation No. 2.1** and will review its current procedures for consistency with Treasury guidance

USAID management has agreed to implement **Recommendation No. 2.2**.

USAID management has agreed to implement **Recommendation No. 3** and intends to identify processes that will ensure that all types of transactions are properly posted.

USAID management has agreed to implement **Recommendation No. 4** and will coordinate the validation of accounting information between USAID's missions and its central accounting ledgers.

USAID management has agreed to implement **Recommendation No. 5** and will re-establish policies and procedures to ensure that accurate performance information is documented and that required data quality assessments are performed.

USAID management has agreed to implement **Recommendation No. 6**. Efforts to improve the overall management of Section 511 funding are underway.

USAID management has agreed to implement **Recommendation No. 7**. The CFO will issue an immediate General Notice reminding all Agency personnel of the necessity to ensure that all legal, regulatory, and internal USAID policies are followed for compliance with funds control practices.

SCOPE AND METHODOLOGY

USAID management is responsible for (1) preparing the financial statements in accordance with generally accepted accounting principles, (2) establishing, maintaining and assessing internal control to provide reasonable assurance that the broad control objectives of the Federal Managers' Financial Integrity Act are met, (3) ensuring that USAID's financial management systems substantially comply with FFMIA requirements, and (4) complying with applicable laws and regulations.

The Office of Inspector General is responsible for obtaining reasonable assurance about whether the financial statements are presented fairly, in all material respects, in conformity with generally accepted accounting principles. The Office of Inspector General is also responsible for (1) obtaining a sufficient understanding of internal control over financial reporting and compliance to plan the audit, (2) testing whether USAID's financial management systems substantially comply with the three FFMIA requirements, (3) testing compliance with selected provisions of laws and regulations that have a direct and material effect on the financial statements and laws for which OMB audit guidance requires testing, and (4) performing limited procedures with respect to certain other information appearing in the Performance and Accountability Report.

In order to fulfill these responsibilities, we (1) examined, on a test basis, evidence supporting the amounts and disclosures in the financial statements, (2) assessed the accounting principles used and significant estimates made by management, (3) evaluated the overall presentation of the financial statements, (4) obtained an understanding of internal control related to financial reporting (including safeguarding assets), compliance with laws and regulations (including execution of transactions in accordance with budget authority), and performance measures reported in Management's Discussion and Analysis of the Performance and Accountability Report, (5) tested relevant internal controls over financial reporting and compliance, and evaluated the design and operating effectiveness of internal controls, (6) considered the process for evaluating and reporting on internal control and financial management systems under the Federal Managers' Financial Integrity Act, (7) tested whether USAID's financial management systems substantially complied with the three FFMIA requirements, and (8) tested USAID's compliance with selected provisions of the following laws and regulations:

- Antideficiency Act
- Improper Payments Information Act
- Prompt Payment Act
- Debt Collection and Improvement Act
- Federal Credit Reform Act
- OMB Circular A-136
- OMB Circular A-123
- Foreign Assistance Act of 1961

We did not evaluate all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act, such as those controls relevant to preparing statistical reports and ensuring efficient operations. We limited our internal control testing to controls over financial reporting and compliance. Because of inherent limitations in internal control, misstatements due to error or fraud, losses, or noncompliance may occur and not be detected. We also caution that projecting our evaluation to future periods is subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with controls may deteriorate. In addition, we caution that our internal control testing may not be sufficient for other purposes.

We did not test compliance with all laws and regulations applicable to USAID. We limited our tests of compliance to those laws and regulations required by OMB audit guidance that we deemed applicable to the financial statements for the fiscal years ended September 30, 2006 and 2005. We caution that noncompliance may occur and not be detected by these tests and that such testing may not be sufficient for other purposes.

In forming our opinion, the OIG considered potential aggregate errors exceeding $313 million for any individual statement to be material to the presentation of the overall financial statements.

FFMIA

We assessed whether USAID complied with the Federal financial management systems requirements under FFMIA. The Office of Management and Budget's (OMB) Core Financial System Requirements (CFSR) dated November 2001 were the required standard that agencies were expected to meet in fiscal year 2006 even though the CFSR were updated in January 2006.

In assessing USAID's compliance with federal financial management systems requirements, we evaluated the Agency's Phoenix financial management system using the updated January 2006 CFSR. To determine whether the Agency substantially complied with system requirements, we assumed that if the Agency met an OMB 2006 requirement, then it met the equivalent 2001 requirement. In addition, for each January 2006 requirement that the Agency did not comply with, we tested whether the Agency complied with the equivalent November 2001 requirement.

To perform our fieldwork we interviewed USAID staff and contract personnel and reviewed documentation related to the capabilities of Phoenix. Documentation included reports, system queries, system screen captures, system documentation, testing documentation generated during system implementation, and documentation generated for certification and accreditation activity. Scenario driven transactional testing was not conducted.

MD&A

With respect to the Management's Discussion and Analysis (MD&A), we gained an understanding of USAID's system of collecting and reporting performance information. We did not assess the quality of the performance indicators and performed limited tests to assess the controls established by USAID. We conducted a limited review of the internal controls related to the existence and completeness assertions relevant to the performance measures included in the MD&A.

MANAGEMENT COMMENTS

November 10, 2006

MEMORANDUM

TO: AIG/A, Joseph Farinella

FROM: CFO, Lisa D. Fiely /s/ Lisa D. Fiely

SUBJECT: Management Response to Draft Independent Auditor's Report on USAID's Financial Statements for Fiscal Years 2006 and 2005 (Report No. 0-000-07-001-C)

Fiscal year 2006 was another significant year for federal financial management at USAID. We are pleased that your draft report so fairly presents both our progress and our remaining challenges. We are extremely pleased that you are able to issue unqualified opinions on all of USAID's five principal financial statements. Thank you for the OIG's dedication and cooperation throughout the audit process and the professional counsel and support the auditors continue to provide. The acknowledgements of the Agency's improvements in financial systems and processes throughout the report are greatly appreciated.

Following are our comments and management decisions regarding the findings and proposed audit recommendations:

Material Weakness: USAID's Accounting for Accruals Needs Improvement.

Recommendation 1.1: We recommend that USAID's Office of the Chief Financial Officer prepare a quarterly reconciliation of its Phoenix Accruals System with the Phoenix general ledger, document and resolve all differences.

Management Decision: We agree to implement the recommendation. We have already commenced a reconciliation effort which will be demonstrated during January 2007 and will be accomplished in each subsequent accruals cycle. Target completion date is January 31, 2007.

Recommendation 1.2: We recommend that USAID's Office of the Chief Financial Officer update its Accruals training course to ensure that Cognizant Technical Officers can make reasonable accrual estimates when contract modifications result in changes to obligation levels.

Management Decision: We agree to implement this recommendation. Discussions between the CFO's office and OIG have led to an understanding that this is a multifaceted issue that will require collaboration across the Agency. In addition, training of CTOs in the area of accruals was identified through our own A-123 assessment as a material weakness and we are in the process of putting together a corrective action plan to address the issue. We will move to review and enhance training and identify other means to improve recognition of the need for effective accrual practices. Target completion date is September 30, 2007.

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

Recommendation 2.1: We recommend that USAID's Office of the Chief Financial Officer document monthly reconciliations of its Fund Balance with Treasury as required by TFM 2-5100, and ensure that overseas missions are performing and documenting monthly Fund Balance reconciliations.

Management Decision: We agree to implement the recommendation. The CFO's Office will review current procedures for consistency with the Treasury guidance and modify the procedures as appropriate. We will also consider alternatives to ensure mission reconciliation compliance. Target completion date is September 30, 2007.

Recommendation 2.2: We recommend that USAID's Office of the Chief Financial Officer implement policies to ensure that all transactions recorded in the general ledger are reported to Treasury on the SF 224 and that all differences and suspense items are investigated and resolved in a timely manner.

Management Decision: We agree to implement the Recommendation. Target completion date is September 30, 2007.

Reportable Condition: USAID's Intragovernmental Transactions Remain Unreconciled.

There are no recommendations associated with this Reportable Condition. The CFO implemented corrective actions related to two audit recommendations issued under Fiscal Years 2004 and 2005 GMRA audit reports and will continue to implement improvements in this area.

Reportable Condition: USAID's Control Over Treasury Symbols Need Improvement.

<u>Recommendation 3</u>: We recommend that USAID's Office of the Chief Financial Officer develop and implement monthly payment review procedures to identify transactions that have been posted in Phoenix to invalid appropriation Treasury symbols.

<u>Management Decision</u>: We concur with the recommendation. In addition to reviewing procedures related to payment transactions, it is our intent to identify processes that will ensure that all types of transactions are properly identified and posted. Where corrective actions are necessary, the CFO's Office will resolve discrepancies as quickly as possible. Efforts to improve interfacing of transactions from the Department of Health and Human Services related to grant processing are currently underway and these actions are expected to correct this finding. Target completion date is September 30, 2007.

Reportable Condition: USAID's Process for Accumulating Foreign Currency Information in Phoenix Needs Improvement.

<u>Recommendation 4</u>: We recommend that USAID's Office of the Chief Financial Officer perform monthly reconciliations of local bank balances with the same information in Phoenix and record, in Phoenix, interest earned and gains or losses associated with foreign currency fluctuations for each of its foreign currency accounts.

<u>Management Decision</u>: We agree to implement the recommendation. The CFO's Phoenix team has been charged with responsibility for reviewing foreign currency accounting in Phoenix and assuring that foreign currency accounting is improved in the upcoming year. In the meantime, we will coordinate validation of accounting information between missions and our central accounting ledgers Target completion date is September 30, 2007.

Reportable Condition: USAID's Support and Quality of Performance Data Used in MD&A Need Improvement.

Recommendation 5: We recommend that USAID require all bureaus and missions to certify that performance data submitted for publication are accurate, adequately supported, and that the required data quality assessments have been performed.

Management Decision: We concur with this recommendation. Recognizing that accurate and verifiable performance information is critical to management of the Agency, USAID will re-establish policies and procedures to ensure that accurate performance information is documented and that required data quality assessments are performed. Also, USAID is currently going through a restructuring exercise to ensure that all functional responsibilities are properly assigned to responsible units within the Agency. Once this is completed, we can assign responsibility for this action to the appropriate unit. Target completion date is September 30, 2007.

FFMIA Noncompliance: Account De-obligation and Closing Processes Need Improvement.

Recommendation 6: We recommend that the Office of the Chief Financial Officer (a) research Phoenix problems causing manual adjustments to the account closing and deobligation processes and implement a plan to resolve these deficiencies in FY 2007 and (b) ensure that Phoenix properly records Recoveries of prior year obligations throughout the year.

Management Decision: We agree to implement the recommendation. Efforts to improve the overall management of Section 511 in the Phoenix accounting system operations are underway and are expected to improve overall operation of this authority inside the core accounting system. Target completion date is March 31, 2007.

Antideficiency Act Noncompliance: Lease Obligation Antideficiency Act Violations.

Recommendation 7: We recommend that USAID's Office of the Chief Financial Officer direct each of USAID's missions and offices in Washington to ensure that obligations are not incurred prior to the commitment of funds and valid obligations are recorded in Phoenix as required by Automated Directive System 634.3.5.2.

Management Decision: We agree to implement the recommendation. The CFO will issue an immediate General Notice reminding all Agency personnel of the necessity to ensure that all legal, regulatory, and internal USAID policies are followed for compliance with funds control practices. Target completion date is December 15, 2006.

In closing, I would like to restate USAID's commitment to continual improvement in financial management. I intend to ensure that all necessary steps are taken to institutionalize strong financial management performance throughout the Agency. We will continue the improvements made in the last few years as we work further to develop and implement long-term solutions to address the issues cited in your report. The completion of the implementation of our worldwide financial management system, Phoenix, during FY 2006 has been the critical first step in a strategy of consistent improvement of financial management resources at USAID that will continue for years to come.

STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS

OMB Circular A-50 states that a management decision on audit recommendations shall be made within a maximum of six months after a final report is issued. Corrective action should proceed as rapidly as possible. Several audit recommendations directed to USAID from prior audits either have not been corrected or final action has not been completed as of September 30, 2006. We have also noted where final action was taken subsequent to fiscal year-end but prior to the date of this report.

Status of 2005 Findings and Recommendations

Audit of USAID's Financial Statements for Fiscal Years 2005 and 2004, *Audit Report No. 0-000-06-001-C, November 14, 2005*

> Recommendation No. 1: We recommend that USAID's Office of the Chief Financial Officer modify USAID's interface between the Accruals Reporting System and the USAID accounting system general ledger so that it correctly calculates and posts accrual information and that it establishes a review mechanism in the Accruals Reporting System to review accrual information for propriety before it is posted to the general ledger.

This recommendation is closed. We have issued an updated finding and recommendation related to the new Phoenix Accruals System.

> Recommendation No. 2: We recommend that the Office of the Chief Financial Officer ensure that USAID financial managers and mission controllers implement the reconciliation guidelines specified by Chief Financial Officer Bulletin No. 06-1001, Reconciliation with U. S. Treasury, dated October 2005 to ensure Fund Balance with Treasury accounts are reconciled in a timely manner, reconciling items are investigated and resolved, and that adequate documentation is retained to support the reconciliation procedures performed.

This recommendation is pending final action by USAID.

> Recommendation No 3: We recommend that USAID's Office of the Chief Financial Officer develop a system for reviewing transactions reported under Trading Partner 99 to ensure that they are properly classified and appropriately reported, as recommended by section 4706.30 of TFM 2-4700, "Agency Reporting Requirements for the Financial Report of the United States Government."

This recommendation is closed.

USAID's Process for Recognizing and Reporting Its Overseas Accounts Receivable Needs Improvement (No recommendation)

This finding was not reported in 2006.

Federal Financial Management Improvement Act Noncompliance (No recommendations)

- Phoenix is Not Fully Deployed, but Progress is Being Made
- Legacy Financial Systems at Overseas Missions Did Not Comply With U.S. Government Standard General Ledger at the Transaction Level
- Financial Reporting Capabilities Need Improvement

In 2006, Phoenix was fully deployed as USAID's worldwide accounting system. Accounting transactions entered by overseas missions now comply with U.S. Standard General Ledger requirements at the transaction level. USAID has also increased the number of standard reports now available to users through its Business Objects software.

Unresolved Prior Year Findings and Recommendations

Report on USAID's Consolidated Financial Statements, Internal Controls and Compliance for Fiscal-Year 2002, Audit Report No. 0-000-03-001-C, January 24, 2003

Recommendation No. 2: We recommend that the Chief Financial Officer:

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

This recommendation is pending final action by USAID.

FINANCIAL STATEMENTS AND NOTES

***(Above)* Afghan women sort raisins for ready markets in Afghanistan and throughout Asia. USAID is building small factories in several provinces to dry fruit and vegetables for export.**

PHOTO: USAID

***(Preceding page)* A vendor sells bread in Yemen.**

PHOTO: USAID/BEN BARBER

INTRODUCTION TO PRINCIPAL FINANCIAL STATEMENTS

The Principal Financial Statements have been prepared to report the financial position and results of operations of the U.S. Agency for International Development (USAID). The Statements have been prepared from the books and records of the Agency in accordance with formats prescribed by the Office of Management and Budget (OMB) in OMB Circular A-136, *Financial Reporting Requirements*. The Statements are in addition to financial reports prepared by the Agency in accordance with OMB and U.S. Department of the Treasury directives to monitor and control the status and use of budgetary resources, which are prepared from the same books and records. The Statements should be read with the understanding that they are for a component of the U.S. Government, a sovereign entity. The Agency has no authority to pay liabilities not covered by budgetary resources. Liquidation of such liabilities requires enactment of an appropriation.

El Salvador cuts the ribbon on Phoenix Go-Live with the CFO.

PHOTO: USAID/BOB BONNAFFON

USAID's principal financial statements and additional information for FY 2006 and 2005 consist of the following:

The **Consolidated Balance Sheet** provides information on amounts available for use by USAID (assets); the amounts owed (liabilities); and amounts that comprise the difference between assets and liabilities, which is the Agency's net financial position or equity, similar to the balance sheets reported in the private sector. Comparative data for 2005 are included and intra-Agency balances have been eliminated from the amounts presented.

The **Consolidated Statement of Net Cost** reports the components of the net costs of the Agency's operations for the period. The net cost operations consist of the gross cost incurred by the Agency less any exchange (i.e., earned) revenue from our activities. Comparative data for 2005 are included and intra-Agency balances have been eliminated from the amounts presented.

The **Consolidated Statement of Changes in Net Position** reports the beginning net position, the transactions that affect net position for the period, and the ending net position. The components of net position are separately displayed in two columns: Cumulative Results of Operations and Unexpended Appropriations to more clearly identify the components of and changes to Net Position. Comparative data for 2005 are included and intra-Agency balances have been eliminated from the amounts presented.

The **Combined Statement of Budgetary Resources** provides information on how budgetary resources were made available for the year and what the status of budgetary resources was at year-end. Information in this statement is reported on the budgetary basis of accounting. Comparative data for 2005 are included and intra-Agency balances have been eliminated from the amounts presented.

The **Consolidated Statement of Financing** reconciles net obligations reported on the Statement of Budgetary Resources to net costs reported on the Statement of Net Costs. Comparative data for 2005 are included and intra-Agency balances have been eliminated from the amounts presented.

The **Notes to Principal Financial Statements** are an integral part of the financial statements. They provide explanatory information to help financial statement users to understand, interpret, and use the data presented. Comparative FY 2005 Note data may have been restated or recast to enable comparability with the FY 2006 presentation.

Required Supplementary Information provides information on intragovernmental asset and liability amounts along with details on USAID's budgetary resources at year-end.

Other Accompanying Information presents Consolidating Financial Statements that provide detailed program and fund data supporting the financial statements.

HISTORY OF USAID'S FINANCIAL STATEMENTS

In accordance with the Government Management Reform Act of 1994 (GMRA), USAID has prepared consolidated fiscal year-end financial statements since FY 1996. The USAID Office of Inspector General (OIG) is required to audit these statements, related internal controls, and Agency compliance with applicable laws and regulations. From FY 1996 through FY 2000, the OIG was unable to express an opinion on USAID's financial statements because the Agency's financial management systems could not produce complete, reliable, timely, and consistent financial information.

For FY 2001, the OIG was able to express qualified opinions on three of the five principal financial statements of the Agency, while continuing to issue a disclaimer of opinion on the remaining two. For FY 2002, the OIG expressed unqualified opinions on four of the five principal financial statements and a qualified opinion on the fifth. This marked the first time since enactment of the GMRA that USAID received an opinion on all of its financial statements. We are extremely pleased that the efforts of both Agency and OIG staff have resulted in an unqualified opinion on all of the financial statements since FY 2003.

FINANCIAL STATEMENTS

U.S. Agency for International Development
CONSOLIDATED BALANCE SHEET
As of September 30, 2006 and 2005
(Dollars in Thousands)

	FY 2006	FY 2005
ASSETS:		
Intragovernmental:		
Fund Balance with Treasury (Note 2)	$ 19,333,383	$ 17,503,843
Accounts Receivable (Note 3)	220	823,246
Other (Note 4)	24,874	30,575
Total Intragovernmental	19,358,477	18,357,664
Cash and Other Monetary Assets (Note 5)	327,598	283,002
Accounts Receivable, Net (Note 3)	91,173	79,617
Direct Loan and Loan Guarantees, Net (Note 6)	4,810,615	5,100,249
Inventory and Related Property, Net (Note 7)	53,345	44,122
General Property, Plant, and Equipment, Net (Notes 8 and 9)	103,994	96,172
Advances and Prepayments (Note 4)	405,898	749,993
Total Assets	**25,151,100**	**24,710,819**
LIABILITIES (Note 16):		
Intragovernmental:		
Accounts Payable (Note 10)	62,076	24,232
Debt (Note 11)	474,055	422,602
Due to U.S. Treasury (Note 11)	4,491,077	5,311,661
Other (Notes 12)	42,651	30,510
Total Intragovernmental	5,069,859	5,789,005
Accounts Payable (Note 10)	2,267,721	3,180,592
Loan Guarantee Liability (Note 6)	1,660,909	1,562,485
Federal Employee and Veteran's Benefits (Note 14)	23,438	23,726
Other (Notes 12, 13, and 14)	428,788	390,335
Total Liabilities	**9,450,715**	**10,946,143**
Commitments and Contingencies (Note 15)	3,000	–
NET POSITION:		
Unexpended Appropriations	14,334,819	13,004,174
Cumulative Results of Operations	1,362,566	760,502
Total Net Position	**15,697,385**	**13,764,676**
Total Liabilities and Net Position	**$25,151,100**	**$24,710,819**

The accompanying notes are an integral part of these statements.

U.S. Agency for International Development
CONSOLIDATED STATEMENT OF NET COST
For the Years Ended September 30, 2006 and 2005
(Dollars in Thousands)

GOAL	FY 2006	FY 2005
Regional Stability		
Gross Costs	$ 670,710	$ 784,590
Less: Earned Revenues	(859)	(624)
Net Program Costs	669,851	783,966
Counterterrorism		
Gross Costs	640,971	887,866
Less: Earned Revenues	(489)	(413)
Net Program Costs	640,482	887,452
International Crime and Drugs		
Gross Costs	100,596	217,697
Less: Earned Revenues	(229)	(385)
Net Program Costs	100,367	217,311
Democracy and Human Rights		
Gross Costs	1,017,380	1,196,972
Less: Earned Revenues	(3,682)	(5,015)
Net Program Costs	1,013,698	1,191,958
Economic Prosperity and Security		
Gross Costs	3,528,481	3,942,326
Less: Earned Revenues	(12,552)	(7,522)
Net Program Costs	3,515,929	3,934,804
Social and Environmental Issues		
Gross Costs	3,781,302	4,297,366
Less: Earned Revenues	(184,887)	(66,525)
Net Program Costs	3,596,415	4,230,840
Humanitarian Response		
Gross Costs	802,972	1,188,454
Less: Earned Revenues	(998)	(193,809)
Net Program Costs	801,974	994,645
Management and Organizational Excellence		
Gross Costs	15,065	14,686
Less: Earned Revenues	(57)	(37)
Net Program Costs	15,008	14,649
Net Costs of Operations (Notes 17 and 18)	**$ 10,353,724**	**$12,255,626**

The accompanying notes are an integral part of these statements.

U.S. Agency for International Development
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
For the Years Ended September 30, 2006 and 2005
(Dollars in Thousands)

	FY 2006			FY 2005
	All Other Funds	Eliminations	Consolidated Total	Consolidated Total
Cumulative Results of Operations:				
Beginning Balances	$ 760,502	$ –	$ 760,502	$ 660,493
Adjustments:			–	
Changes in Accounting Principles	–	–	–	–
Corrections of Errors	–	–	–	–
Beginning Balances, as adjusted	760,502	–	760,502	660,493
Budgetary Financing Sources:				
Other Adjustments	–	–	–	–
Appropriations Used	9,675,521	–	9,675,521	11,065,445
Non-exchange Revenue	–	–	–	–
Donations and Forfeitures of Cash and Cash Equivalents	71,962	–	71,962	109,782
Transfers-in/out without Reimbursement	1,189,017	–	1,189,017	1,165,437
Other	–	–	–	–
Other Financing Sources (Non-Exchange):				
Donations and Forfeitures of Property	–	–	–	–
Transfers-in/out without Reimbursement	–	–	–	(1,823)
Imputed Financing	19,288	–	19,288	16,794
Other	–	–	–	–
Total Financing Sources	10,955,788	–	10,955,788	12,355,635
Net Cost of Operations	(10,353,724)	–	(10,353,724)	(12,255,626)
Net Change	602,064	–	602,064	100,009
Cumulative Results of Operations	1,362,566	–	1,362,566	760,502
Unexpended Appropriations:				
Beginning Balance	13,004,174	–	13,004,174	13,395,387
Adjustments:				
Change in Accounting Principle	–	–	–	–
Corrections of Errors	–	–	–	(383,145)
Beginning Balance, as Adjusted	13,004,174	–	13,004,174	13,012,242
Budgetary Financing Sources:				
Appropriations Received	10,238,890	–	10,238,890	10,048,521
Appropriations Transferred in/out	845,076	–	845,076	2,070,251
Other Adjustments	(77,800)	–	(77,800)	(1,061,395)
Appropriations Used	(9,675,521)	–	(9,675,521)	(11,065,445)
Total Budgetary Financing Sources	1,330,645	–	1,330,645	(8,068)
Total Unexpended Appropriations	14,334,819	–	14,334,819	13,004,174
Net Position	**$15,697,385**	**$ –**	**$15,697,385**	**$ 13,764,676**

The accompanying notes are an integral part of these statements.

U.S. Agency for International Development
COMBINED STATEMENT OF BUDGETARY RESOURCES
For the Years Ended September 30, 2006 and 2005
(Dollars in Thousands)

	FY 2006		FY 2005	
	Budgetary	**Credit Program Financing**	**Budgetary**	**Credit Program Financing**
Budgetary Resources:				
Unobligated Balance, brought forward, October 1:	$ 3,262,407	$ 1,024,789	$ 2,437,323	$ 1,001,713
Recoveries of prior year unpaid obligations	276,771	–	1,138,496	–
Budget Authority				
Appropriation	10,321,277	–	10,116,585	–
Borrowing Authority	–	52,026	2,000	310,947
Contract Authority	–	–	–	–
Spending Authority from Offsetting Collections				
Earned				
Collected	862,464	447,625	1,443,194	421,647
Change in Receivables from Federal Sources	3,620	–	351	–
Change in Unfilled Customer Orders				
Advance Received	–	–	–	–
Without Advance from Federal Sources	4,652	–	3,021	–
Anticipated for rest of year, Without Advances	–	–	–	–
Previously Unavailable	–	–	–	–
Expenditure Transfers from Trust Funds	–	–	–	–
Subtotal	11,192,013	499,651	11,565,151	732,594
Nonexpenditure Transfers, Net, Anticipated and Actual	(332,548)	–	(273,731)	–
Temporarily not Available Pursuant to Public Law	–	–	–	–
Permanently not Available	(1,414,341)	–	(1,779,260)	–
Total Budgetary Resources	**12,984,302**	**1,524,440**	**13,087,979**	**1,734,307**
Status of Budgetary Resources:				
Obligations Incurred:				
Direct	9,001,401	101,835	9,756,791	709,518
Reimbursable	85,531	–	59,212	–
Subtotal	9,086,932	101,835	9,816,003	709,518
Unobligated Balance:				
Apportioned	3,885,852	1,422,605	3,262,407	1,024,789
Exempt from Apportionment	–	–	–	–
Subtotal	3,885,852	1,422,605	3,262,407	1,024,789
Unobligated Balance not Available	11,518	–	9,569	–
Total Status of Budgetary Resources	**12,984,302**	**1,524,440**	**$13,087,979**	**1,734,307**

(continued on next page)

U.S. Agency for International Development
COMBINED STATEMENT OF BUDGETARY RESOURCES *(continued)*
For the Years Ended September 30, 2006 and 2005
(Dollars in Thousands)

	FY 2006		FY 2005	
	Budgetary	**Credit Program Financing**	**Budgetary**	**Credit Program Financing**
Change in Obligated Balance:				
Obligated Balance, Net				
Unpaid Obligations, Brought Forward, October 1	10,287,030	3,288	10,824,552	11,031
Less: Uncollected Customer Payments from Federal Sources, Brought Forward, October 1	(11,306)	–	(8,284)	–
Total Unpaid Obligated Balance, Net	10,275,724	3,288	10,816,266	11,031
Obligations Incurred Net (+/-)	9,086,932	101,835	9,120,171	709,517
Less: Gross Outlays	(7,296,208)	(101,352)	(8,275,519)	(717,260)
Obligated Balance Transferred, Net				
Actual Transfers, Unpaid Obligations (+/-)	–	–	–	–
Actual Transfers, Uncollected Customer Payments from Federal Sources, (+/-)	–	–	–	–
Total Unpaid Obligated Balance Transferred, Net	–	–	–	–
Less: Recoveries of Prior Year Unpaid Obligations, Actual	(276,771)	–	(1,138,496)	–
Change in Uncollected Customer Payments from Federal Sources (+/-)	(8,264)	–	(3,021)	–
Obligated Balance, Net, End of Period				
Unpaid Obligations	11,170,983	3,772	10,287,030	3,288
Less: Uncollected Customer Payments from Federal Sources	(19,930)	–	(11,306)	–
Total, Unpaid Obligated Balance, Net, End of Period	11,151,053	3,772	10,275,724	3,288
Net Outlays:				
Gross Outlays	7,926,208	101,352	8,275,519	717,260
Less: Offsetting Collections	(861,043)	(447,625)	(1,441,693)	(421,647)
Less: Distributed Offsetting Receipts	(41,784)	–	(195,568)	–
Net Outlays	**$ 7,023,381**	**$ (346,273)**	**$ 6,638,258**	**$ 295,613**

The accompanying notes are an integral part of these statements.

U.S. Agency for International Development
CONSOLIDATED STATEMENT OF FINANCING
For the Years Ended September 30, 2006 and 2005
(Dollars in Thousands)

	FY 2006	FY 2005
Resources Used to Finance Actvities:		
Budgetary Resources Obligated		
Obligations Incurred	$ 9,188,767	$ 10,525,521
Appropriations Transferred to/from Other Agencies (net)	2,443,013	2,517,433
Total Obligations Incurred	11,631,780	13,042,954
Less: Spending Authority from Offsetting Collections and Recoveries	(1,595,132)	(3,006,709)
Spending Authority Transferred to/from Other Agencies (net)	(206,763)	680,727
Total Spending Authority from Offsetting Collections and Recoveries	(1,801,895)	(2,325,982)
Obligations Net of Offsetting Collections and Recoveries	9,829,885	10,716,972
Less: Offsetting Receipts	41,784	195,568
Net Obligations	9,871,669	10,912,540
Other Resources		
Transfers in/out without Reimbursement (+/-)	–	(1,823)
Imputed Financing From Costs Absorbed by Others	19,288	16,794
Other (+/-)	–	–
Net other resources used to finance activities	19,288	14,971
Total Resources Used to Finance Activities	**9,890,957**	**10,927,511**
Resources Used to Finance Items not Part of the Net Cost of Operations:		
Change in Budgetary Resources Obligated for Goods, Services and Benefits Ordered, But not yet Provided (+/-)	88,932	468,419
Resources that Fund Expenses Recognized in Prior Periods	(1,952)	(5,731)
Budgetary Offsetting Collections and Receipts that do not Affect Net Cost of Operations		
Credit Program Collections which Increase Liabilities for Loan Guarantees or Allowances for Subsidy	1,173,507	1,283,309
Other	(122,998)	(307,506)
Resources that Finance the Aquistion of Assets	(55,175)	(47,894)
Other Resources or Adjustments to Net Obligated Resources that do not Affect Net Cost of Operations (+/-)	(390,218)	(411,387)
Total Resources Used to Finance Items Not Part of Net Cost of Operations	**692,096**	**979,210**
Total Resources Used to Finance Net Cost of Operations	**10,583,053**	**11,906,721**
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Periods:		
Increase in Annual Leave Liability	4,265	3,475
Upward/Downward Reestimates of Credit Subsidy Expense (+/-)	(274,319)	320,093
Increase in Exchange Revenue Receivable from the Public	–	–
Total Components of Net Cost of Operations that will Require or Generate Resources in Future Periods	(270,054)	323,568
Components not Requiring or Generating Resources:		
Depreciation and Amortization	29,567	22,754
Revaluation of Assets or Liabilities (+/-)	8,778	810
Other (+/-)	2,380	1,773
Total Components of Net Cost of Operations that will not Require or Generate Resources	40,725	25,337
Total Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period	**(229,329)**	**348,905**
Net Cost of Operations	**$ 10,353,724**	**$ 12,255,626**

The accompanying notes are an integral part of these statements.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF PRESENTATION

The accompanying principal financial statements (statements) report USAID's financial position and results of operations. They have been prepared using USAID's books and records in accordance with Agency accounting policies, the most significant of which are summarized in this note. The statements are presented in accordance with the guidance and requirements of the recently issued Office of Management and Budget (OMB) Circular A-136, Financial Reporting Requirements, which incorporates and updates Bulletin 01-09, Form and Content of Agency Financial Statements, and the Government Management Reform Act of 1994.

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

B. REPORTING ENTITY

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

PROGRAMS

The statements present the financial activity of various programs and accounts managed by USAID. The programs include the Iraq Relief and Reconstruction Fund, Economic Support Fund, Development Assistance, Assistance for the New Independent States of the Former Soviet Union, Special Assistance Initiatives, International Disaster Assistance, Child Survival and Disease, Transition Initiatives, and Direct and Guaranteed Loan Programs. This classification is consistent with the Budget of the United States.

Iraq Relief and Reconstruction Fund

This fund supports necessary expenses related to providing humanitarian assistance in and around Iraq and to carrying out the purposes of the Foreign Assistance Act of 1961 for rehabilitation and reconstruction in Iraq. These include costs of: (1) water/sanitation infrastructure; (2) feeding and food distribution; (3) supporting relief efforts related to refugees, internally displaced persons, and vulnerable individuals, including assistance for families of innocent Iraqi civilians who suffer losses as a result of military operations; (4) electricity; (5) healthcare; (6) telecommunications; (7) economic and financial policy; (8) education; (9) transportation; (10) rule of law and governance; (11) humanitarian de-mining; and (12) agriculture.

Economic Support Fund

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

Development Assistance

This program provides economic resources to developing countries with the aim of bringing the benefits of development to the poor. The program promotes broad-based, self-sustaining economic growth and supports initiatives intended to stabilize population growth, protect the environment and foster increased democratic participation in developing countries. The program is concentrated in those areas in which the United States has special expertise and which promise the greatest opportunity for the poor to better their lives.

Assistance for the New Independent States of the Former Soviet Union

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

Special Assistance Initiatives

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

International Disaster Assistance

Funds for the International Disaster Assistance Program provide relief, rehabilitation, and reconstruction assistance to foreign countries struck by disasters such as famines, floods, hurricanes and earthquakes. The program also provides assistance in disaster preparedness, and prevention and mitigation.

Child Survival and Disease

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

Transition Initiatives

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

Direct and Guaranteed Loans:

- *Direct Loan Program*

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

- *Urban and Environmental Program*

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

- *Micro and Small Enterprise Development Program*

  The Micro and Small Enterprise Development (MSED) Program supports private sector activities in developing countries by providing direct loans and loan guarantees to support local micro and small enterprises. Although the MSED program is still active, the bulk of USAID's new loan guarantee activity is handled through the Development Credit Authority (DCA) program.

- *Israeli Loan Guarantee Program*

  Congress enacted the Israeli Loan Guarantee Program in Section 226 of the Foreign Assistance Act to support the costs for immigrants resettling to Israel from the former Soviet Union, Ethiopia, and other countries. Under this program, the U.S. Government guaranteed the repayment of up to $10 billion in loans from commercial sources, to be borrowed in $2 billion annual increments. Borrowing was completed under the program during Fiscal Year 1999, with approximately $9.2 billion being guaranteed. Guarantees are made by USAID on behalf of the U.S. Government, with funding responsibility and basic administrative functions guarantees for Israel, not to exceed $9 billion and $1.3 billion in guarantees were resting with USAID.

In FY 2003, Congress authorized a second portfolio of loan issued under this portfolio during FY 2003.

- *Ukraine Guarantee Program*

  The Ukraine Export Credit Insurance Program was established with the support of the Export-Import Bank of the U.S. to assist Ukrainian importers of American goods. The program commenced operations in Fiscal Year 1996 and expired in Fiscal Year 1999. The Ukraine Financing Account was closed out in FY 2002.

- *Development Credit Authority*

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

- *Loan Guarantees to Egypt Program*

The Loan Guarantees to Egypt Program was established under the Emergency Wartime Supplemental Appropriations Act, 2003. Under this program, the U.S. Government was authorized to issue an amount not to exceed $2 billion in loan guarantees to Egypt during the period beginning March 1, 2003 and ending September 30, 2005. $1.25 billion in new loan guarantees were issued in fiscal year 2005 before the expiration of the program.

FUND TYPES

The statements include the accounts of all funds under USAID's control. Most of the fund accounts relate to general fund appropriations. USAID also has special fund, revolving fund, trust fund, deposit funds, capital investment fund, receipt account, and budget clearing accounts.

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

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

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

The capital investment fund contains no year funds to provide the Agency with greater flexibility to manage investments in technology systems and facility construction that the annual appropriation for Operating Expenses does not allow.

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

C. BASIS OF ACCOUNTING

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

D. BUDGETS AND BUDGETARY ACCOUNTING

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

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

Pursuant to Section 511 of USAID's Appropriations Act for certain purposes under the Foreign Assistance Act of 1961, as amended, funds shall remain available for obligation for an extended period if such funds are initially obligated within their initial period of availability.

E. REVENUES AND OTHER FINANCING SOURCES

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

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

Revenues are recognized as financing sources to the extent that they were payable to USAID from other agencies, other governments and the public in exchange for goods and services rendered to others. Imputed revenues are reported in the financial statements to offset the imputed costs.

F. FUND BALANCE WITH U.S. TREASURY

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

G. FOREIGN CURRENCY

The Direct Loan Program has foreign currency funds, which are used to disburse loans in certain countries. Those balances are reported at the U.S. dollar equivalents using the exchange rates prescribed by the U.S. Treasury. A gain or loss on translation is recognized for the change in valuation of foreign currencies at year-end. Additionally, some USAID host countries contribute funds for the overhead operation of the host mission and the execution of USAID programs. These funds are held in trust and reported in U.S. dollar equivalents on the balance sheet and statement of net costs.

H. ACCOUNTS RECEIVABLE

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

I. DIRECT LOAN AND LOAN GUARANTEES

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

For loans obligated on or after October 1, 1991, the loans receivable are reduced by an allowance equal to the net present value of the cost to the USG of making the loan. This cost, known as "subsidy", takes into account all cash inflows and outflows associated with the loan, including the interest rate differential between the loans and Treasury borrowing, the estimated delinquencies and defaults net of recoveries, and offsets from fees and other estimated cash flows. This allowance is re-estimated when necessary and changes reflected in the operating statement.

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

Credit program receivables also include origination and annual fees on outstanding guarantees, interest on rescheduled loans and late charges. Claims receivables (subrogated and rescheduled) are due from foreign governments as a result of defaults for pre-1992 guaranteed loans. Receivables are stated net of an allowance for uncollectible accounts, determined using an OMB approved net present value default methodology.

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

J. ADVANCES AND PREPAYMENTS

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

K. INVENTORY AND RELATED PROPERTY

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

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

L. PROPERTY, PLANT AND EQUIPMENT

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

M. LIABILITIES

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

N. LIABILITIES FOR LOAN GUARANTEES

The Credit Reform Act (CRA) of 1990, which became effective on October 1, 1991, has significantly changed the manner in which USAID's loan programs finance their activities. The main purpose of CRA was to more accurately measure the cost of Federal credit programs and to place the cost of such programs on a budgetary basis equivalent to other Federal spending. Consequently, commencing in fiscal 1992, USAID cannot make new loans or guarantees without an appropriation available to fund the cost of making the loan or guarantee. This cost is known as "subsidy."

For USAID's loan guarantee programs, when guarantee commitments are made, an obligation for subsidy cost is recorded in the program account. This cost is based on the net present value of the estimated net cash outflows to be paid by the Program as a result of the loan guarantees, except for administrative costs, less the net present value of all cash inflows to be generated from those guarantees. When the loans are disbursed, the subsidy cost is disbursed from the program account to a financing account.

For loan guarantees made before the CRA (pre-1992), the liability for loan guarantees represents an unfunded liability. Footnote 6 presents the unfunded amounts separate from the post-1991 liabilities. The amount of unfunded liabilities also represents a future funding requirement for USAID. The liability is calculated using a reserve methodology that is similar to OMB prescribed method for post-1991 loan guarantees.

O. ANNUAL, SICK, AND OTHER LEAVE

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

P. RETIREMENT PLANS AND POST EMPLOYMENT BENEFITS

USAID recognizes its share of the cost of providing future pension benefits to eligible employees over the period of time the employees provide the related services. The pension expense recognized in the financial statements equals the current service cost for USAID employees for the accounting period less the amount contributed by the employees. The measurement of the service cost requires the use of an actuarial cost method and assumptions. OPM administers these benefits and provides the factors that USAID applies to report the cost. The excess of the pension expense over the amount contributed by USAID and employees represents the amount being financed directly through the Civil Service Retirement and Disability Fund administered by OPM. This cost is considered imputed cost to USAID.

USAID recognizes a current-period expense for the future cost of post retirement health benefits and life insurance for its employees while they are still working. USAID accounts for and reports this expense in its financial statements in a manner similar to that used for pensions, with the exception that employees and USAID do not make contributions to fund these future benefits.

Federal employee benefit costs paid by OPM and imputed by USAID are reported on the Statement of Financing and the Statement of Net Cost.

Q. COMMITMENTS AND CONTINGENCIES

A contingency is an existing condition, situation or set of circumstances involving uncertainty as to possible gain or loss to USAID. The uncertainty will ultimately be resolved when one or more future events occur or fail to occur. For pending, threatened or potential litigation, a liability is recognized when a past transaction or event has occurred, a future outflow or other sacrifice of resources is likely, and the related future outflow or sacrifice of resources is measurable. For other litigations, a contingent liability is recognized when similar events occur except that the future outflow or other sacrifice of resources is more likely than not. Footnote 15 identifies commitments and contingency liabilities.

R. NET POSITION

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

- Unexpended appropriations are the portion of the appropriations represented by undelivered orders and unobligated balances.
- Cumulative results of operations are also part of net position. This account reflects the net difference between (1) expenses and losses and (2) financing sources, including appropriations, revenues and gains, since the inception of the activity.

S. NON-ENTITY ASSETS

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

T. AGENCY COSTS

USAID costs of operations are comprised of program and operating expenses. USAID/Washington program expenses by goal are obtained directly from Phoenix, the Agency general ledger. Mission related program expenses by goal area are obtained from the Mission Accounting and Control system (MACS). A cost allocation model is used to distribute operating expenses, including Management Bureau, Global Development Alliance, Trust Funds and Support Offices costs to specific goals. Expenses related to Credit Reform and Revolving Funds are directly applied to specific agency goals based on their objectives.

NOTE 2. FUND BALANCE WITH TREASURY

Fund Balance with Treasury as of September 30, 2006 and 2005 consisted of the following:

Fund Balance with Treasury (Dollars in Thousands)

Fund Balances	FY 2006	FY 2005
Trust Funds	$ 52,050	$ 36,747
Revolving Funds	2,400,715	2,760,473
Appropriated Funds	16,879,748	14,509,038
Other Funds	870	197,585
Total	$ 19,333,383	$ 17,503,843

Status of Fund Balance:	FY 2006	FY 2005
Unobligated Balance		
Available	$ 5,012	$ 11,064
Unavailable	661,701	911,885
Obligated Balance Not Yet Disbursed	18,666,670	16,580,894
Total	$ 19,333,383	$ 17,503,843

The Fund Balance with Treasury are available to pay accrued liabilities and finance authorized commitments relative to goods, services, and benefits.

NOTE 3. ACCOUNTS RECEIVABLE, NET

The primary components of USAID's accounts receivable as of September 30, 2006 and 2005 are as follows:

Accounts Receivable, Net
(Dollars in Thousands)

	Receivable Gross	Allowance Accounts	Receivable Net 2006	Receivable Net 2005
Entity				
Intragovernmental				
Appropriation Reimbursements from Federal Agencies	$ 225	N/A	$ 225	$ 225
Accounts Receivable from Federal Agencies Disbursing Authority	–	N/A	–	330,530
Less Intra-Agency Receivables	(84,749)	N/A	(84,749)	(327,437)
Receivable from USDA	84,744	N/A	84,744	819,928
Total Intragovernmental	220	N/A	220	823,246
Accounts Receivable	92,679	(7,181)	85,498	73,692
Total Entity	92,899	(7,181)	85,718	896,938
Total Non-Entity	5,984	(309)	5,675	5,925
Total Receivables	$ 98,883	$ (7,490)	$ 91,393	$ 902,863

Reconciliation of Uncollectible Amounts (Allowance Accounts)
(Dollars in Thousands)

	FY 2006	FY 2005
Beginning Balance	$ 7,862	$ 7,193
Additions	–	986
Reductions	(372)	(317)
Ending Balance	$ 7,490	$ 7,862

Entity intragovernmental accounts receivable consist of amounts due from other U.S. Government agencies. No allowance has been established for the intragovernmental accounts receivable, which are considered to be 100 percent collectible. A 100 percent allowance for uncollectable amounts is estimated for accounts receivable due from the public which are more than one year past due. Disbursing Authority Receivable from USDA consists of obligational authority from the U.S. Department of Agriculture's Commodity Credit Corporation. The authority is for payment of transportation costs incurred by USAID associated with the shipment of Title II and III commodities; Farmer-to-Farmer Technical Assistance Programs; and for assistance to private voluntary organizations, cooperatives, and international organizations. Collections against this receivable are realized when USAID requests a transfer of funds from USDA to cover incurred expenses. In FY 2006, USDA elected to liquidate this receivable. At the end of 2005, the outstanding receivable with USDA was $820 million.

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

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

The account receivable with the public for FY 2006 is $91,173 which consists of $85,498 entity and $5,675 non-entity. Account receivables with the public for FY 2005 was $79,617 which consists of $73,692 entity and $5,925 non-entity.

NOTE 4. OTHER ASSETS

Advances and Prepayments as of September 30, 2006 and 2005 consisted of the following:

Advances and Prepayments (Dollars in Thousands)		
	FY 2006	**FY 2005**
Intragovernmental		
Advances to Federal Agencies	$ 24,874	$ 30,575
Total Intragovernmental	24,874	30,575
Advances to Contractors/Grantees	368,611	678,229
Travel Advances	1,537	1,431
Advances to Host Country Governments and Institutions	24,405	46,732
Prepayments	2,469	11,669
Advances, Other	8,876	11,932
Total with the Public	405,898	749,993
Total Other Assets	$ 430,772	$ 780,568

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

NOTE 5. CASH AND OTHER MONETARY ASSETS

Cash and Other Monetary Assets as of September 30, 2006 and 2005 are as follows:

Cash and Other Monetary Assets (Dollars in Thousands)		
Cash and Other Monetary Assets	**FY 2006**	**FY 2005**
Imprest Fund-Headquarters	350	407
UE and Micro and Small Enterprise Fund Cash w/Fiscal Agent	50	50
Foreign Currencies	327,198	282,545
Total Cash and Other Monetary Assets	$ 327,598	$ 283,002

USAID has imprest funds in various overseas locations. These funds are provided by the Department of State overseas U.S. Disbursing Officers to which USAID is liable for any shortages. USAID's cumulative balance of the Department of State provided imprest funds was $1.8 million in FY 2006 and $1.5 million in FY 2005. These imprest funds are not included in USAID's Balance Sheet.

Foreign Currencies are related to Foreign Currency Trust Funds and this totaled to $327.2 million in FY 2006 and $282.5 million in FY 2005. USAID does not have any non-entity cash or other monetary assets.

NOTE 6. DIRECT LOAN AND LOAN GUARANTEES AND LOANS AND LIABILITIES FOR LOAN GUARANTEES

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

- Direct Loan Program (Direct Loan)
- Urban and Environmental Program (UE)
- Micro and Small Enterprise Development Program (MSED)
- Israel Loan Guarantee Program
- Development Credit Authority Program (DCA)
- Egypt Loan Guarantee Program

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

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

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

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

Summary of Loans Receivables, Net (Dollars in Thousands)	FY 2006	FY 2005
Net Direct Loans Obligated Prior to FY 1992 (Allowance for Loss Method)	$ 4,183,220	$ 4,494,975
Net Direct Loans Obligated After FY 1991 (Present Value Method)	360,132	335,572
Defaulted Guaranteed Loans from Pre-1992 Guarantees (Allowance for Loss Method)	267,263	269,702
Total Loans Receivable, Net as reported on the Balance Sheet	$ 4,810,615	$ 5,100,249

DIRECT LOANS

Direct Loans
(Dollars in Thousands)

Loan Programs	Loans Receivables Gross	Interest Receivable	Allowance for Loan Losses	Value of Assets Related to Direct Loans, Net
Direct Loans Obligated Prior to FY 1992 (Allowance for Loss Method) as of September 30, 2006:				
Direct Loans	$ 5,288,905	$ 382,077	$ 1,487,761	$ 4,183,221
MSED	31	36	67	–
Total	$ 5,288,936	$ 382,113	$ 1,487,828	$ 4,183,221
Direct Loans Obligated Prior to FY 1992 (Allowance for Loss Method) as of September 30, 2005:				
Direct Loans	$ 5,867,779	$ 316,253	$ 1,688,991	$ 4,495,041
MSED	643	96	805	(66)
Total	$ 5,868,422	$ 316,349	$ 1,689,796	$ 4,494,975
Direct Loans Obligated After FY 1991 as of September 30, 2006:				
Direct Loans	$ 1,089,114	$ $16,501	$ 745,777	$ 359,838
MSED	150	133	(10)	293
Total	$ 1,089,264	$ $16,634	$ 745,767	$ 360,131
Direct Loans Obligated After FY 1991 as of September 30, 2005:				
Direct Loans	$ 1,043,132	$ 9,145	$ 716,853	$ 335,424
MSED	150	24	27	147
Total	$ 1,043,282	$ 9,169	$ 716,880	$ 335,572

Total Amount of Direct Loans Disbursed
(Dollars in Thousands)

Direct Loan Programs	FY 2006	FY 2005
Direct Loans	$ 6,378,018	$ 6,910,911
MSED	181	793
Total	$ 6,378,199	$ 6,911,704

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

	FY 2006			FY 2005		
	Direct Loan	MSED	Total	Direct Loan	MSED	Total
Beginning Balance, Changes, and Ending Balance						
Beginning balance of the subsidy cost allowance	$ 716,853	$ 27	$716,880	$237,215	$ 27	$237,242
Add: subsidy expense for direct loans disbursed during the reporting years by component:						
(a) Interest rate differential costs	–	–	–	–	–	–
(b) Default costs (net of recoveries)	–	–	–	–	–	–
(c) Fees and other collections	–	–	–	–	–	–
(d) Other subsidy costs	–	–	–	–	–	–
Total of the above subsidy expense components	–	–	–	–	–	–
Adjustments:						
(a) Loan modifications	$ 21,688	$ –	$ 21,688	$480,625	$ –	$480,625
(b) Fees received	–	–	–	–	–	–
(c) Foreclosed property acquired	–	–	–	–	–	–
(d) Loans written off	–	–	–	–	–	–
(e) Subsidy allowance amortization	7,236	(37)	7,199	(2,874)	–	(2,874)
(f) Other	–	–	–	1,887	–	1,887
Ending balance of the subsidy cost allowance before reestimates	$745,777	$ (10)	$745,767	$716,853	$ 27	$716,880
Add or subtract subsidy reestimates by component:						
(a) Interest rate reestimate	–	–	–	–	–	–
(b) Technical/default reestimate	–	–	–	–	–	–
Total of the above reestimate components	–	–	–	–	–	–
Ending balance of the subsidy cost allowance	$ 745,777	$ (10)	$745,767	$716,853	$ 27	$716,880

Defaulted Guaranteed Loans
(Dollars in Thousands)

Loan Guarantee Programs	Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Allowance For Loan Losses	Value of Assets Related to Defaulted Guaranteed Loans Receivable, Net
Defaulted Guaranteed Loans from Pre-1992 Guarantees (Allowance for Loss Method): FY 2006				
UE	$ 385,728	$ 61,980	$ 180,445	$ 267,263
Total	$ 385,728	$ 61,980	$ 180,445	$ 267,263

Defaulted Guaranteed Loans from Pre-1992 Guarantees (Allowance for Loss Method): FY 2005				
UE	$ 382,264	$ 46,915	$ 159,477	$ 269,702
Total	$ 382,264	$ 46,915	$ 159,477	$ 269,702

DEFAULTED GUARANTEED LOANS FROM POST-1991 GUARANTEES

In FY 2006, the UE Program experienced $3.2 million in defaults on payments.

In FY 2005, the UE Program experienced $4.2 million in defaults on payments.

GUARANTEED LOANS OUTSTANDING:

Guaranteed Loans Outstanding (Dollars in Thousands)

Loan Guarantee Programs	Outstanding Principal, Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
Guaranteed Loans Outstanding (FY 2006):		
UE	$ 1,510,359	$ 1,510,359
MSED	17,010	8,505
Israel	12,869,563	12,869,563
DCA	870,636	400,440
Egypt	1,250,000	1,250,000
Total	$ 16,517,568	$ 16,039,367
Guaranteed Loans Outstanding (FY 2005):		
UE	$ 1,652,480	$ 1,652,480
MSED	47,427	23,714
Israel	12,987,372	12,987,372
DCA	911,071	405,810
Egypt	1,250,000	1,250,000
Total	$ 16,848,350	$ 16,319,376
New Guaranteed Loans Disbursed (FY 2006):		
UE	$ –	$ –
MSED	–	–
DCA	148,025	51,550
Israel	–	–
Egypt	–	–
Total	$ 148,025	$ 51,550
New Guaranteed Loans Disbursed (FY 2005):		
UE	$ –	$ –
MSED	–	–
DCA	177,254	88,627
Israel	750,000	750,000
Egypt	1,250,00	1,250,000
Total	$ 2,177,254	$ 2,088,627

Liability for Loan Guarantees (Dollars in Thousands)			
Loan Guarantee Programs	**Liabilities for Losses on Pre-1992 Guarantees, Estimated Future Default Claims**	**Liabilities for Loan Guarantees for Post-1991 Guarantees, Present Value**	**Total Liabilities for Loan Guarantees**
Liability for Loan Guarantees (Estimated Future Default Claims for pre-1992 guarantees) as of September 30, 2006:			
UE	$ 157,266	$ 155,429	$ 312,695
MSED	–	(2,152)	(2,152)
Israel	–	1,169,363	1,169,363
DCA	–	10,812	10,812
Egypt	–	170,191	170,191
Total	$ 157,266	$ 1,503,643	$ 1,660,909
Liability for Loan Guarantees (Estimated Future Default Claims for pre-1992 guarantees) as of September 30, 2005:			
UE	$ 195,344	$ 149,557	$ 344,901
MSED	–	(1,811)	(1,811)
Israel	–	1,066,734	1,066,734
DCA	–	4,610	4,610
Egypt	–	148,051	148,051
Total	$ 195,344	$ 1,367,141	$ 1,562,485

SUBSIDY EXPENSE FOR LOAN GUARANTEES BY PROGRAM AND COMPONENT:

Subsidy Expense for Loan Guarantees by Program and Component (Dollars in Thousands)					
Loan Guarantee Programs	**Interest Supplements**	**Defaults**	**Fees and Other Collections**	**Other**	**Total**
Subsidy Expense for New Loan Guarantees (FY 2006):					
DCA	$ –	$ 5,336	$ –	$ –	$ 5,336
MSED	–	86	–	–	86
Total	$ –	$ 5,422	$ –	$ –	$ 5,422
Subsidy Expense for New Loan Guarantees (FY 2005):					
DCA	$ –	$ 4,297	$ –	$ –	$ 4,297
MSED	–	1,110	–	–	1,110
Total	$ –	$ 5,407	$ –	$ –	$ 5,407

Subsidy Expense for Loan Guarantees by Program and Component (continued)
(Dollars in Thousands)

Loan Guarantee Programs	Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates
Modifications and Reestimates (FY 2006):				
UE	$ –	$ –	$ –	$ –
MSED	–	–	–	–
DCA	–	–	–	–
Israel	–	–	34,372	34,372
Egypt	–	–	14,264	14,264
Total	$ –	$ –	$ 48,636	$ 48,636
Modifications and Reestimates (FY 2005):				
UE	$ –	$ –	$ 532	$ 532
MSED	–	–	–	–
DCA	–	–	211	211
Israel	–	–	187,892	187,892
Egypt	–	–	7,335	7,335
Total	$ –	$ –	$ 195,970	$ 195,970

Total Loan Guarantee Subsidy Expense
(Dollars in Thousands)

Loan Guarantee Programs	FY 2006	FY 2005
DCA	$ 5,336	$ 4,508
UE	–	532
MSED	86	1,110
Israel	34,372	187,892
Egypt	14,264	7,335
Total	$ 54,058	$ 201,377

SUBSIDY RATES FOR LOAN GUARANTEES BY PROGRAM AND COMPONENT:

Budget Subsidy Rates for Loan Guarantees for the Current Year's Cohorts
(Percent)

Loan Guarantee Programs	Interest Supplements (%)	Defaults (%)	Fees and Other Collections (%)	Other (%)	Total (%)
DCA	–	4.07%	–	–	4.07%

Schedule for Reconciling Loan Guarantee Liability Balances
(Dollars in Thousands)

(Post-1991 Loan Guarantees)	DCA	MSED	UE	Israel	Egypt	Total
FY 2006						
Beginning Balance, Changes, and Ending Balance						
Beginning balance of the loan guarantee liability	$ 4,610	$ (1,811)	$ 149,557	$1,066,734	$ 148,051	$1,367,141
Add: subsidy expense for guaranteed loans disbursed during the reporting years by component:						
(a) Interest supplement costs	–	–	–	–	–	–
(b) Default costs (net of recoveries)	–	–	–	–	–	–
(c) Fees and other collections	–	–	–	–	–	–
(d) Other subsidy costs	5,336	86	–	–	–	5,422
Total of the above subsidy expense components	$ 5,336	$ 86	$ –	$ –	$ –	$ 5,422
Adjustments:						
(a) Loan guarantee modifications	–	–	–	–	–	–
(b) Fees received	847	55	2,334	–	–	3,236
(c) Interest supplements paid	–	–	–	–	–	–
(d) Foreclosed property and loans acquired	–	–	–	–	–	–
(e) Claim payments to lenders	(168)	(475)	(3,254)			(3,897)
(f) Interest accumulation on the liability balance	879	–	8,784	48,272	6,625	64,560
(g) Other	(692)	(7)	18,604	–	–	17,905
Ending balance of the loan guarantee liability before reestimates	$ 10,812	$ (2,152)	$ 176,025	$1,115,006	$ 154,676	$1,454,367
Add or subtract subsidy reestimates by component:						
(a) Interest rate reestimate	–	–	–	–	–	–
(b) Technical/default reestimate	–	–	(20,597)	54,358	15,515	49,276
Total of the above reestimate components	$ –	$ –	$ (20,597)	$ 54,358	$ 15,515	$ 49,276
Ending balance of the loan guarantee liability	$ 10,812	$ (2,152)	$ 155,428	$1,169,364	$ 170,191	$1,503,643
FY 2005						
Beginning Balance, Changes, and Ending Balance						
Beginning balance of the loan guarantee liability	$ (2,975)	$ (3,902)	$ 103,787	$ 700,856	$ –	$ 797,766
Add: subsidy expense for guaranteed loans disbursed during the reporting years by component:						
(a) Interest supplement costs	–	–	–	–	–	–
(b) Default costs (net of recoveries)	–	–	–	–	–	–
(c) Fees and other collections	–	–	–	–	–	–
(d) Other subsidy costs	4,298	1,110	–	–	–	5,408
Total of the above subsidy expense components	$ 4,298	$ 1,110	$ –	$ –	$ –	$ 5,408
Adjustments:						
(a) Loan guarantee modifications	–	–	–	–	–	–
(b) Fees received	1,443	209	2,591	29,250	137,250	170,743
(c) Interest supplements paid	–	–	–	–	–	–
(d) Foreclosed property and loans acquired	–	–	–	–	–	–
(e) Claim payments to lenders	(310)	(586)	(4,167)	–	–	(5,063)
(f) Interest accumulation on the liability balance	–	–	8,279	47,110	3,109	58,498
(g) Other	3,736	4,784	48,555	(14,153)	–	42,922
Ending balance of the loan guarantee liability before reestimates	$ 6,192	$ 1,615	$ 159,045	$ 763,063	$ 140,359	$1,070,274
Add or subtract subsidy reestimates by component:						
(a) Interest rate reestimate	–	–	–	–	–	–
(b) Technical/default reestimate	(1,582)	(3,426)	(9,488)	303,671	7,692	296,867
Total of the above reestimate components	$ (1,582)	$ (3,426)	$ (9,488)	$ 303,671	$ 7,692	$ 296,867
Ending balance of the loan guarantee liability	$ 4,610	$ (1,811)	$ 149,557	$1,066,734	$ 148,051	$1,367,141

Administrative Expense (Dollars in Thousands)		
Loan Programs	**FY 2006**	**FY 2005**
DCA	$ 13,215	$ 9,615
UE	–	217
MSED	–	2
Total	$ 13,215	$ 9,834

OTHER INFORMATION

1. Allowance for Loss for Liquidating account (pre-Credit Reform Act) receivables have been calculated in accordance with OMB guidance using a present value method which assigns risk ratings to receivables based upon the country of debtor. Seventeen countries are in violation of Section 620q of the Foreign Assistance Act (FAA), owing $65.1 million that is more than six months delinquent. Sixteen countries are in violation of the Brooke-Alexander Amendment to the Foreign Operations Export Financing and Related Programs Appropriations Act, owing $553.7 million that is more than one year delinquent. Outstanding direct loans receivable for countries in violation of Section 620q totaled $55.1 million. Outstanding direct loans receivable for countries in violation of the Brooke Amendment totaled $514.6 million.

2. The MSED Liquidating Account general ledger has a loan receivable balance of $31 thousand. This includes a loan pending closure. This loan is being carried at 100% bad debt allowance.

NOTE 7. INVENTORY AND RELATED PROPERTY, NET

USAID's Inventory and Related Property is comprised of Operating Materials and Supplies. Operating Materials and Supplies as of September 30, 2006 and 2005 are as follows:

Inventory and Related Property (Dollars in Thousands)		
	FY 2006	**FY 2005**
Items Held for Use		
Office Supplies	$ 14,895	$ 13,319
Items Held in Reserve for Future Use		
Disaster assistance materials and supplies	16,074	9,096
Birth control supplies	22,376	21,707
Total	$ 53,345	$ 44,122

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

NOTE 8. GENERAL PROPERTY, PLANT AND EQUIPMENT, NET

General Property, Plant and Equipment, Net
(Dollars in Thousands)

	Useful Life	Cost	Accumulated Depreciation	Net Book Value
The components of PP&E as of September 30, 2006 are as follows:				
Classes of Fixed Assets				
Equipment	3 to 5 years	$ 87,242	$ (49,967)	$ 37,276
Buildings, Improvements, & Renovations	20 years	74,017	(31,194)	42,823
Land and Land Rights	N/A	3,139	N/A	3,139
Assets Under Capital Lease		6,899	(2,160)	4,739
Construction in Progress	N/A	570	–	570
Internal Use Software	3 to 5 years	35,937	(20,489)	15,448
Total		$ 207,804	$ (103,810)	$ 103,994
The components of PP&E as of September 30, 2005 are as follows:				
Classes of Fixed Assets				
Equipment	3 to 5 years	$ 76,099	$ (38,729)	$ 37,370
Buildings, Improvements, & Renovations	20 years	59,221	(26,789)	32,432
Land and Land Rights	N/A	4,181	N/A	4,181
Assets Under Capital Lease		6,365	(1,864)	4,501
Construction in Progress	N/A	570	–	570
Internal Use Software	3 to 5 years	29,961	(12,843)	17,118
Total		$ 176,397	$ (80,225)	$ 96,172

The threshold for capitalizing or amortizing assets is $25,000. Assets purchased prior to FY 2003 are depreciated using the straight line depreciation method. Assets purchased during FY 2003 and beyond are depreciated using the mid-quarter convention depreciation method. Depreciable assets are assumed to have no remaining salvage value. There are currently no restrictions on PPE assets.

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

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

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

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

NOTE 9. LEASES

As of September 30, 2006 and 2005 Leases consisted of the following:

Leases (Dollars in Thousands)		
Entity as Lessee		
Capital Leases:	**FY 2006**	**FY 2005**
Summary of Assets Under Capital Lease:		
Buildings	$ 6,899	$ 6,365
Accumulated Depreciation	$ (2,160)	$ (1,864)
Net Assest under Capital Leases	$ 4,739	$ 4,501
Future Payments Due:		
Fiscal Year	**Future Costs**	**Future Costs**
2006	$ –	$ 195
2007	285	165
2008	195	45
2009	117	45
2010	117	45
2011	45	158
After 5 Years	237	–
Net Capital Lease Liability	$ 996	$ 653
Lease Liabilities Covered by Budgetary Resources	$ 996	$ 653
Lease Liabilities Not Covered by Budgetary Resources	$ –	$ –
The capital lease liability is reported on USAID's Balance Sheet under Other Liabilities.		
Operating Leases:	**FY 2006**	**FY 2005**
Future Payments Due:		
Fiscal Year	**Future Costs**	**Future Costs**
2006	$ –	$ 77,861
2007	34,510	76,467
2008	37,271	75,332
2009	40,253	74,094
2010	43,473	72,219
2011	46,951	19,515
After 5 Years	105,470	–
Total Future Lease Payments	$ 307,928	$ 395,489

Of the $308.8 million in future lease payment, $308 million is attributable to the Ronald Reagan Building. The occupancy agreement for the Ronald Reagan Building in Washington D.C will expire September 30, 2010. This building is leased by the General Services Administration (GSA). USAID is charged rent intended to approximate commercial rental rates. Lease payments for FY 2006 amounted to $40.5 million.

NOTE 10. ACCOUNTS PAYABLE

The Accounts Payable covered by budgetary resources as of September 30, 2006 and 2005 consisted of the following:

Accounts Payable Covered by Budgetary Resources (Dollars in Thousands)

	FY 2006	FY 2005
Intragovernmental		
Accounts Payable	$ 62,052	$ 24,226
Disbursements in Transit	24	6
Total Intragovernmental	62,076	24,232
Accounts Payable	2,247,006	3,164,071
Disbursements in Transit	20,715	16,521
Total with the Public	2,267,721	3,180,592
Total Accounts Payable	$ 2,329,797	$ 3,204,824

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

All other Accounts Payable represent liabilities to other non-federal entities.

NOTE 11. DEBT

USAID Intragovernmental debt as of September 30, 2006 and 2005 consisted of the following borrowings from Treasury for post-1991 loan programs, which is classified as other debt:

Intragovernmental Debt (Dollars in Thousands)

	FY 2005 Beginning Balance	Net Borrowing	FY 2005 Ending Balance	Net Borrowing	FY 2006 Ending Balance
Urban & Environmental	$ –	$ –	$ –	$ –	$ –
Direct Loan	111,081	311,521	422,602	51,453	474,055
MSED	–	–	–	–	–
Total Debt	$ 111,081	$ 311,521	$ 422,602	$ 51,453	$ 474,055

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

The above disclosed debt is principal payable to Treasury, which represents financing account borrowings from the Treasury under the Credit Reform Act. In addition, there is net liquidating account equity in the amount of $4.5 billion, which under the Credit Reform Act is required to be recorded as Due to Treasury. Both of these accounts are used exclusively for credit reform activity. All debt shown is intragovernmental debt.

NOTE 12. OTHER LIABILITIES

As of September 30, 2006 and 2005 Other Liabilities consisted of the following:

Other Liabilities (Dollars in Thousands)		
	FY 2006	FY 2005
Intragovernmental		
OPAC Suspense	$ –	$ –
Unfunded FECA Liability	8,500	7,429
Deposit and Clearing Accounts	847	–
Credit Program Undisbursed Loans	–	–
Other	33,304	23,081
Total Intragovernmental	$ 42,651	$ 30,510
Accrued Funded Payroll and Leave	9,207	13,964
Unfunded Leave	34,405	33,324
Other Unfunded Employment Related Liability	–	–
Advances From Others	595	7
Deferred Credits	7,120	11,557
Liability for Deposit Funds and Suspense Accounts – Non-Entity	–	18,072
Foreign Currency Trust Fund	327,371	282,545
Capital Lease Liability	996	50
Custodial Liability	3,741	781
Other Liabilities	45,353	30,035
Other	–	–
Total Liabilities With the Public	$ 428,788	$ 390,335
Total Other Liabilities	$ 471,439	$ 420,845

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

NOTE 13. ACCRUED UNFUNDED ANNUAL LEAVE AND SEPARATION PAY

Accrued unfunded benefits for annual leave and separation pay as of September 30, 2006 and 2005 are:

Accrued Unfunded Benefits (Dollars in Thousands)		
	FY 2006	FY 2005
Liabilities Not Covered by Budgetary Resources		
Accrued Annual Leave	$ 33,304	$ 32,076
FSN Separation Pay Liability	1,101	1,248
Total Accrued Unfunded Annual Leave and Separation Pay	$ 34,405	$ 33,324

NOTE 14. FEDERAL EMPLOYEES AND VETERAN'S BENEFITS

The provision for workers' compensation benefits payable, as of September 30, 2006 and 2005 are as indicated below. These liabilities are included in the Intragovernmental Other Liabilities Line Item on the balance sheet and are not covered by bugetary resources.

Accrued Unfunded Workers' Compensation Benefits (Dollars in Thousands)

	FY 2006	FY 2005
Liabilities Not Covered by Budgetary Resources		
Future Workers' Compensation Benefits	$ 23,438	$ 23,726
Accrued Funded Payroll and Leave	**9,207**	13,964
Unfunded Leave	–	–
Total Accrued Unfunded Workers' Compensation Benefits	$ 32,645	$ 37,690

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

For FY 2006, USAID's total FECA liability was $32.6 million and comprised of unpaid FECA billings for $9.2 million and estimated future FECA costs of $23.4 million.

For FY 2005, USAID's total FECA liability was $37.7 million and comprised of unpaid FECA billings for $14 million and estimated future FECA costs of $23.7 million.

The actuarial estimate for the FECA unfunded liability is determined by the Department of Labor using a method that utilizes historical benefit payment patterns. The projected annual benefit payments are discounted to present value using economic assumption for 10-year Treasury notes and bonds and the amount is further adjusted for inflation. Currently, the projected number of years of benefit payments is 37 years.

NOTE 15. COMMITMENTS AND CONTINGENCIES

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

As of September 30, 2006 a total of nine cases were pending.

Three cases have been designated as reasonably possible:

- The first case is a contract claim arising out of SSA's contract to repair and operate an Iraqi port. The estimated loss is up to $800,000.
- The second case is an appeal of the Contracting Officer's disallowance of the costs of supplemental Accidental Death and Dismemberment and Business Travel Insurance for contractor employees related to initial deployment to Iraq. The estimated loss is up to $750,000.
- The third case is a contract claim over the payment of taxes on a building leased by USAID as mission offices. The estimated loss is up to $800,000.

The statuses of the remaining six litigation cases are at a remote designation.

In 2006, a case disclosed in 2005 was settled for $1,000,000.

A case was deemed as highly probable for a lease termination penalty of $3,000,000. This was disclosed in 2006 financial statements.

NOTE 16. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

Liabilities not covered by budgetary resources as of September 30, 2006 and 2005 are as follows:

Liabilities Not Covered by Budgetary Resources
(Dollars in Thousands)

	FY 2006	FY 2005
Intragovernmental		
Accounts Payable	$ 62,076	$ 351,663
Debt	474,055	422,602
Other	42,651	30,510
Total Intragovernmental	578,782	804,775
With The Public		
Accrued unfunded annual leave and separation pay	34,405	33,324
Accrued unfunded Workers Compensation Benefits	32,645	37,691
Debt - Contingent Liabilities for Loan Guarantees	160,266	195,344
Total Liabilities not covered by Budgetary Resources	227,316	266,359
Total Liabilities covered by Budgetary Resources	9,308,148	10,202,446
Less Intra-Agency Liabilities	(84,749)	(327,437)
Total Liabilities	$ 9,450,715	$10,946,143

NOTE 17. INTRAGOVERNMENTAL COSTS AND EXCHANGE REVENUE

The Consolidated Statement of Net Cost reports the Agency's gross costs less earned revenues to arrive at net cost of operations by strategic goals, as of September 30, 2006. These goals are consistent with USAID's Strategic Planning Framework.

In fourth quarter FY 2006, as part of the annual certification process for mapping strategic objectives to performance goals, strategic objectives assigned to performance goals under Homeland Security strategic goal were reassigned to performance goals under the Regional Stability strategic goal. Thus the Homeland Security goal is not effective for FY 2006 cost reporting.

Also, the format of the Consolidated Statement of Net Cost is new for FY 2006 and is consistent with OMB Circular A-136 guidance.

Note 17 shows the value of exchange transactions between USAID and other Federal entities as well as non-Federal entities. These are also categorized by strategic goals and responsibility segments. Responsibility Segments are defined in Note 18.

Intragovernmental costs and exchange revenue sources relate to transactions between USAID and other Federal entities. Public costs and exchange revenues on the other hand relate to transactions between USAID and non-Federal entities.

U.S. Agency for International Development
INTRAGOVERNMENTAL COSTS AND EXCHANGE REVENUE BY RESPONSIBILITY SEGMENT
For the Years Ended September 30, 2006 and 2005
(Dollars in Thousands)

Goal	Africa	Asia & Near East	DCHA	EGAT	Europe & Eurasia	Global Health	Latin America & Caribbean	Intra-Agency Eliminations	2006 Total	2005 Total
Regional Stability										
Intragovernmental Costs	$ 1,377	$ 6,131	$ 8,408	$ 4,143	$ 4,311	$ –	$ 3,796	$ (175)	$ 27,991	$ 29,095
Public Costs	23,128	297,141	202,663	1,956	96,427	–	21,404	–	642,719	755,496
Total Program Costs	24,505	303,272	211,071	6,099	100,738	–	25,200	(175)	670,710	784,590
Intragovernmental Earned Revenue	(71)	(314)	(337)	(22)	(210)	–	(63)	25	(992)	(507)
Public Earned Revenue	10	44	38	3	29	–	9	–	133	(115)
Total Earned Revenue	(61)	(270)	(299)	(19)	(181)	–	(54)	25	(859)	(622)
Net Program Costs	**24,444**	**303,002**	**210,772**	**6,080**	**100,557**	–	**25,146**	**(150)**	**669,851**	**783,968**
Counterterrorism										
Intragovernmental Costs	87	20,805	–	–	–	–	–	(131)	20,761	8,631
Public Costs	1,230	618,980	–	–	–	–	–	–	620,210	879,234
Total Program Costs	1,317	639,785	–	–	–	–	–	(131)	640,971	887,866
Intragovernmental Earned Revenue	(5)	(580)	–	–	–	–	–	15	(570)	(336)
Public Earned Revenue	1	80	–	–	–	–	–	–	81	(76)
Total Earned Revenue	(4)	(500)	–	–	–	–	–	15	(489)	(412)
Net Program Costs	**1,313**	**639,285**	–	–	–	–	–	**(116)**	**640,482**	**887,453**
International Crime and Drugs										
Intragovernmental Costs	–	–	864	–	294	–	4,542	(35)	5,665	39,280
Public Costs	–	–	5,020	–	4,497	–	85,414	–	94,931	178,417
Total Program Costs	–	–	5,884	–	4,791	–	89,956	(35)	100,596	217,697
Intragovernmental Earned Revenue	–	–	(10)	–	(15)	–	(244)	7	(262)	(313)
Public Earned Revenue	–	–	1	–	2	–	30	–	33	(71)
Total Earned Revenue	–	–	(9)	–	(13)	–	(214)	7	(229)	(384)
Net Program Costs	–	–	**5,875**	–	**4,778**	–	**89,742**	**(28)**	**100,367**	**217,312**
Democracy and Human Rights										
Intragovernmental Costs	14,660	6,565	1,516	–	18,541	–	8,242	(308)	49,216	58,426
Public Costs	92,322	414,327	19,230	–	291,605	–	150,680	–	968,164	1,138,546
Total Program Costs	106,982	420,892	20,746	–	310,146	–	158,922	(308)	1,017,380	1,196,972
Intragovernmental Earned Revenue	(1,021)	(318)	(1,460)	–	(858)	–	(389)	101	(3,945)	(4,516)
Public Earned Revenue	42	44	4	–	119	–	54	–	263	(491)
Total Earned Revenue	(979)	(274)	(1,456)	–	(739)	–	(335)	101	(3,682)	(5,007)
Net Program Costs	**106,003**	**420,618**	**19,290**	–	**309,407**	–	**158,587**	**(207)**	**1,013,698**	**1,191,966**
Economic Prosperity and Security										
Intragovernmental Costs	51,233	63,612	976	(26,004)	43,039	–	24,789	(980)	156,665	126,206
Public Costs	273,096	1,620,042	867,780	124,813	300,069	–	186,016	–	3,371,816	3,816,120
Total Program Costs	324,329	1,683,654	868,756	98,809	343,108	–	210,805	(980)	3,528,481	3,942,326
Intragovernmental Earned Revenue	(1,068)	(2,235)	(2)	(7,275)	(869)	–	(461)	297	(11,613)	(4,500)
Public Earned Revenue	124	196	–	(1,309)	120	–	(70)	–	(939)	(3,023)
Total Earned Revenue	(944)	(2,039)	(2)	(8,584)	(749)	–	(531)	297	(12,552)	(7,523)
Net Program Costs	**323,385**	**1,681,615**	**868,754**	**90,225**	**342,359**	–	**210,274**	**(683)**	**3,515,929**	**3,934,803**

(continued on next page)

U.S. Agency for International Development
INTRAGOVERNMENTAL COSTS AND EXCHANGE REVENUE BY RESPONSIBILITY SEGMENT *(continued)*
For the Years Ended September 30, 2006 and 2005
(Dollars in Thousands)

Goal	Africa	Asia & Near East	DCHA	EGAT	Europe & Eurasia	Global Health	Latin America & Caribbean	Intra-Agency Eliminations	2006 Total	2005 Total
Social and Environmental Issues										
Intragovernmental Costs	87,448	32,642	11	19,254	17,000	57,682	25,727	(1,491)	238,273	189,105
Public Costs	1,000,862	1,225,052	272	197,380	170,288	699,205	249,970	–	3,543,029	4,108,261
Total Program Costs	1,088,310	1,257,694	283	216,634	187,288	756,887	275,697	(1,491)	3,781,302	4,297,366
Intragovernmental Earned Revenue	(3,048)	(1,107)	(1)	(67,834)	(535)	(57,777)	(713)	3,262	(127,753)	(57,065)
Public Earned Revenue	423	154	–	(57,976)	70	96	99	–	(57,134)	(9,461)
Total Earned Revenue	(2,625)	(953)	(1)	(125,810)	(465)	(57,681)	(614)	3,262	(184,887)	(66,526)
Net Program Costs	**1,085,685**	**1,256,741**	**282**	**90,824**	**186,823**	**699,206**	**275,083**	**1,771**	**3,596,415**	**4,230,839**
Humanitarian Response										
Intragovernmental Costs	3,646	4,342	81,063	–	1,226	–	5,328	(594)	95,011	59,672
Public Costs	36,654	98,095	473,538	–	17,025	–	82,649	–	707,961	1,128,782
Total Program Costs	40,300	102,437	554,601	–	18,251	–	87,977	(594)	802,972	1,188,454
Intragovernmental Earned Revenue	(134)	(73)	(667)	–	(60)	–	(259)	30	(1,163)	(64,329)
Public Earned Revenue	19	10	92	–	8	–	36	–	165	(129,491)
Total Earned Revenue	(115)	(63)	(575)	–	(52)	–	(223)	30	(998)	(193,820)
Net Program Costs	**40,185**	**102,374**	**554,026**	**–**	**18,199**	**–**	**87,754**	**(564)**	**801,974**	**994,634**
Management and Organizational Excellence										
Intragovernmental Costs	1,647	–	–	2,454	–	–	–	(25)	4,076	5,709
Public Costs	349	–	–	10,640	–	–	–	–	10,989	8,978
Total Program Costs	1,996	–	–	13,094	–	–	–	(25)	15,065	14,686
Intragovernmental Earned Revenue	(9)	–	–	(59)	–	–	–	2	(66)	(30)
Public Earned Revenue	1	–	–	8	–	–	–	–	9	(7)
Total Earned Revenue	(8)	–	–	(51)	–	–	–	2	(57)	(37)
Net Program Costs	**1,988**	**–**	**–**	**13,043**	**–**	**–**	**–**	**(23)**	**15,008**	**14,649**
Net Costs of Operations	**$1,583,003**	**$4,403,635**	**$1,658,999**	**$200,172**	**$ 962,123**	**$ 699,206**	**$ 846,586**	**$ –**	**$10,353,724**	**$12,255,626**

Note: The Total Earned Revenue by strategic goals on Notes 17 and 18 are slightly off from the Consolidated and Consolidating Statement of Net Cost. Some public earned revenue could not be mapped to a specific goal. Since the amount was immaterial, it was allocated amongst the goals with the largest amounts of public earned revenue i.e., Economic Prosperity and Security, Social and Environmental Issues and Humanitarian Response. Pre-allocatoin, these goals collectively made up approximately 99% of the Total Public Earned revenue.

NOTE 18. SCHEDULE OF COST BY RESPONSIBILITY SEGMENTS

The Schedule of Costs by Responsibility Segment categorizes costs and revenues by strategic and performance goals and responsibility segment.

A responsibility segment is the component that carries out a mission or major line of activity, and whose managers report directly to top management. The geographic and technical bureaus of USAID (below) meet the criteria of a responsibility segment. These bureaus directly support the Agency goals while the remaining bureaus and offices support the operations of these bureaus. To report the full cost of program outputs, the cost of support bureaus and offices are allocated to the outputs of the geographic and technical bureaus. Intra-agency eliminations are allocated to goals to reflect total goals costs.

FY 2006 STATEMENT OF NET COST RESPONSIBILITY SEGMENTS

Geographic Bureaus

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

Technical Bureaus

- Democary, Conflict, and Humanitarian Assistance (DCHA)
- Economic Growth, Agriculture, and Trade (EGAT)
- Global Health (GH)

U.S. Agency for International Development
SCHEDULE OF COSTS BY RESPONSIBILITY SEGMENT
For the Year Ended September 30, 2006
(Dollars in Thousands)

Goal	Africa	Asia & Near East	DCHA	EGAT	Europe & Eurasia	Global Health	Latin America & Caribbean	Intra-Agency Eliminations	Consolidated Total
Regional Stability									
Close, strong, and effective U.S. ties with allies									
Gross Costs	$ 7,324	$ 283,439	$ 43,554	$ 6,099	$ 23,265	$ –	$ 19,582	$ (104)	$ 383,159
Less: Earned Revenues	(19)	(256)	(45)	(19)	(66)	–	(40)	13	(432)
Net Program Costs	7,305	283,183	43,509	6,080	23,199	–	19,542	(91)	382,727
Existing and emergent regional conflicts are contained or resolved									
Gross Costs	17,181	19,833	167,517	–	77,473	–	5,618	(71)	287,551
Less: Earned Revenues	(42)	(15)	(253)	–	(115)	–	(14)	12	(427)
Net Program Costs	17,139	19,818	167,264	–	77,358	–	5,604	(59)	287,124
Counterterrorism									
Stable political and economic conditions									
Gross Costs	1,317	639,785	–	–	–	–	–	(131)	640,971
Less: Earned Revenues	(4)	(500)	–	–	–	–	–	15	(489)
Net Program Costs	1,313	639,285	–	–	–	–	–	(116)	640,482
International Crime and Drugs									
International trafficking in drugs, persons, and other illicit goods									
Gross Costs	–	–	–	–	4,790	–	89,956	(30)	94,716
Less: Earned Revenues	–	–	–	–	(13)	–	(214)	7	(220)
Net Program Costs	–	–	–	–	4,777	–	89,742	(23)	94,496
States cooperate internationally to set and implement anti-drug and anti-crime standards, share financial and political burdens									
Gross Costs	–	–	5,885	–	–	–	–	(5)	5,880
Less: Earned Revenues	–	–	(9)	–	–	–	–	–	(9)
Net Program Costs	–	–	5,876	–	–	–	–	(5)	5,871

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U.S. Agency for International Development
SCHEDULE OF COSTS BY RESPONSIBILITY SEGMENT *(continued)*
For the Year Ended September 30, 2006
(Dollars in Thousands)

Goal	Africa	Asia & Near East	DCHA	EGAT	Europe & Eurasia	Global Health	Latin America & Caribbean	Intra-Agency Eliminations	Consolidated Total
Democracy and Human Rights									
Develop transparent and accountable democratic institutions									
Gross Costs	106,982	415,381	10,711	–	310,146	–	143,190	(298)	986,112
Less: Earned Revenues	(979)	(271)	(12)	–	(739)	–	(303)	64	(2,241)
Net Program Costs	106,003	415,110	10,699	–	309,407	–	142,887	(234)	983,871
Universal standards protect human rights									
Gross Costs	–	5,510	10,035	–	–	–	15,733	(10)	31,268
Less: Earned Revenues	–	(2)	(1,444)	–	–	–	(32)	37	(1,441)
Net Program Costs	–	5,508	8,591	–	–	–	15,701	27	29,827
Economic Prosperity and Security									
Enhanced food security and agricultural development									
Gross Costs	195,605	32,278	868,754	55,943	1	–	70,644	(207)	1,223,018
Less: Earned Revenues	(534)	(26)	(1)	(181)	–	–	(155)	26	(871)
Net Program Costs	195,071	32,252	868,753	55,762	1	–	70,489	(181)	1,222,147
Increased trade and investment									
Gross Costs	65,795	185,334	–	8,787	–	–	41,178	(110)	300,984
Less: Earned Revenues	(319)	(132)	–	(39)	–	–	(87)	16	(561)
Net Program Costs	65,476	185,202	–	8,748	–	–	41,091	(94)	300,423
Institutions, laws, and policies foster private sector led growth									
Gross Costs	62,929	1,392,969	–	29,381	297,217	–	99,018	(590)	1,880,924
Less: Earned Revenues	(91)	(1,816)	–	(8,352)	(639)	–	(290)	250	(10,938)
Net Program Costs	62,838	1,391,153	–	21,029	296,578	–	98,728	(340)	1,869,986
Secure and stable financial and energy markets									
Gross Costs	–	73,073	–	4,699	45,891	–	(35)	(73)	123,555
Less: Earned Revenues	–	(65)	–	(13)	(109)	–	–	5	(182)
Net Program Costs	–	73,008	–	4,686	45,782	–	(35)	(68)	123,373
Social and Environmental Issues									
Broader access to quality education with an emphasis on primary school completion									
Gross Costs	122,027	449,740	–	22,406	12,103	–	36,275	(201)	642,351
Less: Earned Revenues	(300)	(346)	–	(68)	(32)	–	(78)	24	(800)
Net Program Costs	121,727	449,394	–	22,338	12,071	–	36,197	(177)	641,551
Improved global health									
Gross Costs	920,307	662,570	282	398	144,732	756,887	194,047	(1,060)	2,678,163
Less: Earned Revenues	(2,201)	(505)	–	(1)	(359)	(57,681)	(438)	1,539	(59,646)
Net Program Costs	918,106	662,065	282	397	144,373	699,206	193,609	479	2,618,517
Partnerships, initiatives, and implemented international treaties									
Gross Costs	45,976	145,386	–	193,829	30,452	–	45,375	(230)	460,788
Less: Earned Revenues	(124)	(103)	–	(125,740)	(75)	–	(98)	1,699	(124,441)
Net Program Costs	45,852	145,283	–	68,089	30,377	–	45,277	1,469	336,347

(continued on next page)

U.S. Agency for International Development
SCHEDULE OF COSTS BY RESPONSIBILITY SEGMENT *(continued)*
For the Year Ended September 30, 2006
(Dollars in Thousands)

Goal	Africa	Asia & Near East	DCHA	EGAT	Europe & Eurasia	Global Health	Latin America & Caribbean	Intra-Agency Eliminations	Consolidated Total
Humanitarian Response									
Effective protection, assistance, and durable solutions for refugees									
Gross Costs	38,930	12,863	538,743	–	17,169	–	34,766	(519)	641,952
Less: Earned Revenues	(110)	(10)	(559)	–	(47)	–	(82)	24	(784)
Net Program Costs	38,820	12,853	538,184	–	17,122	–	34,684	(495)	641,168
Improved capacity of host countries to reduce vulnerabilities to disasters									
Gross Costs	1,370	89,574	15,858	–	1,082	–	53,211	(75)	161,020
Less: Earned Revenues	(5)	(53)	(17)	–	(4)	–	(141)	6	(214)
Net Program Costs	1,365	89,521	15,841	–	1,078	–	53,070	(69)	160,806
Management and Organizational Excellence									
A high performing, well-trained, and diverse workforce									
Gross Costs	–	–	–	10,914	–	–	–	(6)	10,908
Less: Earned Revenues	–	–	–	(44)	–	–	–	2	(42)
Net Program Costs	–	–	–	10,870	–	–	–	(4)	10,866
Customer-oriented, innovative delivery of administrative and information services									
Gross Costs	–	–	–	147	–	–	–	(1)	146
Less: Earned Revenues	–	–	–	(1)	–	–	–	–	(1)
Net Program Costs	–	–	–	146	–	–	–	(1)	145
Integrated budgeting, planning, and performance management; effective financial management; and demonstrated financial accountability.									
Gross Costs	–	–	–	2,033	–	–	–	(8)	2,025
Less: Earned Revenues	–	–	–	(6)	–	–	–	–	(6)
Net Program Costs	–	–	–	2,027	–	–	–	(8)	2,019
Modernized, secure, and high quality information technology management and infrastructure that meet critical business requirements.									
Gross Costs	1,996	–	–	–	–	–	–	(10)	1,986
Less: Earned Revenues	(8)	–	–	–	–	–	–	–	(8)
Net Program Costs	1,988	–	–	–	–	–	–	(10)	1,978
Net Costs of Operations	**$ 1,583,003**	**$4,403,635**	**$ 1,658,999**	**$ 200,172**	**$ 962,123**	**$ 699,206**	**$ 846,586**	**$ –**	**$ 10,353,724**

NOTE 19. STATEMENT OF BUDGETARY RESOURCES

A. Apportionment Categories of Obligations Incurred:(Dollars in Thousands)

	FY 2006	FY 2005
Category A, Direct	$ 731,684	$ 711,346
Category B, Direct	10,829,818	12,272,395
Category A, Reimbursable	5,526	8,990
Category B, Reimbursable	64,750	50,222
Total	$ 11,631,778	$ 13,042,953

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

For credit financing activities, borrowing authority for FY 2006 was $52 million. For FY 2005 borrowing authority was $310 million. In FY 2005, the borrowing authority number was transposed, reading as $31.9 instead of $310 million.

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

C. Adjustments to Beginning Balance of Budgetary Resources:

There were no differences for FY 2006 between prior year and current year beginning balances.

D. Permanent Indefinite Appropriations:

USAID has permanent indefinite appropriations relating to specific Credit Reform Program and Liquidating appropriations. USAID is authorized permanent indefinite authority for Credit Reform Program appropriations for subsidy reestimates, and Credit Reform Act of 1990.

E. Legal Arrangements Affecting the Use of Unobligated Balances:

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

NOTE 20. STATEMENT OF FINANCING - OTHER

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

Contingent liabilities for Loan Guarantees on the Balance Sheet represent cumulative balances, of which $48.6 million represent the Credit Subsidy expense reestimates requiring resources in future periods. Current period changes of $4.2 million represents the current period increase in the Accrued Unfunded Annual Leave Separation Pay liability, and is shown on the Statement of Financing as a change in components requiring resources in future period.

Explanation of the Relationship Between the Statement of Changes in Net Position and the Statement of Financing

Imputed Financing of $19.2 million are shown on both the Statement of Changes of Net Position as Other Financing Sources and on the Statement of Financing as Other Resources.

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

Appropriations that are transferred from other Federal Agencies to USAID are not shown on the Statement of Budgetary Resources, but are shown on the Balance Sheet and Statement of Net Costs. Appropriations that are transferred to other agencies are shown on the Statement of Budgetary Resources, but are not shown on the Balance Sheet nor the Statement of Net Costs. Below is a reconciliation of obligations and spending authority from offsetting collections between the Statement of Budgetary Resources and the Statement of Financing.

Changes in FY 2006 for Statement of Financing:

An increase of Credit Program collections for both liabilities and subsidies are the primary reasons for the increase in the Total Resources Used to Finance items not part of the net cost of operations on the Statement of Financing. During FY 2006, total Net Obligations decreased by $1,040 million, and Credit Program Collections were about $1,173 million. In, FY 2005, total Net Obligations decreased by $256 million, and Credit Program Collections were about $1,283 million.

For the Upward/Downward Re-estimates of Credit Subsidy Expense, during FY 2006, there was a net decrease for Credit Program subsidy re-estimates of about $594 million, as compared to an upward increase in FY 2005 of $529 million.

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

Obligations Incurred, Statement of Budgetary Resources		$ 9,188,767
Less: Transfers to Other Agencies		
Department Of State	(282,569)	
Nuclear Regulatory Commission	(1,463)	
Others	(2,005)	(286,037)
Add: Transfers from Other Agencies		
Department of Agriculture	1,184,686	
Department of State	1,255,916	
Executive Office of the President	180,103	
Other	108,345	2,729,050
Obligations Incurred, Statement of Financing		11,631,780
Offsetting Collections and Recoveries, Statement of Budgetary Resources		1,595,132
Less: Transfers to Other Agencies		
Department of State	(24,350)	
U.S. Treasury Department	(890)	
Other	(22)	(25,262)
Add: Allocations from Other Agencies		
Executive Office of the President	118,245	
Department of Agriculture	113,073	
Other	707	232,025
Offsetting Collections and Recoveries, Statement of Financing		$ 1,801,805

REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION

(Above) **Mongolians learn how to plant vegetables in the Gobi desert.**

PHOTO: MERCY CORPS/CHANTSALDULAM

(Preceding page) **Pakistani girls attend their first school in a tent at Mehra Camp, January 2006. Relief camps were part of the large international humanitarian relief effort after the Pakistan earthquake.**

PHOTO: ONASIA/MASAKO IMAOKA

U.S. Agency for International Development
CONSOLIDATING BALANCE SHEET
As of September 30, 2006
(Dollars in Thousands)

	Credit Program Funds	Program Funds	Operating Funds	Revolving Funds	Trust Funds	Other Funds	Intra-Agency Elimination	Total
ASSETS								
Intragovernmental								
Fund Balance with Treasury (Note 2)	$ 1,793,844	$ 16,073,773	$ 1,406,986	$ 5,887	$ 52,050	843	$ –	$ 19,333,383
Accounts Receivable (Note 3)	84,749	–	217	–	–	3	(84,749)	220
Other Assets (Note 4)	–	24,125	749	–	–	–	–	24,874
Total Intragovernmental	1,878,593	16,097,898	1,407,952	5,887	$52,050	846	(84,749)	19,358,477
Cash and Other Monetary Assets (Note 5)	50	–	327,548	–	–	–	–	327,598
Accounts Receivable, Net (Note 3)	59,954	24,335	1,208	1	–	5,675	–	91,173
Loans Receivable, Net (Note 6)	4,810,615	–	–	–	–	–	–	4,810,615
Inventory and Related Property, Net (Note 7)	–	38,450	14,895	–	–	–	–	53,345
General Property, Plant, and Equipment, Net (Note 8 and 9)	–	124	103,870	–	–	–	–	103,994
Advances and Prepayments (Note 4)	139	389,124	16,379	19	237	–	–	405,898
Total Assets	6,749,351	16,549,931	1,871,852	5,907	52,287	6,521	(84,749)	25,151,100
LIABILITIES (Note 16)								
Intragovernmental								
Accounts Payable (Note 10)	84,522	47,864	14,301	138	–	–	(84,749)	62,076
Debt (Note 11)	474,055	–	–	–	–	–	–	474,055
Due to U.S. Treasury (Note 11)	4,491,077	–	–	–	–	–	–	4,491,077
Other Liabilities (Note 12)	24,270	7	11,823	1	29	6,521	–	42,651
Total Intragovernmental	5,073,924	47,871	26,124	139	29	6,521	(84,749)	5,069,859
Accounts Payable (Note 10)	50,361	1,857,669	350,220	1,550	7,921	–	–	2,267,721
Loan Guarantee Liability (Note 6)	1,660,909	–	–	–	–	–	–	1,660,909
Federal Employees and Veteran's Benefits (Note 14)	–	–	23,438	–	–	–	–	23,438
Other Liabilities (Note 12, 13, and 14)	7,923	2,488	370,146	2,433	45,798	–	–	428,788
Total Liabilities	6,793,117	1,908,028	769,928	4,122	53,748	6,521	(84,749)	9,450,715
Commitments and Contingencies (Note 15)	–	–	3,000	–	–	–	–	3,000
NET POSITION								
Unexpended Appropriations	47,612	14,290,465	(3,522)	152	112	–	–	14,334,819
Cumulative Results of Operations	(91,378)	351,438	1,102,446	1,633	(1,573)	–	–	1,362,566
Total Net Position	(43,766)	14,641,903	1,098,924	1,785	(1,461)	–	–	15,697,385
Total Liabilities and Net Position	$ 6,749,351	$ 16,549,931	$ 1,871,852	$ 5,907	$ 52,287	$ 6,521	$ (84,749)	$25,151,100

U.S. Agency for International Development
CONSOLIDATING STATEMENT OF NET COST
For the Year Ended September 30, 2006
(Dollars in Thousands)

Goal	Credit Program Funds	Program Funds	Operating Funds	Revolving Funds	Trust Funds	Other Funds	Intra-Agency Elimination	Total Amount
Regional Stability								
Intragovernmental Costs	$ –	$ 9,850	$ 18,381	$ 14	$ 3	$ (82)	$ (175)	$ 27,991
Public Costs	–	606,793	34,217	506	1,121	82	–	642,719
Total Costs	–	616,643	52,598	520	1,124	–	(175)	670,710
Intragovernmental Earned Revenue	–	(60)	(287)	(562)	–	(108)	25	(992)
Public Earned Revenue	–	–	(3)	28	–	108	–	133
Less Total Earned Revenues	–	(60)	(290)	(534)	–	–	25	(859)
Net Program Costs	–	616,583	52,308	(14)	1,124	–	(150)	669,851
Counterterrorism								
Intragovernmental Costs	–	9,699	11,232	9	2	(50)	(131)	20,761
Public Costs	–	598,257	20,909	309	685	50	–	620,210
Total Costs	–	607,956	32,141	318	687	–	(131)	640,971
Intragovernmental Earned Revenue	–	–	(176)	(343)	–	(66)	15	(570)
Public Earned Revenue	–	–	(2)	17	–	66	–	81
Less Total Earned Revenues	–	–	(178)	(326)	–	–	15	(489)
Net Program Costs	–	607,956	31,963	(8)	687	–	(116)	640,482
International Crime and Drugs								
Intragovernmental Costs	–	561	5,157	4	1	(23)	(35)	5,665
Public Costs	–	84,853	9,599	142	314	23	–	94,931
Total Costs	–	85,414	14,756	146	315	–	(35)	100,596
Intragovernmental Earned Revenue	–	–	(81)	(158)	–	(30)	7	(262)
Public Earned Revenue	–	(4)	(1)	8	–	30	–	33
Less Total Earned Revenues	–	(4)	(82)	(150)	–	–	7	(229)
Net Program Costs	–	85,410	14,674	(4)	315	–	(28)	100,367
Democracy and Human Rights								
Intragovernmental Costs	–	13,285	36,367	28	6	(162)	(308)	49,216
Public Costs	–	897,086	67,697	1,002	2,217	162	–	968,164
Total Costs	–	910,371	104,064	1,030	2,223	–	(308)	1,017,380
Intragovernmental Earned Revenue	–	(2,153)	(568)	(1,112)	–	(213)	101	(3,945)
Public Earned Revenue	–	–	(5)	55	–	213	–	263
Less Total Earned Revenues	–	(2,153)	(573)	(1,057)	–	–	101	(3,682)
Net Program Costs	–	908,218	103,491	(27)	2,223	–	(207)	1,013,698

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U.S. Agency for International Development
CONSOLIDATING STATEMENT OF NET COST *(continued)*
For the Year Ended September 30, 2006
(Dollars in Thousands)

Goal	Credit Program Funds	Program Funds	Operating Funds	Revolving Funds	Trust Funds	Other Funds	Intra-Agency Elimination	Total Amount
Economic Prosperity and Security								
Intragovernmental Costs	24,895	51,923	81,108	61	14	(356)	(980)	156,665
Public Costs	56,791	2,281,823	1,025,752	2,208	4,886	356	–	3,371,816
Total Costs	81,686	2,333,746	1,106,860	2,269	4,900	–	(980)	3,528,481
Intragovernmental Earned Revenue	(6,747)	(990)	(1,252)	(2,451)	–	(470)	297	(11,613)
Public Earned Revenue	(1,518)	–	(12)	121	–	470	–	(939)
Less Total Earned Revenues	(8,265)	(990)	(1,264)	(2,330)	–	–	297	(12,552)
Net Program Costs	73,421	2,332,756	1,105,596	(61)	4,900	–	(683)	3,515,929
Social and Environmental Issues								
Intragovernmental Costs	–	116,593	123,606	94	21	(550)	(1,491)	238,273
Public Costs	133,034	3,168,411	230,093	3,405	7,536	550	–	3,543,029
Total Costs	133,034	3,285,004	353,699	3,499	7,557	–	(1,491)	3,781,302
Intragovernmental Earned Revenue	(67,440)	(57,140)	(1,932)	(3,779)	–	(724)	3,262	(127,753)
Public Earned Revenue	(58,026)	–	(18)	186	–	724	–	(57,134)
Less Total Earned Revenues	(125,466)	(57,140)	(1,950)	(3,593)	–	–	3,262	(184,887)
Net Program Costs	7,568	3,227,864	351,749	(94)	7,557	–	1,771	3,596,415
Humanitarian Response								
Intragovernmental Costs	–	72,779	22,907	17	4	(102)	(594)	95,011
Public Costs	–	663,189	42,642	631	1,397	102	–	707,961
Total Costs	–	735,968	65,549	648	1,401	–	(594)	802,972
Intragovernmental Earned Revenue	–	–	(358)	(700)	(1)	(134)	30	(1,163)
Public Earned Revenue	–	–	(3)	34	–	134	–	165
Less Total Earned Revenues	–	–	(361)	(666)	(1)	–	30	(998)
Net Program Costs	–	735,968	65,188	(18)	1,400	–	(564)	801,974
Management and Organizational Excellence								
Intragovernmental Costs	–	2,793	1,313	1	–	(6)	(25)	4,076
Public Costs	–	8,424	2,443	36	80	6	–	10,989
Total Costs	–	11,217	3,756	37	80	–	(25)	15,065
Intragovernmental Earned Revenue	–	–	(21)	(40)	–	(8)	2	(67)
Public Earned Revenue	–	–	–	2	–	8	–	10
Less Total Earned Revenues	–	–	(21)	(38)	–	–	2	(57)
Net Program Costs	–	11,217	3,735	(1)	80	–	(23)	15,008
Net Costs of Operations	$ 80,989	$8,525,972	$1,728,704	$ (227)	$18,286	$ –	$ –	$10,353,724

U.S. Agency for International Development
CONSOLIDATING STATEMENT OF CHANGES IN NET POSITION
For the Year Ended September 30, 2006
(Dollars in Thousands)

	Credit Program Funds	Program Funds	Operating Funds	Revolving Funds	Trust Funds	Other Funds	Total
Beginning Balances	$ (335,271)	$ 338,501	$ 756,887	$ 1,633	$ (1,248)	$ –	$ 760,502
Adjustments	–	–	–	–	–	–	–
Changes in Accounting Principles	–	–	–	–	–	–	–
Corrections of Errors	–	–	–	–	–	–	–
Beginning Balances, as adjusted	(335,271)	338,501	756,887	1,633	(1,248)	–	760,502
Budgetary Financing Sources:							
Other Adjustments (Recissions, etc)	–	–	–	–	–	–	–
Appropriations Used	324,873	8,538,718	812,046	(4)	(112)	–	9,675,521
Non-exchange Revenue	–	–	–	–	–	–	–
Donations and Forfeitures of Cash and Cash Equivalents	9	191	53,912	(223)	18,073	–	71,962
Transfers–in/out Without Reimbursement	–	–	1,189,017	–	–	–	1,189,017
Other	–	–	–	–	–	–	–
Other Financing Sources (Non-exchange):							
Donations and Forfeitures of Property	–	–	–	–	–	–	–
Transfers–in/out Without Reimbursement	–	–		–	–	–	–
Imputed Financing	–	–	19,288	–	–	–	19,288
Other	–	–	–	–	–	–	–
Total Financing Sources	324,882	8,538,909	2,074,263	(227)	17,961	–	10,955,788
Net Cost of Operations	(80,989)	(8,525,972)	(1,728,704)	227	(18,286)	–	(10,353,724)
Net Change	243,893	12,937	345,559	–	(325)	–	602,064
Cumulative Results of Operations:	(91,378)	351,438	1,102,446	1,633	(1,573)	–	1,362,566
Unexpended Appropriations:							
Beginning Balance	47,170	13,026,593	(69,737)	148	–	–	13,004,174
Adjustments	–	–	–	–	–	–	–
Changes in Accounting Principles	–	–	–	–	–	–	–
Corrections of Errors	–	–	–	–	–	–	–
Beginning Balances, as adjusted	47,170	13,026,593	(69,737)	148	–	–	13,004,174
Budgetary Financing Sources:							
Appropriations Received	320,560	9,039,630	878,700	–	–	–	10,238,890
Appropriations Transferred in/out	4,834	833,321	6,921	–	–	–	845,076
Other Adjustments	(80)	(70,360)	(7,360)	–	–	–	(77,800)
Appropriations Used	(324,872)	(8,538,719)	(812,046)	4	112	–	(9,675,521)
Total Budgetary Financing Sources	442	1,263,872	66,215	4	112	–	1,330,645
Total Unexpended Appropriations	47,612	14,290,465	(3,522)	152	112	–	14,334,819
Net Position	**$ (43,766)**	**$14,641,903**	**$ 1,098,924**	**$ 1,785**	**$ (1,461)**	**$ –**	**$ 15,697,385**

U.S. Agency for International Development
CONSOLIDATING STATEMENT OF BUDGETARY RESOURCES
For the Year Ended September 30, 2006
(Dollars in Thousands)

	Credit Program Funds	Program Funds	Operating Funds	Revolving Funds	Trust Funds	Other Funds	Credit-Financing	Allocations	Total
Budgetary Resources:									
Unobligated Balance, Brought Forward, October 1	$ 858,482	$2,215,797	$ 70,098	$2,740	$ 4,090	$ –	$ 1,024,789	$ 111,200	$ 4,287,196
Recoveries of Prior Year Unpaid Obligations	6,190	221,565	27,267	155	1,373	–	–	20,221	276,771
Budget Authority									
Appropriations	370,560	9,039,630	878,700	–	32,387	–	–	–	10,321,277
Borrowing Authority	–	–	–	–	–	–	52,026	–	52,026
Contract Authority	–	–	–	–	–	–	–	–	–
Spending Authority from Offsetting Collections									
Earned									
Collected	786,276	60,347	4,718	9,702	–	–	447,625	1,421	1,310,089
Changed in Receivables from Federal Sources	–	–	–	–	–	–	–	3,620	3,620
Change in Unfilled Customer Orders									
Advance Received	–	–	–	–	–	–	–	–	–
Without Advance from Federal Sources	–	4,402	808	(558)	–	–	–	–	4,652
Anticipated for Rest of Year, Without Advances	–	–	–	–	–	–	–	–	–
Previously Unavailable	–	–	–	–	–	–	–	–	–
Expenditure Transfers from Trust Funds	–	–	–	–	–	–	–	–	–
Subtotal	1,156,836	9,104,379	884,226	9,144	32,387	–	499,651	5,041	11,691,664
Nonexpenditure Transfers, Net, Anticipated and Actual	4,834	(542,918)	6,921	–	–	–	–	198,615	(332,548)
Temporarily not Available Pursuant to Public Law	–	–	–	–	–	–	–	–	–
Permanently not Available	(1,332,255)	(74,140)	(7,946)	–	–	–	–	–	(1,414,341)
Total Budgetary Resources	**694,087**	**10,924,683**	**980,566**	**12,039**	**37,850**	–	**1,524,440**	**335,077**	**14,508,742**
Status of Budgetary Resources:									
Obligations Incurred									
Direct	355,318	7,486,841	849,332	8,881	30,247	–	101,835	270,782	9,103,236
Reimbursable	–	64,750	5,526	–	–	–	–	15,255	85,531
Subtotal	355,318	7,551,591	854,858	8,881	30,247	–	101,835	286,037	9,188,767
Unobligated Balance:									
Apportioned	338,576	3,364,144	125,708	3,158	7,603	–	1,422,605	46,663	5,308,457
Exempt from Apportionment	–	–	–	–	–	–	–	–	–
Subtotal	338,576	3,364,144	125,708	3,158	7,603	–	1,422,605	46,663	5,308,457
Unobligated Balance not Available	193	8,948	–	–	–	–	–	2,377	11,518
Total Status of Budgetary Resources	**694,087**	**10,924,683**	**980,566**	**12,039**	**37,850**	–	**1,524,440**	**335,077**	**14,508,742**

(continued on next page)

U.S. Agency for International Development
CONSOLIDATING STATEMENT OF BUDGETARY RESOURCES *(continued)*
For the Year Ended September 30, 2006
(Dollars in Thousands)

	Credit Program Funds	Program Funds	Operating Funds	Revolving Funds	Trust Funds	Other Funds	Credit-Financing	Allocations	Total
Change in Obligated Balance:									
Obligated Balance, Net									
Unpaid Obligations, Brought Forward, October 1	39,773	9,976,701	232,834	1,588	32,607	–	3,288	3,527	10,290,318
Less: Uncollected Customer Payments from Federal Sources, Brought Forward, October 1	(3,467)	(1,158)	(4,180)	(2,501)	–	–	–	–	(11,306)
Total Unpaid Obligated Balance, Net	36,306	9,975,543	228,654	(913)	32,607	–	3,288	3,527	10,279,012
Obligations Incurred Net (+/-)	355,318	7,551,591	854,858	8,881	30,247	–	101,835	286,037	9,188,767
Less: Gross Outlays	(356,742)	(6,731,176)	(861,246)	(5,642)	(17,035)	–	(101,352)	45,633	(8,027,560)
Obligated Balance Transferred, Net									
Actual Transfers, Unpaid Obligations (+/-)	–	–	–	–	–	–	–	–	–
Actual Transfers, Uncollected Customer Payments Federal Sources, (+/-)	–	–	–	–	–	–	–	–	–
Total Unpaid Obligated Balance Transferred, Net	–	–	–	–	–	–	–	–	–
Less: Recoveries of Prior Year Unpaid obligations, actual	(6,190)	(221,565)	(27,267)	(155)	(1,373)	–	–	(20,221)	(276,771)
Change in Uncollected Customer Payments from Federal Sources (+/-)	–	(4,403)	(808)	558	–	–	–	(3,971)	(8,624)
Obligated Balance, Net, End of Period									
Unpaid Obligations	32,159	10,575,551	199,179	4,672	44,446	–	3,771	314,976	11,174,754
Less: Uncollected Customer Payments from Federal Sources	(3,467)	(5,561)	(4,988)	(1,943)	–	–	–	(3,971)	(19,930)
Total, Unpaid Obligated Balance, Net End of Period	28,692	10,569,990	194,191	2,729	44,446	–	3,771	311,005	11,154,824
Net Outlays									
Gross Outlays	356,742	6,731,176	861,246	5,642	17,035	–	101,352	(45,633)	8,027,560
Less: Offsetting Collections	(786,276)	(60,347)	(4,718)	(9,702)	–	–	(447,625)	–	(1,308,668)
Less: Distributed Offsetting Receipts	–	–	–	–	–	(41,784)	–	–	(41,784)
Net Outlays	**$ (429,534)**	**$ 6,670,829**	**$ 856,528**	**$ (4,060)**	**$ 17,035**	**$ (41,784)**	**$ (346,273)**	**$ (45,633)**	**$ 6,677,108**

U.S. Agency for International Development
CONSOLIDATING STATEMENT OF FINANCING
For the Year Ended September 30, 2006
(Dollars in Thousands)

	Credit Program Funds	Program Funds	Operating Funds	Revolving Funds	Trust Funds	Other Funds	Allocations	Total
Resources Used to Finance Activities:								
Budgetary Resources Obligated								
Obligations Incurred	$ 457,153	$7,551,591	$ 854,858	$ 8,881	$ 30,247	$ –	$ 286,037	$ 9,188,767
Appropriations Transferred to/from Other Agencies (net)	–	1,544,337	1,184,713	–	–	–	(286,037)	2,443,013
Total Obligations Incurred	457,153	9,095,928	2,039,571	8,881	30,247	–	–	11,631,780
Less: Spending Authority from Offsetting Collections and Recoveries	(1,240,091)	(286,314)	(32,793)	(9,299)	(1,373)	–	(25,262)	(1,595,132)
Spending Authority Transferred to/from Other Agencies (net)	–	(118,893)	(113,132)	–	–	–	25,262	(206,763)
Total Spending Authority from Offsetting Collections and Recoveries	(1,240,091)	(405,207)	(145,925)	(9,299)	(1,373)	–	–	(1,801,895)
Obligations Net of Ofsetting Collections and Recoveries	(782,938)	8,690,721	1,893,646	(418)	28,874	–		9,829,885
Less: Offsetting Receipts	–	–	–		–	41,784	–	41,784
Net Obligations	(782,938)	8,690,721	1,893,646	(418)	28,874	41,784	–	9,871,669
Other Resources								
Transfers in Without Reimbursement	–	–	–	–	–	–	–	–
Imputed Financing From Costs Absorbed by Others	–	–	19,288			–	–	19,288
Other (+/-)	–	–	–	–	–	–	–	–
Net Other Resources Used to Finance Activities	–	–	19,288	–	–	–		19,288
Total Resources Used to Finance Activities	(782,938)	8,690,721	1,912,934	(418)	28,874	41,784	–	9,890,957
Resources Used to Finance Items not Part of the Net Cost of Operations:								
Change in Budgetary Resources Obligated for Goods, Services and Benefits Ordered but not yet Provided	5,299	446,625	(352,075)	(2,021)	(8,896)	–	–	88,932
Resources that Fund Expenses Recognized in Prior Periods	–	(1,927)	750			(775)	–	(1,952)
Budgetary Offsetting Collections and Receipts that do not Affect Net Cost of Operations								
Credit Program Collections which increase Liabilities for Loan Guarantees or Allowances for Subsidy	1,173,507	–	–	–	–	–	–	1,173,507
Other	(133,731)	–	54,098	1,007	1	(44,373)	–	(122,998)
Resources That Finance the Acquisition of Assets	–	(7,646)	(47,529)	–	–	–	–	(55,175)
Other Resources or Adjustments to Net Obligated Resources that do not Affect Net Cost of Operations (+/-)	93,171	(601,170)	118,269	1,205	(1,693)	–	–	(390,218)
Total Resources Used to Finance Items not Part of Net Cost of Operations	1,138,246	(164,118)	(226,487)	191	(10,588)	(45,148)	–	692,096
Total Resources Used to Finance Net Cost of Operations	355,308	8,526,603	1,686,447	(227)	18,286	(3,364)	–	10,583,053

(continued on next page)

U.S. Agency for International Development
CONSOLIDATING STATEMENT OF FINANCING *(continued)*
For the Year Ended September 30, 2006
(Dollars in Thousands)

	Credit Program Funds	Program Funds	Operating Funds	Revolving Funds	Trust Funds	Other Funds	Allocations	Total
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:								
Components Requiring or Generating Resources in Future Periods:								
Increase in Annual Leave Liability	–	–	4,265	–	–	–	–	4,265
Upward/Downward Reestimates of Credit Subsidy Expense	(274,319)	–	–	–	–	–	–	(274,319)
Increase in Exchange Revenue Receivable from the Public	–	–	–	–	–	–	–	–
Total Components Requiring or Generating Resources in Future Periods	(274,319)	–	4,265	–	–	–	–	(270,054)
Components not Requiring or Generating Resources:								
Depreciation and Amortization	–	275	29,292	–	–	–	–	29,567
Revaluation of Assets or Liabilities	–	62	8,716	–	–	–	–	8,778
Other	–	(968)	(16)	–	–	3,364	–	2,380
Total Components not Requiring or Generating Resources	–	(631)	37,992	–	–	3,364	–	40,725
Total Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:	(274,319)	(631)	42,257	–	–	3,364	–	(229,329)
Net Cost of Operations	$ 80,989	$8,525,972	$1,728,704	$ (227)	$ 18,286	$ –	$ –	$ 10,353,724

REQUIRED SUPPLEMENTARY INFORMATION

(Above) **Jamaican second-graders are having fun with their new spelling skills. USAID is training teachers to tackle reading creatively, generating genuine enthusiasm for reading among schoolchildren.**

PHOTO: USAID/KIMBERLY FLOWERS

(Preceding page) **One of the Oaxaca farmers benefiting from new irrigation systems stands among her crops. USAID created a local Groundwater Technical Committee, and through the group, farmers learned new methods of irrigation.**

PHOTO: USAID/VIRGINIA FOLEY

FINANCIAL MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL MANAGEMENT GOALS AND STRATEGIES

The implementation of the new core financial system directly supports three of the five initiatives of the President's Management Agenda (PMA) as follows:

Improved Financial Performance: USAID's financial management system, Phoenix, is a compliant financial system which meets federal accounting standards. Phoenix supports the Agency in meeting reporting requirements, as well as providing accurate and timely financial information, supporting management operations, and issuing controls to prevent Anti-Deficiency Act violations. Additionally, Phoenix contains a Standard General Ledger (SGL) chart of accounts, allowing financial transactions in Phoenix to be posted immediately to the general ledger. Implementing Phoenix worldwide has removed the major obstacle to achieving Federal Financial Management Improvement Act (FFMIA) compliance and "getting to green" since the system of record (Mission Accounting and Control System (MACS)) did not have a SGL. USAID has also continued its efforts to meet or exceed other milestones for this PMA initiative.

Expanded Electronic Government: As a web-based system that is accessible by field offices worldwide, Phoenix also supports the e-government initiative. The system also interfaces with other planned web-based initiatives, such as vendor self-service, cost allocation, credit card, e-procurement catalogue, e-travel, and worldwide funds reconciliation.

Budget and Performance Integration: The Financial Systems Integration (FSI) project team implemented the cost allocation module worldwide in tandem with the rollout of the core accounting system. This will allow for assignment of direct and indirect costs to the offices that benefit from them and will provide management a tool for determining full costs at the operating unit and strategic objective (SO) level. To provide a context for the Agency's current plans and resources request, the status of financial management activities is outlined below.

- **Phoenix Overseas Deployment:** As of June 2006, the Agency successfully completed the deployment of Phoenix to all overseas Controller Missions. Phoenix is currently operating in steady state mode. The Phoenix Team continues to provide enhancements to Phoenix as well as offer continued support to Phoenix users.

- **USAID-State Collaboration:** USAID continues the coordination of e-government initiatives with the Department of State. In November 2005, USAID and the Department of State completed their financial systems collaboration and are now jointly operating from a common platform in the Department of State's Charleston, South Carolina, facility.

FINANCIAL MANAGEMENT PERFORMANCE

USAID has been steadily working toward compliance with the Federal Financial Management Improvement Act (FFMIA) of 1996 since Phoenix became USAID/Washington's core financial system in 2000. Another major milestone toward FFMIA compliance was achieved when USAID replaced the Mission Accounting and Controller System (MACS) with Phoenix in overseas Controller Missions. Therefore, compliance with FFMIA is considered to have been achieved now that Phoenix is operational in all overseas Controller Missions.

As of June 2006, all Controller Missions rely on the web-based version of Phoenix as their financial system of record. OMB and USAID expect that the completed rollout of the Phoenix system will largely address the remaining compliance issues that have kept the Agency at a yellow score under the PMA.

A further requirement to "getting to green" is to prove that Phoenix drives results in key financial areas and that Phoenix provides timely, reliable, and complete data on foreign assistance programs on a consistent basis. The Phoenix Reports Team has solicited users' suggestions for enhancements and requests for new reports. The Team's primary focus is to make improvements to the existing reports. They have also identified the highest priority new reports and have begun to specify detailed requirements for this group of reports.

FINANCIAL MANAGEMENT SYSTEMS FRAMEWORK

When USAID implemented Phoenix in Washington in December 2000, it became the Agency's core accounting system and the cornerstone of its integrated financial management system. During 2001, USAID interfaced Phoenix with significant legacy and third party systems that provide transaction processing services. In June 2006, USAID completed its financial systems modernization with the worldwide deployment of Phoenix, the Agency's new core accounting system. The overseas deployment of Phoenix, the web-based and integrated financial management system, provides a common Agency-wide system for budget execution, accounting, and financial management. Using e-business technologies provides a tool for Agency personnel to manage financial transactions and program performance.

Based on the recommendations from a joint Department of State-USAID study, USAID and the Department of State have completed their financial systems collaboration and are now jointly operating from a common platform in Charleston, South Carolina. The major USAID financial systems and their relationships are discussed below.

Phoenix: Phoenix is the Agency's core financial system, replacing MACS overseas. As of June 2006, 100% of all USAID financial transactions are processed through Phoenix. The Phoenix application modules include accounts payable, accounts receivable, automated disbursements, budget execution, cost allocation, general ledger, business planning, project cost accounting, and purchasing.

New Management System (NMS): The NMS was originally an integrated suite of custom-built financial and mixed-financial applications. The implementation of Phoenix enabled USAID to suspend three of the four NMS applications. The Acquisition and Assistance (A&A) application continues to support procurement operations until the new acquisition and assistance applications are rolled out and interfaced with Phoenix.

Mission Accounting and Control System (MACS): MACS was an over 20-year old custom-built system for overseas financial operations. MACS was officially retired in June 2006 with the successful implementation of Phoenix in all overseas Controller Missions.

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

- **Travel Manager:** The GELCO commercial software product, Travel Manager, is currently used in Washington and in Missions to provide travel management support. It is used either as a standalone application or operating as a shared application over a local area network. Travel Manager does not have an electronic interface with any Agency financial systems. In the future, Travel Manager will be replaced with a standard e-travel application, named E2. In response to the President's Management Agenda, E-Travel is designed to improve the internal efficiency and effectiveness of the federal government. Still in the planning stages, E2 will integrate budgeting, procurement, and payment of travel services within Phoenix.

- **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 current federal 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 nonexpendable property in Washington. BAR/SCAN is being implemented at field Missions. BAR/SCAN does not have an electronic interface with any Agency financial systems.

- **Training Results and Information Network (TraiNet):** TraiNet is the Agency-wide database training management system. It is used to document all USAID participants and their accompanying dependents for U.S. training. Sponsoring units and implementers must also enter third country and in-country participant training data in TraiNet.

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

- **Department of Agriculture National Finance Center (NFC):** USAID has a cross-serving agreement with NFC for personnel and payroll processes for US direct hire (USDH) employees. USAID accesses the NFC systems to maintain personnel records, process employee time and attendance data, and transact payroll services. The NFC payroll system is manually interfaced with Phoenix.

- **Midland Loan Services:** USAID has outsourced standard credit reform transactions to Midland (formerly Riggs National Bank). The Loan Management System provides services to the Agency for collections, disbursements, claims, and year-end accruals. The system has an automated interface to Phoenix.

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

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 systems range from spreadsheets to custom-built applications, and databases to commercial off-the-shelf packages. Typically, U.S. citizen PSC employees and Foreign Service National (FSN) PSC employees are managed and paid through different systems. Some Missions obtain FSN payroll services from the U.S. Department of State's Financial Service Center (FSC) in Charleston, South Carolina.

- **Mission Procurement Information Collection System (MPICS):** Pending the implementation 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 have been deployed in Washington and the Missions to generate solicitations and awards as well as improve procurement reporting.

- **Ariba:** USAID piloted a third-party software product for e-procurement called Ariba in four of its offices. The pilot was very successful and now awaits funding for implementation Agency-wide. Ariba is currently in production and has processed thousands of small purchase transactions. It is fully integrated with Phoenix.

- **FS-AID**: The Field Support system automates the field support process by linking the data in the field support database to USAID's Phoenix accounting system. As the FS-AID system goes through iterative releases, there are important improvements over the current process: (1) the data for commitments is electronically moved from the field support database to Phoenix, thus relieving the regional bureaus from having to manually re-enter the same data twice and (2) the manual reconciliation of Phoenix commitments to the field support database can be eliminated.

- **Accruals Reporting System (ARS)**: As of the fourth quarter in FY2006, ARS was integrated into Phoenix. Users no longer access ARS separately during the quarterly accruals cycle.

TARGET FINANCIAL MANAGEMENT SYSTEMS STRUCTURE

The primary goal of financial management system modernization at USAID is a single, integrated financial management system (IFMS). The IFMS architecture is intended to support the mission of the Agency, comply with federal requirements and standards, improve the efficiency and effectiveness of Agency operations, and deliver electronic government solutions. The goal will be achieved by adherence to the disciplines of architecture planning, capital investment planning, business process re-engineering, and systems engineering. This will ensure that plans are business-focused rather than technology-driven, results-oriented rather than process-driven, and developed by business managers rather than technology specialists alone.

USAID has made transformation of the Agency to a world class, 21st century international development and humanitarian assistance organization, one of its highest priorities. Management reform is a key element of this transformation. Specifically, the vision for USAID consists of a new direction in modernizing Agency business systems and a comprehensive business transformation agenda.

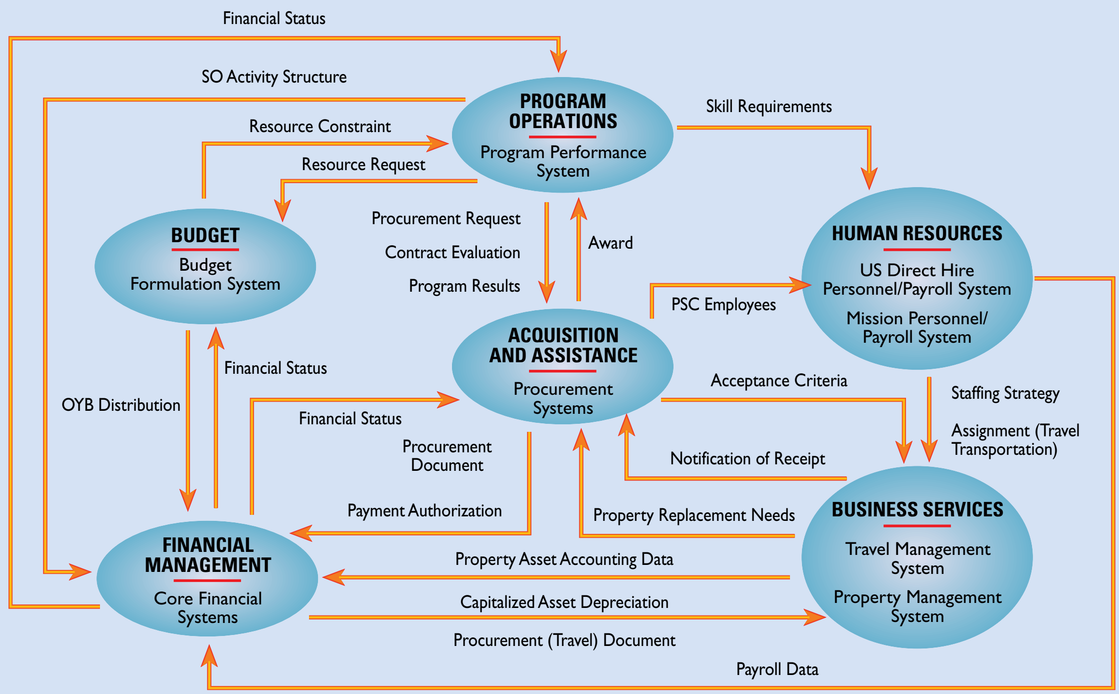
USAID senior managers are leading this business systems transformation in a three-staged approach. Stage one involves modernizing the Agency's business systems worldwide by standardizing and integrating processes and systems, and aligning the Agency business model with the Federal Enterprise Architecture (FEA). In stage two, the Agency will adapt business processes to anticipate and respond to changing requirements such as expanded use of federal government cross-servicing and outsourcing key administrative services.

By stage three, the Agency will deploy adaptive capabilities to the community of development and humanitarian assistance providers. The following are examples of stage three capabilities: suppliers can electronically submit invoices; vendors can determine their expenditures via the internet; and Congress will have ready access to information related to program objectives, results, and approaches.

The target financial management system will:

- Provide complete, reliable, timely, and consistent information.
- Apply consistent internal controls to ensure the integrity and security of information and resources.
- Utilize a common data classification structure to support collection, storage, retrieval, and reporting of information.
- Provide an information portal to 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 that 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.

IFMS LOGICAL BUSINESS ARCHITECTURE



USAID and the State Department upgraded their respective versions of the Momentum software in FY 2005, and now operate from the same version. Furthermore, both Agencies run from a common infrastructure from State's facility in Charleston, South Carolina. However, both USAID and State maintain separate financial systems.

The two agencies can expect to achieve savings and efficiencies by integrating infrastructure and coordinating deployment efforts. USAID and State submitted a joint business case for FY 2005 – FY 2007 that provides a general outline of the integration. In FY 2004, they conducted a study to determine the requirements, and in FY 2005, they conducted testing for mutual deployment. In FY 2006, both agencies completed implementation of a joint continuity of operations (COOP) facility.

This centralized architecture allows for easier maintenance, security, and operational efficiency. To provide around-the-clock support required for mission operations, the telecommunications and technical architecture were upgraded. The specific configuration was determined as overseas rollout plans were implemented. The infrastructure business cases detail the telecommunications upgrades. In addition, USAID established four Phoenix Regional Solution Centers (PRSC) to support Phoenix users worldwide. The PRSC locations are: Cairo, Egypt; Manila, Philippines; Nairobi, Kenya; and Accra, Ghana.

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 telecommunications 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 develop the IFMS as both technologies and service providers evolve.

FINANCIAL MANAGEMENT SYSTEMS STRATEGY

USAID's Business Systems Modernization (BSM) strategy consists of business cases for the Agency Enterprise Architecture, financial systems, and procurement systems. This strategy is consistent with the most urgent priorities set by the Administrator. The Agency's proposed enhancements and new projects will result in greater internal efficiency and effectiveness; and expanded government to government, government to consumer, and government to business interactions. The components of the BSM are:

- Maintaining the following steady state areas: financial systems, IT infrastructure, and existing "as is" architecture.
- Implementing the following enhancements and new projects: upgrade and extend the enterprise architecture to provide a framework and strategy for modernization; enhance the overseas telecommunications and security environments to support new systems; implement the core accounting and managerial cost accounting systems worldwide; and implement an acquisition and assistance system that is an integrated module of the core accounting system.

The essential elements of the general strategy include:

- Utilizing public and private sector third party service providers whenever cost-effective.
- Requiring solution demonstrations to manage risks and engineer system components within the target enterprise architecture framework.
- Acquiring proven commercial software products rather than building custom-developed applications.
- Re-engineering Agency business processes before altering the baseline commercial software product.
- Implementing network and telecommunication infrastructure upgrades to support the financial management systems architecture.
- Leveraging the system architecture and the planned technology evolution of commercial software products.
- Integrating data repositories using common data elements and web-based reporting and analytical tools.
- Acquiring system components in an incremental fashion.
- Planning enhancements to system capabilities as releases within the framework of enterprise configuration management practices.

PLANNED MAJOR SYSTEM INVESTMENTS

Implementing the target financial management system structure will take several more years. The required major system investments will be identified, planned, and sequenced as part of a business transformation initiative from 2002 through 2010. Specific projects have been selected on the merit of each business case. The broad categories of system investment include:

- Core Financial System
- Acquisition and Assistance/Procurement System
- Budget Formulation System
- Data Repositories and Reporting Systems
- Executive Information Systems
    - Business Support Systems
    - Third Party Service Providers
- Unified Foreign Assistance Coordination and Tracking System (FACTS)

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

Acquisition and Assistance/Procurement System: The USAID and State Department collaborative capital investment in an Agency-wide assistance system is referred to as the Joint Assistance Management System (JAMS). USAID has a separate project to replace the procurement module of A&A called the Global Acquisition System (GLAS). This new system is designed to replace the legacy system for Acquisition and Assistance (A&A), which is used only at USAID/Washington. However, more than half of the Agency's procurement transactions are conducted overseas. The field contracting staff operates in a paper-dependent environment without a comprehensive contract management system to support planning, collaboration, tracking, and administering contract and grant awards. JAMS/GLAS plans call for a commercial-off-the-shelf (COTS) procurement system that will reduce procurement transaction cycle time, accelerate the delivery of foreign assistance where it is needed, and produce more timely and accurate business information. An accelerated schedule for a worldwide procurement system has been developed primarily to: 1) coordinate GLAS deployment activities with the integration of the USAID/Department of State joint financial management system (JFMS) and procurement and grants functionality with State Department's Integrated Logistics Management System (ILMS), and 2) meet the demands of supporting the Presidential Initiative for HIV/AIDS and increased reconstruction activity in Iraq and Afghanistan.

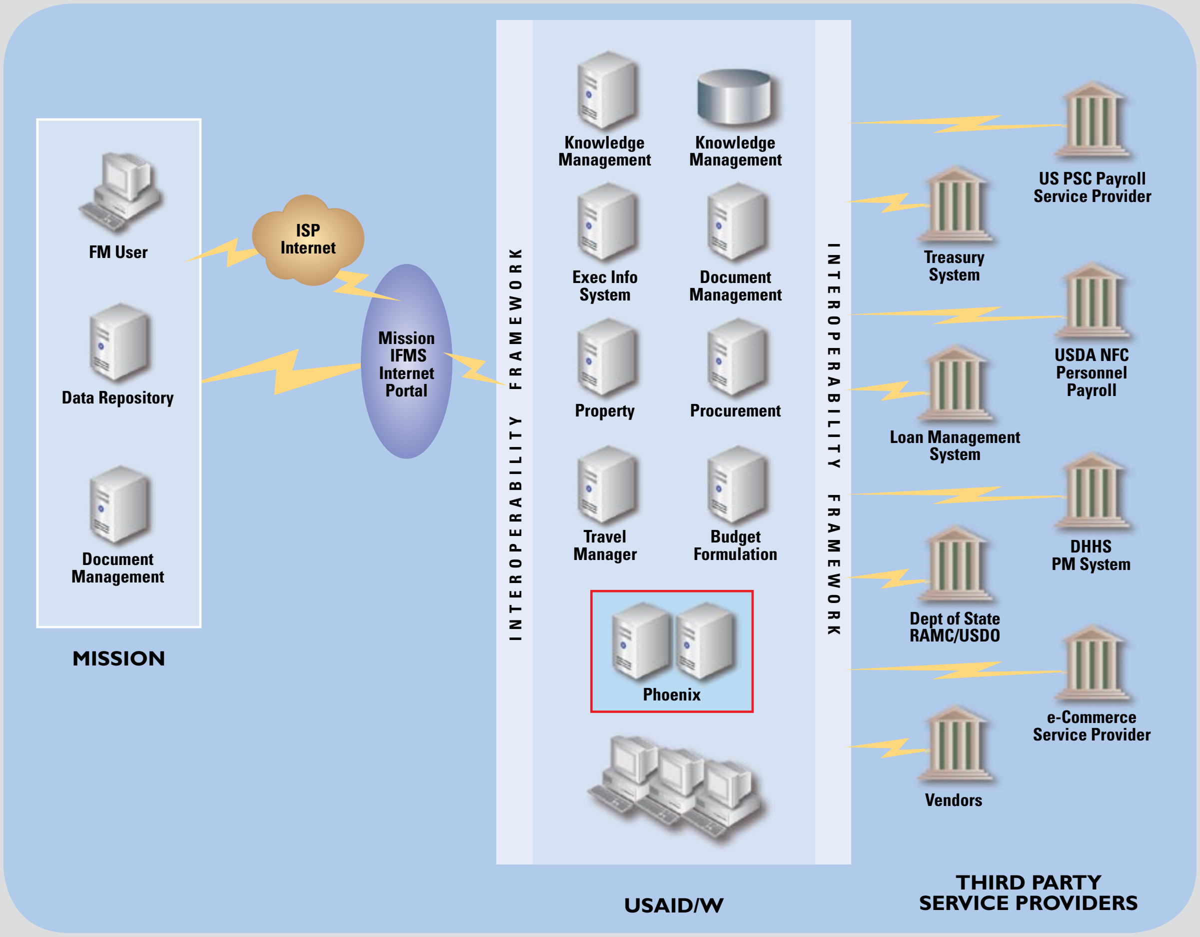
Budget Formulation System: USAID will implement a set of tools and standard business processes to improve Agency-wide budget planning, formulation, consolidation, submission, and integration with Phoenix. USAID's budget formulation and execution processes will be integrated with its program and performance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

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

Executive Information System: USAID is committed to creating timely, accurate, useable, and meaningful summary reports of financial data and program effectiveness. Efforts are underway to develop an Agency-wide Executive Information System (EIS). The first phase of development will pull information and data from Phoenix and provide integrated reports on key financial measures. Subsequent phases will pull data from additional applications within the Agency to allow for more detailed program measurement and analysis. The idea is to generate reports that will facilitate decision-making for allocating funds and determining the effectiveness of operating year budget program implementation management. The EIS will also be used to provide summary reports to the State Department, OMB, Congress, and the Administration. USAID is also evaluating a "dashboard" system similar to one currently in development at the State Department.

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

TARGET FINANCIAL MANAGEMENT SYSTEM ARCHITECTURE



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

The Unified Foreign Assistance Coordination and Tracking System (FACTS): The new, unified Foreign Assistance Coordination and Tracking System (FACTS) combines all USG agency planning and reporting on foreign assistance activities into one central data system to facilitate country level planning, monitoring, and data management. Country Teams will use FACTS to enter and submit information required for operational plans. In addition, the Office of the Director of U.S. Foreign Assistance at the Department of State will use the system to retrieve data for routine reporting and responding to information requests. The goal of the system is to provide one repository for data and a common planning and reporting tool for foreign assistance resources across USG agencies implementing programs with foreign assistance funds. Thus, the FACTS data system will eventually replace the foreign assistance planning and programming systems of each agency. An additional intent of the FACTS system is to reduce the burden on field staff of responding to ad hoc requests from stakeholders, as the system is designed to collect the information most frequently requested about U.S. Foreign Assistance programs.

DEBT MANAGEMENT

USAID is required by the Prompt Payment Act to pay its bills on time or pay an interest penalty to vendors. Timely payment reduces interest charges and reflects a high degree of accountability and integrity. This chart shows that USAID's percentage of interest paid is less than 1 percent for the third consecutive year. In addition, we pay the vast majority of our bills by Electronic Funds Transfer (EFT).

Timeliness of Payments	FY2006	FY2005	FY2004	FY2003
Interest Penalty Paid	$ 50,266.00	$ 35,250.07	$ 3,045.00	$ 17,825.00
Percentage of Payments Paid Late	0.64%	0.001%	0.41%	1.17%
Number of EFT Payments	55,900	29,800	21,300	20,600
Percentage of EFT Payments	96.87%	96.69%	97.56%	96.76%

AUDIT MANAGEMENT

The Office of Inspector General (OIG) uses the audit process to help USAID managers improve the efficiency and effectiveness of operations and programs. USAID management and OIG staff work in partnership to ensure timely and appropriate responses to audit recommendations. The OIG contracts with the Defense Contract Audit Agency (DCAA) to audit U.S.-based contractors and relies on nonfederal auditors to audit U.S.-based grant recipients. Overseas, local auditing firms or the supreme audit institutions (SAI) of host countries audit foreign-based organizations. OIG staff conduct audits of USAID programs and operations, including the Agency's financial statements, related systems and procedures, and Agency performance in implementing programs, activities, or functions.

During FY 2006, USAID received 464 audit reports; 404 of these reports covered financial audits of contractors and recipients and 60 covered Agency programs or operations.

During FY 2006, the Agency closed 603 audit recommendations. Of these, 218 were from audits performed by OIG staff and 385 were from financial audits of contractors or grant recipients. USAID collected $7.1 million in disallowed costs, and $7.4 million was put to better use during the fiscal year.

At the end of FY 2006, there were 429 open audit recommendations, 11 less than at the end of FY 2005. Of the 429 audit recommendations open at the end of FY 2006, only 22 or 5% have been open for more than one year.

Of the 22 recommendations open for more than one year, USAID must collect funds from contractors or recipients to complete actions for three recommendations. Contacting Officer final determinations for ten recommendations are currently in litigation or have been appealed before the Armed Forces Court of Appeals or the USAID Procurement Executive. Four recommendations require recipients to make extensive corrections to accounting systems or internal controls. The remaining five recommendations are related to Agency programs and operations, including improving information systems and development activities; complying with federal regulations for awarding contracts in Iraq; and reconciling financial management information.

Management Action on Recommendation that Funds be Put to Better Use		
	Recommendations	**Dollar Value ($000)**
Beginning balance 10/1/05	6	$ 214,818
Management decisions during the fiscal year	12	16,315
Final action	8	7,416
Recommendations implemented	8	7,416
Recommendations not implemented	0	–
Ending Balance 9/30/06	10	$ 223,717

Management Action on Audits with Disallowed Costs		
	Recommendations	**Dollar Value ($000)**
Beginning balance 10/1/05	146	$ 24,908
Management decisions during the fiscal year	181	25,589
Final action	196	7,111
Collections/Offsets/Other	195	7,097
Write-offs	1	14
Ending Balance 9/30/06	131	$ 43,386

PURCHASE AND TRAVEL CARD USAGE

TRAVEL CARDS

There are 2,223 active Individually Billed Account (IBA) cards, there are 73 active Centrally Billed Account (CBA) cards. USAID spent $11,689,261 on CBA travel and $4,778,224 on IBA travel in FY2006. Rebates earned totaled $36,467. Delinquency rates ranged from 0.75% to 6.0% for IBA and from 0.0% to 3.9% for CBA. There were no displinary actions taken in FY 2006.

PURCHASE CARDS

On average, 252 employees, or 10% of Agency staff had active purchase card accounts in FY 2006. Approximately 25 purchase card accounts were canceled during the year and approximately 48 new purchase card accounts were activated. On average, the ratio of approving officials to cardholders is 1:2. The total dollars spent in FY 2006 using purchase cards was over $7million. USAID earned $34,173 in total rebates in FY 2006. There were no disciplinary actions taken or cases reported to the Agency IG for fraudulent, improper, or unauthorized use of the purchase card. The purchase card dispute process between USAID and Citibank that is outlined in the Worldwide Purchase Card Manual minimizes losses from possible erroneous payments.

INTRAGOVERNMENTAL ASSETS AND LIABILITIES

U.S. Agency for International Development
REQUIRED SUPPLEMENTARY INFORMATION: INTRAGOVERNMENTAL AMOUNTS
as of September 30, 2006
(Dollars in Thousands)

INTRAGOVERNMENTAL ASSETS:

Agency	Fund Balance with Treasury	Accounts Receivable, Net	Advances and Prepayments	Totals
Treasury	$19,333,383	$ –	$ 300	$ 19,333,683
Dept of Agriculture	–	294	3,741	4,035
Dept of Commerce	–	–	211	211
Dept of State	–	15	13,481	13,496
Other	–	(89)	7,142	7,052
Total	$19,333,383	$ 220	$ 24,874	$ 19,358,477

INTRAGOVERNMENTAL LIABILITIES:

Agency	Due to Treasury	Accounts Payable	Debt	Other	Totals
Treasury	$ 4,491,077	$ 2,442	$ 474,055	$ 24,790	$ 4,992,364
GSA	–	20,671	–	(3,932)	16,739
Dept of Agriculture	–	9,999	–	(1,451)	8,548
Dept of Labor	–	(2,814)	–	–	(2,814)
Dept of Health and Human Services	–	5,423	–	(39,173)	(33,750)
Other	–	26,354	–	62,416	88,770
Total	$ 4,491,077	$ 62,076	$ 474,055	$ 42,651	$ 5,069,859

INTRAGOVERNMENTAL EARNED REVENUES AND RELATED COSTS:

USAID's intragovernmental earned revenues are not greater than $500 million. As such, intragovernmental earned revenues and related costs by trading partner are not required to be reported.

STATEMENT OF BUDGETARY RESOURCES

U.S. Agency for International Development
REQUIRED SUPPLEMENTARY INFORMATION: SCHEDULE OF BUDGETARY RESOURCES
For the period ended September 30, 2006
(Dollars in Thousands)

	Operating	Program							Credit-Financing	Other	Allocations to Other Agencies	Consolidated Total
	1000	1010	1021	1029	1035	1037	1093	1095				
Budgetary Resources												
Unobligated Balance, brought forward, October 1	$ 52,406	$ 71,857	$ 131,007	$ 34,314	$ 76,714	$ 1,503,532	$ 177,170	$ 193,107	$ 1,162,039	$ 773,850	$ 111,200	$ 4,287,196
Recoveries of prior year unpaid obligations	26,103	9,103	25,812	105	20,632	141,595	3,610	15,029	–	14,561	20,221	276,771
Budget Authority												
Appropriations	731,000	361,000	1,540,500	–	582,630	4,333,500	514,000	1,668,000	–	590,647	–	10,321,277
Borrowing Authority (Note 20)	–	–	–	–	–	–	–	–	52,026	–	–	52,026
Contract Authority	–	–	–	–	–	–	–	–	–	–	–	–
Spending Authority from Offsetting Collections												
Earned												
Collected	4,401	–	662	–	489	1,555	28	50	465,051	836,432	1,421	1,310,089
Change in Receivables from Federal Sources	–	–	–	–	–	–	–	–	–	–	3,620	3,620
Change in Unfilled Customer Orders												
Advance Received	–	–	–	–	–	–	–	–	–	–	–	–
Without Advance from Federal Sources	(492)	19	369	–	564	(390)	20	3,816	–	746	–	4,652
Anticipated for Rest of Year, Without Advances	–	–	–	–	–	–	–	–	–	–	–	–
Previously Unavailable	–	–	–	–	–	–	–	–	–	–	–	–
Expenditure Transfers from Trust Funds	–	–	–	–	–	–	–	–	–	–	–	–
Subtotal	734,909	361,019	1,541,531	–	583,683	4,334,665	514,048	1,671,866	517,077	1,427,825	5,041	11,691,664
Nonexpenditure transfers, net, Anticipated and Actual	7,051	(113,090)	(10,545)	(18,188)	1,290	(410,417)	(151,408)	58,854	–	105,290	198,615	(332,548)
Temporarily not Available Pursuant to Public Law	–	–	–	–	–	–	–	–	–	–	–	–
Permanently Not Available	(6,849)	(4,917)	(15,491)	–	(3,650)	(28,154)	(5,679)	(15,850)	–	(1,333,751)	–	(1,414,341)
Total Budgetary Resources	813,620	323,972	1,672,314	16,231	678,669	5,541,221	537,741	1,923,006	1,679,116	987,775	335,077	14,508,742
Status of Budgetary Resources:												
Obligations Incurred (Note 20):												
Direct	693,018	243,545	1,545,233	16,220	612,646	3,019,007	381,462	1,630,610	101,835	588,878	270,782	9,103,236
Reimbursible	3,910	19	1,031	–	1,053	1,165	48	3,866	–	59,184	15,255	85,531
Subtotal	696,928	243,564	1,546,264	16,220	613,699	3,020,173	381,510	1,634,476	101,835	648,062	286,037	9,188,767
Unobligated Balance:												
Apportioned	116,692	80,048	123,651	11	64,465	2,517,973	156,230	285,923	1,577,281	339,519	46,663	5,308,457
Exempt from Apportionment	–	–	–	–	–	–	–	–	–	–	–	–
Subtotal	116,692	80,048	123,651	11	64,465	2,517,973	156,230	285,923	1,577,281	339,519	46,663	5,308,457
Unobligated Balance not Available	–	360	2,399	–	505	3,076	–	2,607	–	194	2,377	11,518
Total, Status of Budgetary Resources	813,620	323,972	1,672,314	16,231	678,669	5,541,221	537,741	1,923,006	1,679,116	987,775	335,077	14,508,742

(continued on next page)

U.S. Agency for International Development
REQUIRED SUPPLEMENTARY INFORMATION: SCHEDULE OF BUDGETARY RESOURCES *(continued)*
For the period ended September 30, 2006

	Operating				Program				Credit-Financing	Other	Allocations to Other Agencies	Consolidated Total
	1000	**1010**	**1021**	**1029**	**1035**	**1037**	**1093**	**1095**				
Change in Obligated Balance:												
Obligated Balance, Net												
Unpaid Obligations, Brought Forward, October 1	190,808	253,496	2,485,772	433,894	630,834	3,617,339	550,399	1,969,487	3,288	151,474	3,527	10,290,318
Less: Uncollected Customer Payments from Federal Sources, Brought Forward, October 1	(4,180)	–	(279)	–	(489)	(390)	–	–	–	(5,968)	–	(11,306)
Total Unpaid Obligated Balance, Net	186,628	253,496	2,485,493	433,894	630,345	3,616,949	550,399	1,969,487	3,288	145,506	3,527	10,279,012
Obligations Incurred Net (+/-)	696,928	243,564	1,546,264	16,220	613,699	3,020,172	381,510	1,634,476	101,835	648,062	286,037	9,188,767
Less: Gross Outlays	(701,057)	(257,422)	(1,417,513)	(61,736)	(623,590)	(2,519,258)	(440,854)	(1,358,402)	(101,352)	(592,009)	(45,633)	(8,027,560)
Obligated Balance Transferred, Net												
Actual Transfers, Unpaid Obligations (+/-)	–	–	–	–	–	–	–	–	–	–	–	–
Actual Transfers, Uncollected Customer Payments from Federal Sources, (+/-)	–	–	–	–	–	–	–	–	–	–	–	–
Total Unpaid Obligated Balance Transferred, Net	–	–	–	–	–	–	–	–	–	–	–	–
Less: Recoveries of Prior Year Unpaid Obligations, Actual	(26,103)	(9,103)	(25,812)	(105)	(20,632)	(141,595)	(3,610)	(15,029)	–	(14,561)	(20,221)	(276,771)
Change in Uncollected Customer Payments from Federal Sources (+/-)	492	(19)	(369)	–	(564)	390	(20)	(3,816)	–	(747)	(3,971)	(8,624)
Obligated Balance, Net, End of Period												
Unpaid Obligations	160,576	230,535	2,588,711	388,273	600,311	3,976,658	487,445	2,230,532	3,771	192,966	314,976	11,174,754
Less: Uncollected Customer Payments from Federal Sources	(3,688)	(19)	(648)	–	(1,053)	–	(20)	(3,816)	–	(6,715)	(3,971)	(19,930)
Total, Unpaid Obligated Balance, Net, End of Period	156,888	230,516	2,588,063	388,273	599,258	3,976,658	487,425	2,226,716	3,771	186,251	311,005	11,154,824
Net Outlays:												
Gross Outlays	701,057	257,422	1,417,513	61,736	623,590	2,519,258	440,854	1,358,402	101,352	592,009	(45,633)	8,027,560
Less: Offsetting Collections	(4,401)	–	(662)	–	(489)	(1,555)	(28)	(50)	(465,051)	(836,432)	–	(1,308,668)
Less: Offsetting Receipts	–	–	–	–	–	–	–	–	–	(41,784)	–	(41,784)
Net Outlays	$ 696,656	$ 257,422	$ 1,416,851	$ 61,736	$ 623,101	$2,517,703	$ 440,826	$ 1,358,352	$ (363,699)	$ (286,207)	$ (45,633)	$ 6,677,108

MAJOR FUNDS

Operating Funds	
1000	Operating Expenses of USAID
Program Funds	
1010	Special Assistance Initiatives
1021	Development Assistance
1029	Tsunami Relief and Reconstruction Fund
1035	International Disaster Assistance
1037	Economic Support Fund
1093	Assistance for the N.I.S. Of The Former Soviet Union
1095	Child Survival and Disease Programs Funds

CREDIT-FINANCING FUNDS

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

OTHER FUNDS

Operating Funds	
1007	Operating Expenses of USAID Inspector General
1036	Foreign Service Retirement and Disability Fund
Program Funds	
1012	Sahel Development Program
1014	Africa Development Assistance
1023	Food and Nutrition Development Assistance
1024	Population and Planning & Health Dev. Asst.
1025	Education and Human Resources, Dev. Asst.
1027	Transition Initiatives
1028	Global Fund to Fight HIV / AIDS
1038	Central American Reconciliation Assistance
1040	Sub-Saharan Africa Disaster Assistance
1096	Latin American/Caribbean Disaster Recovery
1500	Demobilization and Transition Fund
Trust Funds	
8342	Foreign Natl. Employees Separation Liability Fund
8502	Tech. Assist. - U.S. Dollars Advance from Foreign
8824	Gifts and Donations

OTHER FUNDS *(continued)*

Credit Program Funds	
0400	MSED Program Fund
0401	UE Program Fund
0402	Ukraine Program Fund
1264	DCA Program Fund
4103	Economic Assistance Loans - Liquidating Fund
4340	UE Guarantee Liquidating Fund
4341	MSED Direct Loan Liquidating Fund
5318	Israel Admin Expense Fund
Revolving Funds	
4175	Property Management Fund
4513	Working Capital Fund
4590	Acquisition of Property, Revolving Fund

ALLOCATIONS TO OTHER AGENCIES

1000	Operating Expenses of USAID
1010	Special Assistance Initiatives
1014	Africa Development Assistance
1021	Development Assistance
1027	Transition Initiatives
1032	Peacekeeping Operations
1035	International Disaster Assistance
1037	Economic Support Fund
1093	Assistance for the N.I.S. Of The Former Soviet Union
1095	Child Survival and Disease Programs Funds
1096	International Organizations + Programs
1500	Demobilization and Transition Fund

Other Accompanying Information

(Above) **Open market scene in Yemen.**

PHOTO: USAID/BEN BARBER

***(Preceding page)* A Pakistani woman cooks for her family in Thumi Park Camp, January 2006. Relief camps were part of the large international humanitarian relief effort after the Pakistan earthquake.**

PHOTO: ONASIA/MASAKO IMAOKA

MANAGEMENT CHALLENGES

The Reports Consolidation Act of 2000 requires that USAID's Performance and Accountability Report include a statement by the Inspector General that summarizes the most serious management and performance challenges facing the Agency and briefly assesses the progress in addressing those challenges. The Office of Inspector General (OIG) considers the most serious management and performance challenges to USAID to be in the following areas:

- Financial Management
- Managing for Results
- Acquisition and Assistance
- Human Capital Management
- Information Technology Management

The first four challenges appeared on OIG's list last year. Information Technology Management challenges were added this year. A summary of the issue, actions taken this year, and those remaining are presented for each area of concern. USAID aggressively pursues corrective actions for all significant challenges, whether identified by the OIG, GAO, or other sources.

USAID
FROM THE AMERICAN PEOPLE

Office of Inspector General

October 13, 2006

INFORMATION MEMO FOR THE ADMINISTRATOR

FROM: Donald A. Gambatesa
Inspector General

SUBJECT: U.S. Agency for International Development's (USAID) Most Serious Management and Performance Challenges

This memorandum summarizes what the Office of Inspector General (OIG) considers to be the most serious management and performance challenges facing USAID.

The Report Consolidation Act of 2000 (Public Law 106-531) requires that agency performance and accountability reports (PAR) include a statement prepared by each agency's Inspector General that summarizes what the Inspector General considers to be the most serious management and performance challenges facing the agency and an assessment of the agency's progress in addressing those challenges. Our statement for inclusion in USAID's fiscal year 2006 PAR is attached.

We have discussed the management and performance challenges summarized in this statement with the responsible Agency officials. If you have any questions or wish to discuss this document further, I would be happy to meet with you.

Attachment: a/s

U.S. Agency for International Development
1300 Pennsylvania Avenue, NW
Washington, DC 20523
www.usaid.gov

Office of Inspector General's (OIG) Fiscal Year 2006 Statement on
USAID's Most Serious Management and Performance Challenges

USAID continues to face management and performance challenges in the areas of:

- **Financial Management**
- **Managing for Results**
- **Acquisition and Assistance**
- **Human Capital Management**
- **Information Technology Management**

The OIG has been reporting on these five areas since we issued our first statement in 2001.

Financial Management

Although USAID has made progress towards improving its financial management systems, significant challenges still exist in this area as follows:

Accrual Accounting and Reporting

USAID's system for capturing accrued expenditures and accounts payable information remains a material weakness that we plan to report in our annual financial statement audit. Errors associated with this weakness required a restatement of USAID's fiscal year 2004 financial statements ($383 million) and material adjustments to its fiscal year 2005 financial statements (net $309 million). This weakness includes errors associated with system-generated accruals as well as those calculated by Cognizant Technical Officers. In October 2006, USAID stopped using a separate system and began capturing accruals directly in its core accounting system—Phoenix. Since USAID is working with a new process and the OIG has not yet determined if USAID has resolved the deficiencies of its old accrual process, we continue to report accrual accounting and reporting as a management challenge.

Reconciliations of USAID's Fund Balance with the U.S. Treasury

USAID's process for reconciling its fund balance with the U.S. Treasury needs improvement. Specifically, USAID has not been consistently investigating and resolving reconciling items with the Department of Treasury and has been required to make significant end-of-year adjustments to bring its fund balance into agreement with Treasury's balance. USAID's fund balance with Treasury exceeded $20 billion throughout 2005 and represented the largest single line item on its financial statements. USAID's net unreconciled amount with Treasury grew between 2004 and 2005 from $95 to $115 million, and it will likely grow further until USAID implements procedures designed to resolve unreconciled transactions. The net amount contains significant unreconciled positive and negative values that are material to USAID's financial statements and significant to USAID's overall fund balance. Since USAID has not resolved significant unreconciled differences, we are reporting this as a management challenge.

Extensive Use of Manual Processes Limits Agency Compliance with Federal Financial Management System Requirements

OIG believes that USAID's reliance on manual processes for a significant portion of its financial management reporting limits its ability to comply with Federal financial management systems requirements. USAID's financial reporting process involves the consolidation of many accounting adjustments and system queries which require a multitude of data sources and complex calculations. The process is heavily dependent on manual adjustments that will continue to challenge USAID until it can demonstrate that the automated processes within Phoenix can consistently produce accurate quarterly and year-end financial information. OIG will continue to address these issues in our yearly financial statement audit.

Managing for Results

Managing a complex and diverse portfolio of worldwide activities is an inherent challenge for USAID managers. USAID conducts development programs in over 100 countries. These programs promote a wide range of objectives related to economic growth, agriculture and trade; global health; and democracy, conflict prevention and humanitarian assistance. Federal laws, such as the Government Performance and Results Act of 1993, require that Federal agencies develop performance measurement and reporting systems that establish strategic and annual plans; set annual targets; track progress; and measure results. In addition, government-wide initiatives, such as the President's Management Agenda, require that agencies link their performance results to budget and human capital requirements.

USAID managers continue to make progress in this area. For example, each quarter the Office of Management and Budget (OMB) scores each agency's status and progress towards implementing the President's Management Agenda. OMB developed a scoring system based upon the colors green, yellow, and red. A "green" rating indicates success and a "yellow" rating signifies mixed results, while a "red" rating is unsatisfactory. For the quarter ending June 30, 2006, OMB rated USAID's current status and progress in the budget/performance integration initiative as "green." However, the "green" rating only applies to this one aspect of Managing for Results. Therefore, although USAID is making progress towards meeting its budget/performance integration goals, more work remains to be done.

USAID's primary method for reporting the results of its activities is through its Annual Report. Each USAID operating unit provides information on the results attained with USAID resources; requests additional resources; and explains the use of, and results expected from, these additional resources. Information in these unit-level reports is consolidated to present an agency-wide picture of achievements in USAID's annual Performance and Accountability Report

(PAR). A recent OIG audit report[1], however, found weaknesses in the reporting system. Further, subsequent to field work on this audit, the OIG learned that components of the reporting system will be replaced by an integrated system to support the Department of State's Office of the Director of U.S. Foreign Assistance, which OIG believes may increase the challenges faced by USAID management.

The OIG continues to monitor USAID's progress in improving its performance management and reporting system. For performance information reported in the Management's Discussion and Analysis section of USAID's PAR for fiscal year 2005, OIG found no inconsistencies between financial and performance data or nonconformance with OMB guidance. This was an improvement over the prior fiscal year, when OIG reported that certain information included in the Management's Discussion and Analysis section did not contain a clear picture of USAID's planned and actual performance for that year. Moreover, OIG reported that the primary performance information included was based on results achieved in the prior fiscal year. USAID uses actual results for the first six months of the year and estimates results for the remaining six months. During the following year, USAID issues an addendum that updates actual results for the entire fiscal year. OIG is currently performing audit work on the results reported by selected missions in the addendum for fiscal year 2005 to determine the quality of the data reported.

Also for fiscal year 2005, the Management's Discussion and Analysis used USAID's New Strategic Planning Framework and Goal Structure contained in the Joint USAID/State Strategic Plan. This new framework was designed to present a more coherent, concise and logical reflection of how the Department of State and USAID organize their work towards results and outcomes. OIG will continue to review progress in this area, including any consolidated systems within the Department of State's new Office of the Director of U.S. Foreign Assistance.

Acquisition and Assistance

The majority of USAID's development results are achieved through intermediaries such as contractors, grantees and recipients of cooperative agreements. Because of the innate complexities in Federal acquisition and assistance—numerous laws, regulations, policies, procedures, definitions, etc.—USAID faces challenges in its acquisition of supplies and services, as well as in its delivery of foreign assistance.

For the quarter ending June 30, 2006, OMB's scorecard reported that USAID is making some progress in implementing the President's Management Agenda for competitive sourcing. Nevertheless, the scorecard rated the status of USAID's competitive sourcing as "red" or unsatisfactory—no change since the last report in March 2006.

[1] Audit of Selected Application Controls over the Annual Report Application System, A-000-06-005-P, dated September 27, 2006

During the past year, the OIG issued several performance audit reports dealing with acquisitions and assistance. One audit[2] involved the adequacy of scopes of work that USAID used in awarding field support task orders under indefinite quantity contracts. This audit determined that the scopes of work for the sampled field support task orders did not clearly define the specific goods and services being procured. The OIG recommended that USAID develop and issue improved policies and procedures, which USAID accomplished.

Another audit[3] pertained to USAID's procurement evaluation program. The audit determined that USAID's evaluations of its procurement operations did not verify and ensure that USAID effectively implemented an Executive Order on Federal Procurement Reform. OIG made two recommendations to address the deficiencies identified in the audit.

Also, to help provide accountability over appropriated funds paid to contractors and grantees, USAID has a financial audit program that consists of financial audits conducted by the Defense Contract Audit Agency, as well as U.S. and foreign public accounting firms, with oversight by the OIG. However, USAID needs to make further improvements in this program, particularly overseas. For example, a series of seven OIG performance audits conducted in Africa during fiscal year 2006 found that many foreign recipients in that region were not always being audited on a timely basis and some were not being audited at all. Specifically, during fiscal years 2003 through 2005, less than 25 percent of planned financial audits of USAID contracts and grants were submitted on time, and over 100 contracts and grants, valued at more than $300 million, should have been audited, but were not.

Human Capital Management

The President's Management Agenda identifies the strategic management of human capital as one of five government-wide areas that needs improvement. A decade of downsizing, insufficient funding, staff reductions, and reductions in training have created human capital gaps at USAID. These gaps include a workforce that is nearing retirement, has a void in the mid-management ranks, and is losing skills and institutional memory. In response to the President's Management Agenda's initiative on human capital and to address its own human capital challenges, USAID has undertaken a major effort to improve and restructure its human capital management. As of June 30, 2006, OMB gave USAID a "yellow" rating, reflecting mixed results for its overall status in the area of human capital management. USAID needs to continue to implement its workforce planning to close skill gaps through recruitment, retention, training, succession planning, and other strategies.

Also, the USAID Administrator now serves concurrently as the Director of U.S Foreign Assistance within the Department of State. He is charged with directing the transformation of the U.S. Government approach to foreign assistance to ensure that foreign assistance is used as effectively as possible to meet broad foreign policy objectives. This new management structure

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[2] Audit of Scopes of Work for Field Support Task Orders Issued under USAID/Washington Indefinite Quantity Contracts, 9-000-06-008-P, dated May 17, 2006

[3] Audit of USAID's Procurement Evaluation Program, 9-000-06-007-P, dated May 11, 2006

will create challenges such as how the Department of State and USAID consolidate functions. The challenge USAID faces in managing human capital may also increase with the ongoing Agency restructuring to align more fully the foreign assistance activities carried out by the Department of State and USAID. OIG plans to audit USAID's implementation of its human capital strategy during fiscal year 2007.

Information Technology Management

USAID has made progress towards addressing weaknesses in its information technology management. However, USAID faces management challenges as follows:

Implementing Homeland Security Presidential Directive – HSPD-12

The inherent challenges for integrating and coordinating with other Federal agencies represent only some of the numerous challenges USAID is likely to face in implementing this Government-wide initiative-- the Homeland Security Presidential Directive (HSPD) 12.

HSPD-12, signed by the President on August 25, 2005, is entitled "Policy for a Common Identification Standard for Federal Employees and Contractors." The Directive requires the development and agency implementation of a mandatory, Government-wide standard for secure and reliable forms of identification for Federal employees and contractors[4] in gaining physical access to Federal facilities and logical access to Federal information systems. HSPD-12 is being implemented in two phases. OMB required agencies to begin complying with phase I by October 27, 2005, and phase II by October 27, 2006.

Preliminary data indicates that USAID is complying with phase I, but is unlikely to fully comply with phase II. According to USAID, it lacked the resources to fully comply. Potential challenges that USAID will likely face include:

- Defining an overall framework and policy for coordinating issues between USAID and the Department of State in support of HSPD-12.
- Defining and coordinating the managerial, operational and technical integration aspects between USAID and the Department of State for implementing physical and logical access.
- Tailoring an implementation plan for USAID's Washington, DC and overseas posts. (USAID intends to rely on the Department of State's implementation plan until one can be developed for USAID.)
- Obtaining resources to adequately define and develop logical access interfacing mechanisms to USAID's information systems.

OIG is monitoring USAID's progress in implementing HSPD-12, and a formal review on USAID's progress is planned for fiscal year 2007.

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[4] This standard applies to all employees (i.e., direct hire, Personal Service Contractors, employees on "loan" from other Federal agencies, etc.).

Information Technology Governance

In our March 2006 Semiannual Report to the Congress, we identified a management challenge in the area of information resource management [now referred to as Information Technology (IT) governance]. IT governance involves not only the duties and functions within the Office of the Chief Information Officer but that of all bureaus, divisions and offices in USAID. As such, IT governance is an Agency-wide challenge rather than a Chief Information Officer challenge. IT governance provides the structure that links Agency-wide strategies and objectives to IT processes, resources and information—which is especially important in an environment where funds are limited.

An OIG audit[5] that assessed USAID's Phoenix Overseas Deployment and Procurement System Improvement Program (PSIP) projects reported that, among other things, USAID needs to:

- Develop an enterprise architecture.
- Enhance and fully utilize the capabilities of its Program Management Office.
- Develop complete policies and procedures governing its IT projects.

Moreover, OMB identified PSIP and the Joint Assistance Management System (a joint project with the Department of State) projects on its high risk investments list in its quarterly report ending June 30, 2006.

According to USAID management, the following steps have been taken to correct weaknesses:

- With respect to developing an enterprise architecture, USAID published the Data Architecture for Program Management and Results Reporting.
- To enhance the capabilities of the Program Management Office, USAID conducted an organizational assessment and developed a plan to combine the Program Management Office and the Office of Information Resources Management.
- Regarding policies and procedures, USAID published a standard IT Project Life Cycle Methodology that prescribes the recommended IT project baselines and government reviews.

USAID management further stated that a priority of the new Acting Chief Information Officer is IT governance policy, process, and standards development and implementation. We believe it is still a challenge for USAID to acquire, implement, and deploy systems, and we will monitor USAID's progress as corrective actions are taken in this area.

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[5] Audit of USAID's Information Technology Governance Over Its Phoenix Overseas Deployment and Procurement System Improvement Program Projects, A-000-06-001-P, dated February 21, 2006

MANAGEMENT CHALLENGES IDENTIFIED BY OIG		
Management Challenge/ Significant Issue	**Actions Taken in FY 2006**	**Actions Remaining and/or Expected Completion Date**
FINANCIAL MANAGEMENT		
Accrual Accounting and Reporting	USAID no longer uses the Accruals Reporting System (ARS) to record quarterly accruals information. Beginning in September 2006, users enter their accrual data directly into the primary accounting system via the Accrual Query.	A reconciliation report has been developed to track accruals in the system. Action completed on October 30, 2006.
Reconciliations of USAID's Fund balance with the U.S. Treasury	Due to Operating Expense (OE) budget cuts and a tight Phoenix budget, a cash reconciliation tool was being considered, but was not developed and implemented before the end of this fiscal year. Reports, however, were developed that assist in tracking cash disbursement differences. Based on these reports, management can identify large discrepancies and address them.	The cash reconciliation tool will be completed by September 30, 2007.
Extensive Use of Manual Processes Limits Agency Compliance with Federal Financial Management System Requirements.	Due to the use of Phoenix at headquarters in some missions and Mission Accounting and Control System (MACS) in other missions, and the migration of financial data between MACS and Phoenix, adjustments had to be made to reconcile the data in two separate systems. The CFO believes that the use of manual processes will decrease now that the Phoenix integrated financial management system has been implemented Agency-wide. Action complete.	
MANAGING FOR RESULTS		
USAID's Performance Management and Reporting System	As part of foreign assistance reform and to improve upon USAID's performance management and reporting system, the Office of the Director of Foreign Assistance began development of the Foreign Assistance Coordination and Tracking System (FACTS) in FY 2006. FACTS is a database that will combine USAID and Department of State foreign assistance budget and performance planning and activity reporting data into one central system.	USAID and State's new FACTS system will be tested in November 2006 and will begin initial implementation by the end of CY 2006. This system will facilitate all levels of agency planning, monitoring, and data management. It will enable a more comprehensive reporting and monitoring of foreign assistance than was available with USAID's Annual Report system and will facilitate analyses of integrated budget and performance information. FACTS will be subjected to all of the internal controls necessary to ensure the integrity and confidentiality of the data. Data needed for the PAR will be reported annually by field missions and Washington offices. The reports will contain both planned and actual performance data against specific targets for the year.

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MANAGEMENT CHALLENGES IDENTIFIED BY OIG *(continued)*		
Management Challenge/ Significant Issue	**Actions Taken in FY 2006**	**Actions Remaining and/or Expected Completion Date**
ACQUISITION AND ASSISTANCE		
The PMA scorecard rated the status of USAID's competitive sourcing as "red" or unsatisfactory.	On May 16, 2006, USAID successfully completed its first outsourcing competition under the PMA. This streamlined competition encompassed facilities management functions conducted by four government employees and related contractor support. These responsibilities included space planning, answering maintenance calls, maintenance coordination, and general office support and coordination for facilities located in Washington, DC. The Agency began its second streamlined competition at the end of FY 2006 and initiated feasibility studies for two other possible competitions.	USAID looks forward to achieving a "Yellow" in competitive sourcing status by March 31, 2007. During FY 2007, USAID would like to make business process improvements in Washington and identify additional activities during Washington management assessments where competition may produce increased efficiency and cost savings.
Scopes of work for sampled field support task orders under Indefinite Quantity Contracts (IQCs) did not clearly define the specific goods and services being procured.	USAID developed and issued improved policies and procedures to govern the purpose, content, and use of field support task orders issued under small USAID/W IQCs. Action completed on May 17, 2006.	
USAID's evaluations of its procurement operations did not verify and ensure that USAID effectively implemented an Executive Order on Federal Procurement Reform.	USAID developed an action plan that includes implementation of the new Balanced Scorecard business model which will verify and ensure that USAID is effectively implementing Executive Order 12931 (Federal Procurement Reform). Action completed on May 11, 2006.	USAID will issue a policy requiring missions to implement recommendations made by evaluation teams. There is a built-in mechanism in the web-based scorecard that requires missions to address each recommendation from the previous year and how it has been implemented. This is in addition to the regular web-based scorecard information which will be certified and submitted by each mission on a yearly basis. Target completion date: December 31, 2006.
USAID needs to make further improvements in its financial audit program, particularly overseas.	USAID/South Africa developed and implemented an audit tracking system to monitor the recipient financial audit process to ensure timely submission of reports. Action completed on March 30, 2006.	USAID/Tanzania developed and implemented an audit tracking system to monitor the recipient financial audit process to ensure timely submission of reports. Action completed on October 2, 2006.
	USAID/REDSO/ESA developed and implemented an audit tracking system to monitor the recipient financial audit process to ensure timely submission of reports. Action completed on May 22, 2006.	USAID/Tanzania obtained and submitted audit reports for all recipients with delinquent audits. Action completed on October 2, 2006.

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MANAGEMENT CHALLENGES IDENTIFIED BY OIG *(continued)*		
Management Challenge/ Significant Issue	**Actions Taken in FY 2006**	**Actions Remaining and/or Expected Completion Date**
ACQUISITION AND ASSISTANCE *(continued)*		
USAID needs to make further improvements in its financial audit program, particularly overseas. *(continued)*	USAID/REDSO/ESA obtained and submitted all delinquent audit reports. Action completed on May 22, 2006.	USAID/Malawi developed and implemented an audit tracking system to monitor the recipient financial audit process to ensure timely submission of reports. Action completed on October 30, 2006.
	USAID/REDSO/ESA developed and implemented a system to ensure that the Mission reviews, approves, and maintains a copy of an audit agreement containing a standard statement of work that incorporates USAID's audit requirements for every recipient audit. Action completed on May 22, 2006.	USAID/Malawi developed and implemented a system to ensure that the Mission reviews, approves, and maintains a copy of an audit agreement containing a standard statement of work that incorporates USAID's audit requirements for every recipient's audit covering each individual fiscal year. Action completed on October 30, 2006.
	USAID/REDSO/ESA obtained and submitted audit reports for all expired awards requiring closeout audits. Action completed on May 22, 2006.	USAID/REDSO/ESA amended its Mission Order to ensure that closeout audits of expiring awards in excess of $500,000 are included in future audit plans and performed as required. Action completed on November 11, 2006.
	USAID/Ethiopia included all host country contracts in its award inventory for fiscal year 2006. Action completed on May 31, 2006.	USAID/Ethiopia will obtain and submit all delinquent audit reports. Target completion date: November 30, 2006.
	USAID/Ethiopia amended its Mission Order to add procedures for including host country contracts in award inventories and annual audit plans, as appropriate. Action completed on May 31, 2006.	USAID/Mozambique will amend its Mission Order to ensure that closeout audits of expiring awards in excess of $500,000 are included in future audit plans and performed as required. Target completion date: December 31, 2006.
	USAID/Malawi obtained and submitted audit reports for recipients with delinquent audits. Action completed on July 31, 2006.	USAID/Mozambique will include all identified host country contracts in its award inventory for fiscal year 2006. Target completion date: December 31, 2006.
	USAID/Ethiopia developed and implemented an audit tracking system to monitor the recipient financial audit process to ensure timely submission of reports. Action completed on August 31, 2006.	USAID/Mozambique will amend its Mission Order to include procedures for including host country contracts in award inventories and annual audit plans, as appropriate. Target completion date: December 31, 2006.
	USAID/Ethiopia developed and implemented a system to ensure that the Mission reviews, approves, and maintains a copy of an audit agreement containing a standard statement of work that incorporates USAID's audit requirements for every recipient audit covering each individual fiscal year. Action completed on August 31, 2006.	USAID/Kenya will develop and implement an audit tracking system to monitor the recipient financial audit process to ensure timely submission of reports. Target completion date: December 31, 2006.

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MANAGEMENT CHALLENGES IDENTIFIED BY OIG *(continued)*		
Management Challenge/ Significant Issue	**Actions Taken in FY 2006**	**Actions Remaining and/or Expected Completion Date**
ACQUISITION AND ASSISTANCE ***(continued)***		
USAID needs to make further improvements in its financial audit program, particularly overseas. *(continued)*	USAID/Ethiopia obtained and submitted audit reports in accordance with requirements for all expired awards. Action completed on August 31, 2006.	USAID/Kenya will develop and implement a system to verify and document that the Mission reviews, approves, and maintains a copy of an audit agreement containing a standard statement of work that incorporates USAID's audit requirements for every recipient audit. Target completion date: December 31, 2006.
		USAID/Kenya will amend its Mission Order to document that closeout audits of expiring awards in excess of $500,000 are included in future audit plans and performed as required. Target completion date: December 31, 2006.
		USAID/Kenya will amend its Mission Order to provide procedures for including host country contracts in award inventories and annual audit plans, as appropriate. Target completion date: December 31, 2006.
		USAID/South Africa will obtain and submit all delinquent audit reports. Target completion date: March 31, 2007.
		USAID/South Africa will develop and implement a system to ensure that the Mission reviews, approves, and maintains a copy of an audit agreement containing a standard statement of work that incorporates USAID's audit requirements for every recipient audit. Target completion date: March 31, 2007.
		USAID/South Africa will amend its Mission Order to ensure that closeout audits of expiring awards in excess of $500,000 are included in future audit plans and performed as required. Target completion date: March 31, 2007.
		USAID/South Africa will complete and submit audit reports for all expired awards requiring closeout audits. Target completion date: March 31, 2007.
		USAID/South Africa will include all identified host country contracts in its award inventory for fiscal year 2006. Target completion date: March 31, 2007.
		USAID/South Africa will amend its Mission Order to include procedures for including host country contracts in award inventories and annual audit plans, as appropriate. Target completion date: March 31, 2007.

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MANAGEMENT CHALLENGES IDENTIFIED BY OIG *(continued)*		
Management Challenge/ Significant Issue	**Actions Taken in FY 2006**	**Actions Remaining and/or Expected Completion Date**
ACQUISITION AND ASSISTANCE *(continued)*		
USAID needs to make further improvements in its financial audit program, particularly overseas. *(continued)*		USAID/South Africa will complete and submit closeout audits for the two expired host country contracts with expenditures over $500,000. Target completion date: March 31, 2007.
		USAID/Mozambique will obtain and submit audit reports for all expired awards requiring closeout audits. Target completion date: March 31, 2007.
		USAID/Mozambique will obtain and submit closeout audits for the 11 implementing instruments of the host country contracts in excess of $500,000. Target completion date: March 31, 2007.
		USAID/Mozambique will obtain and submit audit reports for all recipients with delinquent annual audits. Target completion date: June 30, 2007.
		USAID/Kenya will obtain and submit audits for the two host country contracts that expended in excess of $300,000 in one fiscal year. Target completion date: June 30, 2007.
		USAID/Mozambique will develop and implement an effective audit tracking system to monitor the recipient financial audit process to ensure timely submission of reports. Target completion date: September 30, 2007.
		USAID/Kenya will obtain and submit audit reports for all expired awards requiring closeout audits. Target completion date: October 30, 2007.

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MANAGEMENT CHALLENGES IDENTIFIED BY OIG *(continued)*		
Management Challenge/ Significant Issue	**Actions Taken in FY 2006**	**Actions Remaining and/or Expected Completion Date**
HUMAN CAPITAL MANAGEMENT		
USAID must demonstrate that staffing is being realigned to support implementation of the new Foreign Assistance Framework prior to moving to green status on the PMA scorecard.	The President's Management Agenda (PMA) identifies strategic management of Human Capital (HC) as one of the five government-wide areas needing improvement. At the end of FY 2006, USAID received a 'yellow' status rating and a 'green' progress rating for strategic HC management. In FY 2006, the Agency continued its major efforts to improve its HC management with its first ever HC Strategic Plan, FY 2004-2008 as a road map. USAID refined its first ever workforce planning model down to specific missions and then to reflect the new Foreign Assistance Framework. As a result of a further enhancement undertaken in FY 2006, the model can now cost out alternative workforce scenarios and was used to guide the FY 2008 budget formulation process.	■ Make final decisions on restructuring Washington and field and how we are going to do business. ■ Update the Workforce Planning Model (WPM) to reflect the new organizational structures and business model and realign staff based on WPM results. ■ Target completion date: June 30, 2007.
USAID needs to continue to implement its workforce planning to close skills gaps through recruitment, retention, training, succession planning and other strategies.	USAID began implementing its Learning Management System (LMS), an automated tool that will link workforce competency needs to appropriate training and developmental activities required to achieve and/or retain optimal workforce functionality. The Agency started automating its official personnel files (OPFs). This action will allow employees to access their own OPF via their desktop and will eliminate paper transaction records. The Agency also completed the Manage-to-Budget Pilots; implemented an OPM certified HC Accountability System; updated its leadership succession plan and further closed critical gaps with the aid of some short-term hiring mechanisms. It should be noted that all this was accomplished in a scarce Operating Expense (OE) budget resource environment that resulted in a temporary hiring freeze beginning in the second quarter of the fiscal year and a 50% cut in the training budget. Training was focused, almost exclusively, on meeting Agency and other federal mandates, e.g., Cognizant Technical Officer (CTO) certification, language training, and core business training needs. New courses were developed for new initiatives such as Operational Plans and the Manage to Budget process, to align our core business courses with the new Agency direction.	■ Complete the roll out of all modules of the Learning Management System. Target completion date: September 30, 2007. ■ Continue to improve hiring processes quality and timeliness. Target completion date: March 31, 2007. ■ Meet competency gap targets by March 30, 2007. ■ Conduct first annual self-audit (accountability assessment) of Agency's HC management. Target completion date: September 30, 2007. ■ Update Management and Leadership Strategic Succession Plan in accordance with new government-wide guidance from OPM. Target completion date: September 30, 2007.

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MANAGEMENT CHALLENGES IDENTIFIED BY OIG *(continued)*		
Management Challenge/ Significant Issue	**Actions Taken in FY 2006**	**Actions Remaining and/or Expected Completion Date**
INFORMATION TECHNOLOGY MANAGEMENT		
Implement Homeland Security Presidential Directive – 12 (HSPD-12)	■ Developed processes and procedures to meet PIV II requirements for new employees and new contractors. ■ Trained appropriate personnel on new processes and procedures. ■ Purchased some of the components required to begin issuing PIV Cards. ■ Drafted agreement between USAID and Department of State. ■ Issued a Policy Directive to incorporate HSPD-12 FAR clause in USAID contracts.	■ Issue new PIV Cards to all existing employees and contractors domestically by October 27, 2008. ■ Work with Department of State to implement and issue PIV Cards overseas by October 27, 2008. ■ Management Decision for Identity Management System is pending funding for engineering study. ■ Inability to phase in physical access requirements of PIV Card by October 27, 2007 due to lack of funding. ■ Inability to meet phase-in logical access requirements of PIV Card by October 27, 2007 due to lack of funding. ■ Expect to begin implementation enrollment and issuance of PIV Cards to new employees and new contractors October 30, 2007. *USAID is currently utilizing the Department of State's HSPD-12 solution in order to meet October 27, 2006 deadline. USAID's schedule for issuing PIV Cards is dependent on State. Future milestones to meet the physical and logical access requirements are contingent upon the availability of funding and human resources. Funding issues are being discussed with senior leadership and a decision is expected for FY 2007 funding by November 2006 and FY 2008 funding by January 2007, which will allow basic planning and engineering to commence.
Information Technology Governance		
IT Strategic Planning	USAID and the Department of State drafted a Joint IT Strategic Plan that is currently undergoing the clearance process in both organizations.	Discussions are being held with Department of State concerning the degree of integration with State's intranet and other USAID infrastructure requirements and costs. A decision is expected by December 2006 and a revised plan should be cleared and published shortly after that.

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MANAGEMENT CHALLENGES IDENTIFIED BY OIG *(continued)*		
Management Challenge/ Significant Issue	**Actions Taken in FY 2006**	**Actions Remaining and/or Expected Completion Date**
INFORMATION TECHNOLOGY MANAGEMENT *(continued)*		
Enterprise Architecture (EA)	USAID published the Data Architecture for Program Management and Results Reporting in August 2006. It is being used as a resource by the working group that is mapping existing data and supporting the Strategic Objective to the new Foreign Assistance Strategic Framework. The Joint USAID and Department of State Enterprise Architecture (JEA) Team provided Business Analysts to work with Joint Management Council (JMC) Working Groups to define transition opportunities in such areas as staff alignment, investment consolidation, regionalization and centralization of services, joint field operations, and network and IT alignment.	With the exception of the Data Reference Model, all other models have been completed as joint models with Department of State. A USAID Data Reference Model is being finalized and should be cleared and published by December 2006.
IT Policy and Practice Standards	USAID published an IT Project Life Cycle Methodology standard that describes the recommended project baselines and government reviews. Phase gate review checklists and phase artifact quality factor guidelines have been developed. USAID also defined an IT Project Work Breakdown Structure (WBS) standard to assist Project Managers in ensuring that full life cycle costs for investments are identified.	The CIO will move to provide project funding allotments to projects based upon successful phase gate reviews, completion of engineering and management activities, and supporting documentation. All major IT development policies, standards, and procedures are being rolled out as they become available; completion is expected by September 30, 2007.
Institutionalizing Governance	Responding to deficiencies and gaps identified in various audits and the Management Bureau Assessment, the Acting CIO conducted an organizational assessment and redefined a restructuring that combined the Office of Information Resources Management and the Program Management Office. IT Governance policy and process definition responsibility is explicitly called out, as are portfolio and project performance management responsibilities.	IT policies, standards, and procedures are being published and training is occurring for all IT stakeholders. The CIO is developing a portfolio management process that is tied to an updated Capital Planning and Investment Control (CPIC) process. By September 30, 2007 the processes should be fully institutionalized.

MANAGEMENT CHALLENGES IDENTIFIED BY GAO		
Management Challenge/ Significant Issue	**Actions Taken in FY 2006**	**Actions Remaining and/or Expected Completion Date**
To better facilitate USAID's ability to design and implement future disaster recovery programs and address its previously documented recurring staffing challenges, GAO recommends revising staffing procedures to allow the Agency to more quickly reassign or hire key personnel, either to augment staff responsible for disaster recovery efforts in countries with a USAID mission or to manage efforts in countries where USAID does not maintain a permanent presence.	The Agency has developed a crisis management model that utilizes task forces composed of USAID and other key USG department and agency personnel to provide an effective, integrated platform for complex emergency and stabilization responses.	USAID has proposed the development of a "civilian surge capacity" which, if approved and funded, would give USAID over a three-year time period the ability to grow short-to-long-term staff on an as needed basis. Target completion date: September 30, 2008.
GAO recommends USAID develop disaster recovery and reconstruction program guidance that incorporates lessons learned from the Hurricane Ivan Recovery and Reconstruction Program and Tropical Storm Jeanne Recovery Program as well as previous disaster recovery programs.	USAID has established an agency task force for complex emergency and stabilization responses. The Agency Task Force model has been activated twice – once for the Tsunami and again for the Pakistan Earthquake. An example of lessons learned, generated by the Tsunami Task Force, is available on the USAID intranet and can be found at http://inside.usaid.gov/tsunami/lessons.html.	
To assist contractors operating in hostile environments to obtain security services required to ensure successful contract execution, GAO recommends that USAID explore options that would enable contractors to obtain such services quickly and efficiently.		USAID is in the final stages of developing Agency guidance with respect to the security challenges of its implementing partners. USAID has implemented a variety of initiatives to address the security concerns as well as to help identify security needs and requirements. Target completion date: September 30, 2008.

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MANAGEMENT CHALLENGES IDENTIFIED BY GAO *(continued)*		
Management Challenge/ Significant Issue	**Actions Taken in FY 2006**	**Actions Remaining and/or Expected Completion Date**
To improve the ability to assess the impact of and manage security costs in future reconstruction efforts, GAO recommends that USAID establish a means to track and account for security costs to develop more accurate budget estimates.	One of the challenges of tracking security costs pertains to the difficulty in identifying a standard definition. USAID has developed a standard definition of security costs which will be applied to all new contracts and agreements. This will result in more accurate reporting of security costs. USAID/Iraq is also adding a security cost field into a prototype of its new management reporting system to allow USAID to analyze and better report security costs. Action complete.	
To improve on existing efforts to measure and assess the progress of U.S. reconstruction projects toward achieving U.S. policy goals, and to provide a basis for planning future reconstruction projects, GAO recommends that USAID: (1) establish a performance management plan that complies with USAID directives, (2) clearly stipulate in all future reconstruction contracts that contractors are to develop performance management plans specific to the work they are conducting, and (3) more completely communicate the performance information obtained from the performance management plans to executive branch decision makers in Kabul and Washington.	(1) USAID/Afghanistan prepared a Performance Management Plan (PMP). The preliminary performance indicators for each of the approved strategic objectives and related intermediate results, along with the preliminary baselines and targets were provided in the Mission's strategic plan. In an effort to streamline data collection, contracts and grants now require awardees to provide quarterly activity updates by entering this data into the Mission's web-based database system. This periodic reporting will facilitate measurement under the PMP. (2) USAID requires contractors to enter their program information into the web-based database. All future reconstruction contracts will require contractors to develop performance management plans linking their work to the Mission's PMP. (3) The results of USAID/Afghanistan's most visible projects are closely tracked. These "metrics" are now being updated by an interagency team in Kabul. Actions complete.	

IMPROPER PAYMENT INFORMATION ACT (IPIA) REPORTING DETAILS

Although the 2006 risk assessment concluded that all programs are at a low risk for improper payment and the declining error rate remains far below the OMB guidance thresholds, the Agency continues to conduct various levels of internal improper payment reviews and samplings for all programs and payment activities throughout the year. Additionally, all new programs, high profile programs, and high dollar programs are considered risk-susceptible and subject to further analysis and review.

As in past years, the Agency continues to rely heavily on the OIG post-audit reviews as one of the primary methods of sampling and estimating the improper payment rate for the cooperative agreement, grant and contract programs. All nonprofit U.S.-based organizations that expend $500,000 or more in Federal awards are subject to an OMB Circular A-133 financial audit which is reviewed by the Agency's OIG. All foreign nonprofit organizations that expend $300,000 during their fiscal year in USAID awards are subject to a recipient-contracted audit (RCA) performed by approved Certified Public Accountant (CPA) firms which are reviewed by the respective USAID Regional Inspector General (RIG) overseas. All USAID commercial vendor contracts with incurred-cost submissions are subject to an annual Defense Contract Audit Agency (DCAA) audit. The Agency's procurement office also reviews the OIG recommendations for ongoing audits to ensure payments to recipients are accurate and proper. The OIG tracks audit review activities in the Consolidated Audit Tracking System (CATS) while the Office of the CFO reviews and calculates the improper payment rate for these programs. Currently, the Office of the CFO and the OIG are reviewing the process for capturing audit activities and formulating questioned costs, error and recovery rates to ensure that the CATS is a reliable tool for providing IPIA activity information.

Additionally, all payments processed through the Agency's financial and accounting system, Phoenix, are subject to a series of monthly internal reviews by CFO staff who analyze and compare data outputs/reports, cross- reference and compare this data to ensure that payment data is accurate, and monitor the improper payment rate on an ongoing basis. The sampling of the financial systems review includes setting report parameters to identify all potential duplicate payments by vendor, invoice number and dollar value. Each potential improper payment that is identified is investigated regardless of the dollar value. The monthly reports reviewed include the Phoenix Disbursement, Metric Tracking System (MTS) Indicator, Schedule of Disbursements and Credits (SF1098), Cash Management and Payment Metrics and the Penalty Interest reports.

OMB Circular A-133 requires the auditor to audit the entire universe of federal awards, including sub-awards. Therefore, any excess billing or amount that is unallowable will be questioned by the auditor. The auditor's report is sent to the Clearinghouse for submission to the Office of the Inspector General (OIG). Upon review, the audit report is sent to the Agency's procurement office for follow-up.

OMB Circular A-133, Sub-part C, Section 310(1)(2)(3) Financial Statements, states:

(1) List individual Federal programs by Federal agency. For Federal programs included in a cluster of programs, list individual Federal programs within a cluster of programs. For research and development (R&D), total Federal awards expended shall be shown either by individual award or by Federal agency and major subdivision within the Federal agency. For example, the National Institutes of Health (NIH) is a major subdivision in the Department of Health and Human Services (DHHS).

(2) For Federal awards received as a sub-recipient, the name of the pass-through entity and identifying number assigned by the pass-through entity shall be included.

(3) Provide total Federal awards expended for each individual program and Catalog of Federal Domestic Assistance (CFDA) number or other identifying number when the CFDA information is not available.

Upon receiving the A-133 audit reports from the recipients, the Agency's procurement office sends a letter to the recipient and, if the recommendation involves questioned costs, the Agency requests payment. If the findings are procedural, the Agency asks the recipient to provide a corrective action plan with a timeline for correcting the deficiencies. The Agency follows up on the action plan until the deficiencies are corrected and asks the audit firm to include a follow-up on the implementation of the corrective action plan to ascertain if the deficiencies were corrected appropriately.

	2005			2006		
Programs	**PY Outlays**	**PY IP %**	**PY IP $**	**CY Outlays**	**CY IP %**	**CY IP $**
Cash Transfers*	1,402,247	0.0670%	940	850,988	0.8252%	7,022
Cooperative Agreements, Grants & Contracts*	4,592,303	0.0045%	207	6,846,201	0.2200%	15,062

	2007			2008			2009		
Programs	**CY+1 Est. Outlays**	**CY+1 IP %**	**CY+1 IP $**	**CY +2 Est. Outlays**	**CY+2 IP %**	**CY+2 IP $**	**CY+3 Est. Outlays**	**CY+3 IP %**	**CY+3 IP $**
Cash Transfers	1,559,635	0.0250%	390	1,707,700	0.0100%	171	1,823,064	0.0080%	146
Cooperative Agreements, Grants & Contracts	4,902,538	0.0450%	2,206	5,233,732	0.0250%	1,308	5,587,300	0.0018%	101

Source of Data:

- 2005 and 2006 Net Outlays
- CFO/CMP Internal Control reports
- OIG's Consolidated Audit Tracking System
- Washington Disbursements equal approximately 75% of total outlays

* 2005: The Cash Transfers, Grant/Contracts programs were identified as risk susceptible due to the fact that they represent 88% (22% & 66% respectively) of total outlays for the year.

* 2006: The Cash Transfers, Grant/Contracts programs were identified as risk susceptible due to the fact that they represent 77% (9% & 68% respectively) of total outlays for the year.

USAID grant and contract program payment activities have been labeled risk-susceptible due to the high-dollar value of these programs and they continue to be closely monitored to ensure compliance with the provisions of the IPIA.

The Iraq Reconstruction and the Afghanistan Assistance and Reconstruction programs are large-dollar value and high-profile procurement and payment activities and additional controls are in place to monitor these activities. The Office of the CFO monitors and reports monthly on these financial activities as well as compiles individual expenditure reports for the reconstruction and assistance program activities in Afghanistan and Iraq. This information is consolidated into monthly reports and is disseminated to stakeholders, internal and external clients, including USAID Missions and Bureaus, as a tool to monitor their program and payment activities and to increase overall transparency of these high-profile programs. Although we have high confidence in the internal controls in place for making cash transfers to foreign governments and foreign bank accounts, we have included this payment activity as risk-susceptible due to the large-dollar volume of these activities. These activities are also subject to the series of monthly internal reviews conducted by CFO staff that analyze and compare data outputs/reports, cross- reference and compare this data to ensure that payment data is accurate, and monitor the improper payment rate on an ongoing basis.

Earlier this year, the Office of the CFO explored the feasibility of using various professional recovery auditor services to assist in the identification and recovery of potential erroneous payments and have engaged the services of Horn & Associates, Inc. /Recovery Auditors. The contract is in place, most of the security clearance processes have been completed, and some of the recovery auditors are on board. The recovery auditors are scheduled to start their internal recovery audit review in November 2006 and they expect to issue their first report of findings with 60-90 days. These findings will be reported in the 2007 PAR. In the interim, the Agency has been using Phoenix to monitor, sample and analyze payment data and activity.

In 2006, USAID started data-mining in Phoenix, abstracting and identifying data that may be indicative of an improper payment. Thousands of payment records that fell within the erroneous payment parameters set for warranting further scrutiny were reviewed. Upon final analysis and review, it was determined that almost all of these payments were indeed proper. The few payments that remained suspect were further investigated and the funds were collected and/or previously collected and the items closed.

A noteworthy accomplishment that was crucial to enhancing internal financial controls was the completion of the rollout of Phoenix overseas. As a result of the completed unified systems implementation, the Office of the CFO now has the capability to monitor, sample and analyze USAID's financial and payment activities worldwide.

The following chart reflects recoveries for grant and contract programs:

Agency Component (if applicable)	Amount Subject to Review for CY Reporting	Actual Amount Reviewed and Reported	Amounts Identified for Recovery	Amounts Recovered CY	Amounts Recovered PY(s)
Grants/Contracts	6.8B	6.8B 3.28B*	NA 9.1M*	NA 9.09M*	NA 4.4M*
Cash Transfers	850M	850M	8M	8M	N/A
* Per post-audit reviews conducted by the OIG in 2006.					

During 2006, CFO staff were actively engaged in the ongoing review, sampling, identification and the implementation of the necessary internal controls. In addition, training was provided to staff on meeting the President's goal to eliminate improper payments. In 2007, Cash Management and Payment (CMP) staff within the Office of the CFO will be submitting reports on regular intervals to the CMP Division Chief who will monitor progress on the reduction and recovery of improper payments and report results to the Deputy CFO and CFO. Agency managers will be working closely with the professional recovery auditors on reducing and recovering improper payments. Additionally, work objectives related to reducing improper payments will be incorporated in relevant CMP staff 2007 work plans to further ensure compliance with IPIA.

The information systems and infrastructure are in place to reduce improper payments with the recent completion (August 2006) of the overseas rollout of Phoenix, enabling access to worldwide financial and payment activity.

Now that USAID in Washington has the capability to access and review the financial payments activities worldwide through Phoenix, future IPIA review efforts to minimize the risk of making erroneous or improper payments will be more streamlined, yielding enhanced effectiveness, efficiency and results.