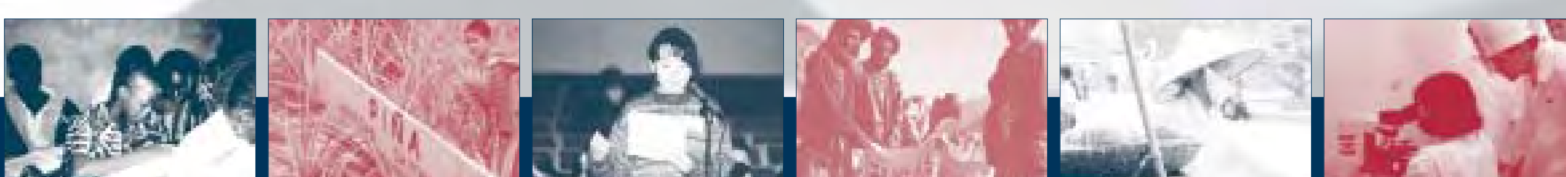
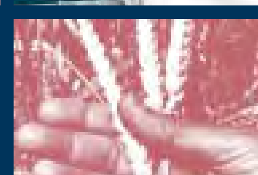
FY
2001
Accountability Report





U.S. AGENCY for
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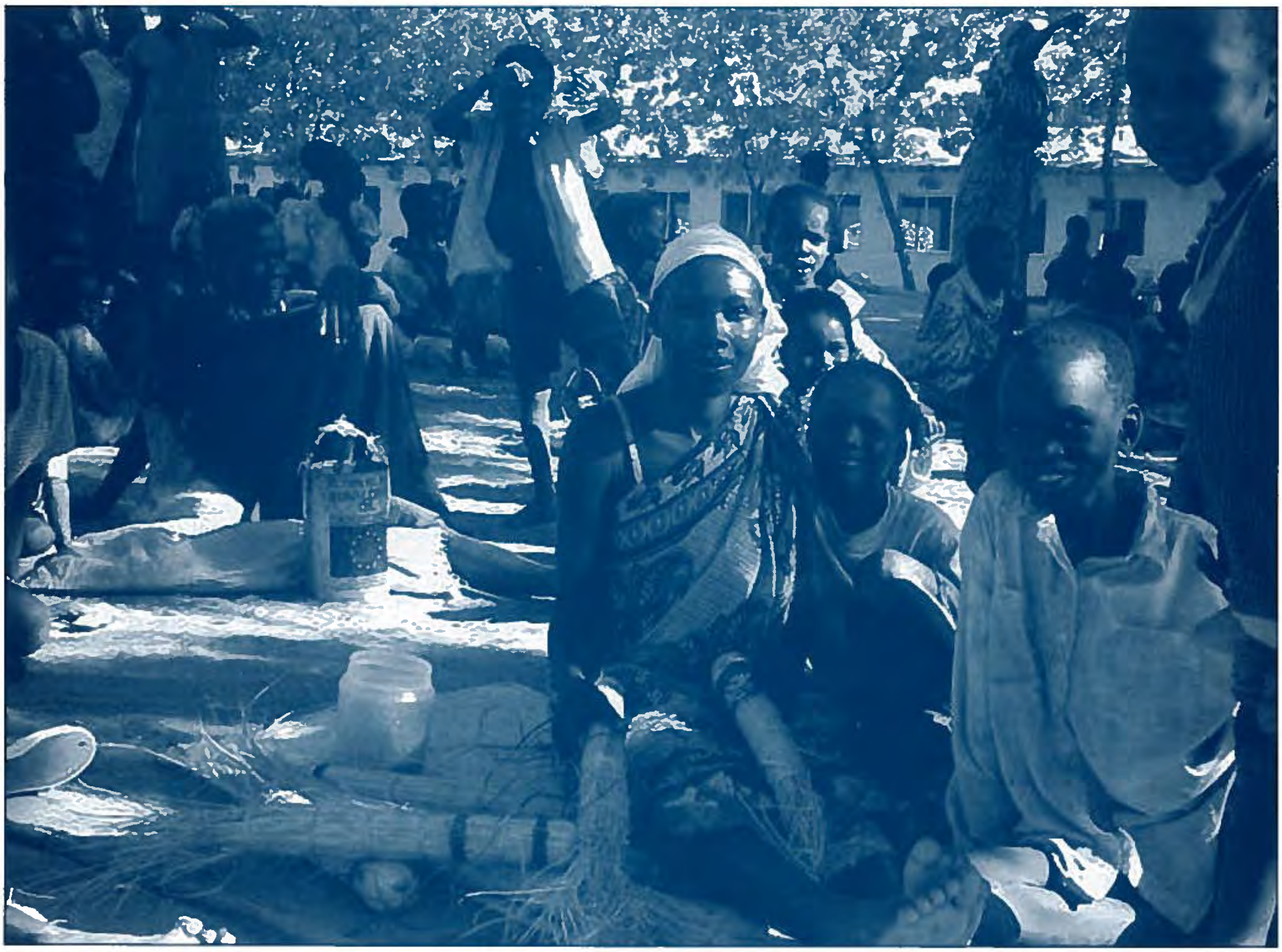

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FOREWORD

The Fiscal Year (FY) 2001 Accountability Report is one of three reports the United States Agency for International Development (USAID) prepares annually to describe its financial position and the results of its operations. For FY 2001, the two other reports are the Agency's FY 2001 Performance Report and its FY 2003 Budget Justification.

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

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

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

U.S. Agency for International Development
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Washington, DC 20523

February 2002

MESSAGE FROM THE ADMINISTRATOR: Andrew S. Natsios

Fiscal Year 2001 marked 40 years that USAID has provided assistance to countries recovering from disaster, trying to escape poverty and engaging in democratic reforms. The Agency's programs have improved the lives of millions of citizens in the developing world, while also helping to advance foreign policy objectives.

During my first year as Administrator at USAID, I initiated a new strategic orientation and incorporated a new way of doing business to ensure that the Agency's long-term development assistance and humanitarian relief programs respond to the changing world and U.S. national interests.

We reoriented USAID's programs to focus on "Four Pillars." Three new program pillars - Global Health (GH), Economic Growth, Agriculture and Trade (EGAT) and Democracy, Conflict, and Humanitarian Assistance (DCHA) - have simplified and integrated our current programs. Aggregating our programs into these pillars will enable us to use scarce budget and human resources more effectively and to describe our programs more clearly. The fourth pillar introduces the Global Development Alliance as our new model for doing business. Under this pillar, we will serve as a catalyst to mobilize the ideas, efforts and resources of the public sector, corporate America, the higher education community and non-governmental organizations in support of shared objectives.

Reforming the Agency's management systems is key to improving the delivery of development and humanitarian assistance. We are focussing on five systems -- financial management, human resources management, information technology, procurement and administrative services. Reforms are aimed at reducing operating costs, increasing accountability and compliance, improving the timeliness of delivery, promoting customer service, improving program performance, facilitating partner inclusiveness and ensuring transparency. The actions underway will directly support the President's management agenda.

We have made progress in the achievement of Agency program and management goals. We are committed to ensuring that those who use our performance information to make decisions can do so with the assurance that our data are valid and reliable. During FY 2001, we continued working to improve the quality and availability of performance data. The Bureau for Policy and Program Coordination worked closely with the Office of the Inspector General (OIG) to develop an appropriate performance management audit methodology which, without compromising OIG's independence, is geared towards providing guidance on needed improvements. We also improved guidance and provided Agency-wide training on performance reporting.

We successfully launched a commercial off-the shelf accounting system in Washington that is compliant with Federal requirements. We implemented tools to extract financial information from overseas missions, established a linkage to the procurement system and completed the work necessary to interface the accounting system with supporting systems for credit and grants management support. USAID is now meeting government-wide quarterly financial reporting requirements with more accurate and complete financial information.

There were also accomplishments in the areas of human resources, procurement, and information resources management. For the first time in over a decade, the direct-hire staffing level did not decrease significantly from the previous year. The Agency received a "green light" on the Executive Branch Management Scorecard for plans in human capital management. The Agency streamlined contract preparation through worldwide implementation of a new document generation system which also permits timely and accurate collection of statistical information on procurements. Steps were also taken to improve the security of information systems and field access to Agency systems.

Although progress has been made, USAID still faces a number of management and performance challenges. We must implement an interfaced financial management system worldwide and remove barriers to achieving an unqualified opinion on the Agency's financial statements. We must address weaknesses in the management of information technology resources and achieve compliance with Federal requirements in this area. Improvements in workforce planning, recruitment and training must be accomplished to fully address human capital challenges. Finally, we must continue to improve our performance measurement and reporting systems.

During FY 2002, we will carry out a detailed review of how our management systems are working overseas and at headquarters and finalize plans for changes that will produce more effective and efficient world-wide operations. This review will have a significant impact on our efforts to implement and further deploy an interfaced financial management system.

This FY 2001 Accountability Report highlights our accomplishments, as well as our challenges. We are confident that the changes that have taken place and those under way will further strengthen accountability and put us in an increasingly better position to demonstrate results.

Andrew S. Natsios
Administrator
U.S. Agency for
International Development

LETTER FROM THE CHIEF FINANCIAL OFFICER: Michael T. Smokovich

The Agency celebrated its fortieth anniversary in 2001 reflecting a long tradition of development and humanitarian assistance that has helped reshape the world and the lives of countless millions of people. The United States Agency for International Development Accountability Report for FY 2001 provides a comprehensive and compelling story about the efforts and accomplishments of managers and employees in USAID Missions and in Washington who are committed to improving program and management performance.

During FY 2001, the Agency implemented its new accounting system (Phoenix) in Washington. The system's implementation was a complex undertaking that involved the training of nearly 1,000 Washington users. In addition, thirty-eight Mission Controller sites were interfaced with the Washington accounting system. For the first time the Agency was able to submit its worldwide financial information to the Office of Management and Budget (OMB) in a timely and comprehensive manner; and best, to provide information to internal users. The new systems processed 138,000 transactions, greatly improving data integrity and internal controls over current and prior year financial information.

We face many challenges in conforming to Federal standards as we continue to implement the new accounting system and to gain benefits from this new and valuable asset. Making change manageable is our greatest challenge. OMB is eager to see the system expanded overseas. Users are looking for more and better services.

The 25 Chief Financial Officers of the United States Government have many stakeholders. The most important is the taxpayer. We are accountable for ensuring that the money entrusted to the agencies we serve is well managed and safeguarded. We are accountable to report fairly on the products and services that are used and created in executing our Agency mission. As an illustration, USAID obligated $6.8 billion and had cash outlays of $5.7 billion. These numbers have importance because they represent the magnitude of help we are providing to people in our programs.

USAID's practice is to publish as part of this report, a record of the plans we undertake to solve problems and improve. We have accomplished a great deal, but more needs to be done. In the coming year, we will build upon the progress USAID has achieved, and focus in particular on improving the comprehensiveness and availability of standard reports, and on implementing processes for tracking the status of vendor invoices.

This report tells the story of how we are working hard to manage the taxpayers' money well. Our people work very hard to manage this money because there will always be more development and relief problems than there is money. As a result, nearly every employee in USAID is a money manager. We are working hard to give them the systems, the tools, and the training to do the best job possible for the taxpayer. I assure you that you can be proud of them.

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

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MISSION STATEMENT

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

MANAGEMENT DISCUSSION AND ANALYSIS

INTRODUCTION

The U.S. Agency for International Development (USAID) is the Federal agency that implements America's foreign economic and humanitarian assistance programs. USAID advances America's foreign policy goals of expanded democracy and free markets, while improving the quality of life for millions of people in the developing world. USAID spends less than one-half of 1 percent of the federal budget in programs that contribute directly to peace and prosperity, global health, and international disaster response on behalf of the American people. As described by Secretary of State Colin Powell: "USAID is an important part of our country's foreign policy team. Its work is at the core of our engagement with the world…. Over the long-term, our foreign assistance programs are among our most powerful national security tools."

USAID's history dates from the Marshall Plan reconstruction of Europe after World War Two and the Truman Administration's Point Four Program. In 1961, President John F. Kennedy signed the Foreign Assistance Act into law and created USAID by executive order.

Since that time, USAID has been the principal U.S. agency to extend assistance to countries recovering from disaster, working to escape poverty, and engaging in democratic reforms. USAID programs in more than 100 countries promote U.S. national interests and represent American values by supporting:

- Economic growth, agriculture and trade;
- Global health; and
- Democracy, conflict prevention, and humanitarian assistance.

The Bush Administration has initiated a new strategic orientation to ensure that USAID's long-term development assistance and humanitarian and disaster relief programs better reflect U.S. interests in security and prosperity. As a result, USAID has increased its focus on the dual imperatives of globalization and the prevention of deadly conflict.

As Administrator Natsios explained before the Senate Foreign Relations Committee in April 2001, "Nearly two-thirds of the countries with USAID field missions have been ravaged by civil conflict over the past five years, in some cases destroying years of economic and political progress. I have witnessed the horror of these conflicts, the widespread starvation of civilians, terrible atrocities, the collapse of governments and national economies…. USAID will begin a deliberate effort to focus its limited program funds on conflict prevention and resolution, in conjunction with already existing efforts at the State and Defense Departments."

USAID reorganized its structure and programs in FY 2001 to achieve this new orientation. The USAID Administrator, Andrew Natsios, led an Agency-wide process to:

- Reorient, simplify and interface USAID programs into four "pillars" supporting achievement of the Agency's strategic objectives;
- Introduce the Global Development Alliance as USAID's new business model;
- Adjust the Agency's budget priorities to increase funding for agriculture, HIV/AIDS, basic education, and conflict prevention and resolution; and
- Direct senior management attention at headquarters and in the field to the sweeping overhaul of USAID management and operating systems.

> *"USAID and our partners in the NGO community and in the U.N. agencies are, in fact, the world's and the American people's combat battalion fighting the four horsemen of the Apocalypse: epidemics, famines, tyranny and . . . terrorism."*
>
> *Administrator Andrew Natsios at USAID's 40th Anniversary*

ORGANIZATION OF USAID

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

In Washington, USAID's major organization units are called "bureaus." An Assistant Administrator who is appointed by the President and confirmed by the U.S. Senate heads each bureau.

The **four geographic bureaus**, which are responsible for the overall activities in the countries where the Agency has programs, are:

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

USAID has two kinds of functional bureaus: the new "pillar" bureaus that support Agency programs (such as health) across geographic regions; and three functional bureaus that provide Agency-wide management, policy, and legislative support.

As part of Administrator Natsios' first year reforms, USAID consolidated development and relief activities into three new pillar bureaus to reflect program priorities. In the reorganization process, USAID eliminated two bureaus: the Bureau for Humanitarian Response and the Bureau for Global Programs, Field Support and Research, whose programs were absorbed into the pillar bureaus.

The **three new pillar bureaus**, which support the delivery of technical services in the field and promote leading edge research on new approaches and technologies, are:

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

Two other entities also resulted from the reform and reorganization process: the Global Development Alliance Secretariat and the Conflict Prevention Task Force. These are temporary structures. These units will assist in implementing USAID's new business model of strategic alliances and the Agency's heightened focus on conflict prevention throughout Agency programs.

The other **functional bureaus** at USAID headquarters, which serve all bureaus and country programs, are:

- Management (M)
- Legislative and Public Affairs (LPA)
- Policy and Program Coordination (PPC)

USAID also has several independent offices that carry out discrete functions. Headed by Directors who are appointed by the USAID Administrator, these five offices are:

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

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

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

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

- Countries where USAID maintains a mission or other presence, and provides an interfaced package of sustainable development assistance.
- Countries where USAID's presence

is limited, but where aid to non-governmental sectors is necessary to facilitate the emergence of a civic society, help alleviate repression, meet basic humanitarian needs, enhance food security, or influence a problem with regional or global implications.

- Countries that have recently experienced a national crisis, a significant political transition, or a natural disaster and/or where timely assistance is needed to reinforce institutions and national order.
- Multi-country missions that administer USAID programs and services to several countries, or that provide regional services to other overseas organizations.
- Various international development organizations and bilateral donors that represent U.S. and USAID interests in development assistance matters. These offices may be only partially staffed by USAID personnel and may be headed by employees of other U.S. Government agencies.
- Field offices of the Inspector General (such as Regional Inspector General for Audit offices and Investigative Field Offices) that carry out comprehensive programs of audits and investigations.

PERFORMANCE MONITORING IN USAID

USAID uses a variety of tools to track performance. These tools have grown out of the need to address foreign policy priorities, Agency goals, country-level conditions, and Congressional and Administration interests. In the past year, these monitoring tools have given managers an increasingly comprehensive view of Agency performance. And to increase the rigor of Agency performance monitoring, USAID trained over 1,000 staff and partners in performance management and USAID programming policies, including results reporting, over the past year.

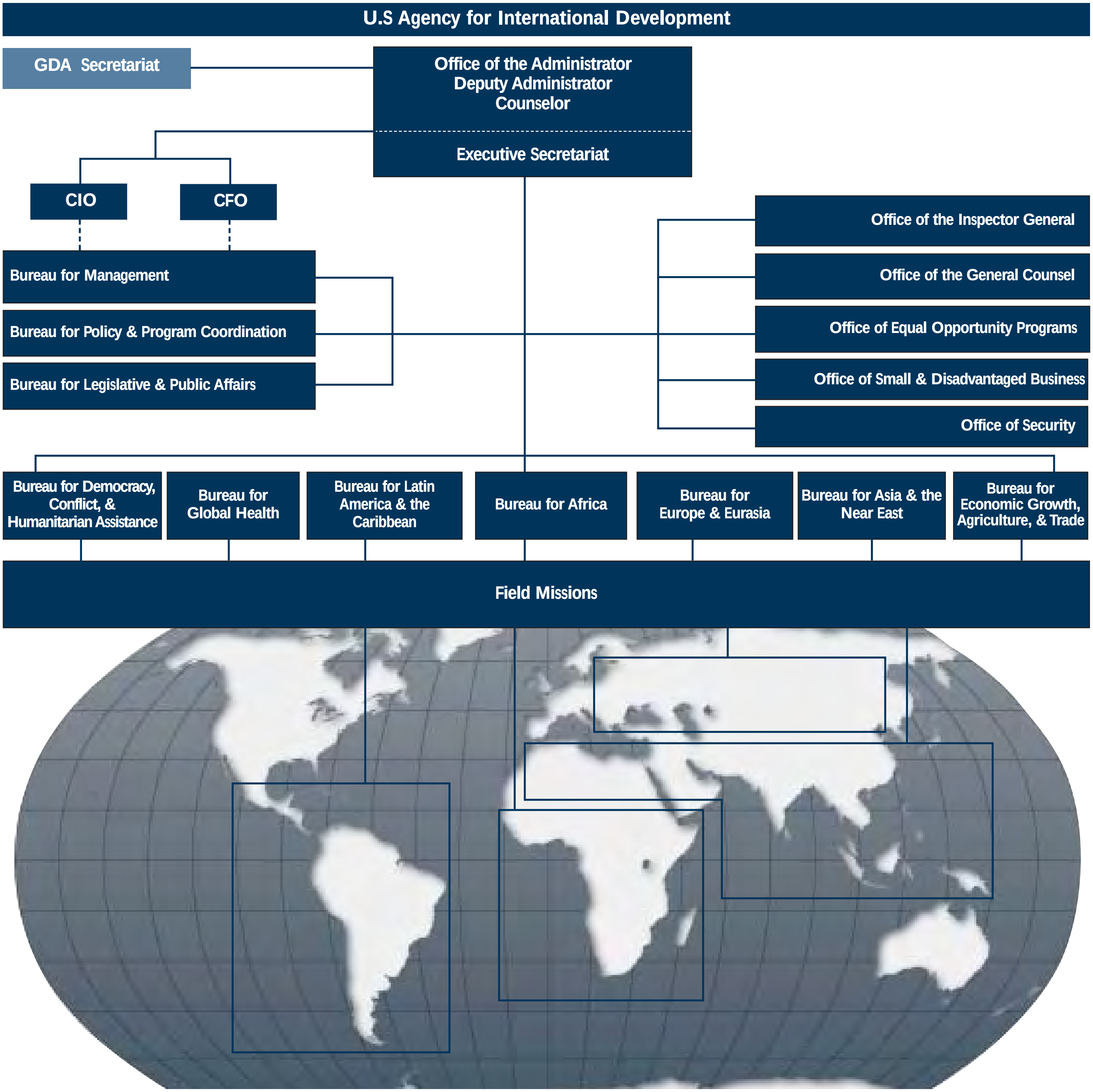
Operating unit assessments. USAID operating unit objectives, targets, and indicators highlight the specific goals the Agency seeks in country, regional, or global settings. Operating units and their partners set these indicators and targets with guidance and technical support from Washington, where they are reviewed and approved. Operating units report annually on program performance relative to the agreed-upon targets. These annual reports help form the basis on which operating units request resources and inform USAID's overall resource request and allocation process.

Strategic objective assessments were conducted before submission of annual reports by USAID operating units. PPC received the performance reporting documents for this report between January and September 2001. PPC did not receive assessments of annual performance for all operating unit objectives.

Goal area reviews. Each year, USAID conducts an in-depth review of global, regional, and country trends data by goal area. On the basis of these trends, the content and emphasis of the Agency's regional and global program portfolios are evaluated, followed by an assessment of the need for changes in USAID's strategy to achieve long-range goals.

Evaluations. The Agency's evaluation system has three tiers: 1) central evaluations conducted by PPC; 2) operating-unit evaluations (both impact and operational analysis); and 3) goal-area technical analyses. Central evaluations shed light on the relationships between USAID's interventions and the development goals that the U.S. Government and the broader donor community have agreed upon. They capture Agency experience and lessons learned to inform the strategic planning and program design processes. Operating-unit evaluations capture project-level progress as well as performance issues and operational problems. A central research and reference service maintains these evaluations and makes them available to the Agency and its partners. This service facilitates the application of accumulated experience to future programs. Goal-area technical analyses are conducted on specialized topics and are principally used to validate or modify program strategies.

MANAGEMENT DISCUSSION AND ANALYSIS



Shaded area indicates temporary structure.

Table 1-1 USAID Pillars, Goals, and Strategic Objectives

Three Program Pillars	FY 2001 Agency Goals and Strategic Objectives
Economic Growth, Agriculture and Trade	• **Broad-based economic growth and agricultural development encouraged** • Critical private markets expanded and strengthened • More rapid and enhanced agricultural development and food security encouraged • Access to economic opportunity for the rural and urban poor expanded and made more equitable • **Human capacity built through education and training** • Access to quality basic education for underserved populations, especially for girls and women, expanded • The contribution of host-country institutions of higher education to sustainable development increased • **The world's environment protected for long-term sustainability** • Threat of global climate change reduced • Biological diversity conserved • Sustainable urbanization, including pollution management, promoted • Use of environmentally sound energy increased • Sustainable management of natural resources increased
Global Health	• **World population stabilized and human health protected** • Unintended and mistimed pregnancies reduced • Infant and child health and nutrition improved and infant and child mortality reduced • Deaths and adverse health outcomes to women as a result of childbirth reduced • HIV transmissions and impact of HIV/AIDS pandemic in developing countries reduced • The threat of infectious diseases of major public health importance reduced
Democracy, Conflict & Humanitarian Assistance	• **Democracy and good governance strengthened** • Rule of law and respect for human rights of women, as well as men, strengthened • Credible and competitive political processes encouraged • Development of politically active civil society promoted • More transparent and accountable government institutions encouraged • **Lives saved, suffering associated with natural or man-made disasters reduced, and conditions necessary for political and/or economic development re-established** • Urgent needs in times of crisis met • Personal security and basic institutions to meet critical needs and protect basic human rights re-established
Management	• **USAID's development goals achieved in the most efficient and effective manner** • Accurate program performance and financial information reflected in Agency decisions • USAID staff skills, Agency goals, core values, and organizational structures better aligned to achieve results efficiently • Agency goals and objectives served by well-planned and –managed acquisition and assistance • Agency goals and objectives supported by better information management and technology

HIGHLIGHTS OF PROGRAMS AND RESULTS

Overview

During FY 2001, the Agency pursued its mission through the achievement of six strategic goals and one management goal. These goals are articulated in USAID's 1997 Strategic Plan and revised 2000 Strategic Plan. Although the latter serves as the Agency's development framework, the new Agency leadership initiated programmatic and organizational changes in this framework in FY 2001. Accordingly, this Management Discussion and Analysis (MD&A) represents results achieved against each of the Agency's six strategic goals under the new Agency-wide pillar orientation, and the USAID management goal.

Across USAID, operating unit portfolios vary. Based on operating unit strategic plans that reflect different country contexts and development needs, as well as U.S. foreign policy priorities and Congressional directives, USAID operating units pursue different results. However, each of these must be aligned with Agency goals and strategic objectives and must be reported within that framework. The program results reported below capture performance as of September 30, 2000 and are based on self-assessments of performance by missions and other operating units. With the exception of operating expense funds, the results were generally accomplished using prior year funds. Funds are generally made available to operating units in the third and fourth quarters of the fiscal year. Therefore, it is essentially impossible to allocate the funding for a specific fiscal year to specific Agency accomplishments.

The three USAID pillars and Agency management goal, and the corresponding FY 2001 Agency goals and strategic objectives on which performance is being reported in this Report, are presented in Table 1-1.

Program Performance Summary

The staff and management of USAID are proud of the Agency's strong performance on behalf of the American people. As illustrated in Table 1-2 and

"[USAID is] more than an element of American foreign policy. You bring hope to people. You bring the American value system to the darkest corners of the world."

Secretary of State Colin Powell
at USAID's 40th Anniversary

Table 1-2 Performance Assessment Summary*

Goals	Assessment	Number			Percent		
		FY 1999	FY 2000	FY 2001	FY 1999	FY 2000	FY 2001
Economic growth and agricultural development	Exceeded	13	15	15	16	17	15
	Met	63	68	78	79	77	80
	Not Met	4	5	5	5	6	5
Education	Exceeded	7	7	7	33	26	25
	Met	14	20	21	67	74	75
	Not Met	0	0	0	0	0	0
Environment	Exceeded	12	12	12	27	23	20
	Met	30	38	45	68	72	77
	Not Met	2	3	2	5	5	3
Population, health, and nutrition	Exceeded	16	17	18	26	25	24
	Met	44	50	54	72	72	73
	Not Met	1	2	2	2	3	3
Democracy and governance	Exceeded	11	13	15	15	16	16
	Met	51	54	61	69	66	68
	Not Met	12	15	15	16	18	16
Humanitarian assistance	Exceeded	2	3	3	13	16	15
	Met	13	16	16	87	84	80
	Not Met	0	0	1	0	0	5
Total	Exceeded	61	67	70	21	20	19
	Met	215	246	276	73	73	75
	Not Met	19	25	24	6	7	6

*USAID reporting cycle on a one-year lag.

in the goal descriptions, the Agency continues to meet its summary program targets. The overall rate is high and results remain consistent over time. USAID's average rate of strategic objectives not meeting expectations is in the 6/7% range, while the exceeded rate is in the 18/21% range.

With regard to specific goals, in education and humanitarian assistance, all USAID operating units met or exceeded targets. Even in USAID's democracy goal where one expects a high risk, the rate of achievement is reasonable.

In those cases where individual operating units failed to meet program expectations, the explanation and corrective actions are local and do not require management adjustments at a central level. Illustrative examples of strategic objectives assessed as not meeting expectations are provided below and provide explanations of why performance targets were not met.

Performance by Goal Area Within the New Pillars

The Global Development Alliance

Public-private alliances, as articulated by USAID's new Global Development Alliance, represent an important business model for USAID, and are applicable to many of the Agency's programs. USAID proposes to serve as a catalyst to mobilize the ideas, efforts, and resources of the public sector, corporate America, the higher education and NGO communities, and other partners in support of shared objectives. GDA builds on many successful alliances around the world, and seeks to take the best of those experiences and significantly expand this approach to meeting development objectives. Under the GDA and related efforts, USAID will collaboratively create alliances that bring new partners, innovations, and leveraged resources to development challenges.

The Global Development Alliance recognizes significant changes in the assistance environment around the world. It builds on decades of experience working effectively with partners both public and private to take assistance to the next level of shared responsibility and magnified results.

- GDA brings new partners–a mix of NGOs, PVOs, cooperatives, foundations, corporations, higher education institutions and even individuals–to the development challenge, and engages current partners in new ways.
- It entails significant resource leveraging–partners are to bring at least as many resources to the table as those provided by USAID–including funds, in-kind contributions, and intellectual property.
- GDA uses collaborative objective setting as a catalyst to mobilize ideas and resources of many actors in support of shared objectives. Development problems and solutions are jointly defined.

GDA seeks to improve the quality and extent of partnerships, leverage private financing of development assistance, and enhance policy reform through advocacy. GDA responds to a growing international view that public commitment and resources alone are necessary but not sufficient to meet development needs and opportunities.

"The Global Development Alliance will allow us to begin a new era of cooperation, not where we give grants to foundations or universities, but where we use our resources together in the developing world to get projects accomplished at a much grander scale than we've been able to do with only our own resources."

Administrator Andrew Natsios
at USAID's 40th Anniversary

While the GDA is new, it builds upon years of experience. USAID is already engaged in many successful alliances around the world, such as the Global Alliance for Vaccines and Immunization (GAVI). What is new is that USAID will pursue a systematic approach to alliances on a much larger scale and will institutionalize these alliances as a central business model across Agency operations.

USAID's Three Program Pillars

1. The Economic Growth, Agriculture and Trade Pillar (EGAT)

The global economy has changed remarkably in the past two decades. With the end of the Cold War, a truly global marketplace for goods, services, technology, and ideas has materialized, and the World Trade Organization (WTO) has begun to establish fair and open markets as a common economic goal requiring international oversight. It is critical to both the U.S. economy and global stability, that developing and transition countries find a way to participate in this process and that the benefits of globalization are broadly shared. Yet, more than 1.2 billion people live on less than a dollar a day; more than 800 million people continue to go to bed hungry; and more than 113 million children are not in school.

USAID assistance provided under the Economic Growth, Agriculture and Trade pillar will focus on creating economies that are viable over the long term. To accomplish this, USAID will pursue the mutually reinforcing goals of promoting economic growth to reduce poverty and increased agricultural production to reduce hunger. The interrelationship and interdependence of economic growth, environmental sustainability, and the development of a country's human capital are highlighted within this pillar as illustrated in Table 1-1. Job creation will be an essential element of this pillar, especially through the promotion of microenterprises and agro-enterprises.

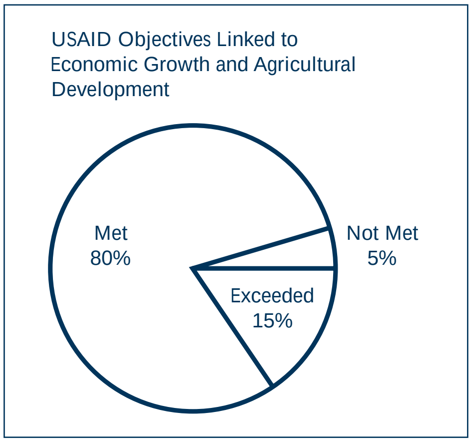
While human capacity development, particularly basic education, and the environment have an impact on all three pillars, they are included with economic growth. This recognizes their essential link to economic development. Issues of environmental sustainability will continue to play a central role in the execution of USAID programs.

Special emphasis will be directed at integrating growth, agriculture, and environmental objectives in a manner such that market forces play an increasingly important role in the Agency's strategic approach and in determining a program's long-term viability. Throughout these sectors and activities, the Agency will take advantage of new information technologies to accelerate advances. Funded activities will assist: the productive sectors, especially agriculture; the environment and energy sectors; human capacity development (including basic education); micro-enterprises; and improvement of the business, trade, and investment climate.

FY 2001 Strategic Goal: Broad-based economic growth and agricultural development encouraged

In FY 2001, USAID's efforts in economic growth and agricultural development reflected the Agency commitment to broad-based sustainable economic growth, took into account world trends, addressed the needs of the hungry and poor, and advanced the interests of the United States in promoting global prosperity and stability. In addition, economic growth Strategic Objectives took into account longstanding Congressional earmarks and directives. USAID activities supported three priority areas:

- Promoting open and competitive economies;
- Developing science and technology to improve productivity, natural resource management, markets, and human nutrition; and
- Expanding access to economic opportunities for the poor.



Nearly 70 percent of USAID-assisted countries were growing at positive rates in the second half of the 1990's, compared to 45 percent in the early part of the decade. Economic freedom improved in over two-thirds of USAID assisted countries. Overall, 95 percent of assessed Strategic Objectives for encouraging economic growth and agricultural development met or exceeded performance expectations.

Illustrative Operating Unit Assessment of Performance

Reduced Poverty in Uganda

Uganda is a poor, least-developed, landlocked country with no special advantages, such as oil or valuable minerals. Relatively good policies and efforts at institutional strengthening since the mid-1980's have enabled Uganda to overcome a legacy of crisis, conflict, and state failure and to achieve rapid growth and poverty reduction. Under ***SO 617-001, Increased rural household income,*** USAID has focused on commercial production of non-traditional agricultural exports and food crops, financial services, business development, and an enabling environment for free enterprise growth.

USAID/Uganda partners continued to expand their technology transfer and outreach programs, reaching 500,000 farmers in 35 districts in 2000, a 25% increase over 1999. More than 220,000 thousand farmers, 35% of them women, participated in 4,000 on-farm demonstrations promoting improved seed varieties, proper fertilizer use, integrated pest management, post-harvest technologies and market information systems. USAID/Uganda has supported over sixty new firms engaged in non-traditional agricultural exports with technical assistance.

Production of selected food crops increased dramatically as a result of USAID interventions, with edible oil production exceeding its target three-fold, cassava production reaching more than ten times the target, and beans 35% over target. Adoption of improved seeds, fertilizer, and farm management practices have reduced the cost of production for maize over the last three years from $340 to $140 per MT. Post-harvest losses and improper storage have been addressed for maize, beans, and oilseeds.

Non-traditional agricultural export volumes continue to expand and international buyers now recognize Uganda as a top competitor in the supply of cut flowers and other produce. Fresh fruit and vegetable exports exceeded the target at 3,500 MT with a value of $3.65 million, providing income to about 10,000 households. The export volume of floriculture products, mainly roses and plant cuttings, met the target at 3,017 MT. However, the export value of $14.5 million was 20% below target due to devaluation, increased fuel costs, and border conflicts. Vanilla, which is a relatively new crop for Uganda, went from non-production to the world's third largest producer in just two years, filling a gap caused by storm damage to crops in Madagascar. The value of papain and cocoa exports dropped by nearly $4 million, due to rebel insurgency in production areas.

USAID has provided training to over 60 (out of about 100) micro-finance institutions (MFIs), contributing to their long-term sustainability. In order to reach more people and expand financial services, twelve MFIs were targeted with additional grants supporting operating costs, equipment, and loan capital. USAID-funded programs have directly assisted over 350,000 micro-enterprises (70% women) and small businesses to become more profitable.

The number of "best practices" microenterprise finance institutions using full cost-recovery interest rates and fees, with delinquency rates below 10% and loan losses under 5% of their portfolio, reached 14, double the target. This year, MFIs saw a quantum leap in savers and borrowers (70% women) as a result of an innovative equity investment and deposit mobilization scheme with Centenary Bank. The number of new savers exceeded the target by over 60%; and the target number of borrowers was surpassed by 50%.

"Without economic growth no development is ultimately sustainable.
I would like to focus more of USAID's resources on economic development to reduce poverty and on agricultural development to reduce hunger and malnutrition."

Administrator Andrew Natsios in his Senate Foreign Relations Committee Confirmation Statement

USAID's policy focus has helped the Government of Uganda (GOU) and private sector crystallize a strategy for prioritizing critical reforms to enhance competitiveness. Through USAID's support, over 400 leaders in the private and public sector have received specialized training on issues such as

Uganda's interest in agricultural trade reforms, regional integration with Common Market for Eastern and Southern Africa (COMESA) and the East African Community, and the African Growth and Opportunity Act (AGOA).

Illustrative Strategic Objectives Assessed as Not Meeting Expectations

In **Turkmenistan**, USAID achievements under **SO 1.30, An improved environment for the growth of small and medium enterprises**, were severely limited by the Government of Turkmenistan's unwillingness to reform the state-controlled economy. As a result, Turkmenistan's near-term outlook did not offer prospects for building the foundation for long-term economic growth. The dwindling number of foreign investors faced increasing difficulties in most of their business operations. While there appeared to be some recognition by the national leadership that the country's financial and fiscal management (budget and debt management) needs to be improved, there was no political will among Turkmen leaders to make needed reforms. In response, USAID will redouble its efforts under the strategy's Intermediate Result, "Increased opportunity to acquire business information, knowledge, and skills," in order to train the next generation of entrepreneurs and policymakers.

The purpose of ***SO 2, Increased income of enterprises, primarily rural, with emphasis on exports***, is to support **Eritrean** enterprises, particularly through the provision of loans and related financial services to entrepreneurs. This SO did not meet expectations over the reporting period primarily as a result of the economic effects of Eritrea's conflict with Ethiopia. The loss in agricultural production, the disruption of traditional trade patterns with Ethiopia, and the flight of foreign direct investment combined to slow Eritrea's rate of economic growth from pre-war levels.

USAID activities under this SO were severely constrained by travel restrictions due to the security situation. As a consequence, there was no progress to report. The mobilization of host country staff for required military service, the ordered departure of Americans and the absence of advisory staff delayed skills training planned for the staff of the Commercial Bank of Eritrea (CBER) and the Rural Enterprise Unit (REU). Delivery of improved technical and financial services for entrepreneurs was similarly delayed.

USAID shifted the focus of the SO in 2000 to emergency recovery as a result of the conflict and the generally depressed economy. Under a disbursement procedure established with the U.S. cooperative development organization, ACDI/VOCA, emergency loans were provided to primarily small and medium enterprises whose inventory and businesses were destroyed by the conflict in May 2000. This emergency recovery effort, funded from existing resources reprogrammed as a result of invoking the Mission's Crisis Modifier, was a well-appreciated response to the economic recovery of southern and western Eritrea.

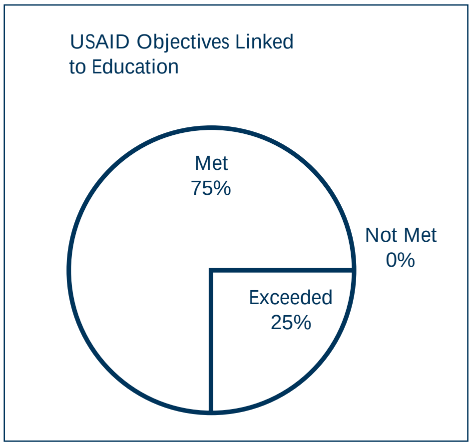
With the signing of the peace agreement, there is reason for guarded optimism about the prospects for recovery. For this reason, USAID did not change the SO performance indicators, believing that, with more time and additional resources, progress can be achieved.

FY 2001 Strategic Goal: Human capacity built through education and training

A country that achieves sustainable economic growth by expanding and improving basic education becomes a more valuable trading partner with the U.S. The same is true of a country that grows faster because its universities provide better access to new and improved technology developed abroad. Higher education helps a country contribute more to its own development.

Economic growth in developing countries demands the creation of a productive and skilled workforce. Basic education for all children is the necessary first step. The positive linkages between education and other USAID strategic goals are well established. Better, more accessible

basic education raises agricultural output and productivity, improves environmental stewardship, encourages ethnic tolerance and respect for civil liberties, and builds democratic values and practices. In addition, there are specific benefits linked to increased school attendance among girls that lead to higher incomes, better family health,increased child survival, smaller families, and improved social status for women.



Human capacity development SOs support USAID's emphasis on Economic Growth in four priority areas:

- Improving the quality and efficiency of basic education;
- New partnerships improve the quality and relevance of higher education and workforce development;
- Expanded training for future private sector, NGO, and government leaders; and
- Spreading the information technology revolution to the developing world and those in need.

One hundred percent of assessed Strategic Objectives for education met or exceeded performance expectations.

Illustrative Operating Unit Assessments of Performance

Increased Girls' Enrollment in Guatemala

In Guatemala, poor children suffer disadvantages in basic education, in terms of initial enrollment and educational quality. These problems are especially acute for girls from rural indigenous communities. In rural areas, one of every three children does not attend school. Mayan children complete only 1.3 years of school on average, while Mayan girls complete less than a year. Six in ten children repeat first grade, one in four at least twice. Dropout and truancy are high, and only two in ten rural children complete sixth grade.

Contributing factors include very limited public funding for basic education; the limited influence of rural indigenous communities on national politics; and a tendency among poor indigenous families to keep girls home to help with chores and take care of siblings, in some cases allowing them to attend school just long enough to learn basic reading and arithmetic. In addition, the fact that classes have traditionally been taught only in Spanish has discouraged many among the 50 percent of children from Mayan-speaking households. Since the signing of the 1996 peace accords that ended Guatemala's long civil war, universal primary education has been a top priority.

USAID/Guatemala's ***SO, Better educated rural society***, comprises three Intermediate Results: 1) increased access to intercultural and bilingual primary education for children of rural Quiché Department; 2) greater access to education services for rural communities in the seven Departments designated the "Peace Zone"; and 3) implementation of education strategies and policies that enhance gender and cultural pluralism. In particular, USAID has supported an intercultural bilingual education program that directly affects 96,000 children in Quiché Department.

Program efforts include teacher training, developing and applying innovative pre-primary and primary instructional materials and methodologies, organizing communities around educational issues, and increasing parents' and especially mothers' participation in educational management and student learning. National policy reform activities complement these activities to strengthen the educational policy environment to support cultural pluralism and gender equity.

USAID reported progress in meeting this SO both in Quiché and at the national level. The gross primary enrollment ratio for girls in Quiché increased to 93.3 percent in 2000, up from 79.1 percent in 1999 and from the 1997 baseline of 62.1 percent. The gender equity ratio in rural primary schools in Quiché, the number of girls enrolled per 100 boys, continued its gradual climb, reaching 78.7 percent in 2000, up from 74.2 percent in 1997. Finally, the third grade completion rate for girls in Quiché increased from 22 percent in 1999 to 28 percent in 2000, providing evidence of improved quality, equity, and system efficiency.

These improvements contributed to an increase in the net primary enrollment ratio at the national level, from 69 percent in 1996 to an estimated 84 percent in 2000. Additional progress was seen in the area of policy toward bilingual education. For example, the Ministry of Education issued a decree mandating that, in all schools located in indigenous areas, teachers who speak indigenous languages should be assigned to pre-primary through third grade. Meanwhile, the Government committed to provide funding for an additional 75,000 primary school scholarships for girls, helping scale up an intervention pioneered by USAID to encourage educational participation among girls.

A country that achieves sustainable economic growth by expanding and improving basic education becomes a more valuable trading partner with the U.S. The same is true of a country that grows faster because its universities provide better access to new and improved technology developed abroad. Higher education helps a country contribute more to its own development.

Wider Access to Basic Education in Guinea

Guinea is a poor country in West Africa. Its human resource base and domestic economy are still recovering from the dictatorship of Sekou Toure, who died in 1984 after 26 years of rule. During the dictatorship, essential social services and infrastructure collapsed, and state central planning devastated the private economy, including the formerly prosperous agricultural sector.

In 1990, the current government initiated a program of political and economic reforms that has liberalized the economy, restrained public sector spending, controlled inflation, and stabilized the exchange rate. The reform program has also helped improve the delivery of social services, including basic health and basic education. USAID has supported the reform program since its inception; efforts to reform basic education have been an important element in USAID's overall development strategy. USAID's current efforts in basic education build on progress achieved during the first phase of the education reform effort (1990-1995), in which Guinea increased the share of the national budget for primary education, reassigned many teachers from the secondary to the primary school level, and decentralized key budgetary and management functions to the regional and local level. These and other measures contributed to the increase in the primary enrollment ratio and the drop in the educational gender gap since 1990.

Despite this progress, Guinea has a long way to go to achieve universal enrollment in primary education, especially among girls, and to improve educational quality. Thus, USAID has supported a second-phase reform effort since 1996 under the ***SO, Quality basic education provided to a larger percentage of Guinean children, with emphasis on girls and rural children***. Major elements include: support for interactive radio instruction for all six primary grades, which reaches schoolchildren in remote areas and introduces new teaching strategies and greater gender sensitivity to teachers; assistance to the Ministry of Education to improve capabilities in strategic planning, management, and budgeting; support for local Parent-Teacher Associations (PTAs); and direct support for the construction of community schools in the poorest region of the country, based on a commitment to maintain a 50/50 boy/girl enrollment ratio.

USAID/Guinea assessed progress under the SO to have met expectations in 2000. The first interactive radio broadcasts were launched in late 1999, and have expanded to cover all six primary grades. The Government has assumed the cost of keeping the broadcasts on the air. The radio programs were complemented by a variety of on-the-ground measures to reinforce teachers' understanding and ability to use the new educational approaches. USAID encouraged decentralized educational planning by involving regional and local education authorities in assessing the effectiveness of teacher deployment. Also in 2000, a USAID grantee delivered training sessions in organizational management to 187 school PTAs, including nearly 4,000 female trainees.

Together, these activities supported Guinea's progress in basic education. At the national level, the gross primary enrollment ratio rose from 53.5 percent in 1999 to 56.8 percent in 2000. The percentage of girls in primary enrollments rose from 40 percent in 1999 to 44.3 percent in 2000, while the corresponding figure for rural girls rose from 36 percent in 1999 to 38 percent in 2000.

FY 2001 Strategic Goal: The world's environment protected for long-term sustainability

Environmental problems increasingly threaten the economic and political interests of the United States and the world at large. Environmental degradation endangers human health, undermines long-term economic growth, and threatens ecological systems essential to sustainable development.

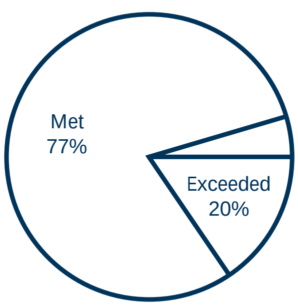
Environmental degradation in other parts of the world, particularly the loss of biological diversity, changes in global climate, the spread of pollutants, the careless use of toxic chemicals, and the decline of natural fish populations directly affects the United States. Struggles over land, water, and other natural resources in the developing world lead to instability and conflict, which often threaten U.S. security and trade interests.

USAID programs tackle major environmental problems abroad before they pose more serious threats to the United States. Agency programs promote economic growth, global health, technology transfer, and conflict prevention and help people manage their activities in ways that enable the natural environment to continue to produce–now and in the future–the goods and services necessary for survival.

The Agency seeks to protect the environment for long-term sustainability around the world through programs directed at five broad areas:

- The threat of global climate change reduced;
- Biological diversity conserved;
- Sustainable management of urbanization, including pollution management, improved;
- Proportion of environmentally sound energy services increased; and
- Sustainability of natural resources increased through better management.

USAID Objectives Linked to Environment



USAID met or exceeded 97% of assessed operating unit Strategic Objectives to protect the environment for long-term sustainability.

Illustrative Operating Unit Assessments of Performance

Improved Conservation and Natural Resource Management in Madagascar

Madagascar's separation from Africa engendered an evolution of flora and fauna found nowhere else. Madagascar is the world's 13th poorest country, placing unparalleled pressure on these biodiversity treasures. International conservation organizations cite Madagascar as the highest biodiversity priority in Africa and among the top three global "biodiversity hotspots." USAID is helping to preserve these invaluable natural resources through the ***SO, Biologically diverse ecosystems conserved in priority zones***.

USAID has led Madagascar's National Environmental Action Plan (NEAP) donors since 1990, supporting biodiversity conservation, forest management, environmental policy development, and institutional strengthening. USAID's support reinforces Madagascar's capacity to develop and manage its protected area network, increase local participation in natural resources management, encourage adoption of sustainable agricultural technologies, increase ecotourism and private sector involvement in conservation enterprises, and establish enabling conditions and mechanisms for sustainable environmental agencies.

Preliminary data suggest that annual forest loss decreased in two priority conservation zones where USAID has worked for the last decade. Over 8% of Madagascar is now protected (versus 4.7% before the NEAP began in 1989) with 15 of 16 critical habitats in the protected area network and 380 villages in priority conservation zones using community-based conservation techniques. Financing provided for local environmental activities by an independent Malagasy foundation, initially capitalized by USAID, has increased six-fold since 1997.

As the lead donor in establishing Madagascar's National Park system, USAID supported the National Park Service (ANGAP's) development and use of a protected area management plan, which provides a cohesive ecoregional management strategy: It identifies critical biodiversity areas; prioritizes unprotected area entry into the park network; outlines research, ecological monitoring, park development, community involvement and eco-tourism objectives; and creates systems for achieving National Park system financial sustainability. Park Service revenue has increased an average of 14% each year for the last five years. During the same period, Madagascar's tourism revenue showed an average 14% annual increase. With USAID support, three new ecotourism investment zones were established adjacent to three National Parks, encouraging eco-lodge and tourism investments. This has helped generate employment, and handicraft and farm revenue benefits for local communities.

USAID also supported a process to transfer management of nine classified forests to local communities: Forest management was transferred to four village associations following GOM approval of their management plans; and village forest management plans were finalized for 8 classified forests. Completion of management schemes for these classified forests (200,000 hectares) empowered local communities to begin the process of sustainable forest resource use.

Emphasizing the connection between environment and economic growth, USAID helped link conservation to sustainable small farm agriculture and increased rural family incomes. The number of communities participating in conservation activities increased 71% in USAID intervention zones. USAID support has resulted in 7,312 farmers forming 280 producer organizations (POs) in biodiversity rich but unprotected forest areas. To participate, farmers formally abandon slash and burn farming. Fifty-two percent of participating farmers adopted improved agricultural practices. Despite last year's droughts and cyclones, many of these farmers doubled rice yields while off-season crop yields increased by as much as 120%. PO families have emerged within their communities as compelling examples of how good environmental stewardship contributes to more household food and cash.

Improved Energy and Natural Resource Management in Egypt

Egyptians rate solid waste as the top urban environmental issue, and Cairo air pollutant levels are among the highest in the world. Fuller utilization of the country's abundant natural gas reserves is needed to maintain economic growth while reducing the risk of climate change. Efficient use of Nile water, Egypt's most precious resource, is required for agricultural expansion, industrial growth, and the burgeoning population. And sustaining the natural resource base that supports tourism, the second largest source of national income, requires proactive intervention.

Under ***SO 263-019: Improved management of the environment and natural resources in targeted sectors***, USAID seeks to improve management of Egypt's environment and natural resource base in four areas: 1) urban/industrial pollution; 2) Red Sea natural resources; 3) energy efficiency; and 4) Nile water resources. Results under the SO are being realized through three program initiatives: the Egyptian Environmental Policy Program (EEPP), Cairo Air Improvement Project (CAIP), and the Agricultural Policy Reform Program (APRP).

As a result of USAID support to the Ministry of Water Resources and Irrigation (MWRI) to improve Nile water management and water use efficiency, institutionalization of stakeholder participation in Nile irrigation water management is progressing. In 2000, the APRP garnered approval of a policy to adopt the Irrigation Management Transfer concept and promote water users' participation in irrigation and drainage system management. Real value of agricultural production per 1000 cubic meters of Nile irrigation water rose in 1998/99 to LE 551 (exceeding target), and is expected to reach LE 600 in 2001/02.

Sales of clean burning compressed natural gas (CNG) rose from 20.2 million gasoline gallon equivalents (GGE) to 28.795 million GGE in FY 2000, exceeding the expected level. Under the Cairo Air Improvement Project, USAID promoted CNG use in the transportation sector through technology transfer of CNG bus

components and garage equipment, and heavy vehicle emission testing equipment. Egyptian counterpart CNG technology investments totaled approximately $13.1 million in buses, support facilities, and land. USAID also supported the development of CNG safety standards for fueling equipment and tanks and provided $17.3 million in Commodity Import Program loans in FY 2000 to the private sector for environmental technology.

USAID support through EEEP led to Egypt's first solid waste management privatization contract in Alexandria, which will improve the lives of over four million residents. In FY 2000, USAID also assisted the Tourism Development Authority (TDA) in introducing environmental management systems (EMS) to Red Sea hotels, which included water/wastewater and solid waste reduction techniques and the use of renewable energy. The TDA implemented a pilot EMS program working with five hotels and issuing EMS guidelines to the tourism industry.

USAID technical assistance documented 50 percent decreases in water and energy consumption by hotels, and the Starwood Corporation (Sheraton) has adopted EMS for its 14 facilities in Egypt. The percentage of rooms on TDA-owned lands investing in environmental best practices rose from 38.1 percent to 43 percent in CY 2000 (exceeding the expected level).

In FY 2000, the largest lead smelter in Egypt curtailed production and initiated plans for relocation and rehabilitation as a result of USAID's Cairo Air Improvement Program support. The average concentration of airborne lead in the Shoubra Al Kheima district in northern Cairo fell by 50 percent during FY 2000 compared to FY 1999 levels. In the energy sector, USAID provided assistance to the Energy Efficiency Council, which is completing a National Energy Efficiency Strategy Framework for Egypt (expected FY 2001). As a result of USAID technical assistance, energy efficiency service companies increased in number during CY 2000 from nine to 13.

Illustrative Strategic Objective Assessed as Not Meeting Expectations

In **Georgia**, USAID's ***SO 114-015, A more economically efficient and environmentally sustainable energy sector*** focuses on 1) creating a business climate that will attract private sector participation and ownership, leading to improvements in the management of resources and provision of services; and 2) improving energy sector efficiency in economic terms, with increased capital and operating resources available to energy sector companies. The SO did not meet expectations, due to the energy sector's lack of generated revenues and poor management of cash flows.

In FY 2000, the number of customers served through privately held distribution companies held constant (480,810), and the proportion of electricity generated by private suppliers improved from 9.3 % to 22.6%, exceeding USAID expectations. However, although revenue collections for electricity improved in Tbilisi and other major cities, payments from large, state industrial users and local distribution companies declined, causing a drop in the economic basis for delivery of electricity from 43% (FY 1999) to 40% (FY 2000). Lack of revenues strapped the energy sector during the winter, as funds were not available to pay for imported gas for electricity generation, and widespread outages occurred.

> *In FY 2000, the largest lead smelter in Egypt curtailed production and initiated plans for relocation and rehabilitation as a result of USAID's Cairo Air Improvement Program support.*

Factors such as the lack of political will to cut off non-payers account for the failure of the sector to meet heat and electricity needs. The formation and initial operations of the Georgia Wholesale Electricity Market (WEM), a transparent electricity trading mechanism, has not met expectations, and local distribution companies and large industrial customers are still not paying fully for electricity received. Likewise, the state-owned electricity transmission and dispatch organizations bow to political pressure and supply electricity to non-paying customers.

Management contracts are viewed as a politically acceptable solution to rectify this situation. Thus, issuing management contracts for the WEM and preparing the rest of Georgia's electricity generation and distribution entities for sale to qualified international investors, have been USAID's major emphases in this sector in 2000. In addition, in line with recent conditions for U.S. contributions for winter heat subsidies, the GOG agreed to cut off electricity to non-paying enterprises.

In mid-year, the Ministry for State Property Management (MSPM) broke off negotiations with several potential bidders for 26 western Georgian electricity distribution companies and several hydroelectric facilities, citing unreasonable expectations for tariffs and rates of return on investment. The MSPM and the Ministry of Fuel and Energy then "re-aggregated" the remaining municipality-controlled electricity distribution companies into eight regional companies and readied them for another privatization effort to be conducted in 2001. This re-aggregation should make it easier to sell these more economically sized entities to foreign investors. USAID will assist the GOG to reaggregate the local electricity distribution companies and improve revenue collections and technical operations. The goal of this assistance will continue to be preparation for commercial operations and privatization. The MSPM negotiated with the World Bank's International Finance Corporation, which USAID is financing, to provide investment banking services to facilitate the sale of the remaining distribution and generation assets.

Privatization of the gas distribution system for Tbilisi is also a major component of USAID's program. During the past two years, USAID had difficulty in finding investors willing to assume the deteriorating assets and poor history of payments. In response, USAID shifted its focus to customer meter installation, operational improvements, and increased revenue generation to improve the attractiveness of the system for another attempted sale.

2. The Global Health Pillar

Stabilizing the world's population benefits the American public by contributing to global economic growth, a sustainable environment, and regional security. Reduced population pressures will also lower the risk of humanitarian crises in countries where population growth rates are highest. Protecting human health and nutrition in developing and transitional countries also directly affects public health in the U.S. Unhealthy conditions elsewhere increase the incidence of disease and threat of epidemics that could directly affect U.S. citizens, retard economic development, and increase human suffering.

Stabilization of rapid population growth and improved health and nutrition are essential to sustainable development. They are also fundamentally interdependent. When people are nourished and free from the ravages of infectious diseases, they can contribute more fully to their own social and economic progress and to that of their nations. Nutrition education, investments to correct micronutrient deficiencies, and investments in basic health services will significantly improve the health of undernourished people, especially children and vulnerable populations. When people can control the size of their families, resources are made available at the household, national, and global levels for enduring improvements in quality of life. Moreover, improved health status of women and girls plays a critical role in child survival, family welfare, economic productivity, and population stabilization.

FY 2001 Strategic Goal: World population stabilized and human health protected

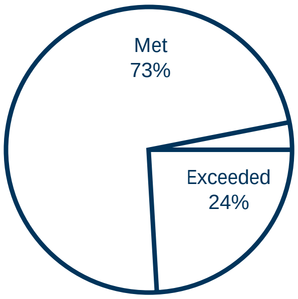
USAID works in the following five main Global Health areas:

- Reducing the number of unintended and mistimed pregnancies;
- Improving infant and child health and nutrition and reducing infant and child mortality;
- Reducing deaths and adverse health outcomes to women as a result of childbirth;
- Reducing the HIV transmission rate and the impact of the HIV/AIDS pandemic in developing countries; and
- Reducing the threat of infectious diseases of major public health importance.

While USAID has five main thrusts to its Global Health efforts, these are carefully integrated. In addition, research, policy dialogue, health sector reform, systems strengthening, and capacity building–while not among USAID's specific strategic objectives for population, health, and nutrition–are significant crosscutting activities necessary for ensuring long-term availability, accessibility, efficiency, and quality of population, health, and nutrition services.

Overall, 97 percent of assessed Strategic Objectives for stabilizing world population and protecting human health met or exceeded performance expectations.

USAID Objectives Linked to Population, Health, and Nutrition



Illustrative Operating Unit Assessments of Performance

Comprehensive Child Survival and Infectious Disease Programs in India

In India, HIV/AIDS incidence is rapidly increasing, and over one-third of the population of more than a billion people lack adequate food. Food insecurity is one of many factors that contribute to a child mortality crisis: One of every 11 children in India dies before the age of five.

Two USAID/India objectives target these challenges. Through ***SO-3, Improved child survival and nutrition in selected areas of India***, USAID has partnered with the GOI by programming over $127 million in assistance to combat child mortality and nutritional shortfalls through the P.L.480 (Food for Peace) Title II program and Child Survival (CS) funds. CARE and Catholic Relief Services (CRS) implement the Title II program, the largest U.S. non-emergency food aid program in the world. The program reaches about 7.5 million poor women and children at the greatest risk to mortality, morbidity, and malnutrition in over 102,000 remote rural and tribal villages. With USAID support, CARE's Integrated Nutrition and Health Program works within the GOI Integrated Child Development Services. CRS' Safe Motherhood and Child Survival program, also funded by USAID, is implemented through social service societies.

The Title II program has reached 98% of the planned target population, with 193,553 Metric Tons of Title II commodities supplied in 102,355 villages across the nation. Progress in integrating food and health continues. Further, Title II activities were refined in FY 2000 according to the recommendations of a mid-term review. CARE's Title II program implemented a unified capacity building strategy that replaced four previous models of varying intensity and interventions. CARE also developed, tested, and implemented a new Management Information System (MIS) that integrates commodity and health information systems.

Using Child Survival funds to address the causes of child mortality, USAID initiated discussions with the Government of Uttar Pradesh (GOUP) and UNICEF to improve vitamin A coverage in UP. The ongoing USAID-World Bank supported De-worming and Enhanced Vitamin A trial (DEVTA) in UP, covering about one million children and slated for completion in 2003, will validate the impact of concurrent vitamin A supplementation and de-worming on mortality and growth of children. Under the Program for the Advancement of Commercial Technology/Child and Reproductive Health activity, a leading Indian bank, ICICI Limited, supported the social marketing campaign to position Oral Rehydration Salts (ORS) as the scientific, doctor-recommended, first-line product for childhood diarrhea.

"In the last 40 years, infant mortality rates have dropped from 162 per 1,000 live births to 69, a drop of almost two-thirds. That drop was principally a result of the introduction of a series of technologies, many of them crusaded by this agency, that led to the lowering of newborn deaths."

Administrator Andrew Natsios
at USAID's 40th Anniversary

Through ***SO-7, Reduced transmission and mitigated impact of infectious diseases especially STD/HIV/AIDS in India***, USAID targets the HIV/AIDS epidemic and its associated killer, tuberculosis. Although prevalence is less than one percent nationwide, India is second only to South Africa in the numbers infected. In addition, over 420,000 Indians die annually from TB and nearly 2 million new cases are diagnosed annually.

USAID results reflect the reduction in transmission of HIV/AIDS and related infectious diseases in the Indian state of Tamil Nadu, one of India's three recognized HIV epicenters. USAID began tackling the disease in Tamil Nadu in 1992 by developing the AIDS Prevention and Control (APAC) activity. This ten-year program targeted transmission in high-risk groups by using proven strategies for behavior change; increasing access to and utilization of high quality condoms; and expanding access to and utilization of quality treatment for sexually transmitted diseases (STDs). Results from Tamil Nadu are promising. APAC results continue to demonstrate high levels of condom use among commercial sex workers (CSW) and their clients. CSW condom use increased by 3.1 percent from FY 1999 to FY 2000 (88.1% to 91.2%) and 70.1% of truckers reported condom use during their last non-regular sexual encounter, up from 66.9% in FY 1999. Condom use among Sexually Transmitted Infection (STI) patients is 19%; more work is required to increase use for this risk group.

In 1999, USAID supported the development of a model Directly Observed Therapy Short Course (DOTS) treatment center in Tamil Nadu in collaboration with WHO. USAID saw a doubling of treatment success through 2000. Tuberculosis control data from the DOTS project indicated that 70% of cases were detected in the project area, of which 75% were treated successfully. Over 100,000 people were tested for TB as part of a systematic community survey in Tamil Nadu.

With USAID and World Bank support, over 50% of Tamil Nadu has been covered by DOTS, although the effectiveness of coverage needs to be improved. A TB resistance survey was completed and data indicated about 2% of TB patients present some form of resistance. The Multidrug-Resistance TB (MDRTB) survey will continue. Through the DOTS project, over 1,400 health providers have completed in-depth training.

Illustrative Strategic Objective Assessed as Not Meeting Expectations

In **Namibia**, USAID assessed that ***SO673-005, The risk of HIV/AIDS transmission reduced through a model prevention program*** in a key region did not meet expectations. Performance data were unavailable for the Results Review and Resource Request (R4) due to revision of the results framework.

USAID launched a new program designed to assist Namibia in its multi-sector HIV/AIDS prevention and care efforts. Initially designed to target only one key geographic region, the USAID program is now being reviewed in conjunction with the Government of Namibia (GRN) to better counteract the burgeoning spread of HIV/AIDS across a wider geographic area. Another critically important dimension to the program began in early FY2001 to address the challenge of adequately caring for orphans and vulnerable children. USAID/Namibia was unable to reach agreement with the Government on the originally designed program and is currently negotiating a new program. Outside the context of an agreement with the GRN, USAID began to implement activities through Family Health International (FHI). To date, FHI has established productive relationships with the two ministries of education, the Ministry of Labor, several municipalities, and a number of NGOs. Prospects for the future, however, will depend on the strength of the USAID health program's relationship with the Ministry of Health and Social Services, which is charged with national coordination.

In consultation with the GRN, USAID is planning to increase efforts to support the care of orphans and vulnerable children (OVC), and focus on behavior change and other related activities of the target populations of youth and labor in four municipalities. Following the recommendations of a recent design team and input from the Africa Bureau, the Mission has modified the Intermediate Results and indicators of the Special Objective to better reflect the program as it is currently being implemented.

3. The Democracy, Conflict and Humanitarian Assistance Pillar

In the aftermath of September 11, 2001, the goal of a peaceful, stable world order has assumed even greater importance to U.S. foreign policy. This single event will have sweeping social, economic, political, and military consequences that will bear directly on world freedom and democracy.

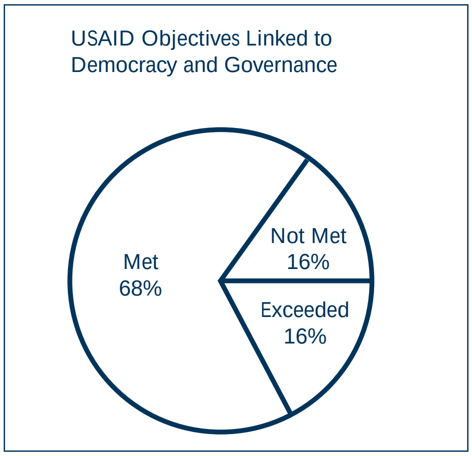
In this new context, USAID plays an important role in promoting resilient, well-governed, capable states that are less vulnerable to violent conflict. With the heightened threat of terrorism, comes the necessity to swing states toward more effective, accountable, legitimate and democratic governance.

The global focus on terrorism brings opportunities to advance the rule of law, establish justice, and help countries develop a stake in global integration and stability. USAID will spearhead reforms in developing and transition countries to improve education, promote transparency and accountability, and preempt terrorism. These efforts will complement USAID's broader development programs to help address the underlying sources of alienation, anger, and despair that feed radicalism and propel acts of violence and terror.

Fragile democracies fail because of poor economic performance, stalled economic reforms, inequality, endemic corruption, dysfunctional rule of law, ethnic and religious differences, and violence. Support for democracy and confidence in democratic institutions is declining in many transitional democracies. Increasingly, failed democracies and economies result in civil war and conflict.

Nearly two-thirds of countries where USAID works have been ravaged by civil conflict over the past five years. Civil war has produced an unprecedented number of people who fled their homes in search of food and personal security. At the end of 2000, at least 57 countries were the source of significant uprooted populations. These situations are marked by widespread violence, collapse of central political authority and public services, the breakdown of markets and economic activity, massive population dislocation, and food shortages leading to starvation, malnutrition or death.

In response to this new global reality, USAID is restructuring its programs. The new pillar on Democracy, Conflict, and Humanitarian Assistance integrates programs and approaches to deal more effectively with the underlying social, economic, and political problems that contribute to failed states, and that lead to humanitarian crises. This pillar integrates programs in democracy and governance, economic and social development, agriculture and food security, international disaster assistance, and post-conflict transition initiatives that prevent the re-ignition of conflict. USAID, in collaboration with other U.S. Government agencies and partners, is addressing the causes of conflict to help prevent, mitigate, or resolve conflict. USAID has introduced a new emphasis on dealing with conflict situations into existing Agency programs: By expanding Agency efforts to promote stability, USAID will assist countries in recovering from conflict, preventing terrorism, and responding to humanitarian crises.



FY 2001 Strategic Goal: Democracy and good governance strengthened

Expanding the global community of democracies is a key objective of U.S. foreign policy. As the primary channel for U.S. foreign assistance in the developing world, USAID has taken a lead role in promoting and consolidating democracy worldwide. This role has been carried out through USAID's second strategic goal, which calls for the strengthening of democracy and good governance through efforts in four areas:

- Helping legal systems operate more effectively to embody democratic principles and protect human rights;

- Supporting political processes, including elections, that are competitive and more effectively reflect the will of an informed citizenry;
- Promoting informed citizens' groups that effectively contribute to more responsive government; and
- Aiding national and local government institutions in becoming more open and effective in performing their public responsibilities.

Eighty-four percent of the Agency's assessed Strategic Objectives that support democracy and governance met or exceeded expectations.

Illustrative Operating Unit Assessments of Performance

Strengthened Institutions and Democratic Reforms in Bolivia

Although shaken by violent demonstrations rooted in popular dissatisfaction and impatience with the pace of democratic and economic development, Bolivia has continued to move forward in its long march toward a stable democratic system. In the process, USAID has played an important role in strengthening the sustainability of political reform under the ***SO, increased citizen support for the Bolivian democratic system***. Its assistance has deepened needed decentralization and judicial reform by increasing participation and transparency, and strengthening judicial, legislative, and municipal institutions.

The implementation of the Code of Criminal Procedures represented a critical step forward for judicial reform in Bolivia. With the government fully committed to the Code's implementation, the key areas targeted for USAID assistance included legal and institutional reform, training, case backlog resolution, and public awareness. Major progress occurred in 2000 with congressional approval of the Public Ministry Law, which professionalized and institutionalized the selection and training of public prosecutors. In addition, USAID assisted in drafting a new Police Law under review in Congress. USAID further contributed to the Code reform process through the training of over 9,000 judicial trainers (judges, prosecutors, defenders, and investigators), whose training of colleagues has led to sharp reductions in trial time and use of preventive detention throughout the country. A massive public education campaign, designed with USAID's assistance, aimed at consolidating the reform process by reaching over 400,000 Bolivians in an attempt to increase awareness of the Code. Results from a nationwide survey showed that over half of the respondents had heard of the Code and showed strong support for oral trials, one of its major goals.

As part of USAID's major strategy to increase popular support for democratic reform, the Agency has continued to encourage the decentralization process in Bolivia. In particular, USAID has facilitated the creation of municipal associations in eight of nine Bolivian departments, helping to establish an effective voice for local government on the national level. This voice was particularly helpful in pushing implementation of the landmark Popular Participation Law, in spite of lukewarm government support. With USAID support, departmental associations have formed an official lobby, the Federation of Municipal Associations, insuring a strong presence in national policy discussions. USAID has also supported efforts to increase women's participation in municipal government, providing funding for the creation of an Association of Women Council Members.

Despite the turmoil caused by last year's street protests, survey data show that Bolivian citizens increasingly recognize the importance of the municipality in political and economic life. A nationwide Democracy Values Survey revealed that 46 percent of respondents agreed municipal governments should receive more resources and responsibility, compared to just 16 percent arguing for more central government authority. In a dramatic show of popular support for municipal control of resources, a

National Dialogue Law called for 70 percent of all resources secured during the current Enhanced Highly Indebted Poor Countries debt relief initiative to be processed through municipalities, with the remaining 30 percent to be channeled into health and education with municipal participation. By 2000, municipal governments controlled 50 to 60 percent of all public investment-a marked contrast to the situation before 1995, when central and departmental authorities controlled 90 percent of all funding.

Improved Local Governance and Human Rights in South Africa

South Africa faces daunting problems, such as widespread poverty, HIV/AIDS, and an increasing crime rate. However, it also has important assets for democracy, including two free and fair national elections and the stewardship of former president Nelson Mandela. Building on these assets to foster the development of a stable, responsive, and effective government, USAID has assisted South Africa's democratization through its ***SO, democratic consolidation advanced***.

These USAID-supported efforts have been successful on several fronts. For example, in the area of local government, the year 2000 saw the fruits of nearly ten years of effort to transform the legacy of apartheid into the new system of governance mandated by the Constitution. With significant contributions from USAID, the government demarcated new municipal boundaries incorporating previously all-white and non-white areas, legally established 284 municipalities covering the entire country, and passed major legislation to define municipal powers and functions and modernize management systems and practices. In addition, as the new local government system moved toward full implementation, USAID launched direct assistance projects in 20 target municipalities to support the new councils and strengthen citizen-council engagement in planning, revenue management, and operational effectiveness. These projects resulted in increased property tax payments, growing citizen participation, and improved government performance.

USAID has also promoted awareness and observance of human rights. Some 56,032 South African citizens–nearly twice the number planned–were educated on the new Constitution and Bill of Rights. More than double the number of expected human rights violations were reported (9,923 actual against 4,055 expected), which suggests that South Africans may be becoming less acquiescent when human rights violations are committed. In addition, 192 (200 planned) human rights public awareness events were held, and about 6.5 million people–one million more than planned–were reached through these and other such activities.

Finally, USAID efforts have furthered reforms of the criminal justice system. Most significant has been the support provided to the Criminal Justice Strengthening Program, a six-year program with the Ministry of Justice designed to create "a more effective and accessible criminal justice system." In addition, USAID has worked with the National Director of Public Prosecutions to help reduce outstanding caseloads by 52% (from 5,750 to 2,750 cases). Additional assistance to this agency helped its asset forfeiture unit win 37 of 43 cases tried under newly promulgated laws.

Illustrative Strategic Objectives Assessed as Not Meeting Expectations

In **Ecuador**, democracy efforts focused almost exclusively on criminal justice sector reform, with particular emphasis on the role of the Prosecutor General's Office in combatting public and private corruption. However, the Prosecutor General was found to be blocking prosecution of corrupt bankers, resulting in the suspension of this major component of the mission's democracy program. In **Guatemala**, targets were not met in two democracy objectives, primarily because of a lack of resolve on the part of executive branch officials and hard-liners in the Congress. As a result, the Portillo administration failed to meet seminal Peace Accords targets for increased revenue collection and its corollary, social investment. Similarly, Guatemala's Congress failed to produce key Peace Accords legislation and to follow through on commitments to institutionalize USAID-supported technical units.

In the Central Asia Republics, Kazakhstan, Kyrgystan, and Turkmenistan, government policies and actions have continued to undermine USAID democratic reform efforts. In **Turkmenistan**, the government continued to tighten its grip, blocking civil society activities, strictly controlling the media, and trampling citizens' rights. The **Kazakhstan** government has been unwilling to make meaningful changes on decentralization and local government reform, while in **Kyrgystan**, harassment of opposition candidates and manipulation of results in last year's failed parliamentary and presidential

MANAGEMENT DISCUSSION AND ANALYSIS

elections have negatively affected the development of civil society and independent media.

FY 2001 Strategic Goal: Lives saved, suffering associated with natural or man-made disasters reduced, and conditions necessary for political and/or economic development re-established

The United States is one of the largest bilateral donors in humanitarian assistance. American values mandate offering assistance and international leadership to alleviate human suffering from crises. In fulfilling this mandate, USAID has two objectives under the Agency's humanitarian assistance goal:

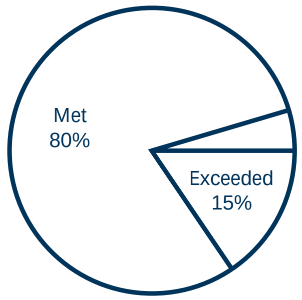
- To meet urgent needs in times of crisis; and
- To reestablish personal security and basic institutions to meet critical intermediate needs and protect human rights.

USAID provides essential food, shelter, water, and health services to keep people alive during disasters. USAID mobilizes assistance as soon as a disaster strikes and warrants U.S. Government response. Each year, millions of people suffer from disasters. Many of these millions–whether refugees fleeing war, or residents fleeing from floods–are affected by conflict and disaster year after year. In 2000, more disasters were reported than in any year over the last decade, affecting the lives of 256 million people worldwide. This is well above the decade's average of 211 million. While more people were affected, the number of lives lost due to disasters was 20,000-below the decade's average of 75,250 deaths per year.[1]

USAID responds to both natural disasters and complex emergencies. Physical hazards such as drought, earthquake, cyclone, flood, pest and disease outbreaks are considered natural disasters. Those killed are usually the poorest people, with the majority or two-thirds from the least-developed countries. The cost of natural disasters is significant. For this reason, USAID invests in disaster prevention and mitigation programs that enhance regional, national, and local capacity to plan for, prepare, respond to and mitigate disaster events.

Complex emergencies may include natural disasters such as drought, but are usually caused or complicated by civil strife. They are manifested in armed conflict, displaced populations, hunger, and death. In 2000, there were 25 major armed conflicts in 24 locations. By the end of 2000, at least 34.5 million people-refugees and internally displaced-had fled their homes because of war, persecution, and human rights abuses.[2] The number of internally displaced persons (IDPs) continued to exceed the number of refugees, due to the persistence and violence of conflicts and severe government repression and to the growing unwillingness of many states to host long-standing refugee populations.

USAID Objectives Linked to Humanitarian Assistance



Ninety-five percent of the assessed Strategic Objectives to promote humanitarian assistance met or exceeded expectations.

Humanitarian Relief

In relief situations, USAID monitors the health and nutritional status of populations in crises using two benchmark indicators. These are Crude Mortality Rates (CMR) and prevalence of acute malnutrition in children under 5 years of age. Rates of mortality and malnutrition decrease when essential needs are met–such as food, water, health care, and shelter. Thus, if humanitarian assistance is effective, CMR and malnutrition rates will decrease over time.

USAID initiated the monitoring of CMR and nutritional status of populations in emergency situations with the broader goal of instituting a global, coordinated system for gathering, analyzing, reporting and disseminating information on progress of relief

[1] World Disasters Report, 2001
[2] U.S. Committee for Refugees, World Refugee Survey, 2001

assistance. This is a collaborative effort with implementing partners, the State Department's Bureau of Population, Refugees, and Migration (State/PRM); the World Health Organization (WHO); and the United Nations Administrative Coordinating Committee/Subcommittee on Nutrition (ACC/SCN). The Refugee Nutrition Information Network (RNIS) of the ACC/SCN and WHO's Emergency and Humanitarian Action (EHA) monitor pilot sites and provide updated analysis of CMR and nutritional status of beneficiaries. PVOs/NGOs, and UN agencies such as UNICEF, the UN High Commission on Refugees (UNHCR), and the World Food Programme (WFP) provide data.

As stated in the FY 2000 and FY 2001 Agency Performance Plan (APP), these performance indicators are experimental. Progress to date shows that this is a feasible undertaking, and additional sites are being added. In selected sites, CMR and nutritional status indicators are monitored over time to ensure rates are within international standards. The benchmark established was:

- Four to five pilot sites selected and baseline established from published data;
- CMR and nutritional status in pilot sites monitored;
- Methodology for CMR data collection and analysis reviewed, pilot-tested and refined; and
- Data collection and operational issues (including nutritional status data as part of regular reporting) coordinated within USAID and with other agencies.

The Agency achieved the following progress on the benchmark:

1. USAID has exceeded the target of 5 pilot sites. There are 11 pilot sites in 11 countries to monitor CMR. There are 14 sites in 12 countries to monitor nutritional status.
2. CMR and nutritional status in these sites are being monitored.
3. The methodology for CMR data collection with the nutrition survey protocol was reviewed and pilot-tested by World Vision in Sudan. The methodology was found to be feasible for PVOs/NGOs. With the assistance of Action Against Hunger, guidelines are being finalized for wider dissemination.
4. Data collection and operational issues are being addressed and coordinated within USAID and with other agencies. USAID is leading the effort to institute a global, coordinated system for measuring and reporting on CMR and nutritional status. Since CMR is not yet routinely collected by USAID-funded PVOs, USAID is developing a support mechanism for PVOs that enables them to gather, analyze, and report on CMR and nutrition indicators. This will also provide much needed assistance to strengthen overall technical capacity of humanitarian assistance organizations to undertake nutritional and health assessments in emergencies. In addition, USAID plans to establish a real-time web-based information center where data from the field can be posted and accessed to facilitate rapid program planning and design. A technical core group from collaborating agencies, and individual experts in emergency health and nutrition, is being formed to ensure that technical assistance is available and can be readily accessed by implementing partners. Training will be integrated with ongoing field activities, such as the Sphere Project, a collaborative effort of the humanitarian community to build more transparent systems of accountability. CMR and nutritional status are included as two of the Sphere measures for minimum standards in humanitarian response.

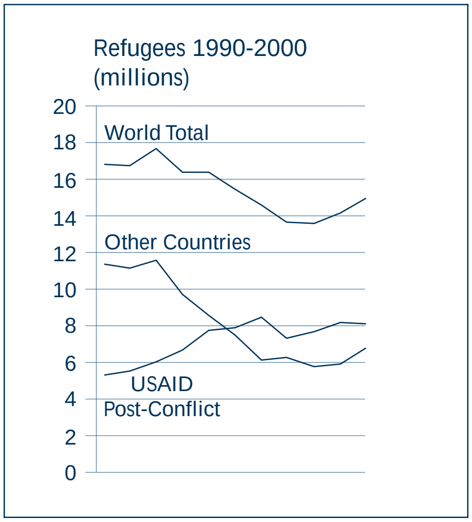
One measure of USAID's success is the recent adoption by State/PRM of CMR as one of their humanitarian response performance indicators. This is now reflected in State/PRM's Bureau Performance Plan, a key management tool that outlines how State/PRM intends to fulfill the Department's responsibility for their strategic goals. As a joint USG effort, USAID and State/PRM are advocating to other donors the use of these indicators to monitor relief situations, and coordination on the provision of technical assistance to implementing partners. USAID's efforts to coordinate with other donors have been welcomed by implementing partners, as this will facilitate their reporting to several of their donors.

Transition

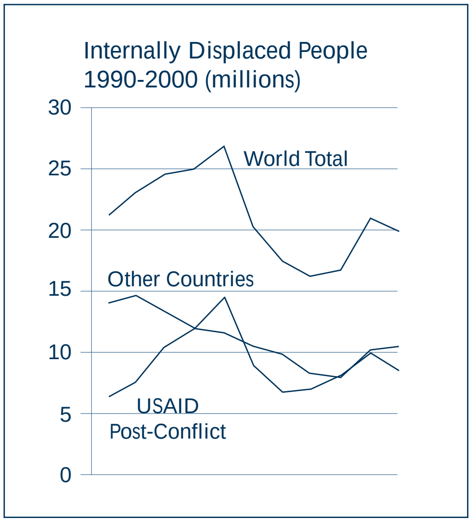
USAID reviews performance in achieving the "transition" objective against benchmarks in a set of post-conflict transition countries that were selected in 1998. These include eight sub-Saharan African countries: **Angola, Burundi, the Democratic Republic of the Congo, Liberia, Rwanda, Sierra Leone, Somalia**, and **Sudan**; three countries from Asia and the Near East: **Cambodia, Indonesia**, and **West Bank/Gaza**; six countries from Europe and Eurasia: **Azerbaijan, Bosnia, Croatia, Georgia, Serbia/Montenegro**, and **Tajikistan**; and four countries from Latin America and the Caribbean: **El Salvador, Guatemala, Haiti**, and **Nicaragua**. In light of changing situations in transition countries, this list will be updated as necessary.

USAID uses two performance benchmarks to monitor progress and trends: The U.S. Committee for Refugees' *World Refugee Survey* on the number of refugees and internally displaced persons, which USAID uses to understand the breadth of crisis and open conflict in a country; and the Freedom House Index, as expressed in *Freedom of the World*, which provides trend data to assess the democratic status of transition countries. These indicators provide contextual information for assessing changing trends of transitions in various regions.

Of the 21 post-conflict countries reviewed by USAID, only two were classified as "free" in 2000 by Freedom House. Croatia and El Salvador both experienced significant political change in the latter part of the 1990s. Croatia held presidential and parliamentary elections in 2000. In addition the Croatian parliament passed legislation that limited the power of the president. El Salvador has been considered "free" since 1997, following the end of the civil war in 1992 and elections held in 1994 and 1997.



Seven countries are still considered "not free." In Africa, continued civil war exists in Angola, the Democratic Republic of Congo (DROC), Somalia, and Sudan. Cambodia, partly free during the mid-1990s, continued to experience government crackdowns on alleged guerillas and political opponents. Despite the 1997 peace agreement and parliamentary elections in 2000, Tajikistan's classification continued to be "not free." The recent elections were considered irregular, and were accompanied by violence from paramilitary groups. Due to the instability in Israel, no democratic improvements in the West Bank/Gaza occurred.



Despite these setbacks, the number of countries considered "not free" declined from thirteen in 1993 to eight in 2000. Improvements in Liberia, Sierra Leone, Indonesia, Azerbaijan, Bosnia, Serbia/Montenegro and Haiti contributed to this trend.

The total number of persons displaced by open conflict in 2000 decreased by over one million people from 1999. Resettlement in Rwanda, Angola, and Bosnia contributed to this decline. Of the over 20 million internally displaced people (IDPs), those within post-conflict countries accounted for 11 million. Sudan, the DROC, and Angola (despite a sizeable decline) account for 6.9 million IDPs. Resettlement progress occurred in Bosnia where the number of IDPs declined by 400,000 during the year. The largest IDP increase during 2000 was in the DROC (one million).

In addition to producing refugee flows, post-conflict countries were also burdened with hosting refugees from other countries. For instance, Sudan currently hosts an estimated 385,000 refugees; the Federal Republic of Yugoslavia, 484,0000 and the Democratic Republic Congo, 276,000. Over ten percent of all refugees in 2000 were living in these three countries.

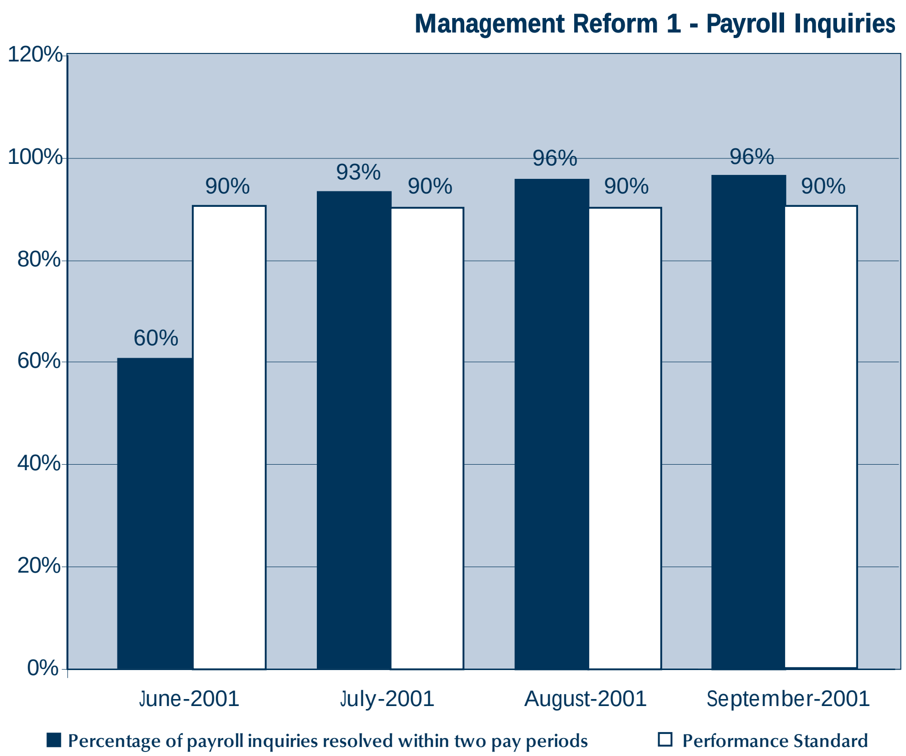
Refugees from post-conflict countries made up the majority of worldwide refugees. The number of refugees from Burundi and the Democratic Republic of Congo, as well as the number of Palestinian refugees from West Bank/ Gaza each grew by over 100,000 during the past year. Refugees from Angola and Sudan also increased significantly.

MANAGEMENT GOAL AND 2001 RESULTS

FY 2001 Agency Management Goal: Achieve USAID goals in the most efficient and effective manner

USAID's management goal provides the foundation for all USAID development achievements. USAID/ Washington's role is to provide the management infrastructure and support to facilitate the efficient administration of field programs-the ultimate customers of Washington's management function. Since the Government Performance and Results Act became law and USAID's original Strategic Plan was prepared, USAID has substantially realigned its management objectives and achieved incremental progress in better supporting development operations. USAID's objective throughout has been to become a more flexible and responsive organization that continuously learns, adapts, and improves its ability to achieve its goals.

USAID's *FY 2001 Annual Performance Plan* stated the Agency's management goal, "USAID Evolves Into a Model 21st-Century International Development Agency." The goal expressed USAID's commitment to being a leader in development assistance, to pioneering effective solutions to pressing development problems, and to delivering development assistance as efficiently and effectively as possible. The management goal was further refined in USAID's 2001 Strategic Plan and the Agency's *FY 2000 Performance Overview*.



As noted earlier in this report, Administrator Natsios established agency reform and reorganization as priorities for his first year at USAID, consistent with the Administration's emphasis on improved government performance. The reform of five key processes–procurement, administrative services, personnel, information management, and financial management–will improve Agency operations. During FY 2002, USAID will carry out a detailed review of how each of the systems is working and will finalize plans for more effective and efficient worldwide operations. This effort will also ensure that the limited investment dollars are focused on the most critical and highest payoff opportunities to meet evolving priorities.

As part of the operational plan to improve management processes, USAID developed and began implementing a series of initiatives during FY 2001. These management reforms were designed to ensure Agency compliance with Federal law, improve business processes, create operational efficiencies, and raise the overall level of customer satisfaction within the Agency. Management improvements were designed in each office and incorporate mechanisms for measurement that include baselines, performance standards, and indicators, *While recognizing the important role played by Washington-based staff in the Management Bureau and all headquarters bureaus in providing support to programs in the field, the 2001-2002 reorganization also ensures that field missions, as USAID's strength and comparative advantage, remain the focal point of assistance delivery.*

and a feedback mechanism that reports performance back to management and to customers.

Within the office of Financial Management (FM), for example, the payroll function has seen operational improvement due to these management reforms. In July 2001, USAID implemented a system to expeditiously handle payroll action requests. The effort exceeded its goal of resolving 90% of payroll inquiries to the employees' satisfaction within two pay-periods (see chart on p.31). In addition to management reforms in FM, other reforms were underway in the Offices of Procurement, Human Resources, Information Resources Management and Administrative Services.

While recognizing the important role played by Washington-based staff in the Management Bureau and all headquarters bureaus in providing support to programs in the field, the 2001-2002 reorganization also ensures that field missions, as USAID's strength and comparative advantage, remain the focal point of assistance delivery. Toward this end, USAID is reviewing overseas staffing to more closely track with funding levels and program complexity. In addition, structural changes will streamline the way USAID does business, promote sound information sharing for senior decision-making, and reduce redundancies and disproportionalities in staffing that have accumulated over time.

(Note: In its *FY 2000 Performance Overview Report*, USAID modified the objectives, performance goals, and indicators that appeared in its *FY 2001 Annual Performance Plan*.)

During FY 2001, USAID made good progress towards four management objectives under the management goal. While not all specific targets were met, on balance, actual results indicate demonstrable steps taken toward achieving each objective. The following section describes the Agency's progress by specific management objectives. Appendix 1 provides a comparison of 2001 targets and actual results.

Management Objective 1: Accurate program performance and financial information available for Agency decisions

Performance Results

Financial management is a USAID management priority, in order to bring Agency financial management systems into compliance with the Federal Financial Management Improvement Act. The cornerstone of USAID's financial management improvement program is the implementation of a fully compliant core financial system. To this end, USAID successfully launched Phoenix, a commercial off-the-shelf core financial system that is compliant with Federal requirements. In December 2000, USAID deployed Phoenix to support Washington operations and during FY 2001, the Agency implemented tools to extract overseas financial information for an automated interface with Phoenix. USAID also completed the work necessary to interface Phoenix with two additional financial systems–the Department of Health and Human Services Payment Management System which services USAID-issued letters of

credit for grantees and the Riggs Bank system, which services loans on behalf of the Agency. Phoenix and the Agency's acquisition and assistance system have also been interfaced to achieve internal efficiencies and to ensure the accuracy of financial information. In addition, USAID implemented a comprehensive program to train Agency staff to transition to Phoenix. As a result of all of these efforts, the new accounting system successfully completed one fiscal year accounting cycle.

Historically, Washington-based managers have not had access to accurate, timely and useful financial information from missions. This was a factor in USAID's reporting a material weakness in financial reporting and resource management. In response, USAID created a repository of overseas financial information in Washington in FY 2001 that provides Agency-wide financial reporting to support internal decision-making and external stakeholder information needs. Overseas financial transactions are now captured and stored monthly in Washington in the Mission Accounting and Control System Auxiliary Ledger (MACSAL), which will be used to generate summary-level postings in the Phoenix General Ledger for external reporting. This management improvement will correct the material weakness in financial reporting, make financial information more readily available to managers, and reduce the number of cuff-record or shadow systems used by bureaus for tracking overseas financial activity. USAID is now meeting government-wide quarterly financial reporting requirements on time and with current and complete financial information.

In addition, USAID completed the first phase of its implementation of a managerial cost accounting (MCA) model. The model allocates operating expenses recorded in the general ledger from the Management Bureau to benefiting bureaus. The MCA model along with other cost allocation tools will be used in preparing the annual Statement of Net Cost, which reports revenues and expenses by Agency goals.

The overseas deployment of the core accounting system will be resequenced to coincide with acquisition and deployment of a new procurement system and updated telecommunication network capabilities. Plans will be developed for the worldwide deployment of the system based on a detailed review of the Agency's management systems during FY 2002.

Although the Agency did not establish 2001 targets related to performance information, USAID took several steps to address program performance and reporting issues. For example, the Bureau for Policy and Program Coordination (PPC) and the Office of the Inspector General have worked together closely to develop an appropriate Performance Management Audit methodology, which, without compromising IG independence, is geared towards providing guidance on needed improvements.

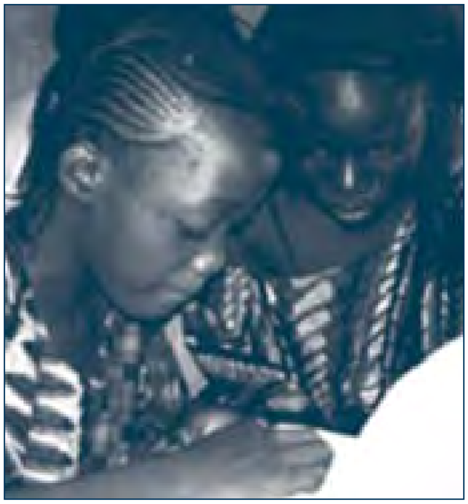
In addition, PPC did a thorough rewrite of the Agency's Automated Directives Systems (ADS) sections on programming guidance, emphasizing the need to plan, collect, and report empirically reliable data. These new procedures support many of the management reforms and innovations described in this chapter and can be found at: http://www.usaid.gov/pubs/ads/200/.

Based on the rewrite of the programming guidance, PPC and HR developed a pair of courses to address immediate Agency training needs. The first of these, the ADS Rollout Workshop, covers all changes in the new ADS and has been given to some 700 USAID staff worldwide during FY 2001. Also in FY 2001, USAID gave the Performance Management Workshop, a weeklong, hands-on training, to nearly 300 staff and implementers worldwide. USAID has also taken steps to establish websites where performance knowledge can be shared, both inside and outside the Agency. For example, all of USAID's country results reporting is posted on the web as soon as the statutes permit. Other knowledge management websites are being pre-tested.

Management Objective 2: USAID staff skills, Agency goals, core values and organizational structures better aligned to achieve results efficiently

Performance Results

Human resources were identified as a critical management challenge for USAID. The first major human resource concern is workforce planning,[3] defined as getting the right person, at the right time, for the right job, and doing the right work.



Since September 30, 1992, USAID experienced significant downsizing of its combined Civil Service (CS) and Foreign Service (FS) workforce. During FY 1996, it reduced its level of FS and CS employees by 14 percent (from 2,764 to 2,378) and continued to downsize since then. USAID's target employment level is 1,035 CS and 1,010 FS employees, a level 14 percent below its end of FY 1996 level. To reach these new, lower levels, the Agency essentially froze new hiring until FY 1999 and allowed voluntary attrition to occur. As a result, a skill imbalance now exists. USAID offered a "buyout" for the Civil Service in FY 2000 to accelerate voluntary attrition in occupational categories where fewer employees were needed. But more needs to be done to correct the existing skills imbalance and reshape USAID's workforce.

USAID's second major workforce concern is the high number of retirement-eligible employees. The average USAID CS employee is 47 years old; the FS average age is 48 years. As of September 30, 2000, 32 percent of USAID's CS workforce and almost 60 percent of FS employees were eligible to retire immediately or by September 30, 2005.

In FY 1998, USAID implemented the first annual Foreign Service recruitment plan, based upon analysis of each of the 19 FS occupational categories. The analysis projects the number of employees and number of positions five years from the beginning of the current fiscal year. The FY 1998 plan, for example, projected FS employee needs by occupational category through September 30, 2002. The Agency used Mission data on projected staffing needs by occupation and attrition data to estimate the number of positions and onboard employees five years hence. The recruitment level is then based upon projected shortfalls and USAID's ability to absorb career candidates.

Excluding the OIG, USAID had 996 FS employees on 9/30/2000; and 992 on 9/30/2001. FS attrition was 92 in FY 2001. USAID projects FS attrition to be at least 90 per year through FY 2005 and that total FS &CS attrition will be 200, or about 10% per annum.

The Foreign Service Act of 1980, as amended, requires that the normal Foreign Service entry level be at salary class 4 or below. USAID refers to entry-level employees as New Entry Professionals (NEPs). In addition to NEPs, USAID recruited midlevel career candidate contract officers (salary class 3) and career candidate legal officers (salary class 2). USAID hired 30 career candidates in FY 1999; 51 in FY 2000; and 81 career candidates in FY2001 (77 NEPs and four legal officers).

A total of 141 employees were brought on board in FY 2001, consisting of 77 NEPs (Foreign Service entry-level employees), 18 Presidential Management Interns, and 46 other career Civil Service (CS) employees. NEP Classes are about 10 employees fewer than target, due to last minute cancellations or lack of necessary medical/security clearances. The next NEP class enters March 2002. USAID staffed every critical position through FY 2001, and anticipates that human resource constraints will ease by the end of FY 2002.

[3] The Office of the Inspector General (OIG) receives a separate appropriation and has separate human resouce authorities. Accordingly, this discussion does not include OIG human resource issues.

For the first time in almost a decade, the direct-hire staffing level did not decrease significantly from the previous year. The Agency received a "green light" on the Executive Branch Management Scorecard for its progress.

In addition to successfully increasing its intake of professionals in FY 2001, USAID also achieved significant progress in staff training. The Agency increased the number of senior managers trained through such external programs as the Federal Executive Institute and the Foreign Affairs Leadership Seminar. It also developed new in-house training programs designed to enhance managers' results orientation, financial management, acquisition and assistance, and supervisory skills. In FY 2001, 105 executive-level (FS-1/GS-15) employees and 147 midlevel seniors (FS-2/GS-14, senior level Foreign Service Nationals [FSNs] and US PSCs) received training. In addition, 480 employees received Acquisition and Assistance training; 385 employees received supervisory training; and 348 employees were trained in managing for results.

In the coming years, more work remains to better align Washington staff with USAID's strategic goals and objectives. USAID is developing a Washington workforce strategy that systematically and comprehensively assesses headquarters staffing needs. This strategy will use a process similar to the FS employment analysis described above, and will include an examination of optimal organization structures in Washington. This analysis is expected to be completed in fall 2002 after the completion of USAID/W reorganization.

Management Objective 3: Agency goals and objectives served by well-planned and managed acquisition and assistance (A&A)

Performance Results:

USAID achieves development results largely through intermediaries that receive USAID funds, i.e., through contractors or recipients of grants and cooperative agreements. USAID's Direct Hire staff perform the "inherently governmental functions" of strategic planning, program oversight, financial management, assessment and reporting, and negotiations and policy reform with host-country governments. In this environment, efficient and effective acquisition and assistance systems and services are critical. For this reason, USAID leadership designated the development of more efficient and effective A&A services as a priority, and the Agency modified its A&A objective in the 2000 Revised Strategic Plan.

In the recent past, the Agency concentrated on increasing the number of performance-based contracts and results-based assistance instruments as the key to efficient and effective A&A services. While USAID continued to emphasize performance-based instruments in FY 2001, better collaboration and integration among those involved in planning and carrying out A&A activities was identified as equally, if not more, important to achieving development results more quickly. This includes technical officers responsible for program design and implementation, contract officers responsible for A&A negotiations, and suppliers.

In FY 2001, USAID expanded its use of more flexible A&A instruments, such as indefinite quantity contracts and an innovative assistance mechanism known as "Leader/Associate Grants." Notwithstanding these and other A&A systems and procedural improvements, USAID did not fully achieve its goal of spreading obligations more evenly across the year. While Washington exceeded its target for obligations in the first three quarters, fourth quarter obligations Agency-wide where higher than projected.

The goal of reducing fourth quarter obligations is partly dependent upon when the Operating Year Budget (OYB) is made available. In addition, some programs, such as the Office of Foreign Disaster Assistance (OFDA), must react to emergency needs, requiring obligation of funds at any time. USAID has retained its obligation targets for FY 2002, but plans further review to determine whether the goals should exclude actions that cannot be planned in advance.

USAID continues to look for ways to improve the timeliness of procurement actions with available staff. The Agency established a pilot program under which another agency, through a franchise fund, will award and administer some contracts in order to enable the USAID contracting staff to concentrate on the most important, high dollar value contracts.

USAID achieved important results with regard to skill certification in the A&A arena. By the end of FY 2001, 96 percent of Contract Officers (COs) with unlimited warrants and 77 percent of COs with warrants of $2.5 million or more were certified. In addition, the Administrator approved the new Cognizant Technical Officer (CTO) certification program and the budget resources necessary to certify all CTOs in three years.

A new automated contract writing system was implemented in both Washington and the field that will allow quicker and easier capture of the data needed to report to the Federal Procurement Data Center and the Small Business Administration. Baseline data was developed on post-award meetings. Such meetings with contracting officers, technical staff, and contractors were held after about thirty percent of large new contracts.

Planning is well underway to co-locate two contracting branches with their client offices as an experiment to determine whether performance will be enhanced. Finally, although the Contract Review Board (CRB) began reviewing contracts exceeding $10 million in April, because most of the CRB's work occurred during the last three months of the year, the board has not yet provided its findings in order to establish a baseline.

Management Objective 4: Agency goals and objectives supported by better information management and technology

The information management and technology objective was established in USAID's *FY 2000 Performance Overview*. Specific performance goals and targets were not set for FY 2001. Performance goals, indicators, and targets for FY 2002 will be documented in the FY *2003 Performance Plan*.

Performance Results

The following accomplishments during FY 2001 will provide the baseline for FY 2002 targets:

- Completed evaluation of new desktop operating system/office suite for USAID/Washington.
- Completed network operating systems and e-mail upgrades at eight missions.
- Completed telecommunications network equipment upgrades in three missions.
- E-Gov Strategy/GPEA Plan completed and annual GPEA report updated and submitted to OMB on schedule.

Given the Agency's decentralized, worldwide field presence, improving Agency information management and technology systems is imperative. To address these challenges, USAID developed an Information Management (IM) Strategic Plan for Fiscal Years 2001-05, mapping a course to use information management and technology more effectively in achieving development goals and objectives. Under this Plan, IM will achieve its goals of Exemplary Leadership, Superior Performance, and Full Compliance through the implementation of five strategic objectives: Improved Information Infrastructure, Cost-Effective Support Solutions, Integrated Program Solutions, Effective Knowledge Management, and Comprehensive Information Management. During FY 2002 USAID will complete a study to reengineer Agency business practices and develop a plan to accelerate deployment of improved Agency-wide systems.

USAID successfully completed its first Government Paperwork Elimination Act (GPEA) Plan, which identified transactions that were candidates for paperwork elimination. Since then, each of the candidate transactions has been analyzed for congruence with infomation security and architecture standards and prioritized in terms of business benefits, life-cycle cost, risk, and return on investment (ROI). The updated GPEA Plan consolidated and documented the results, successfully completing the GPEA Planning Phase on schedule. The Plan provides a platform for initial implementation of the USAID E-gov Strategy, summarized in terms of the IM Strategic Objectives. However, a number of IM requirements critical to the success of the IM Strategic Plan remain undeveloped.

FINANCIAL HIGHLIGHTS

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

Balance Sheet

The Balance Sheet presents amounts available for use by USAID (assets) against the amounts owed (liabilities) and amounts that comprise the difference (net position). Two major line items, Fund Balance with Treasury and Loans Receivable (net) represent 94% of USAID's assets. Fund Balance with Treasury is funding available in the Department of the Treasury accounts from which USAID is authorized to make expenditures and pay liabilities. The majority of Loans Receivable are loans for which funds have been disbursed under the Direct Loan programs. Since no new loans will be disbursed under this program, changes to Loans Receivable (net) is generally determined by collections of principal and interest, billings for interest, and calculations for loan loss allowances.

The assets showing the most significant change from FY 2000 to FY 2001 are Cash and Other Monetary Assets and Advances and Prepayments. Cash and Other Monetary Assets increased by 39% in FY 2001 due to an increase in foreign currency amounts reported at two overseas missions. Advances and Prepayments (non-Federal) decreased by 63% in FY 2001 because of an expense adjustment of $476 million related to the liquidation of outstanding Letter of Credit funded advances.

Credit program liabilities represent 81% of USAID's total liabilities. The bulk of these liabilities are reported as Resources Payable to Treasury and Loan Guarantee Liability. Resources Payable to Treasury represents the cumulative difference between pre-FY 1992 credit program assets and liabilities and revenues and expenses, that is considered payable to the U.S. Treasury. Loan Guarantee liability is comprised of an allowance established for potential defaults on loan guarantees obligated before FY 1992, in addition to the estimated subsidy cost of loan guarantees obligated after FY 1991 as calculated in accordance with the Credit Reform Act of 1990.

The three liability line items showing the most significant change in activity from FY 2000 to FY 2001 are Accounts Payable, Debt, and Other Liabilities. Accounts Payable (intragovernmental) decreased 59% in FY 2001, the bulk of which is attributable to four Federal agencies. Debt decreased 45% to $64.5 million due to principal repayments of $52 million made to the Treasury. Other Liabilities (intragovernmental) decreased 71% to $30.8 million. Over half of the decrease was the result of the collection of a $40 million receivable due from the Polish American

MANAGEMENT DISCUSSION AND ANALYSIS

Enterprise Fund. The collection was recorded as an unavailable miscellaneous receipt and the funds were withdrawn to the U.S. Treasury. Other Liabilities (non-Federal) increased 27%, from $209 million to $266 million, primarily due to a $60 million increase in the foreign currency trust fund.

The change in Cumulative Results of Operations is attributable to the effects of prior period adjustments related to the Agency's Credit Programs and changes in Plant, Property, and Equipment.

Statement of Net Cost

This statement provides the reader with an understanding of the full cost of operating USAID programs. In FY 2001, approximately 85% of all USAID costs incurred were directly related to support of USAID programs. Costs incurred for the Agency's general operations (e.g., salaries, training, support for the Office of Inspector General) accounted for approximately 15% of the total USAID cost.

Improvements to the Statement of Net Cost were made during FY 2001. USAID/Washington program expenses by goal area are now obtained directly from Phoenix, USAID's new accounting system. In addition, a cost allocation model was developed to distribute Management Bureau operating costs to specific goals. Further refinements are anticipated for FY 2002.

Statement of Changes in Net Position

This statement identifies those items that caused USAID's net position to change from the beginning to the end of the reporting period. Imputed financing for pensions and other future retirement benefits decreased from $17.9 million to $12.4 million in FY 2001. Prior Period Adjustments related to the Agency's Credit Programs were $11 million in FY 2001. There were no Prior Period Adjustments in FY 2000. The decrease in unexpended appropriations was $199.6 million for FY 2001 versus an increase for $203.3 million in FY 2000. The primary reason for this change was due to $246 million in outlays in the Central America and Caribbean Emergency Disaster Recovery Fund for which no additional funds were received in FY 2001.

Statement of Budgetary Resources

The Statement of Budgetary Resources provides information on how budgetary resources were made available for the year and what the status of budgetary resources was at year-end. USAID obligated 73% of all available budgetary resources for the year. The remaining 27% of funds are unobligated. Among unobligated funds, 99% are available for new programming and obligating in future years.

Two line items, Adjustments and Unobligated Balances, Not Available, accounted for the bulk of the changes in the Statement of Budgetary Resources from FY 2000 to FY 2001. These changes are mainly due to activities related to Credit Program transfers to the U.S. Treasury.

Statement of Financing

The Statement of Financing reconciles proprietary information to budgetary accounting information. The most significant increase from FY 2000 to FY 2001 was the Change in Amount of Goods, Services, and Benefits Ordered but not yet Received or Provided. The change in this line item was primarily due to the net increase in undelivered orders during FY 2001 for program funds. Additionally, Exchange Revenue decreased by 40%. This decrease is related to the net decrease of Credit Program interest receivable. Decreases in Credit Program loans receivable and collections during FY 2001 contributed to changes in the Total Resources that Do Not Fund Net Cost of Operations. For Financing Sources Yet to Be Provided, only Actuarial Life Insurance Liability showed a net increase during FY 2001.

Limitations to the Financial Statements

The financial statements have been prepared to report the financial

position and results of operations of USAID, pursuant to the requirements of 31 U.S.C. 3515(b). While the statements have been prepared from the books and records of the entity in accordance with the formats prescribed by OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records. The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity. One implication of this is that liabilities cannot be liquidated without legislation that provides resources to do so.

Looking Forward: Possible Future Effects of Existing Events and Conditions

Several operational and financial variables could affect USAID's performance in FY 2002. These relate to such issues as the Agency's mandate to provide development and emergency humanitarian assistance in response to changing foreign policy priorities and crises, as well as the challenge of recruiting, retaining, and training a highly skilled workforce.

With regard to potential operational changes and cost implications, possible significant events that could occur include:

- A high number of disasters or humanitarian crises, whether natural or man-made, particularly if these were to occur simultaneously in multiple countries; and
- Direction by the President and Secretary of State to establish USAID in-country presence in Pakistan and Afghanistan.

With regard to USAID's workforce, the Agency is subject to the same general challenges that the entire Federal Government faces in attracting and retaining appropriate staff. These challenges are exacerbated at USAID, the Department of State, and other international and intelligence agencies, however, due to additional security clearance requirements, the need for specialized skills (including foreign languages), and overseas service, including hardship posts. Beyond these recruitment challenges, demographic trends affecting the USAID workforce have resulted in an institutional knowledge gap between new hires and veteran staff, many of whom are expected to retire in the next five years. This gap is currently more serious in the Foreign Service than in the Civil Service.

While USAID has accelerated its recruitment and hiring for both FS and CS employees as described above, additional and unforeseen attrition, combined with the need to upgrade skills, will place added pressure on USAID to enhance staff training. Current projections, for example, indicate that at least 1,500 Cognizant Technical Officers should be trained over the next three years, at an estimated cost of $3 million.

MANAGEMENT CONTROL PROGRAM

USAID maintains an active management control program in response to the Federal Managers' Financial Integrity Act (FMFIA). USAID's FMFIA program uses external audits, annual internal reviews conducted by each of its operating units, special studies, and observations of daily operations to identify control weaknesses. It then develops and implements detailed corrective action plans for all weaknesses identified. The Agency's Management Control Review Committee, chaired by the Deputy Administrator, monitors the status of corrective actions Agency-wide and determines when they have been successfully completed. Parallel committees operate within the Agency's overseas operating units. During FY 2001, management control assessments were conducted by USAID operating units worldwide in compliance with Agency policy and FMFIA standards. No new material weaknesses were identified. However, human capital challenges and building security were raised as areas of concern.

USAID continued to implement its plans to resolve the four remaining material weaknesses. The status of progress against these material weaknesses is described briefly below.

Table 2-1 Pending Material Weaknesses

Title	Fiscal Year First Reported	Fiscal Year Targeted for Correction
USAID's Primary Accounting System	1988	TBD
NMS Reporting and Resource Management Capabilities	1997	2002
Information Resources Management Processes	1997	2003
Computer Security Program	1997	2003

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

USAID's NMS Reporting and Resource Management Capabilities. Since 1997, Agency-level financial reporting has not always been sufficiently timely, accurate or useful to support decision-making. The Agency also lacked a system for capturing data on overseas procurement actions to comply with Federal reporting requirements. The deployment of Phoenix has improved Agency-level financial reporting. For example, during 2001, USAID was able for the first time to report all of its enterprise wide financial information on budget execution to OMB in a comprehensive, timely manner. Agency-wide external reporting requirements are now more accurate and timely. Other external reporting requirements are also more accurate and timely. USAID has implemented an automated procurement data capture system for overseas missions. Further work is underway to improve financial reporting on overseas programs.

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

Information Resources Management (IRM) Processes. USAID plans to implement a process to include 1) procedures to select, manage, and evaluate investments and 2) a means for senior managers to monitor progress in terms of costs, system capabilities, timeliness and quality. During FY 2001, USAID established an information management interfaced product team to formulate and review the Agency's IT budget. Disciplined processes in life cycle management are being provided by experts. Redirecting the Agency from a systems integration organization to a technology acquisition organizations helps in achieving a Software Engineering Capability Maturity Model Level 2, a rating target representative of the top one-third of all technical organizations. USAID completed requirements documentation toward CMM Level 2 status for the network upgrade initiative. When USAID's Information Technology Council becomes operational, IT portfolio management processes are implemented and the USAID Capital Planning and Investment Management Process is implemented, this weakness will be closed. The anticipated closure date is December 2002.

Material Nonconformance of Financial Management System

USAID implemented a system that is compliant with the Joint Financial Management Improvement Program (JFMIP) standards on December 15, 2000. The Agency strategy to achieve compliance with systems standards was significantly advanced when the system was implemented with no changes to the core software. The core system complies with requirements for executing and reporting transactions consistent with the standard general ledger.

The system achieves this by processing some transactions individually and some at a summary level. This standard was implemented in submitting budget execution reports to OMB for all of its worldwide data. Improvements scheduled for implementation during 2002 will enable the Agency to refine the data. These improvements will enable OMB to receive USAID specific financial information used by its managers and stakeholders.

The USAID Inspector General has assigned an audit team to evaluate USAID's compliance with the Federal Financial Management Improvement Act (FFMIA). The accounting system will be evaluated against a checklist published by the U.S. General Accounting Office. We expect that the review will highlight opportunities for improvement with the standards. In addition based on findings by the IG and other assessment teams, we are taking action to strengthen general systems security and the security of our financial information.

Annual Assurance Statement

As of September 30, 2001, the management accountability and control systems of the Agency for International Development provided reasonable assurance that the objectives of the Federal Managers' Financial Integrity Act were achieved, with the exception of the material weaknesses noted. This statement is based on the results of an Agency-wide management control assessment, Inspector General audits, and input from senior officials.

Andrew Natsios
Administrator

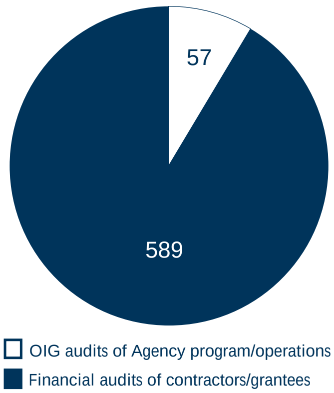
AUDIT FOLLOW-UP PROGRAM

USING THE AUDIT PROCESS FOR AGENCY IMPROVEMENT

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

Audit Reports Issued in 2001



During FY 2001, USAID received 646 audit reports; 589 of these reports covered financial audits of contractors and recipients and 57 covered Agency programs or operations.

During FY 2001, the Agency closed 614 audit recommendations. Of these, 211 were from audits performed by OIG staff and 403 were from financial audits of contractors or grant recipients. USAID took final action on recommendations with $40.9 million in disallowed costs, and $4.4 million was put to better use during the fiscal year.

At the end of FY 2001, there were 303 open audit recommendations, 137 fewer than at the end of FY 2000 (440). Of the 303 audit recommendations open at the end of FY 2001 only 26, or 8.6%, had been open for more than one year. The number of recommendations open for more than one year at the end of FY 2001 was almost one-half the number at the end of FY 2000, and exceeded the Agency's target of closing 90% of audit recommendations within one year.

As regards the 26 recommendations open for more than one year at the end of FY 2001, USAID must collect funds from contractors or recipients to complete actions on 7 of these recommendations. The remaining 19 require improvements in Agency programs and operations. Most of these are tied to the implementation of the interfaced financial management system and improvements in financial management policies and procedures.

Table 3-1 Management Action on Recommendations That Funds Be Put to Better Use

	Recommendations	Dollar Value ($000)
Beginning balance 10/1/00	4	604
Management decisions during fiscal year	6	186,352
Final action	6	4,364
Recommendations implemented	6	4,364
Recommendations not implemented	-	-
Ending balance 9/30/01	4	182,592

Table 3-2 Management Action on Audits with Disallowed Costs

	Recommendations	Dollar Value ($000)
Beginning balance 10/1/00	138	34,039
Management decisions during fiscal year	212	14,098
Final action	251	40,942
Recommendations implemented	216	28,549
Recommendations not implemented	35	12,393
Ending balance 9/30/01	99	7,195

CONSOLIDATED BALANCE SHEET (AUDITED)

U.S. Agency for International Development

Consolidated Balance Sheet as of September 30, 2001 and 2000 (In Thousands)

	2001	2000
ASSETS		
Intragovernmental		
Fund Balance with Treasury (Note 2)	$11,214,407	$11,120,290
Accounts Receivable (Note 3)	423,577	473,166
Advances and Prepayments (Note 4)	76,838	63,609
Total Intragovernmental	11,714,822	11,657,065
Cash and Other Monetary Assets (Note 5)	213,176	153,170
Accounts Receivable, Net (Note 3)	31,018	48,643
Loans Receivable, Net (Note 6)	5,533,169	6,637,712
Operating Materials and Supplies (Note 7)	26,099	21,122
General Property, Plant, and Equipment, Net (Note 8 and 9)	45,373	35,969
Advances and Prepayments (Note 4)	270,237	727,571
Total Assets	**17,833,894**	**19,281,252**
LIABILITIES (Note 16)		
Intragovernmental		
Accounts Payable (Note 10)	35,496	86,047
Debt (Note 11)	64,528	116,485
Due to U.S. Treasury	5,278,463	6,374,536
Other Liabilities (Note 12, 13, and 14)	30,872	105,512
Total Intragovernmental	5,409,359	6,682,580
Accounts Payable (Note 10)	1,160,274	1,287,152
Loan Guarantee Liability (Note 6)	1,167,235	1,096,341
Federal Employees and Veteran's Benefits (Note 14)	30,905	29,819
Other Liabilities (Note 12)	266,437	209,499
Total Liabilities	**8,034,210**	**9,305,391**
Commitments and Contingencies (Note 15)		
NET POSITION		
Unexpended Appropriations	9,789,358	9,989,030
Cumulative Results of Operations	10,326	(13,169)
Total Net Position	**9,799,684**	**9,975,861**
Total Liabilities and Net Position	**$17,833,894**	**$19,281,252**

The accompanying footnotes are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF NET COST (UNAUDITED)

U.S. Agency for International Development

Consolidated Statement of Net Cost for the years ended September 30, 2001 and 2000 (In Thousands)

	2001	2000
Costs:		
Broad-Based Economic Growth and Agricultural Development		
Intragovernmental	$142,665	$71,902
With the Public	2,969,869	3,261,285
Total	3,112,534	3,333,187
Less earned revenues	(9,970)	(13,165)
Net program costs	3,102,564	3,320,022
Strengthen Democracy and Good Governance		
Intragovernmental	29,678	53,463
With the Public	666,444	296,158
Total	696,122	349,621
Less earned revenues	-	-
Net program costs	696,122	349,621
Human Capacity Built Through Education and Training		
Intragovernmental	18,059	7,129
With the Public	349,582	118,463
Total	367,641	125,592
Less earned revenues	-	-
Net program costs	367,641	125,592
Stabilizing World Population and Protecting Human Health		
Intragovernmental	51,124	89,107
With the Public	1,026,046	1,362,322
Total	1,077,170	1,451,429
Less earned revenues	(14,611)	(14,368)
Net program costs	1,062,559	1,437,061
Protect the Environment for Long-Term Sustainability		
Intragovernmental	25,032	73,502
With the Public	434,982	376,486
Total	460,014	449,988
Less earned revenues	(5,805)	(1,442)
Net program costs	454,209	448,546
Promote Humanitarian Assistance		
Intragovernmental	38,269	71,114
With the Public	1,319,788	1,021,745
Total	1,358,057	1,092,859
Less earned revenues	(39,421)	(36,939)
Net program costs	1,318,636	1,055,920
Less earned revenues not attributed to programs	(12,196)	(6,294)
Net Cost of Operations (Note 17)	**$6,989,535**	**$6,730,468**

CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION (AUDITED)

U.S. Agency for International Development

Consolidated Changes in Net Position for the years ended September 30, 2001 and 2000 (In Thousands)

	2001	2000
Net Cost of Operations	$(6,989,535)	$(6,730,468)
Financing Sources (other than exchange revenues)		
Appropriations Used	6,941,692	6,663,278
Donated Revenue	47,918	57,043
Imputed Financing	12,380	17,985
Other Financing Sources	-	226
Net Results of Operations	12,455	8,064
Prior Period Adjustments (Note 18)	11,040	-
Net Change in Cumulative Results of Operations	23,495	8,064
Increase (Decrease) in Unexpended Appropriations	(199,672)	203,319
Change in Net Position	(176,177)	211,383
Net Position-Beginning of Period	9,975,861	9,764,478
Net Position-End of Period	**9,799,684**	**9,975,861**

The accompanying footnotes are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF BUDGETARY RESOURCES (AUDITED)

U.S. Agency for International Development

Consolidated Statement of Budgetary Resources for the years ended September 30, 2001 and 2000 (In Thousands)

	2001	2000 Restated
Budgetary Resources: (Notes 19 and 20)		
Budget Authority	$6,857,262	$6,823,903
Unobligated Balances - Beginning of Period	2,228,559	1,957,279
Spending Authority from Offsetting Collections	1,063,294	1,137,734
Adjustments	(880,487)	106,820
Total Budgetary Resources	**9,268,628**	**10,025,736**
Status of Budgetary Resources:		
Obligations Incurred	6,804,038	6,928,676
Unobligated Balances - Available	2,450,907	2,098,471
Unobligated Balances - Not Available	13,683	998,589
Total, Status of Budgetary Resources	**9,268,628**	**10,025,736**
Outlays:		
Obligations Incurred	6,804,038	6,928,676
Less: Spending Authority from Offsetting Collections and Adjustments	(1,169,319)	(1,359,553)
Obligated Balance, Net - Beginning of Period	9,326,315	9,306,691
Less: Obligated Balance, Net - End of Period	(9,223,430)	(9,326,315)
Total Outlays	**$5,737,604**	**$5,549,499**

The accompanying footnotes are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCING (UNAUDITED)

U.S. Agency for International Development

Consolidated Statement of Financing for the years ended September 30, 2001 and 2000 (In Thousands)

	2001	2000
Obligations and Nonbudgetary Resources		
Obligations Incurred	$6,804,038	$6,928,676
Less: Spending Authority from Offsetting Collections and Adjustments		
Earned Reimbursements		
Collected	(1,068,762)	(1,129,178)
Receivable from Federal Sources	5,799	(8,555)
Change in unfilled customer orders	(331)	(1)
Donations Not in the Entity's Budget	47,918	56,800
Financing Imputed for Cost Subsidies	12,380	17,985
Exchange Revenue Not in the Budget	(228,123)	(378,300)
Total Obligations as Adjusted, and Nonbudgetary Resources	5,572,919	5,487,427
Resources That Do Not Fund Net Cost of Operations		
Change in Amount of Goods, Services, and Benefits Ordered but not yet Received or Provided	267,523	(169,869)
Change in Unfilled Customer Orders	331	1
Costs Capitalized on the Balance Sheet		
General Property, Plant, and Equipment, Net	(12,394)	(13,866)
Loans	(79,591)	(262,517)
Purchases of Inventory	(4,978)	(5,603)
Financing Sources that Fund Costs of Prior Periods	(6,007)	-
Collections that Decrease Credit Program Receivables or Increase Credit Program Liabilities	(62,202)	(43,396)
Adjustment for trust fund outlays that do not affect net cost	(3,187)	-
Other (Note 21)	1,314,636	1,616,832
Total resources that do not fund net cost of operations	1,414,131	1,121,582
Costs That Do Not Require Resources		
Depreciation and amortization	6,863	5,216
Other	(5,464)	40,659
Total costs that do not require resources	1,399	45,875
Financing Sources Yet to be Provided (Note 14)	1,086	75,584
Net Cost of Operations	**$6,989,535**	**$6,730,468**

The accompanying footnotes are an integral part of these financial statements.

NOTES TO THE PRINCIPAL FINANCIAL STATEMENTS

NOTE 1.

Summary of Significant Accounting Policies

A. Basis of Presentation

These financial statements report USAID's financial position and results of operations. They have been prepared using USAID's books and records in accordance with Agency accounting policies, the most significant of which are summarized in this note. The statements are presented in accordance with the applicable form and content requirements of OMB Bulletin 97-01 and 01-09, Form and Content of Agency Financial Statements, and the Government Management Reform Act of 1994.

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

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

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

Economic Support Fund

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

Development Assistance

This 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.

Central America and the Caribbean Emergency Disaster Recovery Fund

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

Transition Initiatives

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

Direct and Guaranteed Loans:

Direct Loan

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

Urban and Environmental

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

Micro and Small Enterprise Development

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

Israeli Loan Guarantee

Congress enacted the Israeli Loan Guarantee Program in Section 226 of the Foreign Assistance Act to support the costs for immigrants resettling 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 FY 1999, with approximately $9.2 billion being guaranteed. Guarantees are made by USAID on behalf of the U.S. Government, with funding responsibility and basic administrative functions resting with USAID.

Ukraine Loan Guarantee

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

Development Credit Authority

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

Fund Types

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

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

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

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

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

C. Basis of Accounting

The accompanying financial statements have been prepared on an accrual basis. Under the accrual method of accounting, 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.

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).

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

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

E. Revenues and Other Financing Sources

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

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

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

F. Fund Balances with the U.S. Treasury

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

G. Foreign Currency

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

H. Accounts Receivable

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

I. Loans Receivable

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

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

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

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

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

J. Advances and Prepayments

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

K. Operating Materials and Supplies

USAID has operating materials and supplies held for use that 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 contraceptive supplies stored at several sites.

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

L. Property, Plant and Equipment

USAID capitalizes all property, plant and equipment that has an acquisition cost of $25,000 or greater and a useful life of two 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 basis equivalent to other Federal spending. Consequently, commencing in FY 1992, the loan program's funding for activities changed so that activities are funded through direct appropriation provided for that year only, rather than through cumulative appropriations granted in prior years and accumulated under the Revolving Fund.

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

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

O. Annual, Sick, and Other Leave

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

P. Retirement Plans and Post Employment Benefits

USAID employees are covered by one of four retirement plans. There are two Civil Service plans, Civil Service Retirement System (CSRS) and Federal Employees Retirement System (FERS), and two foreign service plans, Foreign Service Retirement and Disability System (FSRDS) and the Foreign Services Pension System (FSPS). The Agency contributes approximately 7.5 percent of an employee's gross salary for CSRS and FSRDS, and approximately 24 percent of an employee's gross salary for FERS and FSPS.

Employees may elect to participate in the Thrift Savings Plan (TSP). Under this plan, FERS and FSPS employees may elect to have up to 10 percent, but not to exceed $10,500, of gross earnings withheld from their salaries and receive matching contributions from a minimum of one percent to a maximum of five percent. CSRS and FSRDS employees may elect to have up to five percent of gross earnings withheld from their salaries, but they do not receive matching contributions.

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

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

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

Q. Net Position

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

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

R. Non-entity Assets

Non-entity fund balances are amounts in Deposit Fund accounts. These include such items as: funds received from outside sources where the government acts as fiscal agent, monies the government has withheld awaiting distribution based on legal determination, and unidentified remittances credited as suspense items outside the budget.

S. Program Costs

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

1. Broad-Based Economic Growth and Agricultural Development Encouraged
2. Democracy and Good Governance Strengthened
3. Human Capacity Built Through Education and Training
4. World Population Stabilized and Human Health Protected
5. The World's Environment Protected for Long-Term Sustainability
6. Lives Saved, Suffering Reduced, and Conditions for Political and Economic Development Re-established.

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

NOTE 2.

Fund Balances with Treasury (In Thousands)

Fund Balances with the Treasury as of September 30, 2001 and 2000 are shown in Table Note 2.

As of September 30, 2001 there was a cash reconciliation difference of $38 million between USAID and the Department of the Treasury's Fund Balances. The difference as of September 30, 2000 was $18.7 million. For FY 2001 and FY 2000 reporting purposes, USAID adjusted its fund balance downward by these differences to equal the Department of the Treasury's fund balance. By adjusting USAID's fund balance to equal the Treasury's fund balance, there is consistency between various published reports. Also, based on past experience, the Department of the Treasury's balances are more accurate and the differences are usually cleared when USAID processes the required disbursements.

The $38 million cash reconciliation difference was posted to separate Fund Balance sub-accounts and the cash differences remain identified as such. USAID is currently performing a reconciliation of the $38 million total amount in these accounts and will make adjustments accordingly.

Table Note 2

Fund Balances With Treasury (In Thousands)		
Fund Balances with Treasury as of September 30, 2001 and 2000 consisted of the following:		
Fund Balances:	2001	2000
Trust Funds	$14,429	$14,357
Revolving Funds	1,012,026	993,513
Appropriated Funds	10,245,763	10,131,380
Other Funds	(57,811)	(18,960)
Total	**$11,214,407**	**$11,120,290**
Status of Fund Balances:	2001	2000
Unobligated Balance		
Available	$2,499,633	$2,100,163
Unavailable	13,679	84,276
Obligated Balance Not Yet Disbursed	8,701,095	8,935,851
Total	**$11,214,407**	**$11,120,290**

NOTE 3.

Accounts Receivable, Net (In Thousands)

The primary components of USAID's accounts receivable as of September 30, 2001 and 2000 were as shown in Table Note 3a.

Table Note 3a

Accounts Receivable, Net (In Thousands)

The primary components of USAID's accounts receivable as of September 30, 2001 and 2000 were as follows:

	Receivable Gross	Allowance Accounts	Receivable Net 2001	Receivable Net 2000
Entity				
Intragovernmental				
Appropriation Reimbursements from Federal Agencies	$202	$N/A	$202	$24,280
Accounts Receivable from Federal Agencies	7,596	N/A	7,596	448,741
Disbursing Authority Receivable from USDA	415,779	N/A	415,779	145
Total Intragovernmental	$423,577	N/A	$423,577	$473,166
Accounts Receivable	$39,906	$(11,620)	$28,286	$4,650
Total Entity	$463,483	$(11,620)	$451,863	$477,816
Total Non Entity	4,201	$(1,470)	2,731	$43,993
Total Receivables	**$467,684**	**$(13,090)**	**$454,594**	**$521,809**

Reconciliation of Uncollectible Amounts (Allowance Accounts)

Entity Intragovernmental accounts receivable consist of amounts due from other U.S. Government agencies. No allowance has been established for the intragovernmental accounts receivable, which are considered to be 100 percent collectible. Disbursing Authority Receivable from USDA consists of obligational authority from the U.S. Department of Agriculture's Commodity Credit Corporation. The authority is for payment of transportation costs incurred by USAID associated with the shipment of P.L. 480, Title II and III commodities; Farmer-to-Farmer Technical Assistance Programs; and for assistance to private voluntary organizations, cooperatives, and international organizations. Collections against this receivable are realized when USAID requests a transfer of funds from USDA to cover incurred expenses.

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

Interest receivable is calculated separately and there is no interest included in the accounts receivable Table Note 3b.

Table Note 3b

Note 3. Accounts Receivable, Net (In Thousands)

Reconciliation of Uncollectible Amounts (Allowance Accounts)

	2001	2000
Beginning Balance	$11,463	$9,746
Additions	1,954	1,936
Reductions	(327)	(219)
Ending Balance	**$13,090**	**$11,463**

NOTE 4.

Advances and Prepayments (In Thousands)

Advances and Prepayments as of September 30, 2001 and 2000 appear in Table Note 4.

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 (In Thousands)

Cash and Other Monetary Assets as of September 30, 2001 and 2000 are shown in Table Note 5.

USAID has imprest funds in various overseas locations. These funds are provided by the Department of State overseas U.S. Disbursing Officers to which USAID is liable for any shortages. USAID's portion of the Department of State imprest funds provided to USAID was $3.8 million in FY 2001 and $3 million in FY 2000. These imprest funds are not included in USAID's Balance Sheet.

USAID/Washington imprest funds of $10 thousand in FY2001 are being held in reserve in anticipation of emergency relief efforts for Afghanistan. Foreign Currencies are related to Foreign Currency Trust Funds and this amounted to $213 million in FY 2001 and $153 million in FY 2000. USAID does not have any non-entity cash or other monetary assets.

Table Note 4

Advances and Prepayments (In Thousands)

Advances and Prepayments as of September 30, 2001 and 2000 consisted of the following:

Intragovernmental	2001	2000
Advances to Federal Agencies	$76,838	$63,609
Total Intragovernmental	$76,838	$63,609
Advances to Contractors/ Grantees	$190,000	$723,745
Travel Advances	3,920	12
Advances to Host Country Governments and Institutions	42,071	
Prepayments	20,627	2,091
Advances, Other	13,619	1,723
Total Advances and Prepayments	**$347,075**	**$791,180**

Table Note 5

Cash and Other Monetary Assets (In Thousands)

Cash and Other Monetary Assets as of September 30, 2001 and 2000 consisted of the following:

Cash and Other Monetary Assets	2001	2000
Impress Fund - Headquarters	$10	$-
UE and Micro and Small Enterprise Fund Cash w/Fiscal Agent	50	50
Foreign Currencies	213,116	153,120
Total Cash and Other Monetary Assets	**$213,176**	**$153,170**

NOTE 6.

Loans Receivable and Liabilities for Loan Guarantees (In Thousands)

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

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

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

The Credit Reform Act of 1990 prescribes an alternative method of accounting for direct loans and guarantees resulting from obligations made after FY 1991. Subsidy cost, which is the net present value of the cash flows (i.e., interest rates, interest supplements, estimated defaults, fees, and other cash flows) associated with direct loans and guarantees, is required by the Act to be recognized as an expense in the year in which the direct loan or guarantee is disbursed. Subsidy cost is calculated by

Table Note 6a

Loans Receivable and Liabilities for Loan Guarantees (In Thousands)

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

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

Direct Loans Obligated Prior to FY 1992 (Allowance for Loss Method) as of September 30, 2000:

Loan Programs	Loans Receivable Gross	Interest Receivable	Allowance For Loan Losses	Value of Assets Related to Direct Loans
Direct Loan	$9,994,966	$351,522	$3,989,920	$6,356,568
MSED	1,872	19	1,747	144
Total	**$9,996,838**	**$351,541**	**$3,991,667**	**$6,356,712**

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

Loan Programs	Loans Receivable Gross	Interest Receivable	Allowance For Loan Losses	Value of Assets Related to Direct Loans
Direct Loan	$176,058	$ -	$180,622	$(4,564)
MSED	657	35	468	224
Total	**$176,715**	**$35**	**$181,090**	**$(4,340)**

Direct Loans Obligated After FY 1991 as of September 30, 2000:

Loan Programs	Loans Receivable Gross	Interest Receivable	Allowance For Loan Losses	Value of Assets Related to Direct Loans
Direct Loan	$166,240	$ -	$162,471	$3,769
MSED	1,379	(92)	239	1,048
Total	**$167,619**	**$(92)**	**$162,710**	**$4,817**

Table Note 6b

Loans Receivable and Liabilities for Loan Guarantees (In Thousands)

Total Amount of Direct Loans Disbursed:

Direct Loan Programs	2001	2000
Direct Loan	$9,567,008	$10,161,206
MSED	2,144	3,251
Total	**$9,569,152**	**$10,164,457**

Subsidy Expenses for Post-1991 Direct Loans as of September 30, 2000:

1 Current Year's Direct Loans
There were no subsidy expenses for FY 2000.

2 Direct Loan Modification and Reestimates
There were no modifications or reestimates.

3 Total Direct Loan Subsidy Expense
None.

Subsidy Expenses for Post-1991 Direct Loans as of September 30, 2001:

1 Current Year's Direct Loans
There were no subsidy expenses for FY 2001.

2 Direct Loan Modification and Reestimates
There were no modifications or reestimates.

3 Total Direct Loan Subsidy Expense
None.

Schedule for Reconciling Subsidy Cost Allowance Balances (Post-1991 Direct Loans) as of September 30, 2001:

	Direct Loan	MSED	Total
Beginning balance of the subsidy cost allowance	$162,471	$346	$162,817
Adjustments:			
Loan modifications	20,967	-	20,967
Subsidy allowance amortization	(5,537)	122	(5,415)
Other	2,721	-	2,721
Ending balance of the subsidy cost allowance	**$180,622**	**$468**	**$181,090**

Schedule for Reconciling Subsidy Cost Allowance Balances (Post-1991 Direct Loans) as of September 30, 2000:

	Direct Loan	MSED	Total
Beginning balance of the subsidy cost allowance	$135,826	$376	$136,202
Adjustments:			
Loan modifications	34,819	-	34,819
Subsidy allowance amortization	(7,978)	(30)	(8,008)
Other	(196)	-	(196)
Ending balance of the subsidy cost allowance	**$162,471**	**$346**	**$162,817**

Agency program offices prior to obligation using a model prescribed by the 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 Table Notes 6a, 6b, 6c, and 6d.

The 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.

Loan Guarantees Outstanding are not presented on the face of the financial statement but instead are used to calculate the liability for loan guarantees presented in Table Notes 6e and 6f.

Table Note 6c

Loans Receivable and Liabilities for Loan Guarantees (In Thousands)

Defaulted Guaranteed Loans from Pre-1992 Guarantees (Allowance for Loss Method) as of September 30, 2001:

Loan Guarantee Programs	Defaulted Guaranteed Loan Receivable, Gross	Interest Receivable	Allowance For Loan Losses	Defaulted Guaranteed Loan Receivable, Net
UE	$425,258	$47,587	$275,336	$197,509
Total	**$425,258**	**$47,587**	**$275,336**	**$197,509**

Defaulted Guaranteed Loans from Pre-1992 Guarantees (Allowance for Loss Method) as of September 30, 2000:

Loan Guarantee Programs	Defaulted Guaranteed Loan Receivable, Gross	Interest Receivable	Allowance For Loan Losses	Defaulted Guaranteed Loan Receivable, Net
UE	$447,497	$45,670	$219,344	$273,823
Total	**$447,497**	**$45,670**	**$219,344**	**$273,823**

Defaulted Guaranteed Loans from Pre-1991 Guarantees:

The Urban and Environment Credit Program experienced $2.9 million in defaults on payments that were due in FY 2001 on post-1991 guaranteed loans. The same program experienced $1.5 million in defaults in FY 2000.

Table Note 6d

Loans Receivable and Liabilities for Loan Guarantees (In Thousands)

Guaranteed Loans Outstanding:

	2001		2000	
Loan Programs	Outstanding Principal, Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed	Outstanding Principal, Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
UE	$2,160,006	$2,160,006	$2,250,363	$2,250,363
MSED	118,650	59,325	27,691	15,075
Israel	9,226,200	9,226,200	9,226,200	9,226,200
DCA	135,750	63,025	-	-
Total	$11,640,606	$11,508,556	$11,504,254	$11,491,638

Table Note 6e

Loans Receivable and Liabilities for Loan Guarantees (In Thousands)

New Guaranteed Loans Disbursed (FY 2001):

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

New Guaranteed Loans Disbursed (FY 2000):

Loan Programs	Outstanding Principal, Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
UE	$20,000	$20,000
MSED	692	346
Total	**20,692**	**$20,346**

Table Note 6f

Loans Receivable and Liabilities for Loan Guarantees (In Thousands)

Liability for Loan Guarantees (Estimated Future Default Claims Pre-1992) as of September 30, 2001:

Loan Programs	Liability for Losses on Pre-1992 Guarantees, Estimate Future Default Claims	Liabilities for Loan Guarantees for Post-1991 Guarantees Present Value	Total Liabilities For Loan Guarantees
UE	$465,765	$74,944	$540,709
MSED	-	289	289
Israel	-	626,050	626,050
DCA	-	187	187
Total	$465,765	$701,470	$1,167,235

Liability for Loan Guarantees (Estimated Future Default Claims Pre-1992) as of September 30, 2000:

Loan Programs	Liability for Losses on Pre-1992 Guarantees, Estimate Future Default Claims	Liabilities for Loan Guarantees for Post-1991 Guarantees Present Value	Total Liabilities For Loan Guarantees
UE	$441,469	$65,507	$506,976
MSED	-	2,633	2,633
Israel	-	586,629	586,629
DCA	-	103	103
Total	$441,469	$654,872	$1,096,341

Table Note 6g

Subsidy Expense for Loan Guarantees by Program and Component

Loans Receivable and Liabilities for Loan Guarantees (In Thousands)

Subsidy Expense for New Loan Guarantees for the year ending September 30, 2001:

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

Subsidy Expense for New Loan Guarantees for the year ending September 30, 2000:

Loan Guarantee Programs	Defaults	Fees and Other Collections	Total
UE	$4,452	$(1,108)	$3,344
MSED	160	(53)	107
Total	**$4,612**	**$(1,161)**	**$3,451**

Loans Receivable and Liabilities for Loan Guarantees (In Thousands)

Modifications and Reestimates for the year ending September 30, 2001:

Loan Guarantee Programs	Interest Rate Reestimates	Technical Reestimates	Total Reestimates
UE	$612	$3,538	$4,150
MSED	1,470	(963)	507
Total	**$2,082**	**$2,575**	**$4,657**

Modifications and Reestimates for the year ending September 30, 2000:

Loan Guarantee Programs	Interest Rate Reestimates	Technical Reestimates	Total Reestimates
UE	$(2,384)	$10,933	$8,549
MSED	13	969	982
Total	**$(2,371)**	**$11,902**	**$9,531**

Total Loan Guarantee Subsidy Expense:

Loan Guarantee Programs	2001	2000
DCA	$700	$-
UE	4,150	11,893
MSED	507	1,089
Total	**$5,357**	**$12,982**

Table Note 6h

Subsidy Rates for Loan Guarantees by Program and Component

Loans Receivable and Liabilities for Loan Guarantees (In Thousands)

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

Loan Guarantee Programs	Defaults (%)	Fees and Other Collections (%)	Total (%)
DCA	4.53%	(1.94)%	2.59%
Total	**4.53%**	**(1.94)%**	**2.59%**

Loans Receivable and Liabilities for Loan Guarantees (In Thousands)

Schedule for Reconciling Loan Guarantee Liability Balances (Post-1991 Direct Loans) as of September 30, 2001:

	DCA	MSED	UE	Israel	Ukraine	Total
Beginning balance of loan guarantee liability	$103	$2,633	$65,507	$586,628	$32,104	$686,975
Add: subsidy expense for guaranteed loans disbursed during the reporting years by component:						
Other subsidy costs	700	-	-	-	-	700
Adjustments:						
Fees received	159	201	2,499	-	-	2,859
Claim payments to lenders	-	-	(2,934)	-	-	(2,934)
Interest accumulation on the liability balance	-	19	4,919	39,421	2,189	46,548
Other	-	(2,038)	9,262	-	-	7,224
Ending balance of the loan guarantee liability before reestimates	**962**	**815**	**$79,253**	**$626,049**	**$34,293**	**$741,372**
Add or substract subsidy reestimates by component:						
Interest rate reestimate	-	1,690	(15,484)	-	(8,936)	(22,730)
Technical/default reestimate	(750)	(2,216)	11,176	-	(25,357)	(17,147)
Total of the above reestimate components	**(750)**	**(526)**	**(4,308)**	**-**	**(34,293)**	**(39,877)**
Ending balance of loan guarantee liability	**$212**	**$289**	**$74,945**	**$626,049**	**$-**	**$701,495**

Schedule for Reconciling Loan Guarantee Liability Balances (Post-1991 Direct Loans) as of September 30, 2000:

	DCA	MSED	UE	Israel	Ukraine	Total
Beginning balance of loan guarantee liability	$-	$1,935	$68,108	$549,689	$30,054	$649,786
Adjustments:						
Fees received	103	74	2,646	-	-	2,823
Claim payments to lenders	-	(85)	(2,380)	-	-	(2,465)
Interest accumulation on the liability balance	-	-	-	36,939	2,050	38,989
Other	-	(273)	9,773	-	-	9,500
Ending balance of the loan guarantee liability before reestimates	**103**	**1,651**	**$78,147**	**$586,628**	**$32,104**	**$698,633**
Interest rate reestimate	-	13	(2,384)	-	-	(2,371)
Technical/default reestimate	-	969	(10,256)	-	-	(9,287)
Total of the above reestimate components	**-**	**982**	**(12,640)**	**-**	**-**	**(11,658)**
Ending balance of loan guarantee liability	**$103**	**$2,633**	**$65,507**	**$586,628**	**$32,104**	**$686,975**

Other Information

Table Note 6i

Loans Receivable and Liabilities for Loan Guarantees (In Thousands)

Administrative Expenses:

Loan Programs	2001	2000
DCA	$3,083	$-
UE	548	5,112
MSED	714	452
Total	**$4,345**	**$5,564**

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. Fourteen countries are in violation of Section 620q of the Foreign Assistance Act (FAA), owing a total of $88,805,465.95 that is more than six months delinquent. Twelve countries are in violation of the Brooke-Alexander Amendment to the Foreign Operations Export Financing and Related Programs Appropriations Act, owing a total of $499,222,177.48 that is more than one year delinquent. Outstanding direct loans receivable for countries in violation of section 620q totaled $78,268,292.72. Outstanding direct loans receivable for countries in violation of the Brooke Amendment totaled $459,117,530.56.

2. The MSED Liquidating Account general ledger has a loan receivable balance of $1.9 million. The Riggs Bank/Metavante loan servicing system shows loans receivable in the amount of $1.1 million. The difference is due to the inclusion of two additional loans in the USAID general ledger totaling $792,174.39. These loans are being carried at 100% bad debt allowance.

3. The Ukraine program guarantees have expired. No defaults were experienced. Closeout is expected to take place in FY 2002.

NOTE 7.

Operating Materials and Supplies (In Thousands)

Operating Supplies and Materials as of September 30, 2001 and 2000 appear in Table Note 7. Operating Materials and Supplies are valued at historical cost and considered not held for sale.

NOTE 8.

General Property, Plant, and Equipment, Net (In Thousands)

The components of PP&E at September 30, 2001 and at September 30, 2000 appear in Table Note 8. USAID PP&E includes assets located in Washington, DC offices and overseas field missions.

- For FY 2001, USAID capitalization criteria for assets was $25,000. Assets meeting this criteria are depreciated using the half-year straight line depreciation method.
- Equipment consists primarily of electric generators, ADP hardware, vehicles and copiers located at the overseas field missions.
- 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.

Table Note 7

Operating Materials and Supplies (In Thousands)

Operating Supplies and Materials as of September 30, 2001 and 2000:

	2001	2000
Items Held for Use		
Office Supplies	$7,225	$6,728
Items Held in Reserve for Future Use		
Diaster assistance materials and supplies	7,478	5,912
Birth control supplies	11,396	8,482
Total	**$26,099**	**$21,122**

Table Note 8

General Property, Plant and Equipment, Net (In Thousands)

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

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

The components of PP&E at September 30, 2000 were:

	Useful Life	Cost	Accumulated Depreciation	Net Book Value
Classes of Fixed Assets				
Equipment	3 to 5 years	$35,718	$(27,397)	$8,321
Buildings, Improvements, & Renovations	20 years	34,651	(12,840)	21,811
Land and Land Rights	N/A	3,434	-	3,434
Assets Under Capital Lease		2,424	(460)	1,964
Construction in Progress	N/A	439	-	439
Total		**$76,666**	**$(40,697)**	**$35,969**

- 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 (In Thousands)

Leases as of September 30, 2001 and 2000 are represented in Table Note 9.

Of the $498 million in future lease payments, $329 million is attributable to the Ronald Reagan Building in Washington DC, USAID's headquarters. The remaining $169 million relates to other USAID/ Washington activity and mission-related operating leases.

NOTE 10.

Accounts Payable (In Thousands)

The Accounts Payable covered by budgetary resources as of September 30, 2001 and 2000 appears in Table Note 10.

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.

Table Note 9

Leases (In Thousands)

Leases as of September 30, 2001 and 2000 consisted of the following:

Entity as Lessee:	2001	2000
Capital Leases:		
Summary of Assets Under Capital Lease:		
Buildings	$3,399	$2,424
Accumulated Depreciation	424	460
Future Payments Due:		
Fiscal Year	**Future Costs**	**Future Costs**
2001	N/A	$117
2002	$194	116
2003	192	116
2004	190	116
2005	190	116
2006	176	N/A
After 5 Years	2,033	1,383
Lease Liabilities Covered by Budgetary Resources	**$2,975**	**$1,964**

Operating Leases:

Future Payments Due	2001	2000
Fiscal Year	**Future Costs**	**Future Costs**
2001	N/A	$59,333
2002	$70,090	60,954
2003	65,182	58,422
2004	62,977	56,696
2005	58,538	53,839
2006	57,006	N/A
After 5 Years	184,754	218,867
Total Future Lease Payments	**$498,547**	**$508,111**

Table Note 10

Accounts Payable (In Thousands)

The Accounts Payable covered by budgetary resources as of September 30, 2001 and 2000 consisted of the following:

	2001	2000
Intragovernmental		
Accounts Payable	$35,496	$86,047
Disbursements in Transit	-	-
Total Intragovernmental	$35,496	$86,047
Accounts Payable	$1,160,263	$1,285,063
Disbursements in Transit	11	2,089
Total Accounts Payable	**$1,195,770**	**$1,373,199**

NOTE 11.

Debt (In Thousands)

USAID Intragovernmental debt as of September 30, 2001 and 2000 consisted of the borrowings, shown in Table Note 11, from Treasury for post-1991 loan programs, which is classified as other debt.

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

This disclosed debt is principal payable to Treasury, which represents borrowings from the Treasury under the Credit Reform Act. In addition, there is net liquidating account equity in the amount of $5.3 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 (In Thousands)

As of September 30, 2001, and September 30, 2000, Other Liabilities appear in Table Note 12.

Table Note 11

Debt (In Thousands)

USAID Intragovernmental debt as of September 30, 2001 and 2000 consisted of the following borrowings from Treasury for post-1991 loan programs, which is classified as other debt:

	2000 Beginning Balance	Net Borrowing	2000 Ending Balance	Net Borrowing	2001 Ending Balance
Urban & Environmental	$48,000	$(48,000)	$-	$-	$-
Direct Loan	148,234	(33,462)	114,772	(51,957)	62,815
MSED	1,713	-	1,713	-	1,713
Total Debt	**$197,947**	**$(81,462)**	**$116,485**	**$(51,957)**	**$64,528**

Table Note 12

Other Liabilities (In Thousands)

As of September 30, 2001 and 2000 Other Liabilities consisted of the following:

	2001	2000
Intragovernmental		
OPAC Suspense	$(35,876)	$(461)
Deposit and Clearing Accounts	3,578	(774)
Unfunded FECA Liability	7,416	7,445
Other	55,754	99,302
Total Intragovernmental	$30,872	$105,512
Accrued Funded Payroll/Benefits	$11,746	$10,881
Deferred Credit	1,793	2,380
Liability for Deposit Funds and Suspense Accounts - Non-Entity	(100)	3,051
Foreign Currency Trust Fund	213,116	153,119
Trust Fund Balances	14,388	14,235
Unfunded Leave	25,490	25,826
Other	4	7
Total Other Liabilities	**$297,309**	**$315,011**

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 (In Thousands)

Accrued unfunded benefits for annual leave and separation pay as of September 30, 2001 and 2000 are shown in Table Note 13.

Table Note 13

Accrued Unfunded Annual Leave and Separation Pay (In Thousands)

Accrued unfunded benefits for annual leave and separation pay as of September 30, 2001 and 2000 are:

	2001	2000
Liabilities Not Covered by Budgetary Resources		
Accrued Annual Leave	$25,485	$25,587
FSN Separation Pay Liability	5	239
Total Accrued Unfunded Annual Leave and Separation Pay	**$25,490**	**$25,826**

NOTE 14.

Accrued Unfunded Workers' Compensation Benefits (In Thousands)

The provision for workers' compensation benefits payable, as of September 30, 2001 and 2000 appear in Table Note 14.

Table Note 14

Accrued Unfunded Workers' Compensation Benefits (In Thousands)

The provision for workers' compensation benefits payable, as of September 30, 2001 and 2000 are as follows:

	2001	2000
Liabilities Not Covered by Budgetary Resources		
Accrued Unfunded Workers' Compensation	$7,416	$7,445
Future Workers' Compensation Benefits	30,905	29,819
Total Accrued Unfunded Workers' Compensation Benefits	**$38,321**	**$37,264**

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

USAID's total FECA liability is $38.3 million as of September 30, 2001 and comprises of unpaid FECA billings for $7.4 million and estimated future FECA costs of $30.9 million.

For FY 2000, USAID's total FECA liability was $37.2 million and comprised of unpaid FECA billings for $7.4 million and estimated future FECA costs of $29.8 million.

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

The increase of $1.1 million for Future Workers' Compensation Benefits is shown as a financing source yet to be provided on the Statement of Financing.

NOTE 15.

Commitments and Contingencies

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

USAID is involved in a group of cases before the U.S. Court of Federal Claims which disputes appropriate indirect cost rates to be charged where contract rates do not match Negotiated Indirect Cost Rate Agreement (NICRA) rates. It is reasonably possible that USAID might lose this case. Any adverse judgment would likely be paid out of the Department of Justice's Judgment Fund, but then be reimbursed by the Agency. In this case the amounts claimed are $2.2 million, exclusive of Equal Access to Justice Fees. To date, discovery has officially concluded on one of the cases in this group. Agreement was not reached during settlement discussions, and this case awaits reassignment to another judge for further proceedings.

USAID is involved in a case before the Armed Service Board of Contract Appeals to dispute a matter related to fair opportunity to compete an indefinite quantity, multiple award, task order contract for advisory services, technical assistance, and training in the area of sustainable urban management. The case is in the preliminary stages, and discovery is ongoing. The Agency intends to file a dispositive motion by March 4, 2002, or may seek mediation. At this time, no estimate of potential loss can be reasonably calculated.

The building in which USAID operates is leased by the General Services Administration (GSA). USAID is charged rent intended to approximate commercial rental rates. Lease payments for FY 2001 and 2000 amounted to $32.8 million and $28.8 million respectively. An approximate increase of 2.2% will take effect in FY 2002.

NOTE 16.

Liabilities Not Covered by Budgetary Resources (In Thousands)

Liabilities not covered by budgetary resources as of September 30, 2001 and 2000 are shown in Table Note 16.

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

Table Note 16

Liabilities Not Covered By Budgetary Resources (In Thousands)

Liabilities not covered by budgetary resources as of September 30, 2001 and 2000 are as follows:

	2001	2000
Contingent Liabilities for Loan Guarantees	$465,765	$441,469
Accrued unfunded annual leave and separation pay	25,490	25,826
Accrued unfunded Workers Compensation Benefits	38,321	37,265
Total Liabilities not covered by Budgetary Resources	$529,576	$504,560
Total Liabilities covered by Budgetary Resources	7,504,634	8,800,831
Total Liabilities	**$8,034,210**	**$9,305,391**

NOTE 17.

Total Cost and Earned Revenue by Budget Functional Classification (In Thousands)

Total Cost and Earned Revenue by Budget Functional Classification as of September 30, 2001 and September 30, 2000 are shown in Table Note 17.

Table Note 17

Total Cost And Earned Revenue By Budget Functional Classification (In Thousands)

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

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

Total Cost and Earned Revenue by Budget Functional Classification, as of September 30, 2000 are as follows:

Function Classification	Gross Cost	Earned Revenue	Net Cost
International Development and Humanitarian Assistance- 151	$4,360,617	$(72,208)	$4,288,409
International Security Assistance- 152	2,396,420	-	2,396,420
Conduct of Foreign Affairs- 153	43,837	-	43,837
Federal Employee Retirement and Disability- 602	1,802	-	1,802
Total	**$6,802,676**	**$(72,208)**	**$6,730,468**

NOTE 18.

Prior Period Adjustments

Three prior period adjustments were made in FY 2001 involving credit program funds.

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

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

There were no prior period adjustments in FY 2000.

NOTE 19.

Statement of Budgetary Resources (In Thousands)

A. Net amount of budgetary resources obligated for undelivered orders at the end of the period are shown in Table Note 19.

B. Information regarding borrowing authority at the end of period and the terms of borrowing authority used:

No borrowing authority was utilized in FY 2001 or FY2000.

C. Information about legal arrangements affecting the use of unobligated balances of budget authority:

Pursuant to Section 511 of PL 105-118 funds shall remain available until expended if such funds are initially obligated before the expiration of their periods of availability. Any subsequent recoveries (deobligations) of these funds become unobligated balances that are available for reprogramming by USAID (subject to OMB approval through the apportionment process).

D. Adjustments to Total Budgetary Resources are comprised of downward obligation adjustments to match unpaid unexpended obligations, cancelled authority, and budget resources rescinded by enacted legislation.

Table Note 19

Statement of Budgetary Resources (In Thousands)

A. Net amount of budgetary resources obligated for undelivered orders at the end of the period:

	2001	2000
Undelivered Orders - Unpaid	$8,099,866	$7,926,726
Undelivered Orders - Paid	352,964	794,808
Total Obligations for Undelivered Orders	**$8,452,830**	**$8,721,534**

E. The Consolidated Statement of Budgetary Resources for FY 2000 was restated to correct an error in presentation for undelivered orders, as reported on line 14, Total Obligated Balance, Net - End of Period. This restatement was made in accordance with SFFAS 21, Reporting Corrections of Errors and Changes in Accounting. The net change in the restated amount was $68.5 million. The restated amount for FY 2000 on line 14 of the Statement of Budgetary Resources is also presented on Line 12, Total Obligated Balance, Net - Beginning of Period for FY 2001.

F. USAID has identified $187 million cumulative remaining balance of undelivered orders (unliquidated obligations) for Washington managed funds that may be in excess of amounts required under these obligations. These amounts will need to be reviewed for possible deobligation in FY 2002.

NOTE 20.

Differences between the Statement of Budgetary Resources and the Budget of the United States Government (In Thousands)

Differences exist between the information presented on the Statement of Budgetary Resources and the amounts described as "actual" in the Budget of the U.S. Government. These differences occur because funds are appropriated to USAID and then allocated out to other agencies. In those cases, the related funds are not included in the Agency's Statement of Budgetary Resources but are included in its part of the U.S. Budget. But sometimes funds that are appropriated to other agencies are then allocated to USAID. In those cases, related funds are included in the Agency's Statement of Budgetary Resources but are not included in its portion of the Budget.

The amounts related to other agency activity as of September 30, 2001 are shown in Table Note 20.

** The difference between the "Allocated to Other Agencies" Obligated Balance - End of Period, FY00, and Obligated Balance - Beginning of Period, FY01, is due to the total transfer of appropriations 1005 and 1032 to the Department of State. These appropriations were no longer maintained by USAID as of the 2001 fiscal year.*

NOTE 21.

Statement of Financing-Other

The $1,314 million shown as "Other" under Resources that Do Not Fund Net Cost of Operations consists of $1,347 million in Actual Collections and Other Payables to Treasury, and ($33) million in adjustments for FY 2001. For FY 2000, these amounts were $1,518 million and $99 million respectively. These items are attributed to Credit Program activity.

Table Note 20

Differences Between the Statement of Budgetary Resources and the Budget of the United States Government (In Thousands)

The amounts related to other agency activity as of September 30, 2001 were as follows:

	Allocated to Other Agencies	Allocated from Other Agencies
Budgetary Resources		
Budget Authority	$236,484	$501,287
Unobligated Balance	13,515	4,813
Spending Authority from Offsetting Collections	(170)	-
Adjustments	5,843	4,122
Total Budgetary Resources	**$255,672**	**$510,222**
Status of Budgetary Resources		
Obligations Incurred	$147,724	$459,527
Unobligated Balances Available	5,538	-
Unobligated Balances Not Available	102,410	50,695
Total Status of Budgetary Resources	**$255,672**	**$510,222**
Obligations Incurred, net of adjustments	$141,916	$455,404
Obligated Balance, Net - Beginning of Period *	43,365	509,765
Obligated Balance, Net - End of Period	(90,921)	(491,396)
Outlays	$94,360	$473,773

The amounts related to other agency activity as of September 30, 2000 were as follows:

	Allocated to Other Agencies	Allocated from Other Agencies
Budgetary Resources		
Budget Authority	$353,159	$480,782
Unobligated Balance	22,396	10,793
Spending Authority from Offsetting Collections	-	-
Adjustments	-	46,164
Total Budgetary Resources	**$375,555**	**$537,739**
Status of Budgetary Resources		
Obligations Incurred	$356,729	$533,926
Unobligated Balances Available	1,063	3,813
Unobligated Balances Not Available	17,763	-
Total Status of Budgetary Resources	**$375,555**	**$537,739**
Obligations Incurred, net of adjustments	$356,729	$487,762
Obligated Balance, Net - Beginning of Period	78,848	421,423
Obligated Balance, Net - End of Period	(84,327)	(509,765)
Outlays	$351,250	$399,420

CONSOLIDATING BALANCE SHEET

U.S. Agency for International Development

Consolidating Balance Sheet as of September 30, 2001 (In Thousands)

	Credit Program Funds	Program Funds	Operating Funds	Revolving Funds	Trust Funds	Other Funds	Eliminating Entries	Total
ASSETS								
Intragovernmental								
Fund Balance with Treasury (Note 2)	$1,032,316	$9,911,612	$309,514	$4,374	$14,429	$(57,838)		$11,214,407
Accounts Receivable (Note 3)	6,231	-	423,288	-	-	82	(6,024)	423,577
Advances and Prepayments (Note 4)	-	75,846	992	-	-	-		76,838
Total Intragovernmental	1,038,547	9,987,458	733,794	4,374	14,429	(57,756)	(6,024)	11,714,822
Cash and Other Monetary Assets (Note 5)	50	10	213,116	-	-	-		213,176
Accounts Receivable, Net (Note 3)	14,739	12,801	746	-	-	2,732		31,018
Loans Receivable, Net (Note 6)	5,533,169	-	-	-	-	-		5,533,169
Operating Materials and Supplies (Note 7)	-	18,874	7,225	-	-	-		26,099
General Property, Plant, and Equipment,	-	414	44,959	-	-	-		45,373
Net (Note 8 and 9)				-	-	-		270,237
Advances and Prepayments (Note 4)	3,877	254,417	11,943					
Total Assets	**6,590,382**	**10,273,974**	**1,011,783**	**4,374**	**14,429**	**(55,024)**	**(6,024)**	**17,833,894**
LIABILITIES (Note 16)								
Intragovernmental								
Accounts Payable (Note 10)	5,609	24,505	10,987	-	-	-	(5,605)	35,496
Debt (Note 11)	64,528	-	-	-	-	-		64,528
Due to U.S. Treasury (Note 11)	5,278,463	-	-	-	-	-		5,278,463
Other Liabilities (Note 12, 13, and 14)	51,281	331	9,163	-	-	(29,484)	(419)	30,872
Total Intragovernmental	5,399,881	24,836	20,150	-	-	(29,484)	(6,024)	5,409,677
Accounts Payable (Note 10)	3,411	1,090,766	91,308	189	40	(25,440)		1,160,274
Loan Guarantee Liability (Note 6)	1,167,235	-	-	-	-	-		1,167,235
Federal Employees and Veteran's Benefits (Note 14)	-	-	30,905	-	-	-		30,905
Other Liabilities (Note 12)	1,920	-	250,223	-	14,394	(100)		266,437
Total Liabilities	**6,572,447**	**1,115,602**	**392,586**	**189**	**14,434**	**(55,024)**	**(6,024)**	**8,034,210**
Commitments and Contingencies (Note 15)								
NET POSITION						-		
Unexpended Appropriations	23,802	9,135,329	630,227	-	-			9,789,358
Cumulative Results of Operations	(5,867)	23,043	(11,030)	4,185	(5)			10,326
Total Net Position	**17,935**	**9,158,372**	**619,197**	**4,185**	**(5)**	-		**9,799,684**
Total Liabilities and Net Position	**$6,590,382**	**$10,273,974**	**$1,011,783**	**$4,374**	**$14,429**	**$(55,024)**	**$(6,024)**	**$17,833,894**

CONSOLIDATING STATEMENT OF NET COST

U.S. Agency for International Development

Consolidating Statement of Net Cost for the year ended September 30, 2001 (In Thousands)

	Credit Program Funds	Operating Funds	Program Funds	Revolving Funds	Trust Funds	Other Funds	Eliminating Entries	Total
Costs:								
Broad-Based Economic Growth and Agricultural Development								
Intragovernmental	$8,434	$90,675	$44,664	$-	$-	$-	$(1,108)	$142,665
With the Public Taxes	5,889	194,894	2,766,695	1,153	1,238	-	-	2,969,869
Total	14,323	285,569	2,811,359	1,153	1,238	-	(1,108)	3,112,534
Less earned revenues	(9,970)	-	-	-	-			(9,970)
Net program costs	4,353	285,569	2,811,359	1,153	1,238	-	(1,108)	3,102,564
Strengthen Democracy and Good Governance								
Intragovernmental	-	23,909	6,061	-	-		(292)	29,678
With the Public Taxes	-	51,389	614,630	-	425	-		666,444
Total	-	75,298	620,691	-	425	-	(292)	696,122
Less earned revenues	-	-	-	-	-			-
Net program costs	-	75,298	620,691	-	425	-	(292)	696,122
Human Capacity Built Through Education and Training								
Intragovernmental	-	15,668	2,582	-	-		(191)	18,059
With the Public Taxes	-	33,678	315,657		247.00	-	-	
Total	-	49,346	318,239	-	247.00	-	(191)	367,641
Less earned revenues	-	-	-	-	-			-
Net program costs	-	49,346	318,239	-	247.00	-	(191)	367,641
				-				
Stabilizing World Population and Protecting Human Health								
Intragovernmental	-	34,549	16,997		-	-	(422)	51,124
With the Public Taxes	-	74,258	951,412	-	376	-	-	1,026,046
Total	-	108,807	968,409	-	376	-	(422)	1,077,170
Less earned revenues	-	-	(14,611)	-	-			(14,611)
Net program costs	-	108,807	953,798	-	376	-	(422)	1,062,559
				-				
Protect the Environment for Long-Term Sustainability								
Intragovernmental	11	21,475	3,808	-	-	-	(262)	25,032
With the Public Taxes	11,378	46,158	377,169	-	277	-		434,982
Total	11,389	67,633	380,977	-	277	-	(262)	460,014
Less earned revenues	(5,805)	-	-	-	-			(5,805)
Net program costs	5,584	67,633	380,977	-	277	-	(262)	454,209
Promote Humanitarian Assistance								
Intragovernmental	-	27,044	11,554	-	-	-	(329)	38,269
With the Public Taxes	39,421	499,887	780,089	-	391	-		1,319,788
Total	39,421	526,931	791,643	-	391	-	(329)	1,358,057
Less earned revenues	(39,421)	-	-	-	-			(39,421)
Net program costs	-	526,931	791,643	-	391	-	(329)	1,318,636
Less earned revenues not attributed to programs	-	(13,333)	-	(1,467)	-	-	2,604	(12,196)
Net Cost of Operations (Note 17)	**$9,937**	**$1,100,251**	**$5,876,707**	**$(314)**	**$2,954**	**$-**	**$-**	**$6,989,535**

CONSOLIDATING STATEMENT OF CHANGES IN NET POSITION

U.S. Agency for International Development

Consolidated Changes In Net Position for the years ended September 30, 2001 and 2000 (In Thousands)

	Credit Program Funds	Program Funds	Operating Funds	Revolving Funds	Trust Funds	Other Funds	Total
Net Cost of Operations	$(9,937)	$(5,876,707)	$(1,100,251)	$314	$(2,954)	$-	$(6,989,535)
Financing Sources (other than exchange revenues)							
Appropriations Used	4,312	5,885,356	1,052,024	-	-	-	6,941,692
Donated Revenue	-	-	44,731	-	3,187	-	47,918
Imputed Financing	-	-	12,380	-	-	-	12,380
Net Results of Operations	(5,625)	8,649	8,884	314	233	-	12,455
Prior Period Adjustments (Note 18)	11,040	-	-	-	-	-	11,040
Net Change in Cumulative Results of Operations	5,415	8,649	8,884	314	233	-	23,495
Increase (Decrease) in Unexpended Appropriations	2,588	(207,816)	5,556	-	-	-	(199,672)
Change in Net Position	8,003	(199,167)	14,440	314	233	-	(176,177)
Net Position-Beginning of Period	9,932	9,357,539	604,757	3,871	(238)	-	9,975,861
Net Position-End of Period	**$17,935**	**$9,158,372**	**$619,197**	**$4,185**	**$(5)**	**$-**	**$9,799,684**

CONSOLIDATING STATEMENT OF BUDGETARY RESOURCES

U.S. Agency for International Development

Consolidated Statement Of Budgetary Resources for the years ended September 30, 2001 and 2000 (In Thousands)

	Credit Program Funds	Program Funds	Operating Funds	Revolving Funds	Trust Funds	Total
Budgetary Resources: (Notes 19 and 20)						
Budget Authority	$49,178	$5,696,567	$1,108,176	$-	$3,341	$6,857,262
Unobligated Balances - Beginning of Period	990,249	1,214,760	18,099	3,328	2,123	2,228,559
Spending Authority from Offsetting Collections	1,040,758	14,936	6,133	1,467	-	1,063,294
Adjustments	(964,713)	68,960	15,287	2	(23)	(880,487)
Total Budgetary Resources	1,115,472	6,995,223	1,147,695	4,797	5,441	9,268,628
Status of Budgetary Resources:						
Obligations Incurred	(131,237)	(5,556,963)	(1,111,276)	(1,308)	(3,254)	(6,804,038)
Unobligated Balances - Available	(983,702)	(1,427,000)	(34,529)	(3,489)	(2,187)	(2,450,907)
Unobligated Balances - Not Available	(533)	(11,260)	(1,890)	-	-	(13,683)
Total, Status of Budgetary Resources	(1,115,472)	(6,995,223)	(1,147,695)	(4,797)	(5,441)	(9,268,628)
Outlays:						
Obligations Incurred	131,237	5,556,963	1,111,276	1,308	3,254	6,804,038
Less: Spending Authority from Offsetting Collections and Adjustments	(1,042,174)	(102,782)	(22,915)	(1,470)	23	(1,169,318)
Obligated Balance, Net - Beginning of Period	20,676	8,600,566	691,899	939	12,234	9,326,314
Less: Obligated Balance, Net - End of Period	(48,076)	(8,473,351)	(688,876)	(885)	(12,242)	(9,223,430)
Total Outlays	**$(938,337)**	**$5,581,396**	**$1,091,384**	**$(108)**	**$3,269**	**$5,737,604**

CONSOLIDATING STATEMENT OF FINANCING

U.S. Agency for International Development

Consolidating Statement of Financing for the year ended September 30, 2001 (In Thousands)

	Credit Program Funds	Program Funds	Operating Funds	Revolving Funds	Trust Funds	Other Funds	Total
Obligations and Nonbudgetary Resources							
Obligations Incurred	$131,237	$5,556,963	$1,111,276	$1,308	$3,254	$-	$6,804,038
Less: Spending Authority from Offsetting Collections and Adjustments							
Earned Reimbursements							
Collected	(1,043,077)	(18,075)	(6,143)	(1,467)	-	-	(1,068,762)
Receivable from Federal Sources	2,320	3,470	9	-	-	-	5,799
Change in unfilled customer orders	-	(331)	-	-	-	-	(331)
Donations Not in the Entity's Budget	-	-	44,731	-	3,187	-	47,918
Financing Imputed for Cost Subsidies	-	-	12,380	-	-	-	12,380
Exchange Revenue Not in the Budget	(222,605)	1,987	(7,505)	-	-	-	(228,123)
Total Obligations as Adjusted, and Nonbudgetary Resources	(1,132,125)	5,544,014	1,154,748	(159)	6,441	-	5,572,919
Resources That Do Not Fund Net Cost of Operations							
Change in Amount of Goods, Services, and Benefits Ordered but not yet Received or Provided	(27,608)	342,125	(46,772)	(155)	(67)	-	267,523
Change in Unfilled Customer Orders	-	331	-	-	-	-	331
Costs Capitalized on the Balance Sheet							
General Property, Plant, and Equipment, Net	-	(414)	(11,980)	-	-	-	(12,394)
Loans	(79,591)	-	-	-	-	-	(79,591)
Purchases of Inventory	-	(4,480)	(498)	-	-	-	(4,978)
Financing Sources that Fund Costs of Prior Periods	(122)	(3,211)	(2,441)	-	(233)	-	(6,007)
Collections that Decrease Credit Program Receivables or							-
Increase Credit Program Liabilities	(62,202)	-	-	-	-	-	(62,202)
Adjustment for trust fund outlays that do not affect net cost	-	-	-	-	(3,187)	-	(3,187)
Other (Note 21)	1,317,255	(1,657)	(962)	-	-	-	1,314,636
Total resources that do not fund net cost of operations	1,147,732	332,694	(62,653)	(155)	(3,487)	-	1,414,131
Costs That Do Not Require Resources							
Depreciation and amortization	-	-	6,863	-	-	-	6,863
Other	(5,670)	-	206	-	-	-	(5,464)
Total costs that do not require resources	(5,670)	-	7,069	-	-	-	1,399
Financing Sources Yet to be Provided (Note 14)	-	-	1,086	-	-	-	1,086
Net Cost of Operations	**9,937**	**5,876,708**	**1,100,250**	**(314)**	**2,954**	**-**	**6,989,535**

REQUIRED SUPPLEMENTARY INFORMATION: SCHEDULE OF BUDGETARY RESOURCES

U.S. Agency for International Development

Required Supplementary Information: Schedule of Budgetary Resources by Major Appropriation for the year ended September 30, 2001 (In Thousands)

	Program Fund							Operating Fund		Other	Consolidated Total
	1010	1021	1035	1037	1093	1095	1096	1000	4336		
Budgetary Resources: (Notes 19 and 20)											
Budget Authority	480,230	1,270,403	300,000	2,289,377	447,156	853,242	-	535,400	501,287	180,167	6,857,262
Unobligated Balances - Beginning of Period	198,213	129,494	33,824	514,835	272,958	19,799	9	58,216	(49,102)	1,050,313	2,228,559
Spending Authority from Offsetting Collections	43	3,818	-	350	-	5,958	-	6,133	-	1,046,992	1,063,294
Adjustments	(165)	26,500	6,139	24,535	11,279	(1,554)	53	9,259	4,036	(960,569)	(880,487)
Total Budgetary Resources	**678,321**	**1,430,215**	**339,963**	**2,829,097**	**731,393**	**877,445**	**62**	**609,008**	**456,221**	**1,316,903**	**9,268,628**
Status of Budgetary Resources:											
Obligations Incurred	(535,589)	(1,287,485)	(325,940)	(1,976,972)	(524,159)	(827,062)	(5)	(576,739)	(456,221)	(293,866)	(6,804,038)
Unobligated Balances - Available	(140,538)	(137,712)	(14,023)	(849,061)	(206,250)	(50,383)	(57)	(30,976)	-	(1,021,907)	(2,450,907)
Unobligated Balances - Not Available	(2,194)	(5,018)	-	(3,064)	(984)	-	(0)	(1,293)	-	(1,130)	(13,683)
Total, Status of Budgetary Resources	**(678,321)**	**(1,430,215)**	**(339,963)**	**(2,829,097)**	**(731,393)**	**(877,445)**	**(62)**	**(609,008)**	**(456,221)**	**(1,316,903)**	**(9,268,628)**
Outlays:											
Obligations Incurred	535,589	1,287,485	325,940	1,976,972	524,159	827,062	5	576,739	456,221	293,866	6,804,038
Less: Spending Authority from Offsetting Collections and Adjustments	(1,365)	(33,386)	(6,799)	(30,132)	(13,060)	(6,522)	(53)	(16,828)	(4,036)	(1,057,137)	(1,169,318)
Obligated Balance, Net - Beginning of Period	452,680	2,288,877	235,840	3,319,968	544,487	1,154,232	408,185	170,996	505,212	245,837	9,326,314
Less: Obligated Balance, Net - End of Period	(604,238)	(2,362,958)	(353,914)	(2,936,133)	(596,160)	(1,288,368)	(188,333)	(188,552)	(488,542)	(216,232)	(9,223,430)
Total Outlays	382,666	1,180,018	201,067	2,330,675	459,426	686,404	219,804	542,355	468,855	(733,666)	5,737,604

MAJOR FUNDS

Program Fund

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

Operating Fund

1000 Operating Expenses of USAID
4336 Commodity Credit Corporation (from U.S. Dept. of Agriculture)

OTHER FUNDS

Credit Program Funds

0400 MSED Program Fund
0401 UE Program Fund
0402 Ukraine Program Fund
1264 DCA Program Fund
1403 Direct Loan Liquidating Fund
4119 Israel Guarantee Financing Fund
4137 Direct Loan Financing Fund
4266 DCA Financing Fund
4340 UE Guarantee Liquidating Fund
4341 MSED Direct Loan Liquidating Fund
4342 MSED Direct Loan Financing Fund
4343 MSED Guarantee Financing Fund
4345 Ukraine Financing Fund
5318 Israel Admin Expense Fund

OTHER FUNDS (con't)

Operating Funds

0113 Salaries & Expenses - Diplomatic Security
0535 Acquisition & Maintenance Of Building Abroad
1007 Operating Expenses of USAID Inspector General
1036 Foreign Service Retirement and Disability Fund

Program Funds

1005 International Organizations and Programs
1012 Sahel Development Program
1013 American Schools and Hospitals Abroad
1014 Africa Development Assistance
1023 Food and Nutrition Development Assistance
1024 Population and Planning & Health Dev. Asst.
1025 Education and Human Resources, Dev. Asst.
1038 Central American Reconciliation Assistance
1040 Sub-Saharan Africa Disaster Assistance
1075 Anti-Terrorism Demining
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

Revolving Funds

4175 Property Management Fund
4590 Acquisition of Property, Revolving Fund

REQUIRED SUPPLEMENTARY INFORMATION: INTERGOVERNMENTAL AMOUNTS

U.S. Agency for International Development

Required Supplementary Information: Intragovernmental Amounts as of September 30, 2001 (In Thousands) - Intragovernmental assets:

Agency	Fund Balance with Treasury	Accounts Receivable, Net	Advances and Prepayments	Totals
Treasury	11,214,407		9,063	11,223,470
Dept of Agriculture		415,779		415,779
Dept of Commerce			23,326	23,326
Dept of State			17,439	17,439
Other		7,798	27,010	34,808
Total	**11,214,407**	**423,577**	**76,838**	**11,714,822**

Required Supplementary Information: Intragovernmental Amounts as of September 30, 2001 (In Thousands) - Intragovernmental liabilities:

Agency	Due to Treasury	Accounts Payable	Debt	Other	Totals
Treasury	5,278,463	6,668	64,528		5,349,659
GSA		13,458			13,458
Dept of Agriculture		3,028			3,028
Other		12,362		30,872	43,234
Total	**5,278,463**	**35,496**	**64,528**	**30,872**	**5,409,359**

INDEPENDENT AUDITOR'S REPORT ON USAID'S FY 2001 FINANCIAL STATEMENTS

MEMORANDUM

FOR: A-CFO/FM, Elmer S. Owens

FROM: IG/A/FA, Alvin A. Brown Alvin A. Brown

SUBJECT: Independent Auditor's Report on USAID's Consolidated Financial Statements, Internal Controls, and Compliance for Fiscal Year 2001 (Report No. 0-000-02-006-F)

The Office of the Inspector General (OIG) is transmitting its reports on the audit of the U.S Agency for International Development's (USAID's) fiscal year 2001 financial statements, related internal controls, and compliance with applicable laws and regulations. Under the Government Management Reform Act of 1994, USAID is required to prepare consolidated fiscal year-end financial statements. For fiscal year (FY) 2001, USAID is required to submit the audited financial statements to the Office of Management and Budget (OMB) and the Department of the Treasury by February 27, 2002.

Enclosed are the OIG's reports on USAID's FY 2001 financial statements, related internal controls, and compliance with applicable laws and regulations. We are pleased to report that, for the first time, we are able to issue opinions on three of USAID's five principal financial statements. This is an important milestone and represents progress by USAID. However, on the Balance Sheet and Statement of Changes in Net Position, the opinion was achieved only through extensive efforts to overcome material weaknesses in internal controls. Although these efforts resulted in an improvement in the information on two of USAID's five principal financial statements, the efforts did not provide for reliable information to USAID managers throughout the year.

Our report discusses three material weaknesses in internal controls and three reportable conditions identified during the audit. The material weaknesses relate to the reconciliation and proper classification of financial information as well as computer security deficiencies. The reportable conditions address financial management improvements needed at USAID.

We reported that USAID is not in substantial compliance with the financial management system requirements of the Federal Financial Management Improvement Act of 1996 (FFMIA).

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

I appreciate the cooperation and courtesies that your staff extended to the OIG during our audit. The Office of the Inspector General is looking forward to working with you on the audit of fiscal year 2002 financial statements and seeing improved systems and controls.

INDEPENDENT AUDITOR'S REPORT ON USAID'S FY 2001 FINANCIAL STATEMENTS

SUMMARY OF RESULTS

The Government Management Reform Act (GMRA) of 1994 requires the U.S. Agency for International Development (USAID) to prepare and submit audited consolidated financial statements for inclusion in the government-wide financial statements. As part of this effort, GMRA requires the Office of Inspector General (OIG) to:

- Audit the financial statements and issue an opinion on the fairness of their presentation in accordance with generally accepted accounting principles;
- Report on related internal controls; and
- Report on compliance with applicable laws and regulations.

Auditor's Opinion on USAID's Fiscal Year 2001 Financial Statements

In our opinion, USAID's Balance Sheet, Statement of Changes in Net Position, and Statement of Budgetary Resources present fairly, in all material respects, the financial position of USAID at September 30, 2001, in conformity with generally accepted accounting principles, except for the effects of:

- $128 million in advances that were not reconciled to ensure proper classification as advances and/or expenses on the Balance Sheet and the Statement of Changes in Net Position; and
- $186 million in unliquidated obligations that may not be needed for the original obligation purposes on the Statement of Budgetary Resources.

We were unable to express an opinion on USAID's Statements of Net Cost and Financing for the year ended September 30, 2001 because we could not perform sufficient audit procedures to determine the effect of:

- $246 million in expenses (of which $155 million was attributed to advance liquidations) that may not have been properly allocated to Agency goals and $128 million in unreconciled advances that may not have been properly classified on the Statement of Net Cost; and
- $186 million in unliquidated obligations that may not be needed for the original obligation purpose and the $128 million unreconciled advances that may not have been properly classified on the Statement of Financing.

Other Accompanying Information

The Management Discussion and Analysis (MD&A) is not a required part of the basic financial statements; rather, it is supplementary information required by the Federal Accounting Standards Advisory Board. We did not audit and do not express an opinion on such information. However, we have applied certain limited procedures to determine the methods of measurement and presentation of the supplementary information. As a result of such limited procedures, we believe that the MD&A departs materially from prescribed guidelines. The results of our procedures are included in the reports on internal controls and compliance with applicable laws and regulations.

Report on Related Internal Controls

During fiscal year 2001, USAID took steps to meet the Federal Financial Management Improvement Act (FFMIA) requirements by deploying Phoenix, an off-the-shelf accounting system, as a component of its financial management system. However, USAID financial management systems do not substantially comply with the FFMIA requirements. As a result, USAID places greater reliance on manual processes such as reconciliations because data for the same transaction may be separately entered into multiple systems.

Our audit identified three material internal control weaknesses and reportable conditions, three of which are included in this report.

The material weaknesses were:

- Advances to Grantees Were Not Consistently Reconciled and Classified.
- Unliquidated Obligations Were Not Consistently Analyzed and Deobligated as Necessary.
- Computer Security Deficiencies Continue to Exist.

INDEPENDENT AUDITOR'S REPORT ON USAID'S FY 2001 FINANCIAL STATEMENTS

The reportable conditions were:

- USAID's Process for Recognizing and Reporting Accounts Receivable Needs Improvement.
- USAID's Internal Controls Over Its Overseas Missions Accounts Payable Process Needs Improvement.
- USAID's Process for Preparing the Management Discussion and Analysis Needs Improvement.

We noticed certain other matters involving USAID's internal controls and its operations that we will report to management in a separate report.

With respect to performance measures reported in the MD&A, we were unable to obtain a complete understanding of the design of the related significant internal controls because management did not disclose all sources of performance results data to the OIG in a timely manner. Consequently, we were unable to review the internal controls surrounding all the sources. However, by applying limited procedures to certain sources to determine the methods of measurement and presentation of performance results in the MD&A, we identified deficiencies that, in our judgment, caused the MD&A to depart materially from prescribed guidelines.

Report on Compliance with Laws and Regulations

Our audit also disclosed two instances of noncompliance with laws and regulations that could have a direct and material effect on the principal financial statements and required supplementary information. The laws with which USAID did not comply were:

- The Federal Financial Management Improvement Act of 1996, and
- The Computer Security Act of 1987

Specifically, USAID's financial management systems did not substantially comply with Federal Financial Management System requirements, Federal Accounting Standards, and the U.S. Standard General Ledger at the transaction level. Further, we found that USAID did not implement an effective computer security program as required by the Act.

We considered USAID's internal control weaknesses and noncompliance with laws and regulations to determine our auditing procedures for the purpose of forming our opinion on the financial statements and not to provide assurance on internal controls and compliance with laws and regulations.

We have provided additional information in the following paragraphs regarding the areas listed above. USAID reported these material weaknesses in its previous Accountability Reports and in its draft 2001 Accountability Report, which will be issued on February 27, 2002.

BACKGROUND

The United States Agency for International Development (USAID) was created in 1961 to advance the United States' foreign policy interest by promoting broad-based sustainable development and providing humanitarian assistance. USAID has an overseas presence in over 70 countries, 42 of which have fully operational and formal USAID missions. In fiscal year 2001, USAID had total obligation authority of about $7.5 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 appropriate Congressional Committees. Pursuant to this Act, for FY 2001, USAID has prepared: (1) Balance Sheet, (2) Statement of Net Cost (3) Statement of Changes in Net Position, (4) Statement of Budgetary Resources, (5) Statement of Financing, (6) notes to the financial statements, and (7) other accompanying information.

Audit Objectives

OMB Bulletin No. 01-02 and related GAO guidance established the minimum audit requirements for Federal financial statements. For fiscal year 2001, this Bulletin required us to:

- Determine whether USAID's principal financial statements present fairly in all material respects, in conformity with generally accepted accounting principles, the (1) assets; (2) liabilities and net position; (3) net costs; (4) change in net position; (5) budgetary resources; (6) reconciliation of net costs and budgetary obligations.
- Obtain an understanding of USAID's internal control sufficient to plan the audit by performing

procedures to understand the design of controls relevant to an audit of financial statements, and whether they have been placed in operation. Assess control risk for the assertions embodied in the classes of transactions, account balances, and disclosure components of the financial statements.

- Obtain an understanding of the components of USAID's internal control relating to the existence and completeness assertions relevant to the performance measures included in the Management Discussion and Analysis.
- Report on USAID's compliance with laws and regulations that could have a direct and material effect on the principal statements, and any other applicable laws and regulations.
- Report whether USAID's financial management systems substantially comply with the FFMIA section 803(a) requirements.

For the first objective, we obtained sufficient evidence about the balances in the material line items on USAID's fiscal year 2001 financial statements to enable us to form an opinion on those statements.

For the second and third objectives mentioned above, we obtained an understanding of USAID's internal controls and assessed the control risk for the assertions embodied in the classes of transactions, account balances, and disclosure components of the financial statements. We attempted to obtain an understanding of the components of USAID's internal controls relating to the existence and completeness assertions relevant to the performance measures included in the Management Discussion and Analysis.

For the fourth and fifth objectives mentioned above, we determined whether USAID's financial management systems comply substantially with federal requirements for financial management systems, applicable federal accounting standards, and the U.S. Standard General Ledger at the transaction level, as required by Section 803(a) of the FFMIA of 1996.

In accordance with the OMB audit requirements for federal financial statements, this combined audit report includes our separate reports on USAID's financial statements, internal controls, and compliance with applicable laws and regulations.

AUDIT FINDINGS

Independent Auditor's Report on USAID's Financial Statements

Did USAID's principal financial statements present fairly: the assets, liabilities, net position, net costs, change in net position, budgetary resources, and reconciliation of net costs, and budgetary obligations for fiscal year 2001?

We have audited the accompanying Balance Sheet, Statement of Changes in Net Position, and Statement of Budgetary Resources of USAID for the year ended of September 30, 2001. We were engaged to audit the related Statements of Net Cost and Financing for the year then ended. These financial statements are the responsibility of USAID's management. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with generally accepted government auditing standards; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the Office of Management and Budget (OMB) Bulletin No. 01-02, "Audit Requirements for Federal Financial Statements." Those standards require that we plan and perform the audit to obtain reasonable assurance about whether 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 significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

USAID did not reconcile and properly classify $66 million net ($109 million in absolute value) in advances and $62 million in advance liquidations were not recorded as expenses on the Balance Sheet and Statement of Changes in Net Position, respectively. Instead, $128 million was reported on the Balance Sheet as advances. Consequently, we were unable to determine how the $128 million should have been classified and reported on the financial statements. Additionally, we were unable to determine, through our normal auditing procedures, whether $186 million in unliquidated obligations that were reported on the Statement of Budgetary Resources were needed for the original obligation purpose.

In our opinion, except for the effect of the outstanding advances, advance liquidations, and unliquidated obligations mentioned above, USAID's fiscal year 2001 Balance Sheet, Statement of Changes in Net Position, and Statement of Budgetary Resources present fairly, in all material respects, the financial position of USAID for the year then ended in conformity with generally accepted accounting principles.

We were unable to express an opinion on USAID's Statement of Net Cost for the fiscal year ended September 30, 2001 because we could not perform sufficient audit procedures to determine the effects of the allocation of about $246 million in expenses to the appropriate Agency goals on the Statement of Net Cost. In addition, we could not determine the effects of $128 million reported on the Balance Sheet as advances that may be more appropriately recorded as expenses but were not included on the Statement of Net Cost.

The $246 million in expenses may not be appropriately assigned to specific Agency goals because:

- $155 million in expenses (advance liquidations) were not initially recorded as expenses in FY 2001. USAID grantees could not report the expenses because the corresponding obligations were not recorded in the Department of Health and Human Services (DHHS) Payment Management System (hereafter referred to as the Payment Management System). Subsequently, USAID recorded and allocated the expenses but was unable to record them directly to the related agency goals.
- $91 million in mission expenses were not appropriately assigned to specific Agency goals in the Statement of Net Cost.

The $128 million was reported on the Balance Sheet as advances that may be more appropriately recorded as expenses on the Statement of Net Cost. Of the $128 million:

- $62 million was reported to USAID as expenses by the DHHS but not recorded as expenses in USAID's FY 2001 general ledger nor in the financial statements; and
- $66 million of unreconciled advances ($109 million absolute) remained in USAID's legacy system. The legacy system is inactive and, according to USAID officials, the vast majority of these outstanding advances should be reclassified as expenses. Until the advances are reviewed and a determination made as to their status, there is no means of determining whether they are expenses or outstanding advances.

We were unable to express an opinion on USAID's Statement of Financing for the fiscal year ended September 30, 2001 because we could not perform sufficient audit procedures to determine the effects of the $186 million noted above on the Statement of Budgetary Resources that may not be needed for the original obligation purpose. In addition, we could not determine the effects of the $128 million reported on the Balance Sheet as advances that may be more appropriately recorded as expenses.

In accordance with Government Auditing Standards and the provisions of OMB Bulletin 01-02, we have also issued reports, dated February 25, 2002, on our consideration of USAID's internal controls and on its compliance with laws and regulations.

The Management Discussion and Analysis (MD&A) is not a required part of the basic financial statements, rather, it is supplementary information required by the Statement of Federal Accounting Standards and we did not audit and do not express an opinion on such information. However, we have applied certain limited procedures to determine the methods of measurement and presentation of the supplementary information. As a result of such limited procedures, we believe that the MD&A departs materially from prescribed guidelines. The results of our procedures are included in the reports on internal controls and compliance with applicable laws and regulations.

Office of Inspector General
February 25, 2002

INDEPENDENT AUDITOR'S REPORT ON USAID'S FY 2001 FINANCIAL STATEMENTS

Independent Auditor's Report on Internal Controls

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

We have audited the financial statements of USAID for the fiscal year ended September 30, 2001 and have issued our report thereon. We conducted the audit in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the Office of Management and Budget (OMB) Bulletin No. 01-02, "Audit Requirements for Federal Financial Statements."

In planning and performing our audit, we considered USAID's internal controls over financial reporting by obtaining an understanding of those controls. We determined whether the internal controls have been placed in operation, assessed control risk, and performed tests of controls to determine our auditing procedures for the purpose of expressing an opinion on the financial statements. We limited the internal control testing to those necessary to achieve the objectives described in OMB Bulletin No. 01-02. We did not test all internal controls relevant to the operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982 (such as those relevant to ensuring efficient operations).

The objectives of internal controls are to provide management with reasonable, but not absolute, assurance that the following objectives are met:

- Transactions are properly recorded and accounted for to permit the preparation of reliable financial reports and to maintain accountability over assets.
- Funds, property, and other assets are safeguarded against loss from unauthorized acquisition, use, or disposition.
- Transactions that have a material impact on the financial statements, including those related to obligations and costs are executed in compliance with laws and regulations.

The objective of our audit was not to provide assurance on internal controls. Consequently, we do not provide an opinion on internal controls.

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

Because of inherent limitations in internal controls, misstatements, losses, or noncompliance may nevertheless occur and not be detected. However, we noted certain matters, discussed in the following paragraphs and accompanying schedules, involving the internal controls and their operation that we consider material weaknesses and/or reportable conditions. (See Federal Financial Management Improvement Act of 1996 (FFMIA) section of Compliance Report for additional internal control weaknesses).

During fiscal year 2001, USAID took steps to meet the FFMIA requirements through deploying Phoenix, an off-the-shelf accounting system, as a component of its financial management system. However, USAID still lacks a fully integrated financial management system and does not substantially comply with the FFMIA requirements. As a result, USAID places a greater reliance on manual processes such as reconciliations because data for the same transaction may be separately entered into multiple systems.

We identified the following matters involving the internal control and its operation that we consider to be material weaknesses and reportable conditions as defined above. Material weaknesses and reportable conditions that were reported in prior GMRA

INDEPENDENT AUDITOR'S REPORT ON USAID'S FY 2001 FINANCIAL STATEMENTS

audit reports, and that continued to exist during FY 2001 are identified as "Repeat Conditions".

The material weaknesses were:

- Advances to Grantees Were Not Consistently Reconciled and Classified.
- Unliquidated Obligations Were Not Always Analyzed and Deobligated as Necessary.
- Computer Security Deficiencies Continue to Exist.

The reportable conditions were:

- USAID's Process for Recognizing and Reporting Its Accounts Receivable Needs Improvement.
- USAID's Internal Controls Over Its Overseas Missions Accounts Payable Process Needs Improvement.
- USAID's Process for Preparing the Management Discussion and Analysis Needs Improvements.

We noticed certain other matters involving USAID's internal controls and its operations that we will communicate to management in a separate report that is scheduled to be issued by March 31, 2002.

Material Weaknesses

Advances to Grantees Were Not Consistently Reconciled and Classified (Repeat Conditions)

We found that USAID did not consistently reconcile advances to grantees. Further, USAID did not properly classify its advances to grantees at fiscal year-end. As a result, the following occurred:

- A $439[1] million difference existed between USAID's general ledger and its subsidiary ledger maintained by the Department of Health and Human Services (DHHS) for advances to grantees.
- About $155[2] million in expenses incurred by its grantees had not been reported to DHHS nor identified and recorded in the financial records by USAID.
- A backlog of 278 grant awards and/or modifications was not entered in the Payment Management System.
- About $66 million in advances disbursed prior to October 1999 remained outstanding as of September 30, 2001.

As of September 30, 2001, a difference of $439 million existed between USAID's general ledger and its subsidiary ledger. USAID's general ledger had a balance of about $1.1 billion in advances to grantees, while its subsidiary ledger, which is maintained by DHHS,[3] had a balance of $694 million. No automated interface exists between the Payment Management System and USAID's general ledger. Therefore, transactions processed in the Payment Management System must be manually entered into USAID's general ledger and USAID is required to reconcile the reports provided by DHHS to the general ledger. The $439 million difference occurred because USAID did not follow its established procedure that requires a monthly reconciliation between the general and subsidiary ledgers. According to USAID officials, the lack of staffing resources impaired its ability to perform the monthly reconciliation. USAID recorded an adjustment to its FY 2001 advance balance for about $377 million of the $439 million. USAID is analyzing the remaining $62 million before it is recorded as an expense. Therefore, the advances may be overstated and the expenses may be understated by the $62 million.

GAO Standards for Internal Controls in the Federal Government requires reconciliation as part of federal agency's management and supervisory activities. The standards state that "In the process of carrying out regular management functions, management should obtain information as to whether internal control is working properly. Operating reports should be integrated or reconciled with financial reporting system data and used to manage operations on an ongoing

[1] USAID recorded an adjustment to its FY 2001 advance balance for about $377 million of the $439 million. USAID is analyzing the remaining $62 million before it is recorded as an expense.
[2] USAID subsequently made an adjustment to record the $155 million as expenses.
[3] DHHS is the servicing agency that manages advances to USAID's grantees through the Letter of Credit System. Therefore, the Payment Management System is USAID's subsidiary ledger for advances to grantees.

basis. Significant inaccuracies or exceptions should alert management to any internal control problems." We believe that USAID did not fully carry out the requirements of this standard in fiscal year 2001 as they relate to the advance activities.

In a previous audit report,[4] we recommended that USAID conduct a monthly reconciliation of the advance balances maintained in the general and subsidiary ledgers. However, USAID has not fully implemented our recommendation. Therefore, we are making the following recommendation:

Recommendation No. 1. We recommend that USAID Office of Financial Management:

1.1 establish a general ledger suspense account to record expenses reported to USAID by the Department of Health and Human Services,

1.2 identify and record these expenses against the appropriate general ledger account at the obligation level, and

1.3 establish procedures to research and resolve all expenses remaining in the general ledger suspense account at the end of each accounting period.

As of September 30, 2001, USAID had not recorded about $155 million in expenses related to advance liquidation submitted by grantees. This occurred because USAID does not have an integrated financial management system. Therefore, obligations established for advances to grantees that are managed by DHHS must be manually entered into the Payment Management System. However, USAID has not established a process that ensures that all obligations established for advances to grantees are entered into the Payment Management System. Consequently, the obligations related to the $155 million had not been entered into the PMS, therefore, the expenses were not recognized and reported by DHHS. USAID subsequently made an adjustment to record the $155 million as expenses.

We determined that, as of September 30, 2001, USAID has a backlog of 278 grant agreements and/or amendments with a value of about $255 million that were not recorded in the Payment Management System. The grant agreements and/or amendments were not posted to the Payment Management System for up to 361 days. (Table 1 below illustrates the status of the grant agreements or amendments). This occurred because USAID does not have a worldwide-integrated financial management system that links the accounting, procurement, and assistance systems as well as all other activities performed by USAID. Additionally, copies of new grants and/or amendments issued by USAID were not submitted to the Financial Management Division in a timely manner. Further, there is no assurance that all obligations established for grants managed by DHHS were submitted to the USAID's Cash Management and Payment Division. The backlog of grants and/or amendments were kept in a file drawer in this division because USAID Office of Financial Management did not have the necessary staffing resources to enter these agreements into the Payment Management System.

GAO Standards for Internal Controls in the Federal Government requires that transactions and other significant events should be promptly recorded and properly classified. This guidance further states that transactions must be promptly recorded if pertinent information is to maintain its relevance and value to management in controlling operations and making decisions.

Table 1
Status of Grant Agreements/Amendments At September 30, 2001

Number of Amendments	Absolute Value (in millions)	Number of Days Outstanding
210	$197	0-59
19	$25	60-90
10	$4	91-120
14	$13	121-180
7	$4	181-360
18	$12	361 & Over
278	**$255**	

[4] Audit of USAID Advances and Related Internal Controls for Fiscal Year 1999 (Audit Report No. 0-000-00-003-F, February 1, 2000).

This applies to:

- the entire process or life cycle of a transaction or event and includes the initiation and authorization,
- all aspects of the transactions while in process, and
- its final classification in summary records.

Proper classification of information on transactions and events refers to the organization and format of information on summary records from which reports and statements are prepared.

In previous audit reports,[5] we recommended that USAID implement a process to address the internal control deficiency identified above. However, during our fiscal year 2001 GMRA audit follow-up, we determined that USAID had not done so. According to USAID officials, this occurred because of the shortage in staffing resources. As a result, the backlog of unrecorded grants and modifications has recurred. Therefore, we are restating the following recommendation to USAID Management:

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

2.1 eliminate the backlog of grant agreements and/or amendments by inputting them into the Department of Health and Human Service's Payment Management System;

2.2 ensure that all new grant agreements and/or amendments are submitted to its Cash Management and Payment Division within 10 business days after their execution; and

2.3 ensure that the Cash Management and Payment Division enter all new grants and/or amendments in the Payment Management System within 20 days after receiving them.

USAID had not completed reconciling and classifying the advances to grantees recorded in its legacy system. According to USAID officials, this occurred because the Office of Financial Management lacked the necessary staffing resources. Additionally, maintaining the day-to-day operations and implementing Phoenix (USAID's new accounting system) was assigned a higher priority. As a result, $66 million in advances to grantees remained unreconciled as of September 30, 2001. This could result in an overstatement of the year-end advance balance and an understatement of the related expenses by the $66 million.

In previous audit reports, we reported that USAID transferred an estimated $1.3 billion of unliquidated obligations for 301 recipient organizations to the Payment Management System without verifying the accuracy of the transferred balances. We recommended that USAID perform a reconciliation to verify the accuracy of balances transferred to DHHS. USAID concurred with our finding and recommendation and proposed corrective action for this deficiency.

Our audit covering fiscal year 2001 showed that USAID reconciled the unliquidated obligation balances for 168 of the 292 recipient organizations transferred to the Payment Management System.

As agreed, USAID has implemented prior recommendations. However, due to the lack of staffing resources, USAID has not completed this reconciliation. USAID officials stated that the remaining 124 recipient organizations will be completed by fiscal year-end 2002. Therefore, we are not making a recommendation in this report.

Unliquidated Obligations Were Not Consistently Analyzed and Deobligated as Necessary (Repeat Condition)

USAID records showed unliquidated obligations that may no longer be needed for its original obligation purpose. This occurred because, as of September 30, 2001, USAID had not implemented a process for consistently reviewing, analyzing, and deobligating unneeded obligations.

As a result, at September 30, 2001, there were about $186 million in unliquidated obligations that had no activity against them for more than one year. Further, this $186 million may no longer be needed for its original obligation purpose.

USAID's Automated Directive System (ADS) No. 621 states that "as part of the annual budget process, Assistant

[5] Audit of USAID Advances and Related Internal Controls for Fiscal Year 1999 (Audit Report No. 0-000-00-003-F, February 1, 2000) and Audit of USAID Advances and Related Internal Controls for Fiscal Year 2000 (Audit Report No. 0-000-00-003-F, February 15, 2001).

INDEPENDENT AUDITOR'S REPORT ON USAID'S FY 2001 FINANCIAL STATEMENTS

Administrators, independent Office Directors, and Mission Directors must certify whether unexpended balances are necessary for on-going programs." The directive further requires that in conducting reviews of obligations to identify funds that must be deobligated, obligation managers and others involved in the review process should consider circumstances that could result in excessive or unneeded obligation balances. According to ADS 621, where there is an unobligated balance that has remained unchanged for 12 months or more and there is no evidence of receipt of services/goods during that same 12-month period, the situation may reflect that remaining balances are no longer needed.

We determined that, as of September 30, 2001, USAID's internal control process as it relates to the management of unliquidated obligations needs improvement. Specifically, our review of about $1.9 billion in unliquidated obligations showed that about $186 million had no activity during FY 2001, based on normal Agency operations, and may not be needed for the original obligation purpose. We were unable to determine the portion of this amount that should be deobligated.

We also determined that about $57 million of the $186 million in unliquidated obligations had no disbursement activity since the obligation was established. According to USAID officials, this occurred because USAID's current disbursement process does not match contractor or grantee-reported expenses and the subsequent payments with the obligations that gave rise to those payments. Consequently, the $57 million in unliquidated obligations was carried forward each year even after the payments that would have fully depleted them were made by USAID (see Table 2 below).

In prior years, we reported that USAID's unliquidated balances were not routinely reviewed and were not reliable for calculating accrued expenses and accounts payable. In our fiscal year 2000 audit report, we reported that USAID acted to improve its policies and procedures and the quality of the financial data recorded in the New Management System.[7] USAID agreed that its process for reviewing, analyzing, and deobligating unliquidated obligations needs improvement. During fiscal year 2000, USAID:

- Implemented a project to review and deobligate those unnecessary unliquidated obligations established during fiscal year 1999 and prior periods. As a result, USAID deobligated over 1,200 obligations totaling about $126 million and revised its policies and procedures for performing periodic reviews.
- Provided training in obligation management to financial management personnel; and

Table 2
Unliquidated Obligations Reviewed and Questioned

Fiscal Year	Obligations with No Activity Since Establishment	Obligations with No Activity in Fiscal Year 2001	Total Unliquidated Obligation	Last Recorded Payment by Fiscal Year[6]
1989	$66,250	$5,100	$71,350	
1990	1,376	39,530	40,906	
1991	0	444,833	444,833	
1992	1,192,789	-528,461	664,328	
1993	429,799	5,102,569	5,532,368	
1994	1,037,180	6,620,971	7,658,151	
1995	1,247,520	10,746,980	11,994,500	
1996	5,226,301	19,146,366	24,372,667	$26,567,291
1997	27,118,496	56,417,478	83,535,974	10,043,216
1998	20,743,564	31,175,078	51,918,642	29,602,595
1999	-	-	-	12,988,951
2000	-	-	-	8,504,748
Total	**$57,063,275**	**$129,170,444**	**$186,233,719**	**$87,706,801**

[6] No payment date was available for the fiscal years prior to fiscal year 1996. This is because the last payment would have occurred before USAID deployed the New Management System in fiscal year 1996.

[7] The New Management System is USAID's old accounting system that was replaced in fiscal year 2001 with the Phoenix accounting system.

- Revised its Automated Directive System, Chapter 621, "Obligations," on September 11, 2000.

According to USAID officials, the Agency implemented a decentralized Accrual Reporting System in the beginning of FY 2002. This system is designed to require review and approval of a system-generated accrual estimate. If this system is implemented and maintained as intended, it should enable USAID to routinely identify obligations that could be deobligated. We will review the implementation of this new system during our fiscal year 2002 GMRA audit.

Recommendation No. 3. We recommend that the USAID Office of Financial Management coordinate with the Office of Procurement and responsible program bureaus to conduct the necessary analysis for determining whether the $186 million and other unneeded obligations should be deobligated.

Computer Security
Weaknesses Continue to Exist
(Repeat Condition)

Over the past four years, the OIG has issued several audits related to the security and general controls[8] of USAID's information systems. Those audits have identified computer security weaknesses that exposed USAID's financial systems to significant risk of unauthorized disclosure and modification of sensitive data, misuse or damage of resources, or disruption of critical operations. (See the "Computer Security Laws" section of the compliance report for a discussion of the OIG audit reports.)

Since 1997, USAID has reported the Agency's computer security program as a material weakness[9] and currently estimates that the weakness will not be fully corrected until September 2003. In USAID's attempt to resolve this material weakness, USAID reportedly has (1) established an effective Information System Security Office structure and an advisory group to set strategy, (2) developed a risk assessment methodology to evaluate computer security, and (3) led the Federal Best Security Practices Initiative.

Nonetheless, recent OIG audits showed that USAID has continued to have many serious computer security weaknesses. For example, the audits identified weaknesses in logical access controls, application software development and change control, segregation of duties, systems software configuration, and service continuity. These weaknesses exist because USAID has not implemented an effective computer security program. For instance, USAID did not:

- enforce its policies and procedures to ensure appropriate implementation, and
- provide adequate guidance for incorporating security into some of USAID's information technology processes.

As a result of the security deficiencies, USAID's financial systems are at significant risk of unauthorized disclosure and modifications of sensitive data, misuse or damage of resources, or disruption of critical operations. The weaknesses may also hamper USAID's ability to produce reliable financial information. Therefore, USAID needs to continue to improve the Agency's computer security program. (To address these weaknesses, the OIG made recommendations in other audit reports. We are not, therefore, making any further recommendations at this time.)

Reportable Conditions

USAID's Process for Recognizing and
Reporting Its Accounts Receivable
Needs Improvements
(Repeat Condition)

As of September 30, 2001, USAID lacks an integrated financial management system with the ability to account for its worldwide accounts receivables. Consequently, USAID had to rely on data calls to its missions to determine the year-end accounts receivable balance. This occurred because USAID lacked coordination and integration of various systems; lacked adequate policy and procedural guidance; and, as previously stated, did not have an integrated financial management system. As a result, USAID has no assurance that the amount reported for accounts receivable in its FY 2001 financial statements represents all receivables due to USAID.

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[8] General controls are the structure, policies, and procedures that apply to an entity's overall computer operations. If general controls are weak or ineffective, the reliability of controls associated with individual applications is severely diminished.

[9] USAID identified this as a material weakness in the Agency's Federal Manager's Financial Integrity Act review.

SFFAS No. 1 requires that accounts receivable be recognized (recorded) when a claim to cash or other assets has been established. The establishment of accounts receivable cannot occur on a timely basis unless there are adequate procedures for recognizing and reporting accounts receivable at the end of each accounting period.

Currently, USAID records accounts receivable after the missions and the Office of Procurement notifies its Financial Management Division that employees, vendors, contractors, and grantees owe funds to USAID. We determined that this notification to the Office of Financial Management occurs when the receivables are significantly past due- ranging from 636 to 4,042 days.

We also determined that USAID had not recorded receivables of about $7.2 million for Title II and III reimbursements from the U. S. Department of Agriculture. Additionally, we determined that USAID initially overstated its accounts receivable for transfers of currently invested balances by about $49 million. USAID's management made adjustments for these amounts to report a more reliable balance for its accounts receivables.

We are making the following recommendation to the USAID Office of Financial Management to improve its accounts receivable process:

Recommendation No. 4. We recommend that the USAID Office of Financial Management develop and implement a system for the immediate recognition and reporting of all accounts receivables that are due to USAID at the end of each accounting period.

USAID's Internal Controls Over its Overseas Missions Accounts Payable Process Needs Improvement

Our audit determined that USAID's internal controls over its mission accounts payable process needs improvement. We noted that amounts reported for accounts payable via the accrual worksheets used by missions were unsupported by financial documentation. This occurred because all missions have not developed an effective process for gathering the needed financial information from their contractors and grantees to calculate and record periodic accounts payable. As a result, the accounts payable amount from USAID's missions for fiscal year 2001 expenses was overstated by about $165 million. USAID management recorded an adjustment for the $165 million to present a more reliable accounts payable balance at September 30, 2001.

OMB Circular A-123 requires that transactions be promptly and properly classified and accounted for so that timely accounts and reliable financial statements can be prepared. The documentation for transactions, management controls, and other significant events must be clear and readily available for examination.

We determined that the internal control over the process for calculating accounts payable at the missions visited was ineffective. We found that amounts calculated via the accrual worksheet process were not supported by available financial documentation, rationale for calculations, or status reports that reflect an assessment of the spending for the project or activity. Moreover, we found that several accounts payable amounts were recorded by the missions for the entire balance of the related obligations, with expired performance periods. These obligations either had no financial activity in more than one year or had no activity since they were established. We determined that USAID had not conducted the necessary research to determine if the obligations and corresponding accounts payable were necessary.

We determined that this resulted because the efforts of USAID were somewhat hampered by the inefficiencies of the Mission Accounting and Control System (MACS)[10] and its inability to group various funding instruments of the same project or program. However, many USAID missions have not documented their calculations, their communications with contractors and grantees, their analysis of project expense burn rates, or their review of the necessary accounting reports. Additionally, the missions have not developed an effective methodology for gathering the necessary financial information from contractors and grantees.

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

Furthermore, we determined that USAID missions did not close several obligations and calculated accounts payable for the entire remaining balance because the missions have not received disbursement data from USAID/Washington, nor had the missions received a final voucher from the contractors or grantees. As a result, the accounts payable reported by USAID missions were overstated by about $5 million, which resulted in a projected overstatement of about $165 million for FY 2001 mission accounts payable. Therefore, we are including the following recommendation to USAID management:

Recommendation No 5. We recommend that the Office of Financial Management:

5.1 develop a standardized documentation requirement for estimating accounts payable at its missions on a timely basis;

5.2 coordinate with the Office of Procurement and issue detailed guidance and instructions to its missions for reviewing and reporting, to its Washington Office of Procurement, obligations that are available for deobligation;

5.3 require all missions to maintain adequate supporting documentation that is sufficient for the OIG's review, for their accounts payable.

USAID's Process for Preparing the <u>Management Discussion and Analysis Needs Improvements</u>

OMB Bulletin No. 01-02 requires the OIG to (a) obtain an understanding of the components of internal controls relating to the existence and completeness assertions relevant to the performance measures included in the MD&A and to (b) report on those internal controls that have not been properly designed and placed in operation. With respect to performance measures reported in the MD&A, we were unable to obtain a complete understanding of the design of the related significant internal controls because management did not disclose all sources of performance results data to us in a timely manner.

In a memorandum dated April 25, 2001, USAID management asserted to us that the performance information contained in the MD&A for fiscal year 2001 would be drawn from the Results Review and Resource Request (R4) Reports submitted by USAID's operating units during fiscal year 2001. Upon reviewing a draft MD&A dated January 18, 2002, we became aware that much of the performance information reported in the draft came from sources other than the R4 reports. Due to the untimely receipt of this information, we were unable to review the internal controls surrounding those other sources. Nevertheless, after applying limited procedures regarding the measurement and presentation of performance results reported in the MD&A, we identified certain deficiencies that, in our judgment, adversely affected the Agency's portrayal of performance results as required by prescribed guidelines.

The MD&A is a brief narrative overview, prepared by management, which describes the reporting entity and its mission, activities, program and financial results, and financial condition. The Statement of Federal Financial Accounting Standards (SFFAS) No. 15, Management's Discussion and Analysis, requires the MD&A to be included in each annual financial statement as required supplementary information. OMB Bulletin No. 97-01 provides additional guidance for preparing the MD&A. It states that program results reported in the MD&A should be expressed in terms of objective and relevant measures that disclose the extent to which the programs are achieving their intended objectives. The Bulletin also states that the reported measures should be consistent with information on major goals and objectives from USAID's strategic plan and should be linked to the programs featured in the Statement of Net Costs.

Based on our review of the draft MD&A dated January 18, 2002, we determined that the reported program results actually represented activities that took place prior to fiscal year 2001. Consequently, the reported results did not (a) correspond to USAID's performance goals established for fiscal year 2001 or (b) reflect the achievements of program funds expended during fiscal year 2001. Further, we determined that the program results reported in the MD&A were based on USAID operating units' self-assessments of progress (made in prior years) towards meeting certain strategic objectives. However, not all strategic objectives were assessed. Further, the MD&A did not disclose which or how many of USAID's strategic objectives were not assessed or reported. Despite the fact that program results were from prior years and not all strategic objectives were assessed, in many instances the MD&A reflected performance results data achieved during fiscal year 2001 and that all strategic objectives, within certain programmatic categories, were assessed. We believe that this portrayal of USAID's performance results departed materially from prescribed guidelines and included misleading information.

During our fieldwork we communicated our concerns to USAID management, resulting in some changes that were incorporated into a revised draft MD&A.[11] However, we believe that the revised draft continued to portray misleading information. Because we plan to conduct additional audit work in the area of performance reporting, we did not include a recommendation in this report to correct the above deficiencies.

This report is intended solely for the information and use of the management of USAID, OMB and Congress, and is not intended to be and should not be used by anyone other than these specified parties. However, this restriction is not intended to limit the distribution of this report, which is a matter of public record.

Alvin A. Brown

Office of Inspector General
February 25, 2002

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS

Did USAID comply with laws and regulations that could have a direct and material effect on the financial statements, and with any other applicable laws and regulations?

We have audited the financial statements of USAID for the fiscal year ended September 30, 2001 and have issued our report thereon. We conducted the audit in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the Office of Management and Budget (OMB) Bulletin No. 01-02, "Audit Requirements for Federal Financial Statements."

The management of USAID is responsible for complying with laws and regulations applicable to USAID. As part of obtaining reasonable assurance about whether USAID's financial statements are free of material misstatement, we performed tests of USAID's compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. Also, we tested certain other laws and regulations specified in OMB Bulletin No. 01-02, including the requirements referred to in the Federal Financial Management Improvement Act (FFMIA) of 1996. We limited our tests of compliance to these provisions and we did not test compliance with all laws and regulations applicable to USAID.

The results of our tests of compliance with laws and regulations described in the preceding paragraph exclusive to FFMIA[12] disclosed instances of noncompliance with laws and regulations that are required to be reported under Government Auditing Standards and OMB Bulletin No. 01-02.

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

The results of our tests disclosed instances, described below, where USAID's financial management systems did not substantially comply with Federal financial management system requirements, Federal accounting standards, and the U.S. Standard General Ledger at the transaction level.

[11] This revised draft, dated January 29, 2002, was the last version of the MD&A we received for review. At the conclusion of our fieldwork, Agency management had not yet issued a final version.

[12] FFMIA requires reporting on whether an agency's financial management systems substantially comply with the FFMIA section 803 (a) requirements relating to Federal financial management systems requirements, applicable Federal accounting standards, and the United States Government Standard General Ledger published by the Department of the Treasury. FFMIA imposes additional reporting requirements when tests disclose instances in which agency systems do not substantially comply with the foregoing requirements.

Nature, Extent, and Causes of Noncompliance

The Federal Financial Management Improvement Act was passed to improve Federal financial management by ensuring that Federal financial management systems provide reliable, consistent, financial data from year to year. The Act requires each agency to implement and maintain financial management systems that comply substantially with:

- Federal financial management system requirements,
- applicable Federal Accounting Standards, and
- the United States Government Standard General Ledger at the transaction level.

Office of Management and Budget Circular No. A-127, Financial Management Systems, prescribes policies and standards for agencies to follow in developing, operating, evaluating, and reporting on financial management systems. Section 7 of the Circular identifies the requirements, mentioned above, that Federal financial systems should meet. In January 2001, the Office of Management and Budget issued guidance to supplement OMB Circular No. A-127 to help determine whether financial systems substantially comply with FFMIA requirements. That guidance identifies various requirements[13] that an agency must meet, including Joint Financial Management Improvement Program system requirements.

Since 1997, the OIG has reported that USAID's financial management systems did not substantially comply with accounting and system requirements under FFMIA.[14] The reason for USAID's noncompliance was that the Agency's core financial management system[15] did not operate effectively. Therefore, USAID had to rely on a combination of outdated, legacy systems; informal, unofficial records; and a core financial management system-that suffered from technical and operational problems.

USAID has taken several steps to modernize the Agency's systems and meet FFMIA requirements. For instance, in September 1999, USAID purchased a new core financial system from the General Services Administration's schedule of qualified software.[16] In December 2000, USAID implemented the new core financial system in Washington. In addition, during fiscal year 2001, USAID:

- implemented the Mission Accounting and Control System Auxiliary Ledger data repository, that provides an automated interface between data extracted from Agency mission systems and the core financial system; and
- established operating procedures for interfaces and pre-interfaces between the new core financial system and five major systems that process transactions outside the core financial system. Those systems were (1) USAID's procurement system; (2) National Finance Center's Payroll system; (3) Mission Accounting and Control System; (4) the Department of Health and Human Services' Payment Management System, that processes USAID's Letter of Credit[17] activities; and (5) Riggs Banks, which services USAID's credit portfolio.

Federal Financial Management System Requirements - Although it has taken steps to meet FFMIA requirements, USAID still needs to continue to improve the Agency's financial management systems. According to FFMIA, Federal agencies must implement and maintain financial management systems that comply substantially with Federal financial management system requirements. However, USAID's financial management systems did not

[13] Other requirements are Office of Management and Budgets Circulars No. A-34, Instructions on Budget Execution; and A-130, Management of Federal Information Resources; and the United States Government Standard General Ledger.

[14] Reports on USAID's Consolidated Financial Statements, Internal Controls, and Compliance for Fiscal Year 2000 (Audit Report No. 0-000-01-006-F, February 26, 2001); Reports on USAID's Consolidated Financial Statements, Internal Controls, and Compliance for Fiscal Year 1999 (Audit Report No. 0-000-00-006-F, February 18, 2000); and Audit of the Extent to Which USAID's Financial Management System Meets Requirements Identified in the Federal Financial Management Improvement Act of 1996 (Audit Report No. A-000-98-003-P, March 2, 1998).

[15] This system, called the New Management System, consists of four subsystems: (1) AID Worldwide Accounting and Control System, (2) Acquisition and Assistance, (3) Budget, and (4) Operations.

[16] The software on this General Services Administration schedule is Joint Federal Financial Improvement Program certified.

[17] USAID uses Letter of Credit to finance grants. Letter of Credits make Federal funds available to recipient organizations on the next workday following the receipt of a request for funds. The Department of Health and Human Services processes USAID's active Letter of Credits.

INDEPENDENT AUDITOR'S REPORT ON USAID'S FY 2001 FINANCIAL STATEMENTS

substantially comply with the requirements.

The primary reasons for this noncompliance were that:

- USAID's core financial system did not always function properly with respect to funds control,
- USAID did not implement effective internal controls over USAID's financial management systems, and
- USAID's core financial systems did not readily produce user-friendly reports needed to manage Agency programs.

As a result, USAID's financial system may not provide users with complete, reliable, timely financial information needed for decision-making purposes. The following paragraphs discuss these issues in detail.

Funds Control - According to OMB Circular No. A-34, Instructions on Budget Execution, each Federal agency is responsible for establishing a funds control system that will ensure that USAID does not obligate or expend funds in excess of those appropriated or apportioned. In addition, the Circular states that entering into contracts that exceed the enacted appropriations for the year or purchasing services and merchandise before appropriations are enacted is a violation of the Anti-deficiency Act. We found that USAID's core financial system had some system problems with respect to funds control. USAID management was aware of each of these problems before our audit, has begun to take corrective actions, and expects to have these system-related problems corrected in fiscal year 2002. Therefore, we are not making any recommendations at this time. Nonetheless, the OIG considered these problems in determining substantial compliance with Federal system requirements under FFMIA, as described below.

First, according to OMB's FFMIA guidance, the Agency's financial management system shall support the preparation, execution, and reporting of the Agency's budget in accordance with OMB Circular A-34. According to that Circular, at year-end, multi-year funds not obligated that remain available must be reapportioned in the upcoming fiscal year. However, USAID's new core financial system did not roll-up all funds to the appropriation level to be reapportioned as part of the year-end closing process. Specifically, at year-end, the system did not roll up multi-year unobligated balances, thus allowing the funds to remain available for obligation. As a result, although the audit did not identify any instances in which USAID's funds were obligated before roll-up and reapportionment, USAID was at risk of committing an Anti-deficiency Act violation.

USAID recognized that the software created an opportunity for an Anti-deficiency Act violation and requested that Agency bureaus avoid using those funds. Additionally, a USAID contractor ran a series of reports and determined that no Anti-deficiency Act violations occurred. To correct the problem, USAID subsequently ran a series of scripts which rolled up unobligated multi-year account balances by fund to the appropriation level. (A USAID contractor is currently testing software to roll-up unobligated multi-year funds as part of the year-end closing process.)

Second, USAID's system did not properly display the funding available after appropriation transfer[18] transactions. Although, the system prohibited a user from obligating more funds than apportioned, the system displayed an incorrect available amount at the appropriation level after users processed appropriation transfers. For example, if an appropriation had an available amount of $100,000 and USAID transferred in $25,000 from another appropriation or agency, the system would erroneously add $25,000 to the balance twice and display $150,000 as available rather than the correct amount of $125,000. Likewise, if an appropriation had an available amount of $100,000 and USAID transferred $25,000 to another appropriation or agency, the system would erroneously subtract $25,000 from the balance twice and display $50,000 as available rather than the correct amount of $75,000. Consequently, when checking funds availability, the system displayed to users that more or less funds were available than actually were. Therefore, users could not use the system to properly manage operations. According to Agency officials, USAID will place a system patch into production in February 2002 to alleviate this problem.

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

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Internal Control Weaknesses - In December 2000, USAID implemented a new core financial system in Washington. The Joint Financial Management Improvement Program certified that the system's baseline software complied with Federal core financial system requirements. However, USAID had internal control weaknesses over the financial systems. USAID's general controls had the most serious weaknesses, as discussed below.[19] (See Appendix No. III for a discussion of other internal control weaknesses.)

Office of Management and Budget Circular A-130, Appendix III, requires agencies implement and maintain a program to assure that adequate security is provided for all agency information. During a series of audits,[20] the OIG determined that USAID did not fully develop and implement an Agency-wide security program for information systems as required. The OIG also identified serious general control weaknesses that place financial systems at significant risk of unauthorized disclosure and modification of sensitive data, misuse or damage of resources, or disruption of critical operations. For example, USAID's security program weaknesses included poorly chosen passwords, inadequate access controls, and inadequate segregation of duties. As a result of these weaknesses, USAID was not substantially compliant with Federal financial management system requirements under FFMIA. The OIG will make recommendations to address these issues in another audit report.

Reports - USAID's financial management system users were not always able to readily obtain data to manage Agency operations. This occurred because USAID's core financial system was operational only for ten months in fiscal year 2001 and, therefore, USAID primarily focused resources on implementation and operations, rather than on reporting. As a result, some system users maintained "cuff records"[21] to supplement the core financial system. The following paragraphs discuss this issue in detail.

According to JFMIP-SR-02-01, Core Financial System Requirements, "Reporting Function:"

…the core financial system must provide for ready access to the information it contains. Information must be assessable to personnel with varying levels of technical knowledge of systems. Personnel with relatively limited knowledge…must be able to access and retrieve data with minimal training on the system.

In fiscal year 1997, USAID first reported a material weakness in obtaining timely, accurate, or sufficiently useful financial information to manage resources and support decision making.[22] To address this issue, USAID's long term strategy was to implement a new, integrated financial management and accounting system.

In December 2000, USAID implemented a new core financial system. Although the system allowed users to view standard financial reports (e.g., required reports to the U. S. Treasury), users still reported that obtaining useful financial reports was a significant problem. For example, officials in one bureau noted that the system could not readily provide the financial information at a detailed level to manage programs and report on program performance. That bureau created a software program to consolidate information contained in individual spreadsheets and provide information that was more detailed than was currently available in the core financial system. The bureau used that software program to plan, budget, report, manage, and track programs. In another bureau, one user maintained spreadsheets to track obligations by strategic objective-information that should be readily available from the financial management system.

As stated previously, USAID's financial management system users were not always able to readily obtain data to manage Agency operations because USAID's core financial system was operational for only ten months in fiscal year 2001. Therefore, USAID

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[19] General controls are the structure, policies, and procedures that affect the overall effectiveness and security of computer operations. These include security management, systems security software, and controls designed to ensure that access to data and programs is restricted, computer duties are segregated, only authorized changes are made to computer programs, and plans are adequate to ensure continuity of operations.

[20] Audit of USAID's Compliance with the Provisions of the Government Information Security Reform, (Audit Report No. A-000-01-002-P, September 25, 2001). We are currently drafting the report on USAID's general controls, that will have restricted distribution. In addition, we issued audit reports on general controls for three USAID missions and are drafting a fourth report.

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

[22] USAID reported this as a material weakness pursuant to the Federal Managers' Financial Integrity Act of 1982.

primarily focused resources on implementation and operations, rather than on reporting. According to USAID officials, that decision was made because resources were limited. Nonetheless, recognizing that users needed more than the standard reports, USAID implemented a reporting tool.[23] However, that tool was not user-friendly. Moreover, some users did not have the training needed to obtain reports from the system. Finally, only a few users had the role needed to create reports with the necessary data fields.

As a result, some system users maintained cuff records to manage operations. According to one senior Financial Management official, although USAID plans to continue to rely on the software vendor to support the system, the Agency plans to focus on reporting in the future. For instance, USAID has begun to implement a more user-friendly report writing tool.[24] Nonetheless, USAID needs to ensure that system users are able to obtain the information needed to manage resources and support decision making. We are, therefore, making the following recommendation to assist in that effort.

Recommendation No. 6: We recommend that USAID's Chief Financial Officer, in collaboration with USAID's Chief Information Officer, provide users of the core financial system with a reporting tool and the training needed to obtain accurate, timely, and useful information from the core financial system to help manage Agency's operations.

Federal Accounting Standards

Because USAID did not meet Office of Management and Budget's indicators of compliance with Federal accounting standards, this audit determined that USAID's financial management system did not substantially comply with Federal accounting standards. As a result, USAID's systems may not provide complete, accurate, reliable financial information. The following paragraphs discuss this issue in detail.

According to Office of Management and Budget guidance,[25] an agency's financial management systems are considered in substantial compliance with Federal accounting standards if:

- the agency's financial statements are compiled in accordance with Federal accounting standards, and
- financial information used for internal management is consistent with Federal accounting standards.

We determined that USAID did not substantially comply with applicable Federal accounting standards. Specifically, USAID did not substantially comply with the Statements of Federal Financial Accounting Standards Nos. 1, 4, 10, and 15, as described below.

Standard No. 1, Accounting for Selected Assets and Liabilities - We determined that USAID's advances and accounts receivables did not comply with standard No. 1, as discussed below.

Advances - USAID did not recognize (record) all expenses related to advance liquidations during fiscal year 2001. During fiscal year 2001 USAID did not record $439 million in expenses (advance liquidations) submitted by DHHS. USAID did not record the $439 million as expenses because of processing problems and missing data during its payment authorization process. Further, USAID did not follow its established procedure that requires a monthly reconciliation between the general and subsidiary ledgers. According to USAID officials, the lack of staffing resources impaired its ability to perform the monthly reconciliation.

Therefore, the expenses were not recorded until after the fiscal year ended. SFFAS No. 1 requires that advances be reduced when goods and services are received (i.e., expenses have been actually incurred by the grant recipient). USAID was not able to process the $439 million of grantee liquidations because its financial management system had not been updated for new obligations or amendments to existing obligations.

In addition, there were about $155 million in advance liquidations submitted by grantees to DHHS that could not be processed (accepted) by the Payment Management System. This occurred because USAID does not have an integrated financial management system. Therefore,

[23] This tool is called Business Objects.
[24] This tool is called Crystal Reports.
[25] Revised Implementation Guidance for the Federal Financial Management Improvement Act (January 4, 2001)

obligations established for advances to grantees that are managed by DHHS must be manually entered into the Payment Management System. However, USAID has not established a process that ensures that all obligations established for advances to grantees are entered into the Payment Management System..

USAID recorded a $532 million year-end adjusting journal entry ($377 million of the $439[26] million and the $155 million mentioned above) to decrease advances and increase expenses for these advance liquidations that were submitted by grantees but not processed in the system during the fiscal year.

Accounts Receivable - USAID does not have an adequate system to recognize its worldwide accounts receivable in a timely manner. USAID is only aware of its receivables when its Office of Procurement, missions, and contractors/grantees report them to its Office of Financial Management. This occurred because USAID lacked coordination and integration of various systems; lacked adequate policy and procedural guidance; and, as previously stated, did not have an integrated financial management system. SFFAS No. 1 requires that a receivable be recognized (recorded) when a claim to cash or other assets has been established. The establishment of a receivable cannot occur on a timely basis unless there are adequate procedures for recognizing and reporting accounts receivable at the end of each accounting period.

Standard No. 4, Managerial Cost Accounting Concepts and Standards for the Federal Government - USAID did not comply with one of the fundamental elements of SFFAS No. 4 that requires establishing responsibility segments that match costs with outputs and requires the reporting of full costs of outputs. Also, USAID does not have a system to identify and report all costs against the appropriate Agency goals. USAID did not record and report about $374 million in program expenses in accordance with their established methodology due to missing data, inefficient processing, and unreconciled information.

The methodology requires that program costs be directly expensed at the intermediate output level and rolled up to the net cost reporting level of Agency goals. USAID did not record and report the $374 million in accordance with that methodology on its Fiscal Year 2001 Statement of Net Costs. Instead, USAID allocated those costs based on a predetermined percentage rate. We were unable to review this allocation to determine the reliability of the allocation.

We determined that USAID did not process and record about $439 million in expenses related to the advances to grantees managed by the Department of Health and Human Services (DHHS) in their financial management system during fiscal year 2001. (DHHS is the servicing agent for USAID's Letter of Credit advances to grantees). USAID was not able to process the $439 million of grantee advance liquidations expenses for various reasons. Of this amount, $62 million could not be recorded and reported in accordance with their established methodology because of processing problems, inefficient processing of liquidation expenses, and missing data in its payment authorization process. In addition, USAID did not reconcile and properly classify about $66 million in outstanding advances remaining in its legacy system that were disbursed before October 1999. The $128 million mentioned above represents activities that may be more appropriately classified as expenses.

We determined that about $246 million in expenses may not have been properly recorded against the appropriate Agency goals in USAID's Fiscal Year 2001 Statement of Net Cost. The information needed to properly allocate these expenses was not available to USAID at the time the financial statements were prepared. We identified about $155 million in expenses associated with the advances to grantees managed by DHHS that were not identified and recorded by USAID during fiscal year 2001. These expenses were not reported by DHHS because the related obligations for which the expenses were incurred were not recorded in the Payment Management System. According to the agreement established between USAID and DHHS, all awards to grantees for the purpose of advancing funds must be entered into the Payment Management System before the liquidation of the advance funds can occur. Further, we determined that about $91 million (or 3 percent) of mission expenses related to multiple

[26]USAID is analyzing the remaining $62 million.

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Agency goals were not consistently allocated as required by FASAB No. 4.

Standard No. 10, Accounting for Internal Use Software[27]- According to Standard No. 10, Federal agencies are required to capitalize the cost of internal-use software, whether that software is commercial off-the-shelf, contractor-developed, or internally developed. The capitalized cost for commercial off-the-shelf software should include the amount paid to the vendor for the software. For contractor-developed software, capitalized cost should include the amount paid to a contractor to design, program, install, and implement the software. USAID's policy is to capitalize software that exceeds a $300,000 threshold.

For fiscal year 2001, the only software that exceeded USAID's threshold was the core financial system,[28] which cost $14.9 million. Of that amount, USAID capitalized $6.3 million for fiscal year 2001. Although those amounts were immaterial to the overall presentation of the fiscal year 2001 financial statements, our audit determined that USAID did not:

- include costs funded in prior years for services received in fiscal year 2001 (accrual basis of accounting),
- capitalize costs by fiscal year,
- have readily available all the required documentation to support USAID's property records, and
- reconcile the Agency's software property records with the financial records.

Standard No. 15, Management Discussion and Analysis - According to Standard No. 15, each general purpose Federal financial report should include a section devoted to Management's Discussion & Analysis (MD&A). Standard No. 15 indicates that the MD&A should be regarded as required supplementary information[29] and, among other things, address performance goals and results that relate to the financial statements included in the general purpose Federal financial report.

Based on our review of the draft MD&A dated January 18, 2002, we determined that the reported program results actually represented activities that took place prior to fiscal year 2001. Consequently, the reported results did not (a) correspond to USAID's performance goals established for fiscal year 2001 or (b) reflect the achievements of program funds expended during fiscal year 2001.

This occurred because USAID management did not require individual operating units to report program results for fiscal year 2001 to include them in the MD&A for fiscal year 2001. Without the current results information, USAID management is unable to effectively discuss and analyze USAID's program performance in relation to its performance goals or financial statements for fiscal year 2001.

Indicators of noncompliance - The audit determined that USAID's financial management system did not substantially comply with Federal accounting standards because the Agency did not meet Office of Management and Budget's indicators of compliance with those standards (opinion, internal controls, and managerial cost information), as described below.

- **Opinion** - One indicator of compliance with Federal accounting standards is "[a]n unqualified opinion, or a qualified or disclaimer…for reasons other than the agency's ability to prepare auditable financial statements." For fiscal year 2001, the OIG could not determine, through normal auditing procedures, whether $186 million in unliquidated obligations were needed for current Agency operations and whether $128 million in advances should be included in USAID's fiscal year 2001 financial statements. Therefore, the OIG disclaimed an opinion on USAID's Statement of Net Costs and Statement of Financing. In addition, the OIG expressed a qualified opinion on the Balance Sheet, Statement of Budgetary Resources, and Statement of Changes in Net Position. (See "Independent Auditor's Report on USAID's Financial Statements.")

[27] The OIG will issue a separate audit report that will further explain the details relating to this section.
[28] USAID's costs for the core financial system included costs to automate the feeder systems.
[29] See section 558, "Required Supplementary Information," in Codification of Statements on Auditing Standards, American Institute of Certified Public Accountants (AICPA).

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- **Internal Controls** - Another indicator of compliance with Federal accounting standards is "...no material weaknesses in internal controls that affect USAID's ability to prepare financial statements [and other related reports]...consistent with Federal accounting standards." We identified several material weaknesses in USAID's internal controls. For instance, USAID did not:

- record 278 grant agreements and/or amendments with an absolute total of $256 million in the Department of Health and Human Services' Payment Management System;

- record advance liquidation expenses of about $439 million; and

- have activity during fiscal year 2001 for about $186 million in unliquidated obligations, which may be available for deobligation.

(See "Independent Auditor's Report on USAID's Internal Controls.")

- **Managerial Cost Information** - A third indicator of compliance with Federal accounting standards is that "the agency produces managerial cost information consistent with [cost accounting standards]." However, in a March 1999 audit report, the OIG reported that USAID did not have a system to report on the full cost of Agency programs, activities, and outputs.[30] Therefore, the OIG recommended that USAID's Bureau for Policy and Program Coordination develop internal controls for identifying the full costs of USAID program, activities, and outputs. USAID is continuing to take corrective action to produce managerial cost information.

As a result of USAID's systems not substantially complying with Federal accounting standards, the Agency's financial management systems may not provide complete, accurate, reliable financial information. These issues of non-compliance are discussed in other sections of this audit report. We are not, therefore, making any further recommendations at this time.

Use of United States Standard General Ledger at the Transaction Level - FFMIA requires agencies to implement and maintain systems that comply substantially with, among other things, the United States Standard General Ledger (SGL) at the transaction level. Substantial compliance with the SGL at the transaction level requires that:

- Transactions be recorded in full compliance with the SGL Chart of Account's descriptions and posting models or attributes that demonstrate how the SGL is to be used for recording transactions of the Federal government accounting process;

- Reports produced by the systems provide financial information that can be traced directly to the SGL accounts; and

- Transactions from feeder systems, which may be summarized and interfaced into the core financial system's general ledger, be posted following SGL requirements.

The OIG determined that USAID did not substantially comply with the SGL at the transaction level.[31] Specifically, USAID did not record mission activities-accounting for approximately 52 percent of USAID's total net cost of operations-using the SGL at the transaction level. This occurred because USAID recorded mission activities in the Mission Accounting and Control System (MACS)- a computer-based system that did not have an SGL Chart of Accounts. Instead, MACS used transaction codes that did not match to the SGL Chart of Accounts.

During the fourth quarter of fiscal year 2001, USAID implemented, as part of the monthly closing process, a process to crosswalk MACS transactions to the SGL. In that process, every month USAID extracted mission transactions for MACS transaction codes. USAID electronically transferred those transactions to an auxiliary ledger that summarized and electronically cross-walked the MACS transaction codes to transaction codes in the core financial system. Each transaction code in the

[30] Report to USAID Managers on Selected USAID Internal Controls (Report No. 0-000-99-002-F, March 31, 1999).

[31] USAID did not record the Agency's non-expendable property activities using the SGL at the transaction level. However, non-expendable property was immaterial to the financial statements for fiscal year 2001.

INDEPENDENT AUDITOR'S REPORT ON USAID'S FY 2001 FINANCIAL STATEMENTS

core financial system is correlated to SGL accounts. USAID then records those summarized results into the core accounting system's general ledger.

According to Office of Management and Budget officials, while USAID's process may be a good interim solution until the Agency has an integrated financial management system, the process did not allow the Agency to be substantially compliant with the SGL at the transaction level. As a result, USAID cannot ensure that transactions are posted properly and consistently from mission to mission.

Therefore, USAID needs to record mission activities using the SGL at the transaction level to support financial reporting and meet requirements. However, until USAID deploys its core financial system worldwide, MACS will continue to operate as the financial system for overseas missions. Although USAID estimates in the Agency's Capital Asset Plan that worldwide deployment of the core financial system will not begin until fiscal year 2008, USAID has begun to conduct a study to identify opportunities for improving the Agency's financial management areas. According to one Agency official, that study will include a determination of when and how USAID should deploy the core financial system overseas. Accordingly, we are not making any recommendations at this time.

Remediation Plan - Although USAID has made progress in becoming FFMIA compliant, the Agency did not fully meet four of the six[32] major targets established in the USAID's remediation plan for completion in fiscal year 2001.[33] This occurred primarily because USAID:

- continued to maintain a fragmented organizational structure, that did not assign USAID's Chief Financial Officer the responsibility and authority to manage all financial management systems; and
- did not fully plan the remedies needed to make USAID's financial management systems compliant with FFMIA.

As a result, USAID may not meet the Agency's overall goal of becoming substantially compliant with FFMIA by the fourth quarter of fiscal year 2003. The following paragraphs discuss this issue in detail.

Office of Management and Budget Circular A-11 states that an agency that is not in compliance with FFMIA must prepare a remediation plan. The purpose of a remediation plan is to identify activities planned and underway that will allow USAID to achieve substantial compliance with FFMIA. Remediation plans must include the resources, remedies, interim target dates, and responsible officials. Further, the remediation target date must be within three years of the date from the time when the system was determined to be not substantially compliant.

As shown in the table below, USAID achieved only two of the six remediation targets for fiscal year 2001 and dropped a third, stating that the requirement was no longer needed to bring the Agency into substantial compliance with FFMIA. USAID generally cited budget constraints, unplanned additional work, and new strategies as the reasons that the Agency did not meet the milestones for the remaining three targets. However, USAID did partially complete one of the targets by automating the interface between the core financial system and the procurement system. Additionally, USAID stated that they had begun taking steps to resolve weaknesses in the (1) primary accounting and (2) reporting and resource management capabilities, as discussed in other sections of this report.As described in detail below, the primary reasons that USAID did not fully achieve three of the six targets were that:

- USAID continued to maintain a fragmented organizational structure that did not assign the Agency's Chief Financial Officer the responsibility and authority to manage all financial management systems; and
- USAID did not fully plan the remedies needed to make the Agency's financial management systems compliant with FFMIA.

Organizational Structure - In a March 1999 audit report, the OIG reported that USAID had not delegated to the

[32] The remediation plan had six major milestones for fiscal year 2001. However, USAID dropped one, stating that the requirement was not needed to bring the Agency's systems into substantial compliance with FFMIA.
[33] We reviewed the remediation plan in USAID's FY 2000 Accountability Report.

Chief Financial Officer (CFO) the responsibility and authority to develop and maintain an integrated financial management system, as required by the CFO Act of 1990.[37] Therefore, the OIG recommended that USAID's CFO collaborate with other offices to determine the specific responsibility, authority, and resources needed to meet the requirements under the CFO Act, including FFMIA. Although USAID has taken some corrective actions, the most significant-reorganization-has not yet taken place. Consequently, USAID ended up with deficiencies that affected USAID's ability to meet the targets established in the remediation plan.

For example, due to USAID's fragmented organizational structure and a lack of integrated planning, USAID did not achieve the target of performing certification and accreditation at mission accounting stations in fiscal year 2001. Specifically, the CFO's system work group was tasked to perform the certification and accreditation of mission accounting systems, which was dependent on Bureau for Management's Information Resource Management Division (the Division) concurrently performing risk assessments. However, one CFO official stated that the Division did not adequately budget for the risk assessments and, thus, USAID did not have enough funds to complete the planned activities. The audit also noted that USAID's Capital Asset Plan[38] as of October 2001 did not disclose the Division's cost to perform risk assessments, which again was not funded in fiscal year 2002.

In addition, USAID's general control weaknesses have had an impact on the Agency's ability to become FFMIA compliant. The Clinger-Cohen Act of 1996 makes the head of the agency, in

Table 2
USAID's Targets for Fiscal Year 2001

	Remedy	Target Achieved?	Target Date in Remediation Plan	Revised Target Date[34]
1	Electronically interface feeder systems with core financial management system	No[35]	4th Qtr FY 2001	1st Qtr FY 2002
2	Resolve weakness in Agency's (1) primary accounting and (2) reporting and resource management capabilities	No[36]	4th Qtr FY 2001	3rd Qtr FY 2002
3	Implement the core financial system that calculates and reports accounts payable and accrual expenses in compliance with Federal requirements and standards.	No	1st Qtr FY 2001	1st Qtr FY 2002
4	Integrate core financial system in USAID/Washington	Yes	1st Qtr FY 2001	Completed
5	Interface Mission data via the MACS Auxiliary Ledger with core financial system to support the Accounting Classification Structure upper level general ledger postings	Yes	4th Qtr FY 2001	Completed
6	Implement Enterprise Solution Integration Lab (prototype testing) and associate system engineering practices to perform solution demonstration	No	3rd Qtr FY 2001	N/A - Requirement Dropped

[34] These dates were taken from USAID's Capital Asset Plan. At the time of our review, USAID had not completed the Agency's revised remediation plan. However, an Agency official stated that the Capital Asset Plan contained the same information that would be presented in the remediation plan.

[35] USAID completed some of the electronic interfaces during fiscal year 2001.

[36] USAID has taken some steps to correct these weaknesses.

[37] Reports on USAID's Financial Statements, Internal Controls, and Compliance for Fiscal Year 1999 (Report No. 0-000-99-001-F, March 1, 1999).

[38] At the time of our review, USAID had not completed the Agency's revised remediation plan. However, an Agency official stated that the Capital Asset Plan contained the same information that would be presented in the remediation plan.

consultation with the CFO and the Chief Information Officer, accountable for establishing policies and procedures that ensure that:

- the agency's information systems provide financial or program performance data for agency financial statements;
- financial and performance data are provided to financial management systems in a reliable, consistent, and timely manner; and
- financial statements support assessments and revisions of mission and administrative processes, and measurements of the performance of technology investments.

The CFO stated that his position in USAID does not provide him the responsibility for implementing remedies that address general controls. USAID's Administrator has designated the Chief Information Officer to be responsible for planning and budgeting activities for information technology-related investments. Therefore, USAID's CFO did not have control over the resources to correct the general control weaknesses and is dependent on the Chief Information Officer to become compliant with FFMIA. Although this weakness was not a fiscal year 2001 milestone it will effect future year compliance with FFMIA.

Remedies - USAID's remediation plan did not fully address all remedies needed to become FFMIA compliant. Specifically, the plan did not address deployment of USAID's core financial system worldwide to comply with SGL requirements, as discussed below.

USAID's remediation plan did not fully address compliance with the SGL at the transaction level. As discussed in the "Use of United States Standard General Ledger at the Transaction Level" section, USAID did not record the Agency's mission activities using the SGL at the transaction level. Agency officials believed that an interim measure would make the system SGL compliant, and revised the target to start worldwide deployment of the core financial system from fiscal year 2002 to 2008. However, Office of Management and Budget officials stated that USAID's interim measure did not make the Agency compliant with FFMIA. Upon being notified of the Office and Management Budget's position, USAID officials decided to revise the strategy for making the Agency compliant with FFMIA requirements. (For more details, see "Use of United States Standard General Ledger at the Transaction Level" section.)

As a result of the problems discussed above, USAID may not meet the overall goal to become substantially compliant with FFMIA by the fourth quarter of fiscal year 2003. Although USAID named the Chief Financial Officer as the official who would be responsible for implementing the FFMIA remediation plan, USAID's CFO does not have sufficient authority to complete remedial actions. Therefore, the CFO needs to work collaboratively with the Chief Information Officer to meet the targets in USAID's remediation plan. We are, therefore, making the following recommendation to help USAID improve its remediation plan.

Recommendation No. 7: We recommend that USAID's Chief Financial Officer, in collaboration with USAID's Chief Information Officer, revise the remediation plan to identify sufficient resources and remedies to make USAID's systems substantially compliant with the Federal Financial Management Improvement Act of 1996.

Computer Security Act

The Computer Security Act of 1987 (Public Law No. 100-235) requires Federal agencies to protect information by (1) identifying sensitive systems, (2) developing and implementing security plans for sensitive systems, and (3) establishing a training program to increase security awareness and knowledge of accepted security practices. To further improve program management and evaluations of agencies' computer security efforts, the Government Information Security Reform Act (Public Law No. 106-398) was passed in October 2000.

Over the past four years, the OIG has conducted several audits related to the security and general controls of USAID's information systems, as described below. Nevertheless, USAID has continued to have many serious deficiencies in the Agency's security program.

In a September 1997 audit report,[39] the OIG found that USAID did not implement an effective computer security program as required. These deficiencies occurred because USAID did not implement an adequate system of management controls to support an effective computer security program. As a result, USAID was exposed to high risk that resources would not be adequately protected from fraud or misuse.

Additionally, during a series of audits conducted during fiscal year 1999,[40] the OIG found that USAID had not implemented effective general controls over its mainframe, client server, and USAID Mission computer systems. A primary reason for USAID's ineffective general controls is that USAID did not have an Agency-wide security program that includes clear security responsibilities and Agency-wide security processes.

Finally, in a September 2001 audit report,[41] the OIG found that USAID had not fully implemented an effective[42] security program for the Agency's information systems. Although USAID had made significant progress in developing an information systems security program, the Agency had not implemented a program that allows USAID officials to comprehensively manage the risks associated with USAID's operations and systems. Specifically, USAID had not:

- enforced its policies and procedures to ensure appropriate implementation, and
- provided adequate guidance to incorporate security into some of USAID's information technology processes.

The primary reason for the deficiencies was that USAID had not implemented a centralized function that had oversight and ensured that USAID met security requirements. Such deficiencies exposed USAID to unacceptable risks that resources would not adequately be protected. The OIG made ten recommendations to correct deficiencies identified in USAID's security program for information systems.

As part of this audit effort, the OIG reviewed the status of recommendations from the audit reports discussed above. Although USAID has taken some corrective actions, many deficiencies still exist. Specifically, USAID needs to take corrective action for 17 recommendations from the above reports. For example, USAID needs to develop and implement an effective computer security program by:

- ensuring that adequate resources and skills are available to implement the program,
- preparing security plans,
- completing contingency/disaster recovery plans.

USAID has reported the Agency's computer security program as a material weakness[43] since 1997. USAID currently estimates that the computer security weaknesses will be fully corrected in September 2003.

Providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

Office of the Inspector General
February 25, 2002

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[39] Audit of USAID's Compliance with Federal Computer Security Requirements (Audit Report No. A-000-97-008-P, September 30, 1997).

[40] Audit of USAID/Peru's General Controls Over the Mission Accounting and Controls System (Audit Report No. 527-99-001-P, December 30, 1998); Audit of Access and System's Software Security Controls Over the Mission Accounting and Control System (MACS) (Audit Report No. A-000-99-002-P, December 31, 1998); Audit of USAID's Progress Implementing a Financial Management System That Meets Federal Financial Management Improvement Act Requirements (Audit Report No. A-000-99-003-P, March 1, 1999); Audit of General Controls Over USAID's Mainframe Computer Environment (A-000-99-004-P, March 1, 1999); and Audit of General Controls Over USAID's Client-Server Environment (A-000-99-005-P, March 1, 1999).

[41] Audit of USAID's Compliance with the Provisions of the Government Information Security Reform (Audit Report No. A-000-01-002-P, September 25, 2001).

[42] For that audit, effective was defined as designing controls that are properly implemented and working as intended.

[43] USAID identified this as a material weakness in the Agency's Federal Manager's Financial Integrity Act review.

INDEPENDENT AUDITOR'S REPORT ON USAID'S FY 2001 FINANCIAL STATEMENTS

MANAGEMENT COMMENTS AND OUR EVALUATION

We received USAID's management comments and suggested changes to the findings and recommendations included in our draft report. USAID management agreed with all findings and recommendations and has acted on recommendation No. 2. Management commented that recommendation No. 2 and No. 4 cannot be fully implemented until a worldwide integrated financial management system is deployed. We have evaluated USAID management comments on the recommendations and have reached management decisions on all seven recommendations. We have also made the suggested changes where deemed necessary. The following is a brief summary of USAID's management comments on each of the seven recommendations included in this report and our evaluation of those comments.

Recommendation No. 1

USAID management agreed with recommendation No. 1 and commented that they will establish the necessary general ledger control account and complete the necessary reconciliation on a monthly basis. USAID will establish a reasonable time period for resolving all reconciling items. We agree with USAID management decision regarding recommendation No. 1 and plan to review this general ledger control account and USAID's reconciliation process during our fiscal year 2002 GMRA audit.

Recommendation No. 2

USAID management agreed with recommendation No. 2 and commented that they have in fact acted to eliminate the backlog of unrecorded grant agreements and/or modifications. USAID management noted that because the Agency does not have a financial management system where its overseas procurement/assistance actions are integrated with the accounting system, USAID cannot develop an automated interface with DHHS' Payment Management System that will ensure that a backlog does not occur in the future. USAID management further commented that the agency will look at ways to improve the workflow between its field offices, Washington, and DHHS' Payment Management System to include allowing Grant and Procurement Officers at its missions access to the Payment Management System.

At the end of FY 2001, USAID established a "central e-mail box" for mission Grant Officers to send, electronically, all new grants and/or modifications to its Washington Office of Financial Management. USAID believes that this electronic submission of new grants and/or modifications will allow its Washington Office of Financial Management to update the DHHS' Payment Management System in a timely manner. We agree with USAID management's decision regarding recommendation No. 2 and plan to review this new "central e-mail box" process and the ways USAID has improved the recording of its new grants and/or modifications during our fiscal year 2002 GMRA audit.

Recommendation No. 3

USAID management agreed with recommendation No. 3 and commented that they will take the necessary actions in fiscal year 2002 to review the unliquidated obligations identified by our audit. USAID management further commented that the Agency would conduct the necessary analysis to determine the correct accounting classification of the unliquidated balance of the expired obligations identified by our audit finding. We agree with USAID management's decision regarding recommendation No. 3 and plan to conduct a separate audit of USAID unliquidated obligations during fiscal year 2002 and will also determine the impact of USAID analysis and classification of the identified expired obligations during our fiscal year 2002 GMRA audit.

Recommendation No. 4

USAID management commented that they agreed with the intent of recommendation No. 4. However, management commented that the Agency could not implement this recommendation until a worldwide integrated accounting system is deployed. USAID management also noted that accounts receivable is an immaterial item on its financial statements?$31 million. Therefore, pending deployment of a worldwide system, USAID will continue to rely on data calls to obtain accounts receivable data for financial statement preparation purposes.

We believe that USAID's claim that accounts receivable is immaterial is incorrect. The accounts receivable amount reported by USAID, before adjustments, for fiscal year 2001 was more than our testing materiality threshold of $75 million. Further, as reported, USAID's process for accounting for and reporting accounts receivable does not allow the Agency to recognize receivables at the time they occur. We agree with USAID management's decision regarding recommendation No. 4 and plan to continue review USAID's annual accounts receivable process if we determine that the amount reported in the financial statements is material.

Recommendation No. 5

USAID management agreed with this recommendation and commented that they will issue the appropriate guidance to its overseas accounting stations regarding documentation retention requirements in fiscal year 2002. We agree with management's decision regarding recommendation No. 5 and will review these instructions and their implementation during our fiscal year 2002 GMRA audit.

Recommendation No. 6

USAID management agreed with recommendation No. 6 and commented that reporting from Phoenix and the MACS Auxiliary Ledger is one of the priority work areas for the Financial Systems Team in fiscal year 2002. We agree with management's decision regarding recommendation no. 6. During our fiscal year 2002 GMRA audit, we will review USAID's actions taken.

Recommendation No. 7

USAID management agreed with recommendation no. 7 and commented that USAID will make the necessary changes to the remediation plan based on the results of the Agency's business transformation study being conducted under the direction of the USAID Business Transformation Executive Committee. We agree with management's decision regarding recommendation no. 7. During the fiscal year 2002 GMRA audit, we will follow-up on the status of USAID's corrective actions.

See Appendix II for USAID's management comments.

APPENDIX I: SCOPE AND METHODOLOGY

Scope

This audit was conducted in accordance with generally accepted auditing standards. Following those standards, we assessed the reliability of USAID's Fiscal Year 2001 financial statements, related internal controls, and compliance with provisions of applicable laws and regulations.

We obtained an understanding of the account balances reported in USAID's FY 2001 financial statements. We determined whether the amounts were reliable, whether applicable policies and procedures were established, and whether they had been placed in operation to meet the objectives of the Federal Accounting Standards Advisory Board and other regulations. We considered all reasonable efforts made by USAID's management to improve its financial management and respond to our previous recommendations relating to the operations of its financial portfolio.

We statistically selected and reviewed FY 2001 financial statements and financial related activities at USAID/Washington and 10 USAID missions.[44] A planning materiality threshold of five percent and testing materiality threshold of three percent was calculated. These materiality thresholds were based on USAID FY 2000 total assets net of intergovernmental balances. Any amount over $75 million was considered material and included in our review of USAID's FY 2001 financial statements. All exceptions were considered in the aggregate to determine whether USAID's FY 2001 financial statements were reliable.

With respect to the MD&A, we judgmentally selected and reviewed FY 2001 performance results data reported to USAID/Washington by its operating units. We did not assess the quality of the performance indicators but attempted to verify the accuracy of data in the MD&A and performed only limited tests to assess the controls established by USAID. With respect to performance measures reported in the MD&A, we were unable to obtain a complete understanding of the design of the related significant internal controls because USAID's management did not disclose all sources of performance results data to us in a

[44]The ten missions selected were USAID: Kiev, Budapest, India, Nepal, Cairo, Pretoria, Ghana, Mali, Kenya, and Nicaragua. USAID/Nepal was not visited because of political unrest in that country. USAID/Nigeria was visited as part of our review of USAID/Ghana and USAID/Moscow was substituted for USAID/India during the testing phase of the audit.

timely manner. However, after applying the limited tests in regards to the measurement and presentation of performance results reported in the MD&A, we identified certain deficiencies that, in our judgment, adversely affected USAID's portrayal of performance results as required by prescribed guidelines.

Methodology

In accomplishing our audit objectives, we reviewed significant line items and amounts related to USAID's fiscal year 2001 financial statements. These financial statements include Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, Statement of Budgetary Resources, and Statement of Financing. To accomplish the audit objectives we:

- Obtained an understanding of the components of internal control and assessed the level of control risk relevant to the assertions embodied in the class of transactions, account balances, and disclosure components of the financial statements;
- Performed tests of compliance with laws and regulations that could have a direct and material effect on USAID's financial statements including FFMIA;
- Conducted detailed audit tests of selected account balances at USAID/Washington and the 10 statistically selected missions;
- We statistically selected and confirmed outstanding advances to grantees and selected direct loan balances.
- Reviewed prior audit reports related to USAID financial activities and determined their impact of USAID's fiscal year 2001 financial statements;
- Conducted meetings with USAID management, employees, contractors, grantees, and other parties associated with the information presented in the fiscal year 2001 financial statements;
- Followed up on previous financial statement audit recommendations and restated those recommendations that were not implemented by USAID management; and
- Conducted a limited review of the components of internal controls related to the existence and completeness assertions relevant to the performance measures included in the MD&A.

APPENDIX II: USAID'S MANAGEMENT COMMENTS

MEMORANDUM
February 21, 2002

TO: IG/A/FA, Alvin A. Brown

FROM: M/FM, Elmer S. Owens, Acting CFO

SUBJECT: Draft Report on the Audit of USAID's Consolidated Financial Statements, Internal Controls, and Compliance for FY2001 (Report No. 0-000-02-003-F)

Thank you for the opportunity to respond to the subject draft report. We are very pleased that you are able to issue qualified opinions on three of USAID's five principal financial statements, and appreciate your recognition of the progress that the Agency has made in addressing financial accounting deficiencies. I would also like to express my sincere appreciation for the professional and cooperative manner that your audit team displayed throughout the audit. This memo includes our comments on your draft report, suggestions for changes, and our management decisions regarding proposed recommendations.

Independent Auditor's Report on Internal Controls

The paragraph that discusses the $439 million difference between the general ledger and subsidiary ledger should include a statement that USAID reconciled all but $62 million of the difference and that the IG was able to verify this reconciliation.

We agree with the three parts of **Recommendation No. 1**. We will establish the necessary general ledger control account and complete the necessary reconciliation on a monthly basis. However, with regard to Recommendation 1.3, it will in all likelihood not be possible to "resolve" all reconciling items at the end of the month in which they first occur. USAID will establish a reasonable time period for resolving all reconciling items.

The discussion of the $155 million in expenses that could not be recorded into the Department of Health and Human Services' (DHHS) Payment Management System (PMS) by some grantees need to be expanded to clarify for the reader why these advance liquidations could not be recorded. Also, please include a statement that USAID made an adjusting entry to recognize the $155 million in expenses.

The paragraph that describes the 278 grant agreements and/or modification not entered in DHHS' PMS contains a sentence that states that this problem occurred because USAID does not have a worldwide integrated financial management system. This statement should to be expanded to clarify that the worldwide system the audit reports is referring to is a integrated system that includes both the procurement and assistance systems and that it is not referring to just the accounting system.

We agree with **Recommendation 2.1** and have in fact taken action to eliminate the backlog. It should be eliminated within the next month. However, because the Agency does not yet have a financial management system where overseas procurement/assistance actions are integrated with the accounting system, we cannot develop an automated interface with DHHS' PMS that will "ensure" (Recommendation 2.2) that a backlog does not occur in the future. We will look at ways to improve the workflow between field offices, Washington, and DHHS' PMS, including looking into the alternative of giving field offices input access to PMS. For example, at the end of FY 2001 we established a central e-mail box for grantee officers to send new grant agreements or modifications. If the documents are sent electronically to the mailbox, the time lost through the pouch mail system will be done away with and PMS will be updated in a timely manner. Given the foregoing, please modify **Recommendation 2.2**.

We agree with **Recommendation No. 3** and will take the necessary action in FY 2002 to review the unliquidated obligations identified by this finding. In this regard, it should be noted that the amount identified by the Agency as requiring review is about $150 million or some $36 million less than the amount identified in the audit report. The Office of Financial Management, in consultation with the responsible bureaus/offices, will do the necessary analysis to determine the correct accounting classification of the unliquidated balance of the expired obligations identified in this finding.

We agree in general with the intent of **Recommendation No. 4**, but until we deploy the core financial system worldwide; The Agency cannot implement the recommendation. We are taking this position because Accounts Receivable for USAID is small in comparison to our other assets. In fact, as of September 30, 2001 accounts receivables were only $31 million, which includes $11 million in credit program fee receivables. Therefore, pending deployment of a worldwide system, USAID will have to continue to rely on periodic data calls to obtain total accounts receivable data for financial statement preparation purposes. We will institute more frequent data calls to comply with the new semi-annual and quarterly unaudited financial statement requirements starting in FY 2002.

The first paragraph under the discussion of mission accounts payable discussed the estimated $165 million that these payables were determined to be overstated. Please include a statement that USAID made an adjusting entry for this amount and that you concur with this adjustment.

The final paragraph regarding mission accounts payable states that accounts payable at the mission visited by the auditors were ineffective. I believe that this statement needs to be clarified. It is my understanding that the finding relates to the weaknesses in the documentation supporting the accrual calculations in some of the missions visited that caused the auditors to recommend a $165 million adjusting entry.

We agree with **Recommendation No. 5**. We will issue appropriate guidance to overseas accounting stations regarding document retention requirements during FY 2002.

Independent Auditor's Report on Compliance with Laws and Regulations

It is our understanding that the findings related to compliance with the Federal Financial Management Improvement Act are based on the system as it was operated during FY 2001. Further, we understand that the report does not consider actions taken or planned for FY 2002 nor does it take into consideration manual controls or work-around implemented to mitigate risk in drawing its conclusion. Given this understanding, we will not take issue with the finding and recommendations. However, it should be noted we implemented adequate manual controls during FY 2001 that prevented any obligations or expenditures in excess for funds appropriated or appropriated. This is evidenced by the fact that the audit did not detect any cases where the Agency violated these restrictions.

The draft report identifies Reports as an area of non-compliance with federal system requirements. We agree with **Recommendation No. 6**. Reporting from Phoenix and the MACS Auxiliary Ledger is one of our priority work areas for the Financial Systems Team in FY 2002. In fact, we are planning to issue an Agency Notice the first week of March announcing that the first set of financial reports available to USAID/Washington on Crystal Enterprise. In conjunction with M/IRM we will be sending out a notice on how people can access the reports in Crystal Enterprise.

Recommendation No. 7 makes recommendations regarding the revision of the remediation plan. We agree with this recommendation and will make the necessary changes based on the results of the current business transformation study being conduction under the direction of the USAID Business Transformation Executive Committee.

Finally, once again I would like to thank you for the opportunity to comment on the draft report and to express my appreciation for the cooperation extended by your entire audit team.

CC:

AA/M, J. Marshall

DAA/M, R. Nygard

AA/PPC, P. Cronin

DAA/PPC, B. Turner

PPC/PC, L. Waskin

PPC/CDIE/OME, D.Blumhagen

M/FM/CAR, D. Ostermeyer

M/MPI/MIC, S. Malone-Gilmer

M/MPI/MIC, S. Stiens

M/FM, N. Wijesooriya

APPENDIX III: OTHER SYSTEM WEAKNESSES

The audit identified other control weaknesses in USAID's implementation of its core financial system, as described below.

Payment history not migrated - JFMIP-SR-02-01, Core Financial System Requirements, "Payment Management Function," requires systems to maintain among other things, a history of invoice number, vendor name, payment amount, payment date, obligation number, and appropriation charged. Before implementing the new core financial system, USAID migrated only summary level information from the previous core financial system.

As a result, USAID's new core financial system did not contain detailed payment history, thus increasing the risk of duplicate payments. According to Agency officials, USAID decided that payment information would be migrated at the summary level because migrating all transactions would have required more staff support, thereby significantly increasing the time and costs of the migration. Further, the detailed information would be maintained in the old accounting system and contract payment files to serve as mitigating controls. USAID officials noted that the cost of migrating detailed information might outweigh the benefit. Further, this control risk will be reduced over time as the financial system generates a payment history. Therefore, we are not making a recommendation at this time.

Accruals off-line - JFMIP-SR-02-01, Core Financial System Requirements, "General Ledger Management Function," requires that systems provide for accruals relating to contracts or other items that cross fiscal years. For fiscal year 2001, USAID calculated the Agency's accruals manually because the Agency had problems with (1) unliquidated obligations balances, and (2) contract and grant completion dates-two factors needed to automatically calculate accruals. As a result, USAID's system did not control and execute the period-end processes needed for reporting purposes. USAID is aware of the problem and is cleaning up the data used in the accrual process. For instance, according to Agency officials, USAID successfully reviewed over 85 percent of its obligations. In addition, beginning in fiscal year 2002, USAID plans to use an online tool that will allow accrual information to be loaded to a web-site for review. We, therefore, are not making any recommendations at this time.

STATUS OF UNCORRECTED FINDINGS AND RECOMMENDATIONS FROM THE PRIOR AUDITS THAT AFFECT THE CURRENT AUDIT OBJECTIVES

Office of Management and Budget's Circular No. A-50 states that a management decision on audit recommendations shall be made within a maximum of six months after issuance of a final report. Corrective action should proceed a rapidly as possible. The following audit recommendations directed to USAID remain uncorrected and/or final action has not been completed as of September 30, 2001. We have also noted where final action was taken subsequent to fiscal year-end but prior to the date of this report.

Audit of USAID's Compliance with Federal Computer Security Requirements Audit Report No. A-000-97-008-P September 30, 1997

Recommendation No. 2: We recommend that the Acting Assistant Administrator for Management demonstrate support for an effective computer security program by taking action to direct the computer security program manager to develop and implement an effective computer security program by:

2.2 Ensuring that adequate resources and skills are available to implement the program.

2.4 Implementing disciplined processes to ensure compliance with the Computer Security Act of 1987 and OMB Circular A-130.

2.5 Bringing sensitive computer systems, including NMS, into compliance with computer security requirements by: (1) assigning security responsibility, (2) preparing security plans, (3) completing contingency/disaster recovery plans, (4) identifying technical controls, (5) conducting security reviews, and (6) obtaining management's authorization before allowing systems to process data.

INDEPENDENT AUDITOR'S REPORT ON USAID'S FY 2001 FINANCIAL STATEMENTS

Recommendation is pending final action by USAID

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

Recommendation No. 5: We recommend that the Assistant Administrator/Bureau for Policy and Program Coordination establish a common set of indicators for use by operating units to measure progress in achieving USAID's strategic goals and objectives and that allow for the aggregation of program results reported by operating units.

Recommendation is pending final action by USAID

Recommendation No. 7: We recommend that USAID:

7.1 Establish procedures to ensure (1) operating units report results for the year ended September 30 and (2) results reported in the MD&A section of USAID's financial statements and Annual Performance Report be clearly shown as achievements for that year.

Recommendation is pending final action by USAID

Recommendation No. 9: We recommend that the Chief Financial Officer develop and implement policies and procedures to ensure adherence to the requirements of the Debt Collection Act of 1982 and the Debt Collection Improvement Act of 1996. These policies and procedures should at a minimum ensure that:

9.1 All billing offices incorporate due process rights into demands for payment;

9.2 All delinquencies in excess of 180 days are identified in a timely manner, and referred to the United States Treasury; and

9.3 The issuance or guarantee of consumer credit is reported to consumer credit reporting agencies.

Recommendation is pending final action by USAID

Audit of Access and System Software Security Controls Over the Mission Accounting and Control System (MACS) Audit Report No. A-000-99-002-P December 31, 1998

Recommendation No. 1: We recommend that the Director of IRM strengthen MACS' access and system software controls by developing and implementing standards for access and system software installation and maintenance. These standards should implement the agency's policies pertaining to access and system software controls and thus, provides step-by-step guidance to mission system managers in the implementation of these controls. These standards should specifically address the controls described in GAO's Federal Information System Controls Audit Manual.

Recommendation is pending final action by USAID

Report on USAID's Financial Statements, Internal Controls, and Compliance for Fiscal year 1998 Audit Report No. 0-000-99-001-F March 1, 1999

Recommendation No. 1: Because the Chief Financial Officer lacks the authority called for in the CFO Act, we recommend that the Chief Financial Officer collaborate with the Assistant Administrator for Management, Chief Information Officer, and Bureau For Policy and Program Coordination to:

1.1 Determine the specific responsibility, authority, and resources needed to meet the requirements of the Chief Financial Officers Act of 1990, which assigns the Chief Financial Officer responsibility to: (1) develop and maintain an integrated accounting and financial management system that meets federal financial system requirements, federal accounting standards, and the U.S. Standard General Ledger at the transaction level; (2) approve and manage financial management system design and enhancement projects; and (3) develop a financial management system that provides for systematic measurement of performance.

Recommendation is pending final action by USAID

Report to USAID Managers on Selected USAID Internal Controls for Fiscal year 1998 Audit Report No. 0-000-99-002-F March 31, 1999

Recommendation No. 10: We recommend that USAID's Bureau for Policy and Program Coordination:

10.2 Develop internal controls for identifying the full costs (USAID program and operating expenses and funding by other donors and host countries) of USAID programs, activities, and outputs.

Recommendation is pending final action by USAID

Audit on USAID's Advances and Related Internal Controls Audit Report No. 0-000-00-003-F, February 1, 2000

Recommendation No. 3: We recommend that the Office of Financial Management perform a reconciliation to verify the accuracy of unliquidated obligation balances and related information transferred to the Department of Health and Human Services.

Recommendation is pending final action by USAID

Recommendation No. 4: We recommend that the Office of Financial Management perform periodic reconciliations between its subsidiary ledger and general ledger.

Recommendation is pending final action by USAID.

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

Recommendation No. 1: We recommend that the Chief Information Officer, in conjunction with the Capital Investment Review Board and the Chief Financial Officer:

1.1 Develop and implement a process for selecting information technology investments that meets requirements of OMB's guidelines for Selecting Information Technology Investments and GAO's Executive Guide: Leading Practices in Capital Decision Making; and

1.2 Apply the process to prioritize USAID's financial management system investments as part of a portfolio of planned information technology investments as part of a portfolio of planned information technology investments for USAID's fiscal year 2002 budget submission to OMB.

Recommendation is pending final action by USAID

Recommendation No. 3: We recommend that the Chief Information Officer and the Chief Financial Officer work with the Assistant Administrator for management to ensure that the Change Management Team and the Office of Financial Systems Integration collectively have the responsibilities, the authority, and the structure to direct the planning, design, development, and deployment of all financial and mixed financial system components of the Integrated Financial management System Program.

Recommendation is pending final action by USAID

Audit of USAID's Fund Balance with The U.S. Treasury And Related Internal Controls Audit Report No. 0-000-01-005-F, February 15, 2001

Recommendation No. 1: We recommend that USAID's Office of Financial Management:

1.1 Continue to perform a detailed analysis of its outstanding reconciling items, which were reported by the overseas missions, and to reslove or write off the remaining reconciling items.

1.2 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.

Recommendation No. 2: We recommend that USAID's Office of Financial Management develop and implement procedures to obtain the necessary information needed from its overseas missions to prepare and submit the required budgetary reports to the Office of Management and Budget as required by the Office of Management and Budget Circular A-34.

Audit of USAID's Compliance with the Provisions of the Government Information Security Reform Audit Report No. A-000-01-002-P September 25, 2001

Recommendation No. 1: We recommend that the Chief Information Officer obtain evidence that the security requirements have been applied to USAID's mission critical systems. For those systems that are operated by other agencies and organizations, the responsible Assistant Administrator, the Chief Financial Officer, the Director of Human Resources, or the Director of the Office of Procurement shall provide the Chief Information Officer evidence that proper protection exists for those systems.

Recommendation is pending final action by USAID.

Recommendation No. 2: We recommend that Chief Information Officer provide and document that USAID employees in key security positions obtain training to allow them to conduct their security responsibilities.

Recommendation is pending final action by USAID.

Recommendation No. 3: We recommend that the Chief Information Officer conduct a study to determine the feasibility of centrally administering information security, monitoring controls, intrusion detection, and additional sensors for sensitive systems.

Recommendation is pending final action by USAID.

Recommendation No. 4: We recommend that the Chief Information Officer develop and implement a management oversight process by assigning responsibility and accountability for correcting identified information security vulnerabilities to designated individuals. The process should include a reporting mechanism that regularly tracks the status of all vulnerabilities, including actions taken to correct them.

Recommendation is pending final action by USAID.

Recommendation No. 5: We recommend that the Chief Information Officer centralize security functions to oversee, enforce, and coordinate security and related functions.

Recommendation is pending final action by USAID.

Recommendation No. 6: We recommend that the Chief Information Officer coordinate the revision of appropriate Automated Directives System Chapters and any other supporting guidance to include and/or clarify the government information security reform-mandated requirements, especially those that pertain to incorporating security into the investment process, enterprise architecture, and contractor-provided services.

Recommendation is pending final action by USAID.

Recommendation No. 7: We recommend that the Chief Information Officer provide instructions to program managers to include security requirements in the information technology investment process and report them on the Capital Asset Plan.

Recommendation is pending final action by USAID.

Recommendation No. 8: We recommend that the Chief Information Officer finalize and approve the following four draft documents: (1) USAID Information Systems Security Program Plan; (2) USAID Risk Assessment Manual; (3) USAID Security Incident Handling Response Policy and Procedures; and (4) USAID Incident Response Capability Handbook Coordinating Draft.

Recommendation is pending final action by USAID.

Recommendation No. 9: We recommend that the Chief Information Officer document the agency's decision on the critical infrastructures protection plan.

Recommendation is pending final action by USAID.

Recommendation No. 10: We recommend that the Chief Information Officer develop specific performance measures that include timetables and approaches to address deficiencies in its information security program.

Recommendation is pending final action by USAID.

USAID CFO GOALS AND STRATEGIES AND FINANCIAL REMEDIATION PLAN

OVERVIEW

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

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

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

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

Michael T. Smokovich
Chief Financial Officer

USAID CFO GOALS AND STRATEGIES AND FINANCIAL REMEDIATION PLAN

GOALS AND STRATEGIES

Background

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

- Improve financial accountability;
- Improve financial programs and the performance of financial systems;
- Invest in human capital;
- Better manage obligations of the Federal Government; and
- Improve the administration of Federal grants.

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

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

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

USAID Management Objectives

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

- Accurate program performance and financial information available for Agency decisions.
- USAID staff skills, Agency goals, core values and organizational structures better aligned to achieve results efficiently.
- Agency goals and objectives served by well-planned and managed acquisition and assistance.
- Agency goals and objectives supported by better information management and technology.

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

Objective 1:

Accurate Program Performance and Financial Information Available for Agency Decisions.

FY 2001 Achievements:

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

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

Performance Goal 1.1

Core financial management system certified compliant with Federal requirements.

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

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

FY 2002 targets:

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

FY 2003 target:

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

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

FY 2002 targets:

Mission accounting system security certifications completed for at least 50% of the overseas accounting stations. Web-based reporting tools implemented to support enhanced financial reporting for decision-making and resource management. Select priority enhancements to core financial system implemented (e.g., web-based vendor query and electronic invoicing capabilities, web-based core financial system upgrade, and Agency reorganization).

FY 2003 targets:

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

Performance Goal 1.2

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

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

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

USAID CFO GOALS AND STRATEGIES AND FINANCIAL REMEDIATION PLAN

FY 2002 target:

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

FY 2003 target:

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

AUDITED FINANCIAL STATEMENTS

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

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

FINANCIAL MANAGEMENT SYSTEMS STRUCTURE

Baseline Financial Management Systems

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

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

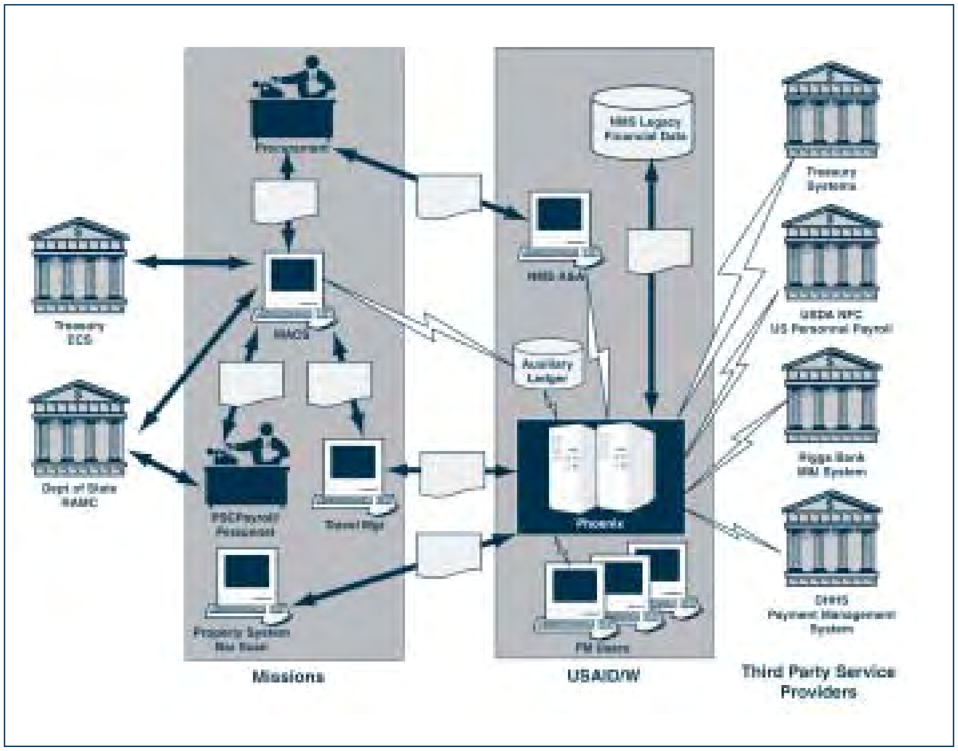
New Management System (NMS): The NMS was originally an integrated suite of custom-built financial and mixed financial applications. The implementation of Phoenix enabled USAID to suspend three of the four NMS applications. The Acquisition and Assistance (A&A) application continues to support Washington's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

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

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

- ***Travel Manager***: The GELCO commercial software product, Travel Manager, is currently used in Washington and in missions to provide travel management support. It is used either as a standalone application or operating as a shared application over a local area network. Currently, Travel Manager does not have an electronic interface with any Agency financial systems.
- ***Non-Expendable Property (NXP)***: The NXP program is USAID's custom-developed property management system. It is currently in use at many missions around the world but is planned for replacement. Imple-mented in 1989, it is not compliant with JFMIP requirements for a property management system. NXP does not have an electronic interface with any Agency financial system.
- ***BAR/SCAN***: USAID currently uses the commercial software product, BAR/SCAN, for property management of non-expendable property in Washington. BAR/SCAN is being implemented at field missions. BAR/SCAN does not have an electronic interface with any Agency financial systems.

Figure 6-1 Current Financial Management Systems Structure



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

- ***Department of Agriculture National Finance Center (NFC):*** USAID has a cross-serving agreement with NFC for personnel and payroll processes for U.S. direct hire (USDH) employees. USAID accesses the NFC systems to maintain personnel records, process employee time and attendance data, and transact payroll services. The NFC payroll system is not integrated with Phoenix at this time.
- ***Riggs National Bank:*** USAID has outsourced standard Credit Reform transactions to Riggs National Bank. The Riggs Loan Management System provides services to the Agency for collections, disbursements, claims, and year-end accruals. The Riggs system has an automated interface with Phoenix.
- ***Department of Health and Human Services (DHHS)***: USAID has cross-serviced its letter of credit (LOC) processing of grantee advances and liquidations to the DHHS Payment Management System. The DHHS system has an automated interface with Phoenix.

Other Baseline Financial Management Systems

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

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

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

Deficiencies in Baseline Financial Management Systems

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

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

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

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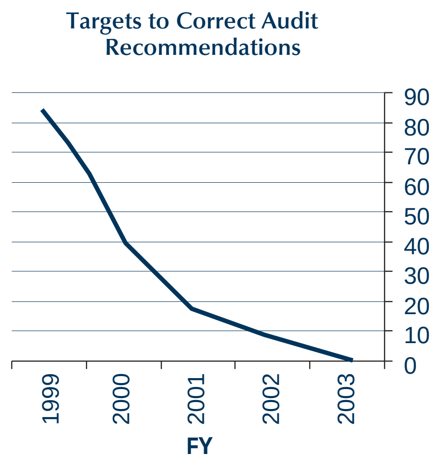
requirements. The deployment of Phoenix has improved Agency-level financial reporting. For example, during FY 2001, USAID was able, for the first time, to report all of its enterprise-wide financial information on budget execution to OMB in a comprehensive, timely manner. Other external reporting requirements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

Information Resources Management Processes: USAID plans to implement a process to include 1) procedures to select, manage, and evaluate investments and 2) a means for senior managers to monitor progress in terms of costs, system capabilities, timeliness and quality. During FY 2001, USAID established an information management integrated product team to formulate and review the Agency's information technology (IT) budget. Experts are providing disciplined processes in life-cycle management. Reengineering the Agency from a systems integration organization to a technology acquisition organization will help to achieve a Software Engineering Capability Maturity Model (CMM) Level 2, a rating target representative of the top one-third of all technical organizations. USAID completed requirements documentation toward CMM Level 2 status for the network upgrade initiative. When USAID's Information Technology Council becomes operational, IT portfolio management processes are implemented, and the USAID Capital Planning and Investment Management Process is implemented, this weakness will be closed by December 2002.

Figure 6-2 IG Audit Findings and Recommendations

- The OIG identified 39 open audit recommendations that affected their FY 2000 financial statement audit objectives; 16 of these remained open at the end of FY 2001.
- OIG recommendations address findings in:
  - Policies & Procedures
  - Core Financial System & Other Feeder Systems
  - Data Reconciliation
  - Performance Reporting
  - System Security & Controls



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

Audit Findings: During IG's audit of the Agency's FY 2000 financial statements, 39 audit recommendations were identified as remaining uncorrected from prior audits that affected financial statement audit objectives, as shown in Figure 6-3. The Agency developed a strategy and plan to systematically correct many of these deficiencies and close the audit recommendations. By the end of FY 2001, 23 of these audit recommendations were successfully closed. All but six of the 16 remaining audit recommendations are targeted for closure in FY 2002. The remaining six related to performance reporting and system security and controls are planned for closure in FY 2003.

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

- ***Policies & Procedures:*** Implement policies and procedures to ensure adherence to debt collection requirements. Clarify CFO authorities and resources to carry out CFO Act responsibilities.
- ***Core Financial System & Other Feeder Systems:*** Apply disciplined practices to system planning, project management and system development. Record accruals in the general ledger. Establish adequate responsibilities, authority and structure to direct financial system design, development and deployment efforts.
- ***Data Reconciliation:*** Ensure that subsidiary ledgers and general ledger reconcile. Verify unliquidated obligation balances at DHHS.
- ***Performance Reporting:*** Establish common performance indicators by operating unit. Identify the full cost of USAID programs, activities and outputs.
- ***System Security & Controls:*** Incorporate system security requirements, processes and resources in planning and implementation efforts. Ensure that adequate skills and resources are assigned to the computer security program. Bring existing systems into full compliance. Strengthen MACS system security. Clarify security roles and responsibilities.

Target Financial Management Systems Structure

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

The target financial management system will:

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

Figure 6-3 Target Financial Management System Structure

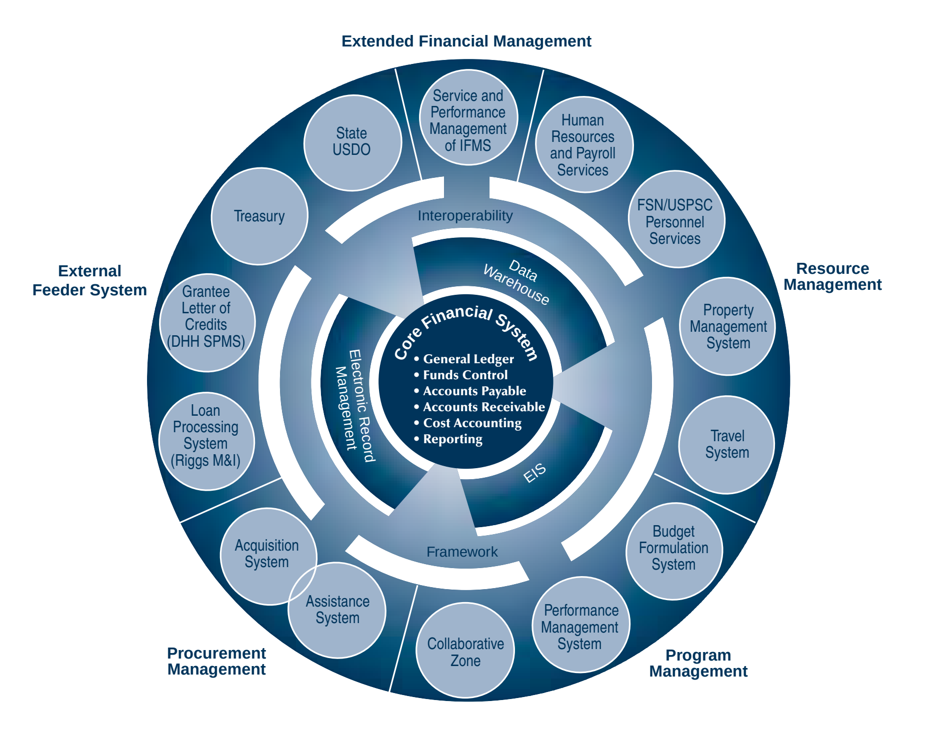


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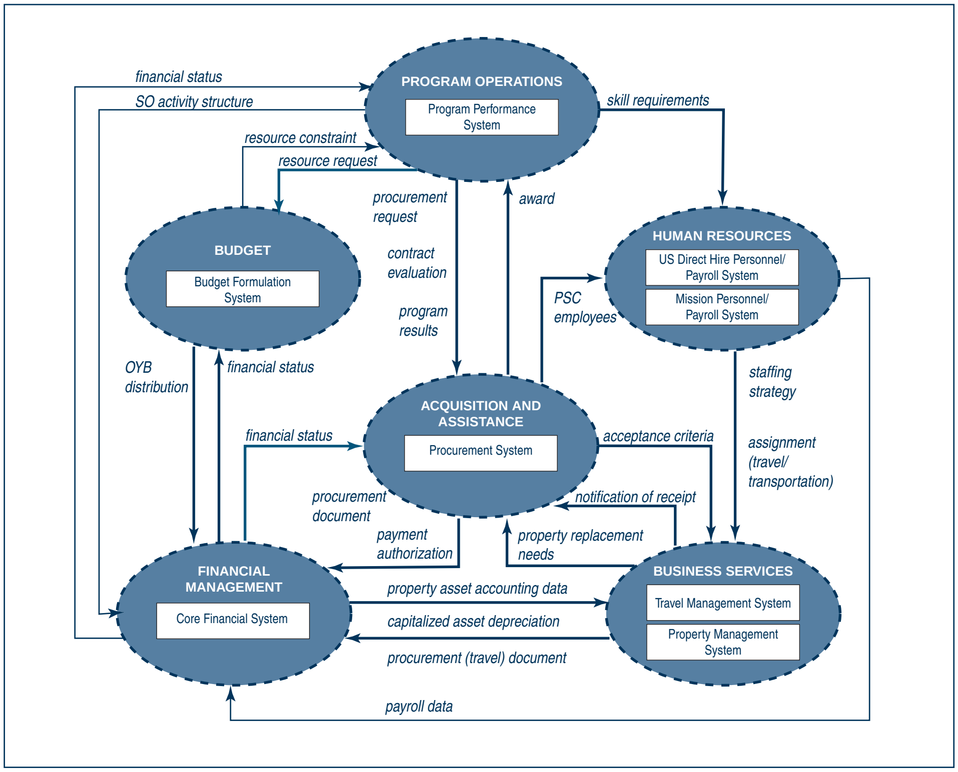
Figure 6-4 Logical Business Architecture



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

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

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

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

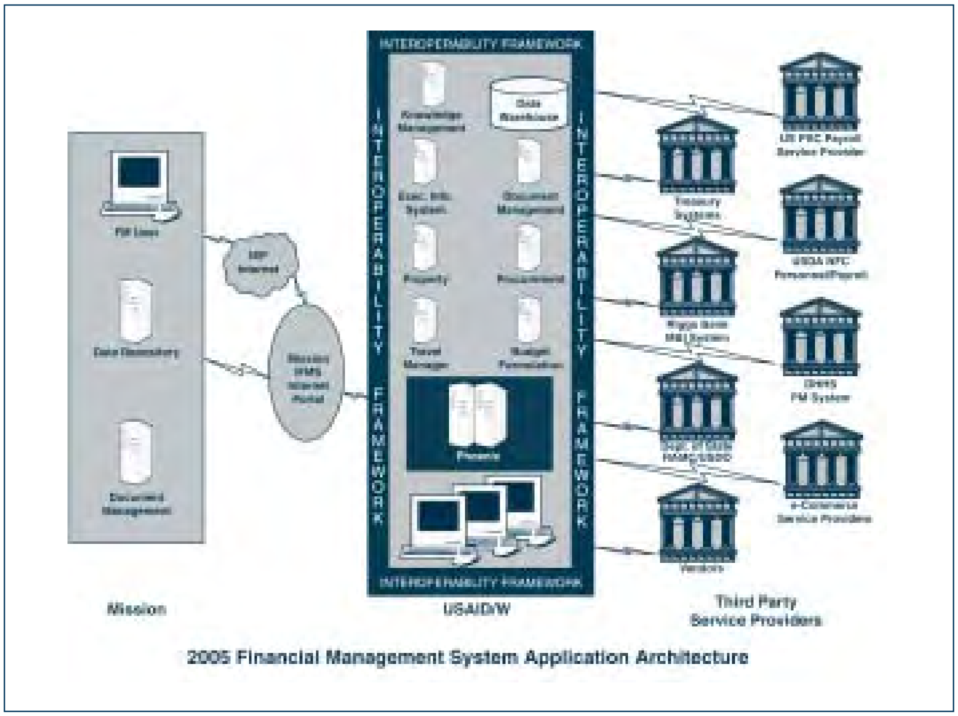
Enterprise Solution Integration Lab: Given the global nature of USAID's mission, its overseas operations and diverse technical infrastructure, an enterprise systems engineering approach will be used to design and maintain the IFMS. This approach will involve users and technical staff in evaluating alternative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

Financial Management Systems Strategy

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

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

Figure 6-5 Target Financial Management System Architecture



- Leverage the system architecture and the planned technology evolution of commercial software products.
- Integrate data repositories using common data elements and web-based reporting and analytical tools.
- Acquire system components in an incremental fashion.
- Plan enhancements to system capabilities as releases within the framework of enterprise configuration management practices.

Planned Major System Investments

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

- Core Financial System
- Procurement System
- Budget Formulation System
- Data Repositories and Reporting Systems
- Executive Information Systems
- Business Support Systems
- Third Party Service Providers

USAID CFO GOALS AND STRATEGIES AND FINANCIAL REMEDIATION PLAN

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

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

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

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

Executive Information Systems: With the implementation of integrated data repositories, the Agency will be able to use commercial software products that provide online analytical processing tools to view Agency operations and programs, monitor performance, and enhance effective utilization of resources.

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

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

Financial Management System Costs: Estimates for the full life-cycle costs for major system planning, modernization, enhancements and steady state operations for current and planned financial management systems have not been fully developed. The Agency's FY 2003 Annual Performance Plan includes an FY 2002 target to complete a business transformation study to reengineer business practices and identify system investment priorities to accelerate deployment of Agency-wide financial management systems. The business case and estimated costs for system investments in FY 2003 and beyond will be included in the FY 2004 budget submission. The FY 2002 and FY 2003 budget requests for financial management systems are included in the Agency's FY 2003 budget submission, and Exhibits 52, 53 and 300, that largely sustain current operations with incremental enhancements. IT capital investments for accelerated deployment of financial management systems will be included in the FY 2004 budget submission.

FFMIA Remediation Plan

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

- Federal requirements for an integrated financial management system.
- Applicable Federal accounting standards.
- U.S. Standard General Ledger at the transaction level.

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

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

Preliminary audit findings have indicated that the scope of planned remedies may be insufficient to achieve substantial compliance with FFMIA. In particular, the underlying strategy to integrate the overseas accounting systems, i.e., MACS, with Phoenix, may prove insufficient to achieve substantial compliance. While Phoenix is compliant with JFMIP requirements for a core financial system, MACS is not substantially compliant. MACS does not enable standard general ledger postings at the transaction level or manage accounts receivables. Furthermore, MACS does not support the Agency's full accounting classification structure. The planned remedy of using an intermediate MACS Auxiliary Ledger to capture overseas financial transactions in order to make summary general ledger postings in Phoenix utilizing ACS cross-walk tables may prove insufficient to achieve substantial FFMIA compliance.

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

Revisions to the Agency's Remediation Plan: The Agency's Remediation Plan as detailed in the FY 2000 Accountability Report will continue to undergo substantial revisions in FY 2002. The Agency will undertake a study in FY 2002 to address how it can make more effective use of capital planning, enterprise architecture, and modern business practices in accounting, procurement, and electronic government to modernize its business systems and accelerate deployment of Phoenix as the Agency-wide core financial system. The Remediation Plan in its current form does not capture the additional remedies arising from this study, nor does it address the new IG audit findings and recommendations in the ongoing FFMIA audit. Table 4-1 provides a summary of currently understood deficiencies, remedies, and target dates.

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

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

GRANTS MANAGEMENT

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

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

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

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

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

USAID FFMIA Remediation Plan

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

USAID FFMIA Remediation Plan

Deficiencies & Remedies	Current Schedule Targets	Revised Schedule Targets
Deficiency: USAID identified a material weakness in Reporting and Resource Management. Agency financial systems could not produce accurate and consistent financial reports and IG audit work also identified findings and recommendations related to the Agency's ability to produce timely, accurate, and useful financial reports to support decision-making.		
Remedy: Implement Phoenix in Washington and MACS Auxiliary Ledger enhancements to support Agency-wide financial reporting.	**FY 2001** **Revision Required**	**3rd Qtr of FY 2002** **Justification:** Implementing Web-based enterprise reporting tool.
Deficiency: The Computer Security Program material weakness, FY 2000 Financial Statement Audit Findings, and preliminary audits findings associated with FY 2001 general controls and financial statement audit work have identified significant deficiencies in the computer security program, general controls environment for mission critical systems, and compliance with Federal requirements.		
Remedy: The Phoenix core financial system will be implemented and guided by a system security plan and risk assessment and certification & accreditation of the system's security and control environment. Access controls/passwords and a designated system security officer will issue user authorizations in writing.	**1st Qtr of FY 2001** **Achieved**	
Remedy: Complete risk assessments, computer security training, staffing, and system security certification & accreditation at all overseas accounting stations.	**FY 2002** **Ongoing—** **Revision Required**	**4th Qtr of FY 2003** **Justification:** Budget constraints necessitate extending scheduled work into FY 2003.
Remedy: Complete system and general control environment risk assessments, mitigate risks, and develop disaster recovery plans for mission critical systems.	**FY 2002** **Ongoing—** **Revision Required**	**4th Qtr of FY 2003** **Justification:** as above.
Deficiency: IG audit findings have identified the lack of an Agency-wide accounting classification structure and the existence of multiple financial systems that cannot exchange data. This has impeded Agency efforts to produce timely, accurate, and useful Agency-wide financial information for decision-making and reporting.		
Remedy: Implement a MACS interface to Phoenix via an intermediate MACS Auxiliary Ledger that captures overseas financial transactions and crosswalks to translate the overseas accounting classification structure into the Agency-wide upper-level accounting classification structure.	**4th Qtr of FY 2001** **Achieved**	
Remedy: Implement further enhancements to MACS Auxiliary Ledger to fully implement crosswalk tables between MACS ACS and Phoenix ACS to support mission strategic objective cost allocations.	**3rd Qtr of FY 2002** **Ongoing**	
Remedy: Implement accounting classification data standards and common data elements in financial data repositories derived from significant feeder systems as part of a financial management data warehouse.	**FY 2002** **Ongoing**	
Deficiency: IG audit findings indicate that the Agency did not comply with JFMIP requirements for prompt payments.	**1st Qtr of FY 2001** **Achieved**	
Remedy: The Phoenix core financial system is configured and implemented to comply with JFMIP requirements for prompt payments.		

USAID FFMIA Remediation Plan

Deficiencies & Remedies	Current Schedule Targets	Revised Schedule Targets
Deficiency: IG audit findings indicate that the Agency did not have an effective methodology for estimating accrued expenditures. **Remedy:** Implement the Phoenix core financial system that calculates and reports accounts payable and accrual expenses in compliance with Federal requirements and standards.	**1st Qtr of FY 2001 Revision Required:** Payment process implemented, statistical accrual estimation methodology for FY 2001, and web-based user productivity tools to support user estimated accruals completed.	**1st Qtr of FY 2002 Justification:** Introducting a new accrual process that requires user reviews of accrual estimates, which requires additional change management and user training.
Deficiency: IG audit findings indicate that the Agency is not able to attribute costs to organizations, locations, programs, and activities. **Remedy:** Implement the Phoenix core financial system with a managerial cost accounting subsystem.	**1st Qtr of FY 2001 Achieved with Revision to Target:** Subsystem was implemented in the 4th Qtr of FY 2001 to support preparation of the Statement of Net Costs.	
Remedy: Develop cost allocation models with cost drivers to attribute costs to Agency goals.	**FY 2001 Achieved**	
Remedy: Update cost allocation model to allocate the costs of Agency programs to the operating unit and strategic objective level for Washington and missions.	**FY 2002 Ongoing**	**4th Qtr of FY 2002**
Deficiency: IG audit findings indicate the Agency is not in compliance with the Debt Collection Acts of 1982 and 1996. Specifically, USAID did not have policies and procedures to ensure that debts in excess of 180 days are automatically referred to Treasury. **Remedy:** Update policies and procedures for billings, receivables and debt collection in the Agency's Automated Directives System.	**FY 2002 Ongoing**	
Remedy: Continue ongoing work to make further recoveries of Agency debt through the Dept. of the Treasury.	**FY 2002 Ongoing**	
Deficiency: The Agency has used manual interface procedures for posting summary level journal vouchers to the general ledger for financial transactions generated outside NMS in various feeder systems. The IG has documented findings that journal voucher postings to the NMS general ledger were not adequately supported, reviewed and authorized. **Remedy:** The design of the Phoenix interfaces to feeder systems in FY 2001 will address controls, procedures and system requirements for audit trails.	**FY 2001 Achieved**	
Remedy: Policies and procedures will be issued to ensure that journal vouchers posted in the Phoenix general ledger are properly prepared, supported by data from feeder systems, reviewed for accuracy, and authorized.	**FY 2001 Achieved**	

APPENDIX A: MANAGEMENT GOAL PERFORMANCE DATA

Management Goal: Achieve USAID's Goals Efficiently and Effectively
Table of FY 2001 Performance Data

Performance Goals & Indicators	FY 2001 Target	FY 2001 Actual	Assessment	Notes	Linkage to President's Management Agenda
Objective #1: Accurate program performance and financial information available for Agency decisions (M/CFO)					
1.1: Core financial management system certified compliant with Federal requirements				*Modified in FY 2000 POR*	
1.1.1: Integrated, automated financial systems worldwide	Such a system is fully operational in Washington and two overseas Missions.	Washington system fully implemented. System linked to missions through electronic interface. No pilot missions.	Target exceeded Target met Target not met per note:	Overseas deployment of core financial system resequenced to follow acquisition and deployment of a new procurement system and upgraded telecommunication network capabilities.	Improved Financial Performance
1.1.2: A fully operational, secure and compliant core financial system installed with interfaces to major feeder systems	Federal certification of the general control environment and system security of the accounting operations of approximately one-half of the Agency's overseas Missions.	Washington system certified. Mission critical interfaces. System security certification and accreditations were conducted at nine of 38 overseas accounting stations. System security vulnerabilities were identified and corrected. The 10th mission was not certified due to delays associated with September 11. Technical and functional managers designated for five mission critical systems.	Target met Target met Target partially met Target exceeded	Target not fully achieved in order to dedicate budget resources to complete implementation of core financial system in Washington.	Improved Financial Performance
1.2: A system to allocate costs fully to Agency strategic goals installed in Washington and the field				*Modified in FY 2000 POR*	
1.2.1: Costs attributable to Agency strategic goals	Provide secure, reliable and accurate financial information at the strategic objective level throughout the Agency.	Financial reporting at the strategic objective level in Washington. Mission financial reporting at the strategic objective level on schedule for June 2002.	Target met Target partially met		Budget and Performance Integration

APPENDIX A: MANAGEMENT GOAL PERFORMANCE DATA

Management Goal: Achieve USAID's Goals Efficiently and Effectively
Table of FY 2001 Performance Data

Performance Goals & Indicators	FY 2001 Target	FY 2001 Actual	Assessment	Notes	Linkage to President's Management Agenda
Objective #1: Accurate program performance and financial information available for Agency decisions (M/CFO)					
1.3: Program performance assessment systems and capabilities increased				*Modified in FY 2000 POR*	
1.3.1: USAID program performance tracked	Target not set for FY 2001.		Not applicable	New indicator for FY 2002 (introduced in FY 2000 POR).	Budget and Performance Integration
1.4: Knowledge to plan and implement USAID's programs acquired and shared effectively				*Modified in FY 2000 POR*	
1.4.1: Knowledge	Target not set for FY 2001.	Implementation of *www.USAIDResults.org* as a knowledge management portal for ADS 200 Programming Policies.	Not applicable	New indicator for FY 2002 (introduced in FY 2000 POR).	
1.5: Agency operations guided by effective policies and procedures				*Modified in FY 2000 POR*	
1.5.1: Assessment and audits validate implementation of policies and procedures	Target not set for FY 2001.	9 OIG Performance Audits Conducted indicating inconsistent adherence to data reliability standards.	Not applicable	New indicator for FY 2002 (introduced in FY 2000 POR).	Budget and Performance Integration; and, Improved Financial Performance
Objective #2: USAID staff skills, Agency goals, core values and organizational structures better aligned to achieve results efficiently (M/HR)					
2.1: Human resource planning capabilities strengthened				*Modified in FY 2000 POR*	
2.1.1: Recruitment efforts result in rapid deployment of staff in all labor categories and services-Target A	An additional 151 employees (of which 131 will be NEPs) brought on board through March 2002.	Total of 141 employees brought on board. Breakdown: 77 NEPs (Foreign Service entry level employees) entered on duty along with 18 Presidential Management Interns, 46 other career Civil Service (CS) employees entered on duty during FY 2001.	Target not met	NEP Classes are about 10 employees fewer than actual target due to last minute cancellations or lack of necessary medical/security clearances. Next NEP class enters March 2002.	Strategic Management of Human Capital
2.1.1: Recruitment efforts result in rapid deployment of staff in all labor categories and services-Target B	Planned FS staffing level maintained.	Excluding the IG, USAID had 996 FS employees on 9/30/2000; on 9/30/2001, it had 992. FS attrition was 92 of FY 2001. (USAID projects FS attrition to be at least 90 per year through FY 2005 and total FS &CS attrition will be 200, or about 10% per annum.)	Target met	The Agency plans to have 1,000 Foreign Service (FS) on board by 9/30/2002.	Strategic Management of Human Capital

APPENDIX A: MANAGEMENT GOAL PERFORMANCE DATA

Management Goal: Achieve USAID's Goals Efficiently and Effectively
Table of FY 2001 Performance Data

Performance Goals & Indicators	FY 2001 Target	FY 2001 Actual	Assessment	Notes	Linkage to President's Management Agenda
Objective #2: USAID staff skills, Agency goals, core values and organizational structures better aligned to achieve results efficiently (M/HR)					
2.2: Skill shortages addressed				*Modified in FY 2000 POR*	
2.2.1: In-house training on critical operational skills continued-Target A	Leadership training for 100 executive-level (FS-1/GS-15) employees	105 executive-level (FS-1/GS-15) employees trained.	Target Met		Strategic Management of Human Capital
2.2.1: In-house training on critical operational skills continued-Target B	Operations training for 120 midlevel seniors (FS-2/GS-14), senior level FSNs and US PSCs	147 midlevel seniors (FS-2/GS-14), senior level FSNs and US PSCs trained.	Target Met		Strategic Management of Human Capital
2.2.1: In-house training on critical operational skills continued-Target C	Assistance and acquisition training for 425 technical officers	480 employees trained.	Target Met		Strategic Management of Human Capital
2.2.1: In-house training on critical operational skills continued-Target D	Supervisory training for 300 employees at all levels	385 employees trained.	Target Met		Strategic Management of Human Capital
2.2.1: In-house training on critical operational skills continued-Target E	Managing for Results Program made available for computer-based self-instruction.	Program made available and 348 employees trained.	Target Met		Strategic Management of Human Capital
Objective #3: Agency goals and objectives served by well-planned and managed acquisitions and assistance (A&A) (M/OP)					
3.1: A&A planning integrated with program development				*Modified in FY 2000 POR*	
3.1.1: Procurement priorities established and modified jointly by technical and contract officers	Negotiate 38% of A&A instruments within first three quarters of FY 2001, 20% during July, 21% during August, and 21% in September. Baseline (FY 1999): 32% of A&A instruments awarded were executed during the first three quarters of the year. The remaining 68% of the instruments were executed during the fourth quarter as follows: July - 13%; August - 14%; September - 41%.	Of the A&A awards made in Washington, 40% of awards were made within the first three quarters. 8% were awarded in July; 8% were awarded in August; 44% were awarded in September.	Target exceeded Other targets not met. See note at right	The goal of reducing fourth quarter obligations is partly dependent on when the OYB is made available. In addition, some programs, such as OFDA, must react to immediate needs. (USAID is retaining its targets for FY 2002, but plans further review to determine whether the goals should exclude actions that cannot be planned in advance.)	Competitive Sourcing

APPENDIX A: MANAGEMENT GOAL PERFORMANCE DATA

Management Goal: Achieve USAID's Goals Efficiently and Effectively
Table of FY 2001 Performance Data

Performance Goals & Indicators	FY 2001 Target	FY 2001 Actual	Assessment	Notes	Linkage to President's Management Agenda
Objective #3: Agency goals and objectives served by well-planned and managed acquisitions and assistance (A&A) (M/OP)					
3.2: A&A competencies of technical and contract staff strengthened				*Modified in FY 2000 POR*	
3.2.1: Percentage of CTOs and COs certified-Target A	Cognizant Technical Officer (CTO) certification program approved.	The Administrator approved the CTO certification program.	Target met	Administrator's notice of July 16 indicated his decision to budget resources to complete the CTO certification program in three years.	Improved Financial Performance
3.2.1: Percentage of CTOs and COs certified-Target B	85% of Contract Officers (COs) certified by end of FY 2001.	96% of COs with unlimited warrants are certified. 77% of COs with warrants of $2.5 million and more are certified.	Target met		Improved Financial Performance
3.2.1: Percentage of CTOs and COs certified-Target C	Productivity of COs enhanced by a fully operational, automated contract-writing system.	New automated contract writing system (ProDoc) is operational in Washington and Missions.	Target met	System is required to be used as of 10/01/01.	Improved Financial Performance
3.3: Partnerships among USAID technical offices, contract offices and contractors and recipients improved				*Modified in FY 2000 POR*	
3.3.1: Increase in postaward meetings between all parties when substantial new awards are made	Baseline established and 2002 target set.	Baseline established that joint meetings were held for large new contracts approximately 30% of the time.	Target met		Improved Financial Performance
3.3.2: Contract administration is simplified	New indicator-target not set for FY 2001.		Not applicable		Improved Financial Performance
3.4: Consistency in application of A&A policies and procedures				*Modified in FY 2000 POR*	
3.4.1: Uniform implementation of contracting policies	Uniform implementation of contracting policies	Baseline not established because of end-of-year work requirements.	Target not met	CRB began reviewing contracts exceeding $10 million in April. Since the majority of the work of the CRB occurred during the last three months of the year--particularly the last month--the board has not yet set down its findings in order to establish a baseline.	Improved Financial Performance

APPENDIX A: MANAGEMENT GOAL PERFORMANCE DATA

Management Goal: Achieve USAID's Goals Efficiently and Effectively
Table of FY 2001 Performance Data

Performance Goals & Indicators	FY 2001 Target	FY 2001 Actual	Assessment	Notes	Linkage to President's Management Agenda
Objective #4: Agency goals and objectives supported by better information management and technology (M/IRM and M/CIO)					
NEW: 4.1: Information technology improves Agency efficiency and effectiveness				*Modified in FY 2000 POR*	
4.1: Enhanced compliance with Federal requirements and regulations	Continue the process of modernizing Agency systems consistent with the technical architecture adapted in fiscal year 2000.	Evaluation of new desktop operating system/office suite for USAID/W completed. Eight missions completed for network operating system, e-mail upgrades. Telecommunications network equipment upgraded in three missions.	Target met		Expanded Electronic Government

APPENDIX B: USAID OFFICE OF INSPECTOR GENERAL STATEMENT CONCERNING USAID'S MOST SERIOUS MANAGMENT AND PERFORMANCE CHALLENGES

INFORMATION MEMORANDUM

TO: A/AID, Andrew S. Natsios

FROM: IG, Everett L. Mosley

SUBJECT: USAID's Most Serious Management Challenges

<u>SUMMARY</u>

Attached is a revised copy of my Office's statement of the most serious challenges facing USAID management for inclusion in USAID's fiscal year 2001 Accountability Report. Except as otherwise noted, this summary is as of September 30, 2001.

<u>DISCUSSION</u>

The Report Consolidation Act of 2000 (Public Law 106-531) states that an agency Accountability Report "shall include a statement prepared by the agency's inspector general that summarizes what the inspector general considers to be the most serious management and performance challenges facing the agency and briefly assesses the agency's progress in addressing those challenges."

The attached document provides our statement concerning USAID's most serious management and performance challenges for inclusion in USAID's fiscal year 2001 Accountability Report. This memorandum supercedes my same subject memorandum to you dated February 4, 2002 as it contains additional information derived from relevant audit work my Office performed subsequent to the September 30, 2001 reporting period. This additional information is described in the attachment.

If you have any questions or wish to discuss this document, I would be happy to meet with you.

Attachment:

USAID Office of Inspector General Statement Concerning USAID's Most Serious Management and Performance Challenges

APPENDIX B: USAID OFFICE OF INSPECTOR GENERAL STATEMENT CONCERNING USAID'S MOST SERIOUS MANAGMENT AND PERFORMANCE CHALLENGES

This document presents the Office of Inspector General's assessment of the most serious challenges facing USAID management at the close of fiscal year 2001.

In pursuit of its mission, USAID faces a number of serious challenges. This statement describes USAID's continuing efforts to address its major management and performance challenges and OIG efforts to assist in overcoming these challenges.

Information Resource Management

Over the past several years, OIG audits have identified significant weaknesses in USAID's management of information technology resources. Organizational and management deficiencies have slowed USAID's acquisition and implementation of effective information systems. Furthermore, USAID's management practices have kept the Agency from fully complying with the Clinger-Cohen Act of 1996, which requires executive agencies to implement a process that maximizes the value of information technology investments and assess the risks involved with these investments. As a result, USAID managers have not had access to financial information that is complete, reliable, and timely.

USAID faces three primary information resource management challenges: financial reporting and resource management capabilities, information resource management processes, and computer security.

Improving Financial Reporting and Resource Management Capabilities

The information systems at USAID have not fully supported the Agency's planning and reporting requirements. Therefore, USAID managers have had difficulty consistently obtaining timely, reliable and complete financial and performance data. Even though USAID managers can mitigate the systemic weaknesses by generating individual reports on an ad hoc basis, the Agency's ability to routinely use financial information for decision-making purposes remains impaired.

To correct this weakness, USAID has deployed Phoenix, the core financial accounting component of a new integrated financial management and accounting system. The Phoenix system replaced key components of USAID's unreliable financial management system, the New Management System. The OIG has closely monitored the implementation of the Phoenix system.

Improving Information Resource Management Processes

Over the past years, the OIG has reported that USAID's processes for procuring and managing information resource technology have not followed the guidelines established by the Clinger-Cohen Act. USAID management has acknowledged the weaknesses of its information resource management processes, and the Agency has made efforts to improve them. For example, USAID is incorporating performance measurements to enhance program management capabilities for monitoring and tracking information management projects. Also, the Agency is developing plans to seek independent certification that its practices meet commonly accepted government and industry standards. USAID efforts to comply with industry standards for complex information technology projects, such as the wide area renovation projects to deploy telecommunication services overseas, should result in faster, more efficient project implementation.

USAID's management and procurement of information technology resources will considerably improve with these actions. The OIG will continue to track and report on USAID's efforts to fully comply with requirements of the Clinger-Cohen Act.

Improving Computer Security

Recent OIG audits have confirmed that USAID does not yet have adequate computer security controls in place to mitigate the risks to critical information systems. These audits, however, have also identified substantial computer security improvements. For example, USAID's computer security framework includes updated security policies, a security valuation process requiring certification by management, improved security training, and a risk assessment process. The Chief Information Officers Council and the General Services Administration recognized USAID's security program as an innovative and comprehensive approach that could benefit the entire Federal government.

Despite these efforts, more work is needed to ensure that sensitive data is not exposed to unacceptable risks of loss or destruction.As of July 2001, USAID had assessed the computer security risks at only 20 percent of missions, and agency-wide computer security had not yet been fully addressed. Also, during fiscal year 2001, USAID conducted assessments at nine overseas Mission Accounting

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and Control Systems (MACS) accounting stations and found that three MACS systems had not been finalized according to certification and accreditation requirements. Furthermore, USAID could better protect Agency information systems by developing capabilities to prevent, detect, respond to, and report efforts to obtain unauthorized access.

The OIG, through continuing audits and by monitoring USAID's Information Systems Security Working Group, will continue to work with USAID management to improve computer security.

Financial Management

Over the past several years, USAID has made progress toward resolving problems with its financial management system, and the Agency has committed significant resources for additional improvements. Despite these efforts, USAID's outstanding financial management system deficiencies remain a significant management challenge, and the solutions to several long-standing problems have been delayed.

Implementing an Integrated Financial Management System

OIG audits showed that USAID's financial management systems did not comply with Federal Financial Management Improvement Act (FFMIA) requirements and were unable to provide complete, reliable, timely, and consistent information about Agency operations.

To correct this situation, USAID plans to implement an integrated financial management system using a combination of commercial off-the-shelf software products and third party financial service providers.

Phoenix, the core financial accounting component, operates in Washington, D.C. and receives financial information electronically from the 38 overseas accounting stations. While Phoenix has been deployed in Washington, the deployment of Phoenix to overseas accounting stations has been delayed. Pilot implementation of the system at two missions, scheduled to take place during April 2001, had not occurred by the close of fiscal year 2001, and estimates for the system's full deployment were changed from fiscal year 2003 to fiscal year 2007.

According to USAID management, a major reason for delaying the worldwide Phoenix deployment was the cost. As a result, USAID revised its strategy on how the Agency could become compliant with FFMIA requirements. Initially, USAID developed an interim effort that automated the interface between data extracted from the Agency mission systems and Phoenix. USAID officials believed, at that time, that implementing the automated interface would make the system compliant. However, subsequent to the September 30, 2001 reporting period, we found, based on our discussions with Office of Management and Budget officials and our own audit work, that the interface did not make the system compliant with FFMIA requirements. Again USAID was faced with a need to revise its strategy on how it would become compliant with FFMIA. USAID is currently conducting a study to determine when and how best to deploy the system overseas and become compliant with FFMIA.

The OIG will continue to monitor the deployment of USAID's integrated financial management systems and review USAID's efforts to comply with FFMIA requirements.

Correcting Outstanding Financial Management System Planning Deficiencies

Recent OIG audits reported that USAID had made significant improvements to its financial management system planning. Those improvements included developing and implementing an agency-wide information technology architecture, financial management system portfolio, acquisition strategy, financial management system remediation plan, and a program management office to oversee the development of an integrated financial management system.

Despite these improvements, the OIG concluded that additional efforts are needed to fully correct identified financial management system planning deficiencies. For example, USAID needs to improve its process so that information technology investments are prioritized and selected in accordance with OMB guidelines. Furthermore, the Agency needs to strengthen the authorities to ensure to manage financial management system projects effective day-to-day oversight of USAID's financial system modernization efforts. Finally, although USAID's current remediation plan has been updated to include remedies, resources, and intermediate target dates, the Agency has yet to meet those dates. The OIG will continue to monitor the Agency's progress in correcting these remaining financial management system planning deficiencies.

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Reconciling Financial Data

During past audits, the OIG found that USAID's grant financial management system did not provide effective control and accountability over many of the Agency's advances. The OIG recommended that USAID reconcile the unliquidated obligation amount for each grant transferred from its old legacy system to the Department of Health and Human Services Payment Management System. USAID is in the process of performing this reconciliation and has contracted with a private accounting firm to provide additional assistance in this area. According to USAID, this effort has improved the reliability of the advance balances that will be reported in the Agency's fiscal year 2001 financial statements. As part of the current Government Management Reform Act (GMRA) audit, the OIG is assessing whether this action led to improvements in the information reported in the Agency's financial accounting system.

Accurately Reporting Accounts Receivable

The OIG first noted in a 1997 audit report that USAID could not adequately track and report its accounts receivable. To address this problem, USAID's new integrated accounting system will have the capacity to establish and report accounts receivable. When this system is fully implemented in Washington and at the missions, the OIG will review the resulting data to determine whether USAID managers are receiving reliable and timely accounts receivable data.

As an interim measure, USAID records accounts receivable as an adjusting entry to its year-end financial statements. As part of the current GMRA audit, the OIG is evaluating these efforts to ensure that they provide adequate information about the Agency's accounts receivable.

Human Capital Management

As a result of downsizing initiatives, USAID has experienced a 30 percent reduction in U.S. direct hire staff since fiscal year 1995. USAID's remaining workforce-the Agency's human capital-must be properly managed to ensure USAID's ability to fulfill its mission.

In January 2001, the U.S. General Accounting Office (GAO) reported that since the early 1990s, USAID has made limited progress in addressing human capital reforms related to personnel administration, career management, training, and Foreign Service assignments. According to the GAO, USAID's human capital problems can be seen as part of a broader pattern of human capital shortcomings that have eroded mission capabilities across the federal government. USAID's specific human capital challenges include:

- a projected 57 percent of U.S. direct hire Foreign Service staff that will be eligible for voluntary retirement by the end of fiscal year 2005;
- a projected 32 percent of U.S. direct hire Civil Service staff that will be eligible for retirement by the end of fiscal year 2005; and
- attrition rates estimated to be about 7 percent for Foreign Service staff and 10 percent for the Civil Service through fiscal year 2006.

USAID faces a steady decline in the number of experienced Foreign Service officers and employees who have specialized technical expertise. As a result, there are less-experienced personnel managing increasingly complex overseas development programs.

Although these challenges are daunting, they also provide an opportunity for USAID to develop a workforce with the necessary skills for the future. To address these challenges, USAID is planning to (1) hire 80 to 85 entry-level Foreign Service candidates per year through fiscal year 2005, (2) increase external training for upper-level managers through such programs as the Federal Executive Institute and the Foreign Affairs Leadership Seminar, and (3) recruit employees with critical skills in the areas of information technology, financial management, legal, and contracting.

Because human capital management is designated as a major challenge, the OIG is committed to continued audit work in this area. The OIG is currently evaluating USAID's (1) management staff training, (2) management of the Agency's procurement workforce, and (3) human capital baseline data.

Procurement

USAID relies on its procurement workforce to award and administer the contracts and assistance instruments required to accomplish program objectives. A major challenge for USAID is to develop and implement a system to effectively manage the Agency's procurement resources. Specifically, USAID must address the following issues.

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Ensuring Adequate Procurement Office Staffing

USAID's Office of Procurement is losing experienced contracting officers to retirement, other federal agencies, the private sector, and transfers to non-contracting jobs within other USAID offices. According to USAID officials, the number of contracting staff as of the second quarter fiscal year 2001 decreased by 20 percent from the onboard levels at the beginning of fiscal year 2000.

According to USAID's fiscal year 1999 and 2000 budgets, USAID's procurement staff administered approximately 50 percent of the Agency's foreign assistance budget through assistance and acquisition instruments. In the Office of Procurement's fiscal year 2000 Federal Manager's Financial Integrity Act submission, the Director reported that as a result of workforce attrition, coupled with the inability to quickly fill vacant procurement professional positions, the Office of Procurement has not been operating at adequate staffing levels. A major challenge for USAID will be to retain enough procurement professionals and to ensure the integrity and efficiency of the Agency's acquisition and assistance functions.

Ensuring Effective Contract Administration

USAID requires its procurement workforce to manage a variety of contract award and administration activities. The staffing challenges USAID faces make it difficult for the procurement workforce to maintain the appropriate levels of contract administration to ensure continuation of sound business practices. As a result, USAID could be vulnerable to higher contract costs, delays in contract awards, an increased number of bid protests, as well as costly contract modifications and revisions. For fiscal year 2002, USAID's goal is to use performance-based contracting techniques to award at least 20 percent of the Agency's eligible contracts over $25,000. To achieve this goal, procurement specialists will be expected to have much greater knowledge of market conditions, industry trends and technical details of the commodities and services procured.

To help ensure the effectiveness of USAID's procurement operations, the OIG plans to evaluate various aspects of the procurement function. The OIG currently has underway audits of USAID's staffing of procurement officers and use of non-U.S. direct hire personnel to perform procurement functions. The OIG recently completed an audit of the independence of procurement officers overseas.

Performance Measurement and Reporting

The Government Performance and Results Act of 1993 (Results Act) requires agencies to set program goals, measure program performance against those goals, and report on their progress. As the OIG stated in a December 2000 letter to the U.S. Senate Committee on Governmental Affairs, USAID continues to have problems developing performance measurement and reporting systems that meet internal and external reporting requirements, including the requirements of the Results Act.

The OIG is continuing to monitor and recommend improvements to USAID's performance measurement and reporting systems. For example, in collaboration with USAID management, the OIG conducted a series of audits to test compliance with the Agency's performance monitoring guidance. These audits reviewed indicators appearing in USAID's annual internal Results Review and Resource Request (R4) reports and determined that the audited operating units needed to:

- improve their respective performance monitoring plans;
- perform and document data quality assessments on indicators used for program management and reported in R4 reports; ando
- disclose any known data quality limitations in the R4 reports.

The OIG is currently conducting a series of similar audits focused on indicators related to USAID's HIV/AIDS activities. Further, in response to the OIG's audit reports, USAID has revised directives for performance monitoring, and has initiated Agency-wide training to improve performance measurement and monitoring.

The OIG is continuing to monitor and recommend improvements to USAID's performance measurement and reporting systems.

APPENDIX C: LIST OF ACRONYMS

A&A	Acquisition and Assistance
ACS	Accounting Classification Structure
ADS	Automated Directives System
AICPA	American Institute of Certified Public Accountants
APP	Annual Performance Plan
AWACS	A.I.D. Worldwide Accounting and Control System
C&A	Certification and Accreditation
CFO	Chief Financial Officer
CIO	Chief Information Officer
CMM	Capability Maturity Model
CO	Contracting Officer
CONOPS	Concept of Operations
COTS	Commercial Off-the-Shelf
CRB	Contract Review Board
CS	Civil Service
CTO	Cognizant Technical Officer
DHHS	Department of Health and Human Services
E-GOV	Electronic Government
ESIL	Enterprise Solution Integration Laboratory
FFMIA	Federal Financial Management Improvement Act
FMC	Financial Management Center
FMFIA	Federal Managers' Financial Integrity Act
FMIP	Financial Management Improvement Program
FS	Foreign Service
FSI	Financial Systems Integration
FSN	Foreign Service National
GMRA	Government Management Reform Act
GPEA	Government Paperwork Elimination Act
GPRA	Government Performance and Results Act
IFMS	Integrated Financial Management System
IG	Inspector General
IMSP	Information Management Strategic Plan
IT	Information Technology
JFMIP	Joint Financial Management Improvement Program
LOC	Letter of Credit
MACS	Mission Accounting and Control System
MACSTRAX	MACS Voucher Tracking System
MAL	MACS Auxiliary Ledger
MCA	Managerial Cost Accounting
MPICS	Mission Procurement Information Collection System
NEP	New Entry Professional
NFC	National Finance Center
NMS	New Management System
NXP	Non-Expendable Property
OIG	Office of the Inspector General
OMB	Office of Management and Budget
PMI	Presidential Management Intern
PMS	Payment Management System
PSC	Personal Services Contractor
QCR	Quality Control Review
SGL	Standard General Ledger
TEIA	Target Enterprise Information Architecture
USAID	United States Agency for International Development
USDH	United States Direct Hire

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