

FY 2000
Accountability
Report



**U.S. Agency for
International Development**

Foreword

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

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

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

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

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

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

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

100,000 home loans in Poland; and brought an additional 12 million hectares of land, primarily in Latin America and Indonesia, under improved management.

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

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

We also moved to improve the Agency's internal control environment by eliminating three management vulnerabilities and

closing a record number of audit recommendations—738. The audit recommendations closed in FY 2000 resulted in collections or efficiencies valued at over \$209 million.

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

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

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

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



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

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

USAID's financial systems will require continuing management and budgetary priority.

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

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

We also continued to streamline and

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

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

A handwritten signature in black ink, appearing to read "Michael T. Smokovich".

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

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USAID Mission Statement

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



Part A

Management Discussion and Analysis



What Is USAID?

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

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

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

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

What Does USAID Do?

USAID pursues its mission by supporting a variety of activities related to its six principal areas in presence and non-presence countries. Such activities are

summarized below for each of the Agency's six principal areas.

1. Encourage Broad-Based Economic Growth and Agricultural Development (EGAD).

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

2. Strengthen Democracy and Good Governance (DG).

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

fostering transparent and accountable government, improved legislative processes, and genuine civilian control of the security sector.

3. Build Human Capacity through Education and Training (HCD).

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

4. Stabilize World Population and Protect Human Health (HPN).

For several decades, USAID has been the leader among donors in addressing the critical issues of family planning, health, and nutrition in the developing world. Success has come from maintaining a field presence that enables strong relationships with host country counterparts. Combining this front line



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

5. **Protect the Environment for Long-Term Sustainability (ENV).**

USAID provides technical and financial assistance in close partnership with a range of development partners, including host country governments, non-governmental organizations (NGOs), donors, and international organizations. USAID focuses its efforts where the need is greatest and where the Agency can have the most long-term impact. USAID's approaches to addressing environmental problems vary according to the level of environmental concern and according to regional priorities. In the Latin America and Caribbean (LAC) region and Africa, biological diversity and natural resource management programs dominate. Both these regions contain threatened forests that, in many cases, are the last refuge for endangered species. In Africa, USAID is giving particular attention to traditional community property rights, and emphasizes community-based natural resource management approaches. In the Asia and Near East (ANE) and LAC regions,

urban environmental problems such as sanitation and vehicular pollution are of particular concern. In the Europe and Eurasia (E&E) region, programs concentrate on policy issues and strengthening environmental standards. Supporting the adoption of cleaner, more efficient technologies for energy production is an integral part of these policy-related efforts as is supporting industrialized urban applications of environmental practices, especially in the private sector.

6. **Promote Humanitarian Assistance (HA).**

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

How Does USAID Work?

USAID is headed by an Administrator and Deputy Administrator, who are appointed by the President and confirmed by the U.S. Senate. It is headquartered in Washington, D.C. and maintains

field offices in many of the countries where it has programs. It works in close partnership with private voluntary organizations, indigenous organizations, universities, American businesses, international agencies, other governments, and other U.S. government agencies. It has working relationships with more 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." Each bureau houses the staffs responsible for major subdivisions of the Agency's activities. USAID has both geographic bureaus (which are responsible for the overall activities in the countries where the Agency has programs) and functional bureaus (which conduct Agency programs that are world-wide in nature or that cross geographic boundaries). The Agency has four geographic bureaus:

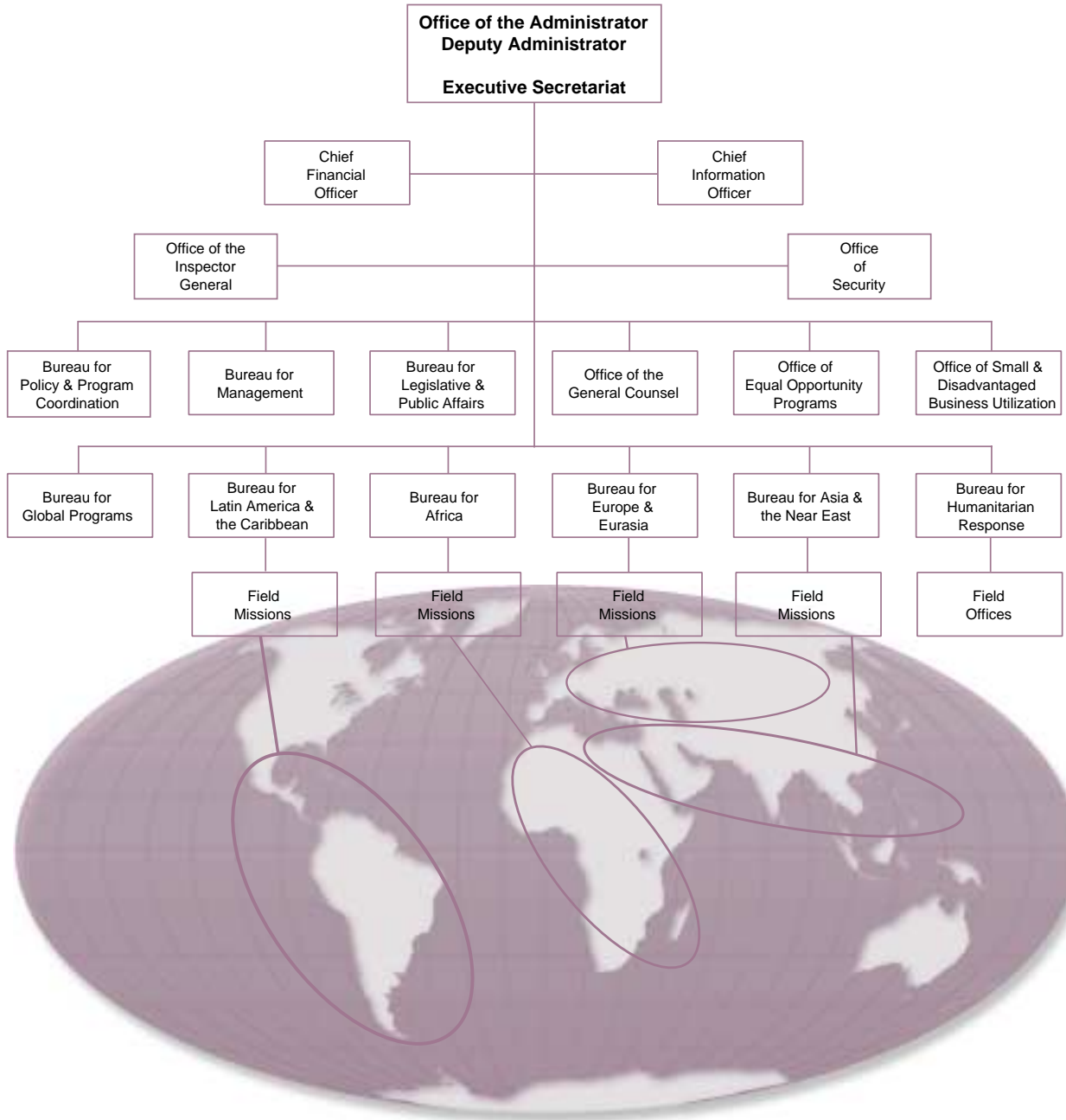
- Africa (AFR)
- Asia and the Near East (ANE)
- Latin America and the Caribbean (LAC)
- Europe and Eurasia (E&E)

USAID has two functional bureaus:

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

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

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



- Policy and Program Coordination (PPC)

Each bureau is headed by an Assistant Administrator who is appointed by the President and confirmed by the U.S. Senate. In addition to these bureaus, USAID has several independent offices that

carry out discrete functions for the Agency. These five independent offices are headed by Directors who are appointed by the USAID Administrator.

- Office of the Executive Secretariat (ES)

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



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

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

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

- Countries where USAID provides an integrated package of assistance to sustainable development countries. Assistance is based on an integrated strategy that includes clearly defined program objectives and performance targets.
- Countries where USAID's presence is limited, but where aid to non-governmental sectors is necessary to facilitate the emergence of a civic society, help alleviate repression, meet basic humanitarian needs, enhance food security, or influence a problem with regional or global implications.
- Countries that have recently experienced a national crisis, a significant political transition, or a natural disaster and/or where

timely assistance is needed to reinforce institutions and national order.

- USAID's multi-country missions administer USAID programs and services involving multiple countries or provide regional services to other overseas organizations.
- Various international development organizations and bilateral donors that represent U.S. and USAID interests in development assistance matters. These offices may be only partially staffed by USAID personnel and may be headed by employees of other U.S. Government agencies.
- Field offices of the Inspector General (such as the following) carry out comprehensive programs of audits and investigations.
 - Regional Inspector General for Audit offices and
 - Investigative Field Offices.

Managing USAID for Results

To maximize the return on taxpayers' investments, USAID must plan, implement, and assess its programs efficiently and effectively. This goal was part of the Agency's 1997 Strategic Plan. Since the Government Performance and Results Act (GPRA) became law and USAID's original Strategic Plan was prepared, concerns about how U.S. agencies can better manage for results have become a more important element in assessing agency performance.¹ Accordingly, USAID took advantage of the GPRA requirement to update

Agency strategic plans at least once every three years to focus its management objectives much more explicitly on challenges identified by the Agency's internal control review process and external reviewers. These include financial management, information management, human capital and results reporting. The Agency also decided to continue to emphasize improvements to its assistance and acquisition policies, systems and procedures. The Agency's FY 2000 achievements against these management challenges are described in Section C.7 below. The Agency's management improvement plans are more fully described in its revised Strategic Plan, while activities planned for FYs 2001 and 2002 are described more fully in its FY 2000 Performance Overview.

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

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

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

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

opposed to activity-level inputs and outputs

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

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

- Planning
- Achieving
- Assessing and Learning

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

USAID Program Results

A. Assessing Performance: A Revised Approach

For each of its six principal areas, USAID in 1997 identified a limited set of performance goals and indicators. These goals, and the associated indicators and targets typically capture progress at the *country* level. Such progress is mainly the result of self-help efforts by the recipient country supported

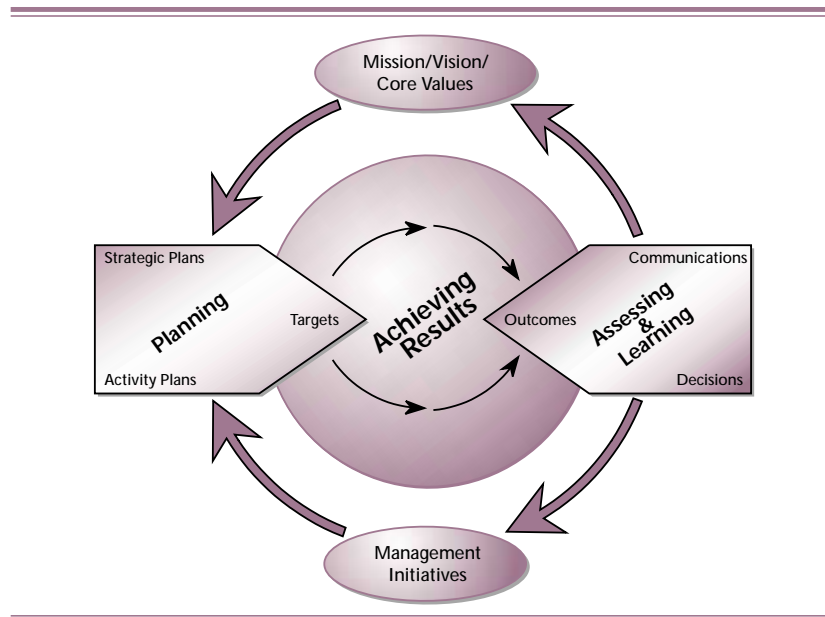


Figure A.1: Dynamic Management

by USAID and other partners and donors. These indicators are broad development performance indicators. They shed considerable light on the results of overall efforts at development cooperation. Furthermore, they are common across countries, they are typically available from published sources, and they enable the Agency to report on development performance in a fairly compact set of tables that can be readily summarized and aggregated. Some of them correspond to internationally agreed-upon development goals and targets that USAID supports.

Notwithstanding these favorable attributes, there has been considerable, valid criticism of using these indicators and targets as the ones against which Agency performance would be judged, because one cannot reasonably attribute overall country progress in these areas to USAID programs alone. While the Agency supports and contributes to these goals, their

achievement is not usually the result of only USAID programs and resources. In other words, they are beyond its manageable interest. This drawback was acknowledged and discussed when USAID formulated its 1997 Strategic Plan.

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



progress towards planned targets and other factors known to the operating unit. These annual reports help form the basis on which operating units request resources. Thus, the reports inform the overall resource request and allocation process.

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

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

Accordingly, the Agency's FY 2000 Accountability Report reports performance against operating unit

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

B. Verifying Performance Data

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

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

- In some instances, a mission will contract for *primary data* to be collected scientifically to serve as a baseline or as an interim or final evaluation of an operating unit's objective's achievement. Typical examples of these include

demographic and health surveys as well as educational achievement testing or agricultural surveys. The Agency's experience is that the quality of primary data improves over the life of an objective (or related objectives) as the methodology improves and as data anomalies are identified and corrected.

- *Partner data* includes data coming from implementing partners, including contractors, cooperating agencies, and grantees. Line ministries, such as those of Health, Education, or Agriculture, may also provide partner data if USAID is working closely enough with the government body to have some control over its data collection, analysis, and reporting processes. Partner data are typically derived from ongoing performance monitoring systems established as part of the workflow of a particular activity. The Agency's experience is that the quality of partner data improves over the life of an objective as data sets are standardized and as collection and reporting procedures are regularized.
- *Secondary data* comes from sources over which the Agency has no control. These typically include government sources, such as Ministries of Finance or Planning or the Central Bank, where USAID cannot audit the sources or intensively review the data collection and analysis procedures. Some line ministries,

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

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

C. Summary Performance Assessments⁴

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

Agency's financial position as of September 30, 2000, but it should be recognized that the program results summarized herein were as of September 30, 1999 and were most likely funded across several fiscal years.

1. Encourage Broad-Based Economic Growth and Agricultural Development

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

2. Strengthen Democracy and Good Governance

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

3. Build Human Capacity through Education and Training

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

4. Stabilize World Population and Protect Human Health

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

5. Protect the Environment for Long-Term Sustainability

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

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



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

6. Promote Humanitarian Assistance

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

7. Achieve Management Excellence

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

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

- A new program performance management workshop curriculum was developed and implemented.
- Agency policies and procedures on Managing for Results were revised and reissued through its Automated Directives System (Series 200).

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

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

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

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

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

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

- Developed an information management strategic plan.



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

e) Collaboration with partners and stakeholders strengthened:

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

Financial Highlights

A. Program Resources

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

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

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

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

\$6.2 billion in FYs 2000 and 1999 respectively. Net costs by Agency goals are shown above.

B. Financial Statements

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

Balance Sheet

The Balance Sheet presents amounts available for use by USAID (assets) against the amounts owed (liabilities) and amounts that comprise the difference (net position). Two major line items, Fund Balance with Treasury and Credit Program Receivables, represent 92% of USAID's assets. Fund Balance with Treasury is funding available in the

Department of Treasury accounts from which USAID is authorized to make expenditures and pay liabilities. The majority of Credit Program Receivables are loans for which funds have been disbursed under the Urban and Environmental (UE), Micro and Small Enterprise Development (MSED), and Direct Loan programs.

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

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



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

The liabilities line-item with the most significant change in activity from FY 1999 to FY 2000 is

Intragovernmental Debt. The decrease in Intragovernmental Debt from \$197.9 million to \$116.5 million is due to principal repayments of \$105 million made to the Treasury during the year, netted against new borrowings from the Treasury of \$23 million, resulting in a total net reduction of \$82 million.

Statement of Net Cost

This statement provides the reader with an understanding of the full cost of operating USAID programs. In FY 2000, approximately 90 percent of all USAID costs incurred were directly related to support of USAID programs. Costs incurred for the agency's general operations (e.g., salaries, training, support for the Office of Inspector General) accounted for approximately 10 percent of the total USAID cost. This illustrates USAID's commitment to efficiency and success in using financial resources for the direct promotion of its mission.

Statement of Changes in Net Position

This statement identifies those items that caused USAID's net position to change from the beginning to the end of the reporting period. A significant item to note is the 81 percent decrease in the Increase in Unexpended Appropriations line-item from FY 1999 to FY 2000. This \$886 million decrease is primarily due to USAID receiving a new appropriation for the Central America and Caribbean Emergency Disaster Recovery Fund and supplemental funds to provide humanitarian assistance to Kosovo in FY 1999. No new appropriations or supplemental funds were received by USAID during FY 2000.

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

Statement of Budgetary Resources

The Statement of Budgetary Resources provides information on how budgetary resources were made available for the year and what the status of budgetary resources was at year-end. USAID obligated 70 percent of all available budgetary resources for the year. The remaining 30 percent of funds are unobligated. 17 percent of the unobligated funds are available only to adjust or

liquidate obligations from a prior year and the remaining 13 percent are available for new programming and obligating in future years.

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

Statement of Financing

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

C. Limitations to the Financial Statements

The financial statements have been prepared to report the financial position and results of operations of USAID, pursuant to the requirements of 31 U.S.C. 3515(b).

While the statements have been prepared from the books and records of the entity in accordance with the formats prescribed by the Office of Management and Budget (OMB). The statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records.



The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity. One implication of this is that liabilities cannot be liquidated without legislation that provides resources to do so.

Management Controls

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

No new material weaknesses were identified during FY 2000, while three outstanding material weaknesses were resolved successfully. A material weakness related to the Agency's *financial management procedures* identified in 1993 was resolved by issuing new financial policies and procedures guidance during FY 2000. *Year 2000 compliance* was addressed by

developing and implementing aggressive plans to identify and fix Y2K transition problems before December 31, 1999. As a result, the Agency's critical systems incurred no significant Y2K transition problems. On the third weakness, *NMS security and access controls*, USAID eliminated the high-risk aspects of its Washington-based financial system

A. USAID's Primary Accounting System

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

Table A.1: Pending Material Weaknesses

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

(NMS) through a series of actions that enhanced database administrator accountability, introduced audit trails of system activity, and implemented security enhancements relating to sensitive data and password controls. An independent verification and validation of NMS was completed in May 2000, resolving this material weakness.

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

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

B. USAID's NMS Reporting and Resource Management Capabilities

The Agency's financial reports have not always been timely, accurate or sufficiently useful to manage the Agency. Numerous special query



capabilities and reports have been developed to lessen this weakness, but the Agency's ability to use financial information for decision making remains impaired. USAID's long term strategy to address this weakness is to implement its new, integrated financial management and accounting system. Progress made in this regard is described in item A above. The target date for resolving this weakness is FY 2001.

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

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

C. Information Resources Management (IRM) Processes.

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

D. Computer Security Program

USAID has targeted FY 2003 for implementing an information system security program that complies with the Computer Security Act of 1987,


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

E. Material Nonconformance of Financial Management System

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

F. Annual Assurance Statement

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



*-J. Brady Anderson
Administrator*

Audit Follow-Up Program

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

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

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

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

At the end of FY 2000, there were 440 open audit recommendations, 183 fewer than at the end of FY 1999 (623). Of the 440 audit recommendations open at the end of FY 2000, only 60, or 13.6 percent, had been open for more than one year. The number of recommendations open for more than one year at the end of FY 2000 was one-third less than the number at the end of FY 1999, and just shy of the Agency's FY 2000 target of

closing 90 percent of audit recommendations within one year. As regards the 60 recommendations open for more than one year at the end of FY 2000, the Agency must collect funds from contractors or recipients to complete actions on 27 of these recommendations. The remaining 33 require improvements in Agency programs and operations. Many of these are tied to the implementation of an integrated

financial management system while others are deficiencies that could not be corrected within one year.

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

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

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

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

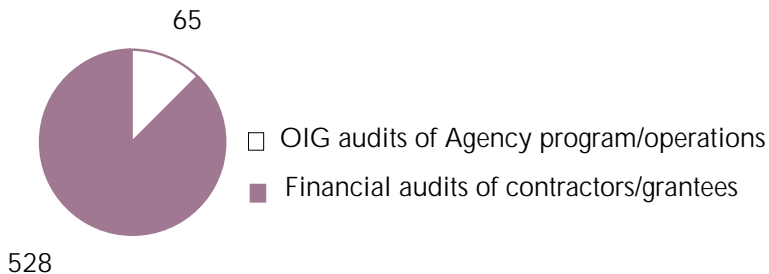


Figure A.2: Audit Reports Issued in 2000



Part B

Financial Statements and Notes



U.S. Agency for International Development
Consolidated Balance Sheet
As of September 30, 2000 and 1999 (In Thousands)

	2000	1999
ASSETS (Note 19)		
Intragovernmental		
Fund Balance with Treasury (Note 2)	\$ 11,120,290	\$ 10,726,448
Accounts receivable (Note 3)	473,166	384,873
Advances and prepayments (Note 4)	63,609	55,682
Total Intragovernmental	11,657,065	11,167,003
Accounts receivable (Note 3)	48,643	122,776
Advances and prepayments (Note 4)	727,571	988,617
Loans receivable (Note 5)	6,637,712	6,665,808
Cash and other monetary assets (Note 6)	153,170	179,614
Operating materials and supplies (Note 7)	21,122	18,270
General property plant and equipment (Note 8)	35,969	28,554
Total Assets	<u>19,281,252</u>	<u>19,170,642</u>
LIABILITIES (Note 18 and 19)		
Intragovernmental		
Accounts payable (Note 9)	86,047	126,799
Debt (Note 10)	116,485	197,947
Due to U.S. Treasury (Note 19)	6,374,536	6,194,940
Other liabilities (Note 11)	98,067	128,549
Total Intragovernmental	<u>6,675,135</u>	<u>6,648,235</u>
Accounts payable (Note 9)	1,287,152	1,411,599
Liabilities for loan guarantees (Note 5)	1,096,342	1,067,743
Other liabilities (Note 11)	183,672	207,062
Accrued unfunded annual leave and separation pay (Note 13)	25,825	26,468
Accrued unfunded Workers Compensation Benefits (Note 14)	37,265	45,057
Total Liabilities	<u>9,305,391</u>	<u>9,406,164</u>
Contingencies (Note 15)		
NET POSITION		
Unexpended appropriations (Note 16)	9,989,030	9,785,711
Cumulative results of operations	(13,169)	(21,233)
Total net position	<u>9,975,861</u>	<u>9,764,478</u>
Total Liabilities and Net Position	<u>\$ 19,281,252</u>	<u>\$ 19,170,642</u>

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



U.S. Agency for International Development
Consolidated Statement of Net Cost
For the Years Ended September 30, 2000 and 1999 (In Thousands)

Costs:	2000	1999 Restated
Encourage Broad-Based Economic Growth and Agricultural Development		
Intragovernmental	\$ 71,902	\$ 60,098
With the public	3,261,285	2,936,766
Total	<u>3,333,187</u>	<u>2,996,864</u>
Less earned revenues	(13,165)	(17,618)
Net program costs	<u>3,320,022</u>	<u>2,979,246</u>
Strengthen Democracy and Good Governance	-	
Intragovernmental	53,463	39,175
With the public	296,158	456,093
Total	<u>349,621</u>	<u>495,268</u>
Less earned revenues	-	-
Net program costs	<u>349,621</u>	<u>495,268</u>
Human Capacity Built Through Education and Training	-	
Intragovernmental	7,129	5,223
With the public	118,463	289,164
Total	<u>125,592</u>	<u>294,387</u>
Less earned revenues	-	(56)
Net program costs	<u>125,592</u>	<u>294,331</u>
Stabilizing World Population and Protecting Human Health	-	
Intragovernmental	89,107	65,292
With the public	1,362,322	986,000
Total	<u>1,451,429</u>	<u>1,051,292</u>
Less earned revenues	(14,368)	(3,404)
Net program costs	<u>1,437,061</u>	<u>1,047,888</u>
Protect the Environment for Long-Term Sustainability	-	
Intragovernmental	73,502	54,846
With the public	376,486	560,833
Total	<u>449,988</u>	<u>615,679</u>
Less earned revenues	(1,442)	(3,493)
Net program costs	<u>448,546</u>	<u>612,186</u>
Promote Humanitarian Assistance	-	
Intragovernmental	71,114	52,544
With the public	1,021,745	805,678
Total	<u>1,092,859</u>	<u>858,222</u>
Less earned revenues	(36,939)	(34,613)
Net program costs	<u>1,055,920</u>	<u>823,609</u>
Less earned revenues not attributed to programs	(6,294)	(3,205)
Net Cost of Operations (Note 20)	<u>\$ 6,730,468</u>	<u>\$ 6,249,323</u>

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



U.S. Agency for International Development
Consolidated Statement of Changes in Net Position
For the Years Ended September 30, 2000 and 1999 (In Thousands)

	2000	1999
Net Cost of Operations	\$ (6,730,468)	\$ (6,249,323)
Financing Sources (other than exchange revenues)		
Appropriations Used	6,663,278	6,156,900
Donations	57,043	67,068
Imputed Financing	17,985	13,924
Other Financing Sources	226	
Net Results of Operations	<u>8,064</u>	<u>(11,431)</u>
Prior Period Adjustments	-	-
Net Change in Cumulative Results of Operations	<u>8,064</u>	<u>(11,431)</u>
Increase (Decrease) in Unexpended Appropriations	<u>203,319</u>	<u>1,090,265</u>
Change in Net Position	211,383	1,078,834
Net Position-Beginning of Period	<u>9,764,478</u>	<u>8,685,644</u>
Net Position-End of Period	<u><u>\$ 9,975,861</u></u>	<u><u>\$ 9,764,478</u></u>

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



U.S. Agency for International Development
Consolidated Statement of Budgetary Resources
For the Years Ended September 30, 2000 and 1999 (In Thousands)

	2000	1999 Restated
Budgetary Resources: (Notes 21 and 22)		
Budget authority	\$ 6,823,903	\$ 7,282,922
Unobligated balances - beginning of period	1,957,279	1,789,481
Spending authority from offsetting collections	1,137,734	1,299,745
Adjustments	106,820	(1,116,989)
Total budgetary resources	<u>10,025,736</u>	<u>9,255,159</u>
Status of Budgetary Resources:		
Obligations incurred	6,928,676	7,434,832
Unobligated balances - available	2,098,471	1,028,019
Unobligated balances - not available	998,589	791,830
Total, status of budgetary resources	<u>10,025,736</u>	<u>9,254,681</u>
Outlays:		
Obligations incurred	6,928,676	7,434,832
Less: spending authority from offsetting collections and adjustments	(1,297,610)	(1,495,908)
Obligated balance, net - beginning of period	9,306,691	8,441,197
Obligated balance transferred, net	-	-
Less: obligated balance, net - end of period	(9,394,781)	(9,306,691)
Total outlays	<u>\$ 5,542,976</u>	<u>\$ 5,073,430</u>

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



U.S. Agency for International Development
Consolidated Statement of Financing
For the Years Ended September 30, 2000 and 1999 (In Thousands)

	2000	1999
Obligations and Nonbudgetary Resources		
Obligations incurred	\$ 6,928,676	\$ 7,434,832
Less: Spending authority for offsetting collections and adjustments	(1,137,734)	(1,299,745)
Change in Unfilled Customer Orders	-	-
Donations not in the budget	56,800	67,035
Financing Imputed for Cost Subsidies	17,985	13,924
Exchange revenue not in the budget	(378,300)	(211,410)
Non-exchange revenue not in the budget	-	-
Total obligations as adjusted, and nonbudgetary resources	<u>5,487,427</u>	<u>6,004,636</u>
Resources That Do Not Fund Net Cost of Operations		
Change in amount of goods, services, and benefits ordered but not yet received or provided	(169,868)	(1,172,856)
Costs capitalized on the balance sheet	(281,986)	(64,000)
Financing sources that fund costs of prior periods	(43,396)	57
Other	1,616,832	1,361,862
Total resources that do not fund net cost of operations	<u>1,121,582</u>	<u>125,063</u>
Costs That Do Not Require Resources		
Bad Debt Expense	-	(39)
Depreciation and amortization	5,216	5,748
Revaluation of assets and liabilities	-	-
Other	40,659	39,960
Total costs that do not require resources	<u>45,875</u>	<u>45,669</u>
Financing Sources Yet to be Provided (Note 18)	75,584	73,954
Net Cost of Operations	<u>\$ 6,730,468</u>	<u>\$ 6,249,322</u>

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



U.S. Agency for International Development
Statement of Supplemental Information by Major Appropriation
For the Period Ended September 30, 2000 and 1999 (In Thousands)

	Program Fund						Operating Fund		Other	Consolidated Total	
	1010	1021	1035	1037	1093	1095	1096	1000			4336
Budgetary Resources:											
Budget authority	\$ 423,105	\$ 1,186,848	\$ 227,014	\$ 2,699,629	\$ 506,592	\$ 614,866	\$ -	\$ 518,934	\$ 480,783	\$ 166,132	\$ 6,823,903
Unobligated balances - beginning of period	140,254	134,384	71,886	359,633	215,613	28,055	100,333	36,311	-	870,810	1,957,279
Spending authority from offsetting collections	-	3,963	-	-	-	10,500	-	8,088	-	1,115,183	1,137,734
Adjustments	13,890	25,407	35,003	9,683	31,011	2,492	9	28,129	46,030	(84,834)	106,820
Total budgetary resources	577,249	1,350,602	333,903	3,068,945	753,216	655,913	100,342	591,462	526,813	2,067,291	10,025,736
Status of Budgetary Resources:											
Obligations incurred	379,036	1,221,108	300,079	2,554,110	480,258	636,114	100,333	533,247	526,813	197,578	6,928,676
Unobligated balances - available	197,234	128,907	33,824	514,405	272,463	19,799	9	56,921	-	874,909	2,098,471
Unobligated balances - not available	979	587	-	430	495	-	-	1,294	-	994,804	998,589
Total, status of budgetary resources	577,249	1,350,602	333,903	3,068,945	753,216	655,913	100,342	591,462	526,813	2,067,291	10,025,736
Outlays:											
Obligations incurred	379,036	1,221,108	300,079	2,554,110	480,258	636,114	100,333	533,247	526,813	197,578	6,928,676
Less: spending authority from offsetting collections and adjustments	(13,890)	(3,963)	-	(10,270)	(31,011)	(12,992)	(9)	(36,224)	(46,031)	(1,143,220)	(1,297,610)
Obligated balance, net - beginning of period	510,740	1,969,641	337,084	3,214,728	751,718	1,030,248	469,980	211,419	415,264	343,035	9,253,857
Obligated balance transferred, net	-	-	-	-	-	-	-	-	-	-	-
Less: obligated balance, net - end of period	(452,680)	(2,314,383)	(271,326)	(3,319,968)	(544,487)	(1,154,232)	(408,185)	(170,996)	(505,211)	(253,313)	(9,394,781)
Total outlays	\$ 423,206	\$ 872,403	\$ 365,837	\$ 2,438,600	\$ 656,478	\$ 499,138	\$ 162,119	\$ 537,446	\$ 390,835	\$ (855,920)	\$ 5,490,142

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
- 1096 Central America and Caribbean Emergency Disaster Relief
- 1038 Central America Reconciliation Assistance

Operating Fund

- 1075 Anti-Terrorism Demining
- 1000 Operating Expenses of USAID
- 4336 Commodity Credit Corporation (from U.S. Dept. of Agriculture)

OTHER FUNDS

Credit Program Funds

- 8502 Tech. Assist. - U.S. Dollars Advance from Foreign
- 0400 Micro and Small Enterprise Development-Program
- 0401 Urban and Environmental-Program
- 0402 Ukraine-Program
- 1264 Development Credit Authority
- 4119 Israel Loan Guarantee Program
- 4103 Direct Loans-Liquidating
- 4137 Direct Loans-Financing
- 4340 Urban and Environmental-Liquidating
- 4344 Urban and Environmental-Financing
- 4341 Micro and Small Enterprise Development-Liquidating
- 4342 Micro and Small Enterprise Development-Financing
- 4343 Micro and Small Enterprise Development-Financing
- 4345 Ukraine-Financing
- 4266 Development Credit Authority-Financing
- 1036 Foreign Service Retirement and Disability Fund

OTHER FUNDS (con't)

Program Funds

- 0091 Debt Restructuring Program
- 1005 International Organizations and Programs
- 1012 Sahel Development Program
- 1014 Africa Development Assistance
- 1023 Food and Nutrition Development Assistance
- 1024 Population and Planning & Health Dev. Asst.
- 1025 Education and Human Resources, Dev. Asst.

- 1040 Sub-Saharan Africa Disaster Assistance

- 1500 Demobilization and Transition Fund

Trust Funds

- 8342 Foreign Natl. Employees Separation Liability Fund

- 8824 Gifts and Donations

Revolving Funds

- 4175 Property Management Fund
- 4590 Acquisition of Property, Revolving Fund

Operating Funds

- 0113 Salaries & Expenses - Diplomatic Security
- 0535 Acquisition & Maintenance Of Building Abroad
- 1007 Operating Expenses of USAID Inspector General
- 1032 Peacekeeping Operations



USAID FY 2000 Footnotes to the Financial Statements

Note 1 - Summary of Significant Accounting Policies

A. Basis of Presentation

These financial statements report USAID's financial position and results of operations. They have been prepared using USAID's books and records in accordance with Agency accounting policies, the most significant of which are summarized in this note. The statements are presented in accordance with the applicable form and content requirements of the Office of Management and Budget (OMB) Bulletin 97-01, 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. Accounting standards and principles, known as Statements of Federal Financial Accounting Standards (SFFAS), recommended by the Federal Accounting Standards Advisory Board (FASAB) and approved and issued by the above named officials.
2. Interpretations related to the SFFASs issued by OMB.
3. Form and content requirements in OMB Bulletin 97-01 and subsequent technical amendments.
4. Accounting standards contained in USAID's accounting policy manuals and handbooks.
5. Accounting principles published by authoritative standard-setting bodies (such as the Financial Accounting Standards Board (FASB)) and other authoritative sources (1) when no guidance is available from the other sources listed and (2) when the use of such accounting standards makes these financial statements more meaningful.

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, International Organizations and Programs, 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 agricultural development, and supports initiatives intended to stabilize population growth and protect human health, protect the environment, foster increased democratic participation, and build host country capacity to respond to natural disasters 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, prevention and mitigation, as well as the longer-term recovery efforts managed by the Office of Transition Initiatives.

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 Columbia.



International Organizations and Programs

The United States makes assessed payments and contributes to voluntary funds of over twenty-five international organizations and programs involved in a wide range of sustainable development, humanitarian, and scientific activities.

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 guaranties 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 Fiscal Year 1999, with approximately \$9.2 billion being guaranteed. Guaranties 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 Fiscal Year 1996 and expired in Fiscal Year 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 guaranties to achieve their development objectives when it can be shown that: 1) the project generates enough revenue to cover the debt service including USAID fees, 2) there is at least 50% risk-sharing with a private-sector institution, and 3) the DCA guarantee addresses a financial market failure in-country and does not “crowd-out” private sector lending. DCA can be used in any sector and by any USAID operating unit whose project meets the DCA criteria. DCA projects are approved by the Agency Credit Review Board and the Chief Financial Officer.

Fund Types

The accompanying consolidated financial statements for USAID include the accounts of all funds under USAID’s control. The agency maintains 28 general fund appropriations, 1 special fund, 12 revolving funds, 4 trust funds, and 4 deposit funds.



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 Treasury.

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

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 U.S. Treasury, proceeds from the sale of overseas real property acquired by USAID, and advances from foreign governments and international organizations.

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

F. Fund Balances with the U.S. Treasury

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

G. Foreign Currency

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

H. Accounts Receivable

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

I. Loans Receivable

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

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

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



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

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

J. Advances and Prepayments

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

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 birth control supplies stored at several sites.

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

L. Property, Plant and Equipment

USAID capitalizes all property, plant and equipment that 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. Internally developed and contractor developed software is not capitalized because it is for internal Agency use only. 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 fiscal 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 \$10,000, of gross earnings withheld from their salaries and receive matching contributions from a minimum of one percent to a maximum of 5 percent. CSRS and FSRDS employees may elect to have up to 5 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. Non-entity governmental fund balances are disclosed in Note 2.

Non-entity accounts receivable of \$44 million as of September 30, 2000 are comprised of unavailable miscellaneous receipt funds which do not constitute budget authority and which must be returned to the Department of Treasury's general fund when collected. In FY 1999 Non-entity accounts receivable were reported at \$120.3 million. Non-entity governmental accounts receivable are disclosed in Note 3.

During FY 2000, there are no non-entity intragovernmental assets.



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. Encourage Broad-Based Economic Growth and Agricultural Development
2. Strengthen Democracy and Good Governance
3. Build Human Capacity Through Education and Training
4. Stabilize World Population and Protect Human Health
5. Protect the Environment for Long-Term Sustainability
6. Promote Humanitarian Assistance

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 from the New Management System (NMS). Expenses related to Credit Reform, trust funds, and revolving funds are directly applied to specific agency goals based on their objectives. Overhead expenses such as salaries and benefits, travel, and utilities are allocated to agency objectives based on a weighted average of current year expenses by goal area.

**Note 2 - Fund Balances with Treasury (In Thousands)**

Entity and Non-Entity Fund Balances with Treasury as of September 30, 2000 and 1999 consisted of the following:

Funds Balances	Entity Assets	Non-Entity Assets	2000 Total	1999 Total
Appropriated Funds	\$10,131,380	\$ -	\$10,131,380	\$ 9,932,192
Trust Funds	14,357	-	14,357	14,213
Revolving Funds	993,513	-	993,513	799,007
Other Funds	(22,011)	3,051	(18,960)	(18,964)
Total	\$11,117,239	\$ 3,051	\$11,120,290	\$10,726,448

As of September 30, 2000 there was a cash reconciliation difference of \$18.7 million between USAID and the Department of Treasury's Fund Balances. The difference as of September 30, 1999 was \$ 21.8 million. For FY 2000 and FY 1999 reporting purposes, USAID adjusted its fund balance downward by these differences to equal the Department of Treasury's fund balance. By adjusting USAID's fund balance to equal Treasury's fund balance, there is consistency between various published reports. Also, based on past experience, the Department of Treasury's balances are more accurate and the differences are usually cleared when USAID processes the required disbursements.

The \$18.7 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 \$18.7 million total amount in these accounts and will make adjustments accordingly.



Note 3 - Accounts Receivable, Net (In Thousands)

The primary components of USAID's accounts receivable as of September 30, 2000 and 1999 were as follows:

Entity	Receivable Gross	Allowance Accounts	Receivable Net 2000	Receivable Net 1999
<u>Intragovernmental</u>				
Appropriation Reimbursements from Federal Agencies	\$24,280	\$-	\$24,280	\$414
Accounts Receivable from Federal Agencies	448,741	-	448,741	1,142
Disbursing Authority Receivable from USDA	145	-	145	383,318
Total Intragovernmental	\$473,166	\$ -	\$473,166	\$384,874
Accounts Receivable	\$14,607	\$9,957	\$4,650	\$2,465
	\$14,607	\$9,957	\$4,650*	\$2,465*
Total Entity	\$487,773	\$9,957	\$477,816	\$387,339
Total Non-Entity	\$45,500	\$1,506	\$43,994*	\$120,310*
Total Receivables	\$533,273	\$11,463	\$521,810	\$507,649

* Governmental accounts receivables total \$48,643 and \$122,776 for FY 1999 and FY 2000 respectively.

Reconciliation of Uncollectible Amounts (Allowance Accounts)

	2000	1999
Beginning Balance	\$9,746	\$9,543
Additions	1,936	1,507
Reductions	(219)	(1,304)
Ending Balance	\$11,463	\$9,746

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 than one year past due. Accounts receivable from missions are collected and recorded to the respective appropriation.

Non-entity accounts receivables of \$44 million for FY 2000 are comprised of unavailable miscellaneous receipt funds which do not constitute budget authority and which must be returned to the Department of Treasury's general fund when collected. Non-entity accounts receivables reported for FY 1999 were \$120.3 million.

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

Note 4 - Advances and Prepayments (In Thousands)

Advances and Prepayments as of September 30, 2000 and 1999 consisted of the following:

	2000	1999
Intragovernmental		
Advances to Federal Agencies	\$ 63,609	\$55,682
Total Intergovernmental	<u>\$ 63,609</u>	<u>\$55,682</u>
Advances to Contractors/Grantees	\$723,745	\$984,953
Travel Advances	12	17
Advances to Host Country Governments and Institutions		
Prepayments	2,091	3,635
Advances, Other	<u>1,723</u>	<u>12</u>
Total	<u>\$727,571</u>	<u>\$988,617</u>
Total Advances and Prepayments	\$791,180	\$1,044,299

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 - Loans Receivables and Liabilities for Loan Guarantees (In Thousands)

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

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

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

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

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

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

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

Loan Programs	Loans Receivable	Interest	Allowance	Value of Assets
	Gross	Receivable	For Loan Losses	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 Prior to FY 1992 (Allowance for Loss Method) as of September 30, 1999:**

Loan Programs	Loans Receivable Gross	Interest Receivable	Allowance For Loan Losses	Value of Assets Related to Direct Loans
Direct Loan	\$10,773,631	\$298,819	\$4,790,877	\$6,281,573
MSED	4,249	19	3,292	976
Total	\$10,777,880	\$298,838	\$4,794,169	\$6,282,549

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

Loan Programs	Loans Receivable Gross	Interest Receivable	Allowance Subsidy Cost	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

Direct Loans Obligated After FY 1991 as of September 30, 1999:

Loan Programs	Loans Receivable Gross	Interest Receivable	Allowance Subsidy Cost	Value of Assets Related to Direct Loans
Direct Loan	\$218,463	\$ -	\$135,825	\$82,638
MSED	2,076	15	376	1,715
Total	\$220,539	\$15	\$136,201	\$84,353

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-1992 Guarantees (Allowance for Loss Method) as of September 30, 1999:

Loan Guarantee Programs	Defaulted Guaranteed Loan Receivable, Gross	Interest Receivable	Allowance For Loan Losses	Defaulted Guaranteed Loan Receivable, Net
UE	\$503,329	\$31,567	\$236,000	\$298,896
Total	\$503,329	\$31,567	\$236,000	\$298,896

Defaulted Guaranteed Loans from Post-1991 Guarantees:

The Urban and Environment Credit Program experienced \$1.5 million in defaults on payments that were due in FY 2000 on post-1991 guaranteed loans. There were no defaults in FY 1999.

Guaranteed Loans Outstanding:

Loan Programs	2000		1999	
	Outstanding Principal, Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed	Outstanding Principal, Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
UE	\$2,250,363	\$2,250,363	\$2,294,560	\$2,294,560
MSED	27,691	15,075	40,160	20,080
Ukraine Export	-	-	-	-
Israel	9,226,200	9,226,200	9,226,200	9,226,200
DCA	-	-	-	-
Total	\$11,504,254	\$11,491,638	\$11,560,920	\$11,540,840

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 below.

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
Ukraine Export	-	-	-
Israel	-	586,629	586,629
DCA	-	103	103
Total	\$441,469	\$654,872	\$1,096,341



Liability for Loan Guarantees (Estimated Future Default Claims pre-1992) as of September 30, 1999:

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	\$417,956	\$68,108	\$486,064
MSED	-	1,935	1,935
Ukraine Export	-	30,054	30,054
Israel	-	549,690	549,690
Total	\$417,956	\$649,787	\$1,067,743

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 have been no modifications and reestimates. However, see item number two at end of footnote for pending modifications which will affect UE program.

3. Total Direct Loan Subsidy Expenses

None.

Subsidy Expenses for Post-1991 Direct Loans as of September 30, 1999:

1. Current Year's Direct Loans

Loan Programs	Interest Differential	Defaults	Fees	Total
MSED	\$(39)	\$107	\$ -	\$68
Total	\$(39)	\$107	\$ -	\$68

2. Direct Loan Modification and Reestimates

There were no modifications and reestimates.

3. Total Direct Loan Subsidy Expenses

Total subsidy expenses in MSED were \$68,000.



Subsidy Expenses for Post-1991 Loan Guarantees as of September 30, 2000:

1. Current Year's Loan Guarantees

Loan Programs	Defaults	Fees	Interest Supplement	Total
UE	\$4,452	\$1,108	\$-	\$3,344
MSED	160	53	-	107
Total	\$4,612	\$1,161	\$-	\$3,451

2. Loan Guarantee Modifications and Reestimates

Loan Programs	Modifications	Reestimates
UE	\$-	\$8,549
MSED	-	982
Total	\$-	\$9,531

There were no modifications.

3. Total Loan Guarantee Subsidy Expenses

Loan Programs	
UE	\$11,893
MSED	1,089
Total	\$12,982

Subsidy Expenses for Post-1991 Loan Guarantees as of September 30, 1999:

1. Current Year's Loan Guarantees

Loan Programs	Defaults	Fees	Interest Supplement	Total
UE	\$18,980	\$7,910	\$ -	\$11,070
Total	\$18,980	\$7,910	\$ -	\$11,070

2. Loan Guarantee Modifications and Reestimates

There were no modifications and reestimates.

3. Total Loan Guarantee Subsidy Expenses

Total loan guarantee subsidy expenses for the UE program in FY 1999 were \$11.1 million.

Administrative Expenses	2000	1999
Loan Programs		
Direct Loans	\$-	\$-
UE	5,112	5,435
MSED	452	482
Ukraine Export		23
Total	\$5,564	\$5,940



Other Information

1. Allowance for Loss for Liquidating account (pre-Credit Reform Act) receivables have been calculated in accordance with OMB guidance using a present value method which assigns risk ratings to receivables based upon the country of debtor. Eighteen countries are in violation of Section 620q of the Foreign Assistance Act (FAA), owing a total of \$34,657,100.00 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 \$401,968,876.79 that is more than one year delinquent. Outstanding direct loans receivable for countries in violation of section 620q totaled \$26,552,347.67. Outstanding direct loans receivable for countries in violation of the Brooke Amendment totaled \$368,217,574.30.
2. Certain credits in the Urban and Environmental Credit Program will be subject to Paris Club restructuring in FY 2001. The guarantees and rescheduled claims of six debtor nations totaling \$169 million will be involved in debt reductions at rates between 50% and 80% of the outstanding receivables. The credit subsidy (cost to the US government) has been calculated at approximately \$44 million.
3. 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 totalling \$792,174.39. While Loan Management Division is continuing to research the status of these loans, they are being carried at 100% bad debt allowance. Any necessary adjusting entries resulting from this research will be posted in FY 2001.
4. The Ukraine program guarantees have expired. No defaults were experienced. Closeout is expected to take place in FY 2001.
5. USAID has made certain adjustments to reduce its receivable balances as a result of the reconciliation and review process that took place concurrently with USAID's outsourcing of its loan servicing operation. These entries total \$ 265 million, and include adjustments for unapplied funds, unrecorded rescheduling transactions, and corrections to loan balances made by the loan servicing contractor. This amount also includes \$ 85 million in unallocated adjustments made in order to reconcile the general ledger receivable balances to the loan servicing system. These entries are being made as a one-time adjustment.



Note 6 - Cash and Other Monetary Assets (In Thousands)

Cash and Other Monetary Assets as of September 30, 2000 and 1999 are as follows:

Entity Cash and Other Monetary Assets	2000	1999
Undeposited Collections	\$-	\$373
UE and Micro and Small	50	50
Enterprise Fund Cash w/Fiscal Agent		
Foreign Currencies	153,119	179,191
Total Entity Cash and Other Monetary Assets	\$153,169	\$179,614
 Non-Entity Cash and Other Monetary Assets	 \$-	 \$-
 Total Cash and Other Monetary Assets	 \$153,169	 \$179,614

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 million in FY 2000 and \$2.5 million in FY 1999. These imprest funds are not included in USAID's Balance Sheet. Foreign Currencies are related to Foreign Currency Trust Funds and this amounted to \$153 million in FY 2000 and \$179 million in FY 1999.

**Note 7 - Operating Materials and Supplies (In Thousands)**

Operating Supplies and Materials as of September 30, 2000 and 1999 are as follows:

	2000	1999
Items Held for Use		
Office Supplies	\$6,728	\$6,628
Items Held in Reserve for Future Use		
Disaster assistance materials and supplies	5,911	5,104
Birth control supplies	8,482	6,538
Total	\$21,121	\$18,270

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



Note 8 - Property, Plant and Equipment, Net (In Thousands)

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

Classes of Fixed Assets	Useful Life	Accumulated Cost	Net Book Depreciation	Value
Equipment	3 to 5 years	\$35,718	\$27,397	\$8,321
Structures, Facilities, & Leasehold Improvements	20 years	34,652	12,840	21,812
Land	N/A	3,434	-	3,434
Assets Under Capital Lease	2,424	460	1,964	
Construction in Progress	N/A	439	-	439
Total		\$76,667	\$40,697	\$35,970

The components of PP&E at September 30, 1999 were:

Classes of Fixed Assets	Useful Life	Accumulated Cost	Net Book Depreciation	Value
Equipment	3 to 5 years	\$29,925	\$24,936	\$4,989
Structures, Facilities, & Leasehold Improvements	20 years	31,116	13,086	18,030
Land	N/A	3,706	-	3,706
Assets Under Capital Lease	1,965	136	1,829	
Construction in Progress	N/A	-	-	-
Total		\$66,712	\$38,158	\$28,554

USAID PP&E includes assets located in Washington, D.C. 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.
- 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 - Accounts Payable (In Thousands)**

The Accounts Payable covered by budgetary resources as of September 30, 2000 and 1999 consisted of the following:

	2000	1999
Intragovernmental		
Accounts Payable	\$86,046	\$126,683
Disbursements in Transit	-	116
Total Intragovernmental	86,046	126,799
Accounts Payable	\$1,285,063	\$1,398,348
Disbursements in Transit	2,090	13,251
Total	\$1,287,153	\$1,411,599
Total Accounts Payable	\$1,373,199	\$1,538,398

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-governmental entities.



Note 10 - Debt (In Thousands)

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

	Beginning Balance	Net Borrowing	Ending Balance
Urban & Environmental	\$48,000	\$(48,000)	\$-
Direct Loan	148,234	(33,462)	114,772
MSED	1,713	-	1,713
Total Debt	\$197,947	\$(81,462)	\$116,485

USAID Intragovernmental debt as of September 30, 1999 consisted of the following borrowings from Treasury for post-1991 loan programs:

	Beginning Balance	Net Borrowing	Ending Balance
Urban & Environmental	\$72,000	\$(24,000)	\$48,000
Direct Loan	234,157	(85,923)	148,234
MSED	1,877	(164)	1,713
Total Debt	\$308,034	\$(110,087)	\$197,947

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

The above disclosed debt is principal payable to Treasury, which represents borrowings from the Treasury. There is \$6.4 million Due to Treasury, a cumulative liability account. Both of these accounts are used exclusively for credit reform activity. All debt shown is intragovernmental debt.

**Note 11 - Other Liabilities (In Thousands)**

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

	Noncurrent	Current	Total
Intragovernmental - 2000			
OPAC Suspense	\$-	\$(461)	\$(461)
Deposit and Clearing Accounts	(774)	(774)	
Other	-	99,301	99,680
Total Intragovernmental	\$-	\$98,066	\$98,445
Accrued Funded Payroll/Benefits	\$-	\$10,881	\$10,881
Deferred Credit	-	2,380	1,893
Liability for Deposit Funds and Suspense Accounts - Non-Entity	-	3,051	3,051
Foreign Currency Trust Fund	-	153,119	153,119
Trust Fund Balances	-	14,235	14,235
Unamortized Origination Fees	-	-	-
Other	-	6	6
Total	\$-	\$183,672	\$183,185
Total Other Liabilities	\$	\$281,738	\$281,630

As of September 30, 1999, Other Liabilities consisted of the following:

	Noncurrent	Current	Total
Intragovernmental - 1999			
OPAC Suspense	\$ -	\$3,688	\$3,688
Deposit and Clearing Accounts	3,056	3,056	
Other	-	121,805	121,805
Total Intragovernmental	\$-	\$128,549	\$128,549
Accrued Funded Payroll/Benefits	\$ -	\$9,918	\$9,918
Deferred Credit	1,993	1,993	
Liability for Deposit Funds and Suspense Accounts - Non-Entity	-	1,760	1,760
Foreign Currency Trust Fund	-	179,197	179,197
Trust Fund Balances	-	14,193	14,193
Total	\$-	\$207,061	\$207,061
Total Other Liabilities	\$ -	\$335,610	\$335,610

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



Note 12 - Leases (In Thousands)

Leases as of September 30, 2000 and 1999 consisted of the following:

Capital Leases:	2000	1999
Buildings	\$2,424	\$1,965
Accumulated Depreciation	460	136
Future Payments Due:		
<u>Fiscal Year</u>	<u>Future Costs</u>	<u>Future Costs</u>
2000	N/A	\$1,757
2001	\$1,431	1,025
2002	1,101	832
2003	630	504
2004	54	-
2005	-	N/A
After 5 Years	-	-
Total Future Lease Payments	\$3,216	\$4,118
Less: Imputed Interest	N/A	N/A
Executory costs	N/A	N/A
Total Capital Lease Liability	\$3,216	\$4,118
Covered by Budgetary Resources	\$3,216	\$4,118
Operating Leases:	2000	1999
Future Payments Due:		
<u>Fiscal Year</u>	<u>Future Costs</u>	<u>Future Costs</u>
2000	N/A	\$52,174
2001	\$59,333	50,599
2002	60,954	48,491
2003	58,422	46,781
2004	56,696	45,962
2005	53,839	N/A
After 5 Years	218,867	180,958
Total Future Lease Payments	\$508,111	\$424,965

Of the \$508 million in future lease payments, \$377 million is attributable to the Ronald Reagan Building in Washington D.C., USAID's headquarters. The remaining \$130 million relates to other USAID Washington activity and mission related operating leases.

**Note 13 - Accrued Unfunded Annual Leave and Separation Pay (In Thousands)**

Accrued unfunded benefits for annual leave and separation pay as of September 30, 2000 and 1999 are:

	2000	1999
Liabilities Not Covered by Budgetary Resources		
Accrued Annual Leave	\$25,587	\$26,004
FSN Separation Pay Liability	238	464
Total Accrued Unfunded Annual Leave and Separation Pay	\$25,825	\$26,468

Note 14 - Accrued Unfunded Workers' Compensation Benefits (In Thousands)

The provision for workers' compensation benefits payable, as of September 30, 2000 and 1999 are as follows:

	2000	1999
Liabilities Not Covered by Budgetary Resources		
Accrued Unfunded Workers' Compensation	\$7,445	\$7,184
Future Workers' Compensation Benefits	29,819	37,873
Total Accrued Unfunded Workers Compensation Benefits	\$37,264	\$45,057

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 \$37.2 million as of September 30, 2000 and comprises of unpaid FECA billings for \$7.4 million and estimated future FECA costs of \$29.8 million.

For FY 1999, USAID's total FECA liability was \$45.0 million and comprised of unpaid FECA billings for \$7.2 million and estimated future FECA costs of \$37.8 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.



Note 15 - 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 was involved in seven contract appeals before the Armed Service Board of Contract Appeals, which total \$7.9 million, exclusive of interest, and Equal Access to Justice Act Fees. On October 13, 2000 a decision in favor of USAID was made for \$4 million of this \$7.9 million. Motion for reconsideration was filed November 15, 2000. Opposition to motion for reconsideration was mailed December 12, 2000. Trial is scheduled to commence in May 2001 for the other \$3.9 million. However, the likelihood of an unfavorable outcome for USAID has changed from reasonably possible to remote.

USAID was involved in a case before the United States District Court for the District of Columbia involving a class-action suit brought on behalf of some former Foreign Service Officers who were separated from the Agency in a Reduction-In-Force (RIF). On January 31, 2000 a proposed settlement was filed. On February 9, 2000, the Agency was advised that the agreement had been reached between the parties concerning the settlement of the class action lawsuit. The Court approved the settlement amount of \$5.5 million, made from the Department of Justice's Judgment Fund (not by USAID). This event was incorporated into the financial statements as an adjusting journal entry per guidelines provided in Interpretation of Federal Financial Accounting Standards No. 2.

In addition, USAID is involved in a case before the US Court of Federal Claims which disputes appropriate indirect cost rates to be charged where contract rates do not match Negotiated Indirect Cost Rate Agreement (NICRA) rates. It is reasonably possible that USAID might lose this case, but if that were to happen, the judgment would be paid out of the Department of Justice's Judgment Fund and not by USAID. In this case the amounts claimed are \$2.2 million, exclusive of Equal Access to Justice Fees. To date, the Government has contested the case vigorously. However, the parties intend to recommence settlement discussions after the Court rules on dispositive motions, which are to be filed by mid-January 2001.

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 1999 and 2000 amounted to \$26 million and \$28.8 million respectively. GSA is requesting a 17% increase that is projected to take effect in FY 2002, but this is being negotiated.

*Note 16 - Unexpended Appropriations (In Thousands)***Unexpended Appropriations:**

	2000	1999
Unobligated		
Available	\$2,100,163	\$1,740,938
Unavailable	84,276	81,483
Undelivered Orders	8,721,534	8,773,682
Total	\$10,905,973	\$10,596,103

Totals include non-appropriated Loan, Trust and Revolving unexpended funds.

Note 17 - Non-entity Assets (In Thousands)

The following information on non-entity assets is provided as of September 30, 1999:

Non-entity Assets

	2000	1999
Intergovernmental:		
Fund Balance with Treasury	\$3,051	\$1,760
Total intra-governmental	\$3,051	\$1,760
Accounts Receivable	\$43,994	\$120,310
Total Non-entity Assets	\$47,045	\$122,070
Total Entity Assets	19,234,207	19,048,572
Total Assets	<u>\$19,281,252</u>	<u>\$19,170,642</u>

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.

Non-entity accounts receivables of \$44 million for FY 2000 and \$120.3 million for FY 1999 are comprised of unavailable miscellaneous receipt funds which do not constitute budget authority and which must be returned to the Department of Treasury's general fund when collected.



Note 18 - Liabilities Not Covered by Budgetary Resources (In Thousands)

Liabilities not covered by budgetary resources as of September 30, 2000 and 1999 are as follows:

	2000	1999
Liabilities for Loan Guarantees	\$441,469	\$417,956
Accrued unfunded annual leave and separation pay	25,826	26,468
Accrued unfunded Workers Compensation Benefits	37,265	45,057
Total Liabilities not covered by Budgetary Resources	<u>\$504,560</u>	<u>\$489,481</u>
Total Liabilities covered by Budgetary Resources	<u>8,800,831</u>	<u>8,916,683</u>
Total Liabilities	\$9,305,391	\$9,406,164

All liabilities not covered by Budgetary Resources are governmental liabilities.

Note: The change in accrued unfunded annual leave and separation pay between FY 2000 and FY 1999 is not shown on the Statement of Financing because of a reduction in the accrual.

**Note 19 - Required Supplementary Information (In Thousands)**

The following required supplementary information is provided as of September 30, 2000:

Intra-governmental assets:

Agency	Fund Balance with Treasury	Accounts Receivable, Net	Advances and Prepayments	Totals
Treasury	\$11,120,290	\$ -	\$11,786	\$11,132,076
Dept of Agriculture -	465,162	-	465,162	
Dept of State	-	-	17,462	17,462
Dept of Commerce -	-	10,659	10,659	
Other -	8,004	23,703	31,707	
Total	\$11,120,290	\$473,166	\$63,610	\$11,657,066

Intra-governmental liabilities:

Agency	Due to Treasury	Accounts Payable	Debt	Other	Totals
Treasury	\$6,374,536	\$ -	\$116,485	\$ -	\$6,491,021
Dept of Agriculture	-	16,438	-	-	16,438
Other	-	69,609	-	98,445	168,054
Total	\$6,374,536	\$86,047	\$116,485	\$98,445	\$6,675,513

The following required supplementary information is provided as of September 30, 1999:

Intra-governmental assets:

Agency	Fund Balance with Treasury	Accounts Receivable, Net	Advances and Prepayments	Totals
Treasury	\$10,726,448	\$ -	\$12,456	\$10,738,904
Dept of Agriculture -	383,317	13,050	396,367	
Dept of State	-	-	9,181	9,181
Dept of Commerce -	-	10,090	10,090	
Other -	1,557	10,905	12,462	
Total	\$10,726,448	\$384,874	\$55,682	\$11,167,004

Intra-governmental liabilities:

Agency	Due to Treasury	Accounts Payable	Debt	Other	Totals
Treasury	\$6,194,940	\$ -	\$197,947	\$ -	\$6,392,887
Dept of Agriculture	-	33,686	-	-	33,686
Other	-	93,113	-	128,549	221,662
Total	\$6,194,940	\$126,799	\$197,947	\$128,549	\$6,648,235



Note 20 - Total Cost and Earned Revenue by Budget Functional Classification (In Thousands)

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 Affairs - 150	\$6,800,874	\$72,208	\$6,728,666
Income Security - 600	1,802	-	1,802
Total	\$6,802,676	\$72,208	\$6,730,468

Total Cost and Earned Revenue by Budget Functional Classification, as of September 30, 1999 are as follows:

Function Classification	Gross Cost	Earned Revenue	Net Cost
International Affairs - 150	\$6,310,185	\$62,390	\$6,247,795
Income Security - 600	1,527	-	1,527
Total	\$6,311,712	\$62,390	\$6,249,322

**Note 21 - Statement of Budgetary Resources (In Thousands)**

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

	2000	1999
Undelivered Orders - Unpaid	\$7,926,726	\$7,734,439
Undelivered Orders - Paid	794,808	1,039,243
Total Obligations for Undelivered Orders	<u>\$8,721,534</u>	<u>\$8,773,682</u>

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

No borrowing authority was utilized in FY 2000. The MSED credit program utilized \$632 thousand in permanent indefinite borrowing authority in FY 1999. The terms of this borrowing included an interest rate of 5.11% and a maturity of 4 years.

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.



Note 22 - 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, 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 Transferred, Net	-	-
Obligated Balance, Net - End of Period	87,073	505,805
Outlays	\$348,505	\$403,381



The amounts related to other agency activity as of September 30, 1999 were as follows:

	Allocated to Other Agencies	Allocated From Other Agencies
Budgetary Resources		
Budget Authority	\$362,988	\$402,915
Unobligated Balance	22,288	19,224
Spending Authority from Offsetting Collections	-	-
Adjustments	4,137	62,066
Total Budgetary Resources	\$389,413	\$484,205
Status of Budgetary Resources		
Obligations Incurred	\$368,704	\$473,412
Unobligated Balances Available	14,390	10,793
Unobligated Balances Not Available	6,319	-
Total Status of Budgetary Resources	\$389,413	\$484,205
Obligations Incurred, net of adjustments	\$364,566	\$411,346
Obligated Balance, Net - Beginning of Period	119,256	540,138
Obligated Balance Transferred, Net	-	-
Obligated Balance, Net - End of Period	78,848	422,453
Outlays	\$404,974	\$529,031



Part C
Summary of FY 2000 Program
Performance by Operating Unit
Objectives



Encourage Economic Growth and Agricultural Development (EGAD)

This section discusses the performance of the EGAD objectives of USAID's operating units as of September 30, 1999, drawing on the self-assessments of these units. It provides examples of results achieved through USAID efforts undertaken around the globe and discusses operating unit objectives that failed to meet expectations.

To achieve the goal of broad-based economic growth and agricultural development, USAID normally undertakes programs to expand and strengthen private markets, encourage more rapid and enhanced agricultural development, and expand equitable access to economic opportunity for the rural and urban poor. A strong policy environment and strong institutions within recipient countries are two of the most important determinants of the overall success of USAID programs. Therefore, the agency continues to place a high priority on EGAD programs that address policy and institution reforms.

Program Objectives/Approaches

USAID supports broad-based economic growth and agricultural development around the world through programs directed at three broad objectives:

- 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
- fruit, coffee, or flowers not traditionally grown in the country, but attractive for international markets. Increases in agricultural production also serve to raise farmer

Economic Growth Programs with Environmental Sustainability

USAID develops and implements many activities that both stimulate economic growth and help preserve the environment. While programs can take a variety of different forms, depending on the needs of the country, they often fall under one of two major focus areas:

Sustainable Agriculture and Natural Resource Management - Sustainable agriculture approaches aim to increase production, but through the adoption of sustainable agriculture practices. Use of appropriate technologies such as composting, tree planting, and building small dams and rock lines serve to reduce soil erosion, increase soil fertility, and protect watersheds. Farmers adopt the practices because they are simple and cost-effective and result in short-term economic benefits by increasing yields. Other natural resource approaches with economic benefits tend to focus on the management and sustainable use of forests, coastal zones, and water resources.

Energy - Energy use, efficiency, and conservation are critical issues in many countries where USAID works, especially in the **Eurasia** region. USAID approaches assist countries in the adoption of rational energy prices, sound national energy policies, and improved energy efficiency. Industries that adopt more efficient energy systems save on costs, helping to boost their profits, while reducing pollution emissions.

For this reporting period, each operating unit categorized its programs as primarily under one of the three EGAD objectives. The Agency has a total of 152 EGAD programs carried out in 75 operating units around the world. Many of the country programs emphasize a broad and comprehensive approach to economic development, so that a single operating unit may simultaneously address multiple Agency objectives. An operating unit's program may, for example, seek to expand trade through policy, legal, and regulatory reform to reduce barriers for exporters, an approach consistent with the first EGAD objective. Also, the program may emphasize increased production of agricultural commodities such as

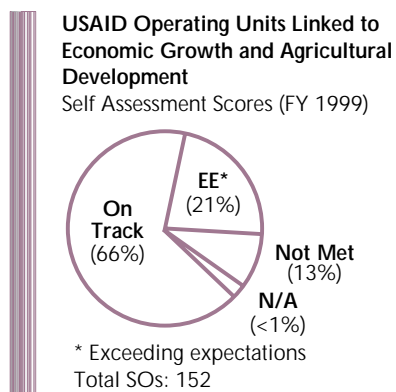
incomes, helping to ensure food security. Typically, agriculture and food security programs fall under the second EGAD objective. Yet another intervention of the same program may involve small loans and business training for the rural poor, helping to generate entrepreneurial development and increase incomes. This purpose equates to the EGAD objective for expanded access to economic opportunity for the poor. Thus a USAID operating unit's program may encompass all three Agency objectives, even though it will be categorized under only one, representing the program's major area of emphasis.

Further, USAID EGAD objectives and

activities can be combined with other Agency goals in an integrated strategy. For instance, operating units often pursue goals for economic growth and environment together in a single program by emphasizing an environmentally sustainable approach to growth (see Box C.1). Similarly, programs that strengthen the free-market advocacy role of business associations and empower the poor with opportunities to more fully participate in the economy also complement the development of an active civil society under the Agency's democracy and governance goal.

Self-Assessment of Performance by Missions and Other Operating Units

Eighty-eight percent of EGAD objectives met or exceeded expectations. Examples of both successful objectives and objectives not met are discussed below:



a. USAID Objective: "Critical Private Markets Expanded and Strengthened"

Of the 75 USAID operating units promoting EGAD, just over two thirds have programs with a primary focus on strengthening markets. This objective accounts for just over 80 percent of the Agency's EGAD budget. Regionally, this objective has

been critical to the countries of **Europe and Eurasia (E&E)**, where 19 of the 22 operating units are pursuing it to accelerate economic transition. Elsewhere, 11 of 32 operating units in Africa, 10 of 19 in

development services can be clustered into several key areas: market linkages, improved technologies, and better business practices. Technical assistance to enterprises helps business owners

Program Concentration	Number of Operating Units
Development of Private Enterprises	40
Fiscal Reform and Financial Management	31
Strengthening Financial Markets	42
Privatization	32
Facilitating Trade and Investment	45

This table shows the number of USAID operating units that pursue each major area of program concentration, either as a primary or secondary purpose, within the strengthening markets objective. Many of the operating units address more than one area.

Latin America and the Caribbean, 10 of 16 in **Asia and the Near East,** and one central operating unit carry out market-strengthening programs.

USAID aims to effect change by facilitating development, reform, and strengthening of the various sectors that constitute a market-based economy. Major areas of program concentration include private-enterprise development, fiscal reform, strengthening financial markets, privatization, and facilitating trade and investment. Each is described below, along with specific examples of USAID activities and accomplishments.

Examples of USAID Program Results

Development of Private Enterprises
USAID also undertakes policy, legal, and regulatory reform necessary for increasing trade competitiveness, attracting investment, and achieving sustained economic growth. Business

develop needed skills and knowledge for managing their operations and marketing products. Programs work to strengthen business and professional associations and work through them, as well as service providers, to build local capacity. For instance, reforms can allow economic incentives for business growth, competition, and reduced transaction costs. Strengthening trade and professional associations to lobby governments leads to improvements in the enabling environment for private enterprise. Private-sector growth helps to generate revenues for public expenditures and social transfers.

USAID's program in Ghana, as an example, works to diversify and expand the economy by creating a more investor-friendly business environment and by strengthening the private sector's capacity to be more competitive. Progress achieved



on policy reforms included streamlining tax revenue collection,

USAID emphasizes, among other things, reform of tax policies to make

impact of fiscal policies on economic growth. One indication of success is the size of the federal budget deficit. In 1999, the government budget deficit as a percentage of gross domestic product (GDP) was down to 2.7 percent—less than the 3 percent of 1998 and a fraction of the 12.5 percent of 1995.

Business Training Spurs Computer and Internet Services

Arben Kote is the owner of Hard & Soft, a hardware, software, and computer services provider in the **Albanian** city of Elbasan. Through USAID-funded training in North Carolina and Texas, Mr. Kote learned about software programming in support of the fields of construction, wood and metal processing, and accounting. He also acquired knowledge related to the Internet and hardware and software pricing strategy and marketing, as well as the profitable provision of computer support services. Soon after returning to his home town, Mr. Kote signed a contract with "Albania On Line" and the City of Elbasan, which, through Mr. Kote's support, will be the first city after Tirana, Albania's capital, to have a local Internet server provider. Other local government offices are now setting up Web pages and have turned to Kote for training.

Hard & Soft's business has increased more than 50 percent since Mr. Kote's visit to the United States. Kote says, "Everyone is so excited about Internet access. The Customs Agency in Elbasan is already communicating with its central office in Tirana and its border posts via e-mail."

elimination of disincentives to foreign investment, and an update of labor legislation. Agency activities also included development and support of community tourism. Tourism to USAID-supported sites increased by more than 30 percent in 1999. The level of interest in tourism, mostly Ghanaian, is serving to demonstrate to the rest of the country that tourism is a viable industry for business and investment.

Fiscal Reform and Financial Management

Sound fiscal policies and practices are critical to private-sector growth and the development of financial markets. Financial management systems enhance public accountability and reduce opportunities for corruption. Fiscal decentralization is also key for strengthening local governments. Fiscal reform is especially critical to the transition and sustainability of economies once centrally controlled.

them more transparent, simple, and equitable; improved tax administration for collections and enforcement; efficient budget formulation and execution; revenue sharing and spending authorities between national and subnational levels of government; and pension reform.

For instance, the inadequacy of many social and public services in **Kyrgyzstan** can be attributed, in part, to the problems with fiscal policies and fiscal management. USAID is addressing the immediate and long-term needs by targeting three critical areas: 1) tax administration, 2) tax policy, and 3) budget reform. The direct beneficiaries of such improvements are the national and local government agencies that need tax revenues and sound budget policies and those parties that are owed money by the government. Indirectly, all Kyrgyz citizens stand to benefit in the long run through the

Strengthening Financial Markets

The Agency addresses two major components of the financial sector—banking and capital markets. Programs seek to improve private-sector access to a wide array of financial instruments at competitive, market-determined rates. USAID assistance in many countries supports a market-oriented legal and regulatory framework for banking; developing bank regulatory authorities; strengthening bank infrastructure through training and conversion to International Accounting Standards; drafting laws on securities commissions and securities and investment companies; establishing security trade mechanisms and independent securities regulators; and developing markets for government securities, commodities, and municipal bonds.

In **Ukraine**, the challenge in the financial sector is to transform a mechanistic system of a centrally planned economy to a service-oriented sector based on market principles, capable of providing financial support to consumers and businesses. The USAID program in Ukraine was designed to develop the fundamentals (bank supervision, accounting, and training) of a functioning financial system. Major legislation was passed in 1999, including the adoption of a



bankruptcy law. Privately owned banks made significant progress in increasing their market share. The ratio of combined total assets of the 10 largest privately owned banks compared with those of government-owned banks increased to 82 percent, exceeding expectations and well above the 66 percent of the previous year.

Privatization

Private ownership of productive assets is critical to the formation of competitive markets, the achievement of economic growth through private initiative, and the efficient mobilization of productive resources. Privatization of state-owned enterprises helps to redefine the role of government to a facilitator of economic activity and a provider of essential services. Types of USAID assistance include privatization of large enterprises and farms, land privatization, and improving corporate governance.

Moldova has made significant strides in land privatization and is noted as a model for its achievement in the break-up of state and collective farms and the issuance of constitutionally valid tradable land titles. USAID is working to help complete the Moldovan land privatization program and assists the government with the privatization of strategic enterprises. A total of 660 out of an estimated thousand state and collective farms were broken up in 1999. Concurrently, 956,000 new land titles were issued to individuals.

Facilitating Trade and Investment

While this category of programs has considerable overlap with the ones mentioned above, these activities

concentrate on private-sector-led, export-oriented growth. Policy, legal, and regulatory reforms lower trade barriers and eliminate cumbersome requirements for exporters. The transfer and utilization of new technologies enable the production of nontraditional goods for export. The provision of business services and improved management practices builds the capacity of businesses to grow. Partnerships with foreign investors and access to market information assist businesses to learn about and develop new markets.

USAID's Global Technology Network (GTN) works to expand trade by matching an overseas company's needs with small and medium-size U.S. firms that are equipped to provide the appropriate technological solutions. The network targets the agriculture, environment and energy, health, and information technology sectors. An internet-based matching system links firms with compatible interests, facilitating communication and partnering. Partnership with 32 states, trade offices and three regional offices facilitate U.S. firms exporting into developing and emerging markets. In 1999, the GTN recorded \$120 million in completed business transactions, up from \$78 million the previous year. The program's innovation and success led to its receiving the 1999 Public Service Excellence International Award sponsored by the Public Employees Roundtable.

In **Egypt**, USAID is promoting export-oriented growth fueled by the private sector. Through the use of technical assistance, the Agency helped the government adopt

numerous policy reforms in 1999, including a product registry for importers and exporters to streamline inspections. USAID assistance also works with and through business associations to train them to better lobby for policy change. In addition, activities provide technical assistance and training to businesses in improved technologies and better management practices. In the sectors that USAID targets, the value of private-sector exports (including fresh and processed agricultural products, spinning/weaving products, leather goods, and furniture) rose by 28 percent, from \$361 million in 1998 to \$462 million in 1999.

A comprehensive legal and regulatory reform agenda in **Jordan** enabled it to qualify for World Trade Organization (WTO) accession in 1999. The WTO process required a myriad of new and amended laws and regulations. Spurred on by strong support at the highest levels of government, USAID assistance played an essential role in facilitating Jordan's application and ensuring its ultimate success. Participation in the WTO will provide benefits to Jordan for many years to come. USAID-funded technical assistance also enabled the government to transfer \$88.6 million in assets to private-sector control.

Program(s) Failing to Meet Expectations

Under the strengthening markets objective, several USAID programs failed to meet their goals. This was due to, in almost all cases, lack of host government commitment to reforms and, in some cases, to political instability stemming from government transition. In the **E&E** region, USAID operating units in



Albania, Armenia, Croatia, Kyrgyzstan, Moldova, Tajikistan, Turkmenistan, and Uzbekistan all faced difficulties. In other regions, programs in **Angola, Colombia, and Haiti** fell short of expectations.

In **Armenia**, performance of the economic restructuring portfolio during the past year did not meet expectations, primarily because of a range of major policy-level obstacles that have yet to be resolved.

Disappointing progress in areas such as privatization, capital markets development, and the registration/sale of property continued to stifle private-sector activity. Notwithstanding this negative performance and outlook, the USAID program has had various activity-level accomplishments that— if critical policy issues can be resolved— will facilitate sustainable increases in employment and income in Armenia during the life of this program.

In **Croatia**, USAID suspended assistance under its financial-sector program in 1998 because the government showed no willingness to engage in any meaningful economic reform. As a result, the economy became a major political issue in Croatia, eventually leading to the election of a new reform-minded government. USAID Croatia is in the process of responding with immediate targeted support and will work with the government to reinstate sound management of the economy.

In **Kyrgyzstan**, progress was achieved in developing an effective securities market, but banking targets were not met because of the crisis in the

banking system that resulted from large-scale fraud. Four of the largest banks were closed, contributing to a loss in consumer confidence. The USAID program initially concentrated on strengthening the bank regulatory authority's ability to supervise commercial banks.

However, that effort was halted in 1997 because of a similar Finnish government effort and because the central bank had started to develop a modernized bank supervisory capability. Without USAID assistance for bank supervision reform, however, the Central Bank made little progress toward achieving a self-sustaining bank regulatory unit. USAID has recently responded to a host government request to restart assistance as part of an effort to tighten financial regulatory guidelines and enhance monitoring capacity in the banking sector.

Despite some individual accomplishments, the growth and development of **Tajikistan's** private sector remained constrained by the uncertainty of the elections. Private-sector growth is critical to rebuilding Tajikistan's war-torn economy. Although the economic policy environment has improved noticeably, chronic security problems continue to hold back growth. Long-term USAID development activities are just beginning. Although Tajikistan's government has demonstrated its commitment to economic reform, the ongoing political instability limits USAID's ability to provide technical assistance.

The government of **Turkmenistan** faces a potentially severe fiscal crisis. The nation's financial conditions

have worsened in large part because of a sharp drop in export revenues when Turkmenistan ceased exporting gas through the Russian pipeline system. The government also has failed to adopt progressive privatization or land reform. Turkmenistan is the slowest country in the region to move toward market liberalization. It has made little progress in privatization and financial-sector reform or in liberalization of its trade regime.

After a movement in the mid-1990s toward free-market reforms through pricing and trade liberalization measures and tightened short-term fiscal and monetary management policies, the government of **Uzbekistan** retreated in the late 1990s by restricting convertibility and access to foreign currency. This resulted in suspension of its International Monetary Fund (IMF) Standby Arrangement. The lack of convertibility, minimal progress toward privatization, and a near halt in other economic or fiscal reform are having a seriously debilitating effect on the Uzbekistan economy, as well as a chilling effect on the international donor community. This led to a termination of USAID's Fiscal Reform Project in early 2000.

USAID's program in **Haiti** contributes to the maintenance and improvement of the macroeconomic environment by encouraging government reform through privatization of state-owned enterprises, civil service downsizing, civil service reform in general, and improvement of the host government's public resource management. Privatization efforts in Haiti stalled because of lack of



government commitment to move forward; however, the government is making progress in some areas. USAID will continue to work in collaboration with other donors, including the IMF, to consolidate gains and continue a reform process.

b. USAID Objective: "More Rapid and Enhanced Agricultural Development and Food Security Encouraged"

The majority of people in the poorest countries, such as many in **Africa**, derive their livelihoods from agriculture. Therefore, in the least developed countries, the transformation of agriculture and food systems is an essential aspect of broad-based economic growth. The shift from subsistence agriculture to producing for off-farm markets and consumers contributes to a more prosperous rural environment and generates additional opportunities for employment, and economic progress throughout the economy.

The concept of food security incorporates the traditional idea of ensuring food availability with the need for social and economic conditions that enable families to gain access to food. Access can be achieved either by producing food themselves or earning income to buy food. It serves as a planning tool and framework for designing food assistance and measuring impact. USAID's efforts promote long-term food security and include a wide array of measures aimed broadly at eradicating poverty, increasing production, improving health and nutrition, and empowering women as both food producers and caregivers.

Agriculture programs (not including PL 480) receive 12 percent of USAID's EGAD budget. USAID also uses nonemergency food aid as a resource in needy countries for direct feeding or monetizing (i.e., selling the food in recipient country markets) to generate local currency for development activities.

The **Africa** region predominates under this objective, with two thirds (12 of 18) of the total number of Agency operating units having agricultural development and food security programs as a primary objective. The African continent, even with significant recent growth in GDP, continues to be relatively poor and agrarian (with agriculture having an average value-added of 29 percent of GDP¹). Operating units in other regions, however, also carry out significant activities in the agricultural and food security realm. Overall, a total of 58 Agency operating units include this theme as either a primary or secondary purpose of their program.

Agency agricultural programs promote increased production and diversification of agricultural goods for both local consumption and export; strengthen public and private agricultural institutions; reform policies to provide incentives for farmers and agricultural entrepreneurs; promote research for, and adoption of, improved agricultural practices and technologies [e.g., through the Consultative Group on International Agricultural Research (CGIAR)]; and increase access to markets and market information. Food security

programs give priority to activities that improve household nutrition and agricultural productivity.

Examples of USAID Program Results

In **Malawi**, USAID works to enable small farmers to achieve economic diversification and increase incomes. In the mid-1990s, USAID pursued a policy reform agenda to help the government of Malawi liberalize markets. That groundwork has created opportunities for small farmers in rural areas to increase productivity and market efficiency. USAID efforts helped contribute to an important 14.8 percent increase in rural incomes in Malawi from 1998 to 1999. In 1999, 44 percent of the area of smallholder farms (up from 37 percent in 1998) had been diversified into crops such as rice, potatoes, and coffee.

In **Uganda**, USAID works together with the government and other donors on a comprehensive Poverty Reduction Strategy. Among other things, USAID supported the International Institute of Tropical Agriculture and other nongovernmental organizations to introduce disease-resistant varieties of cassava, a food crop widely consumed in the region and generally less affected by drought. These efforts led to dramatic results, with production of this crop increasing by more than 700 percent in 1999 over the previous year! Overall, GDP growth in Uganda stood at close to 8 percent in 1999. Combined efforts of USAID and its partners have led to a remarkable evolution in **Bangladesh**, from a famine-prone country in the early

¹ *World Development Indicators*. World Bank. Data are for 1998. Compare this figure with that of the United States, where agriculture is 2 percent of the economy.



1970s to a country now capable of managing food emergencies. USAID food security efforts have served to reform food policies, feed vulnerable groups, improve disaster preparedness, and upgrade community infrastructure. As a result of USAID's continuous policy dialogue, the government of Bangladesh has reoriented its large public food distribution system away from competition with the private sector and more toward managing it as a food safety net for the poor, helping to reduce poverty. In 1999, the government distributed 88 percent of public food to targeted programs for the poor, up from 76 percent the previous year and double the level of the early 1990s.

In **Guatemala**, access to land and credit is out of reach for many living in rural areas. USAID supported the creation of a land fund by the Guatemalan Congress. In coordination with other donors, USAID helped 3,973 small farm families gain access to land. By 1999, USAID implementing partners had worked with 17,500 new producers (up from 4,000 in 1998) to adopt sustainable agriculture practices such as soil conservation and organic fertilization.

Program(s) Failing to Meet Expectations

All USAID programs under this objective met expectations.

c. USAID Objective: "Access to Economic Opportunity for the Rural and Urban Poor Expanded and Made More Equitable"

The Agency's third performance goal under EGAD specifically targets the alleviation of poverty by more directly providing opportunities to

enable economically the poor, women, and the disadvantaged.

Globally, 68 USAID operating units incorporated some features of this objective into their programs, with 31 operating units considering it a primary objective. Six percent of the Agency's economic growth budget is counted as going toward these programs. **LAC** operating units, in particular, have found this to be an appropriate and successful objective, with two thirds of them (13 of 19) pursuing it. Operating units in **Africa** (7), **Asia and the Near East** (7), **Europe and Eurasia** (2), and USAID's Global Programs bureau also have strategies to increase economic opportunities for the poor.

In pursuing this objective, missions may use a variety of interventions, employing human resources, ideas, and financing from both the agricultural and private sector development spheres. A particularly

popular tool among missions for this purpose is microenterprise development, involving the provision of financial services, such as savings products, micro-loans, leasing and increasingly insurance products, and business development assistance to microentrepreneurs and poor, farming households. Programs also work towards legal and regulatory reform to improve the economic environment for small and micro enterprises.

Examples of USAID Program Results

Millions of poor households around the world participate in microenterprises to provide income that pays for basic family expenses such as food, clothing, shelter, school tuition, and medical bills. In addition, many farming households use microenterprises to balance income flow and reduce risk. During times of crisis and economic distress, additional households also

Microfinance Fosters Business Growth and Land Ownership

Crispina Canales started out in business with a small food stall in a rural community located in southern Mindanao, a large island of the Philippines. The little restaurant served ten people at a time and featured five dishes, including her specialty, roasted pig.

Crispina learned that a local credit union, Nabunturan Integrated Cooperative (NICO) was offering loans to local businesses. NICO is part of an USAID-supported program called CUES (Credit Union Empowerment and Strengthening) Philippines, run by the World Council of Credit Union (WOCCU) and Freedom from Hunger. Initially, Crispina deposited \$7.50 in share capital and attended the required pre-membership seminar. Almost immediately she was eligible for a loan of \$37.50. With the loan, she purchased better equipment and hogs. Instead of depending on a farmer to supply her stock, she could raise her own. She quickly repaid the loan and was granted a second loan of \$125.

Three years later the eatery sales had increased by 50 percent. Crispina had saved so much that she was able to purchase over two acres of rice farmland for \$175. In 1999, Crispina took out a loan to expand the eatery, doubling its size. She now offers 30 different dishes daily and can feed 50 people at a time.



use informal business activities to generate needed income.

In FY 1999, the Agency's microenterprise initiative, providing small loans to those in need, benefited more than two million clients across the globe. Of those borrowers, the vast majority (70 percent) were women. The average loan size was \$329, reflecting the Agency's emphasis on poverty lending— that is very small loans to poor clients that, in the right circumstances, can go a long way in empowering them to help themselves. The 627 microenterprise organizations supported by USAID also provide business development services to microentrepreneurs, including training, counseling, product marketing, and assistance with production technologies.

In the aftermath of the destruction of Hurricane Mitch, USAID's assistance in **Honduras** is helping to create a foundation for economic reactivation, renewed growth, and poverty reduction. USAID disbursed a \$3 million Mitch Recovery Fund for microfinance. These resources provided liquidity to support and rehabilitate the enterprises of some 9,000 clients severely affected by Mitch. Those resources have been complemented by some \$8 million of CACEDRF funds directed toward the expansion of microfinance services in areas notably affected by Mitch. By the end of 1999, USAID-supported micro-finance institutions were providing services to 43 percent of all micro and small enterprises in Honduras, up from 1998 when the percentage of coverage was 35 percent.

USAID in **Bolivia** is also working towards increasing the incomes of the poor. Bolivia's micro-finance sector as a whole was negatively affected by the country's recent severe economic recession. Nonetheless, USAID microfinance activities helped Bolivia's poor gain access to financial services to support their entrepreneurial businesses. Although the number of borrowers was not as high as targeted, active borrowers under USAID-supported programs increased from 189,000 in 1998 to almost 215,000 in 1999. Furthermore, as successful microfinance institutions graduate from the need for regular and major USAID support, their clients disappear from our figures, but remain important beneficiaries of USAID support. In fact, microfinance has flourished so successfully in urban Bolivia that fierce competition, market saturation, and over-indebtedness in the absence of adequate credit bureau services are the new problems. As a result, Bolivia is serving as a learning laboratory for the entire sector in this regard. Women borrowers accounted for 68 percent of the current total.

In more developed but severely stressed economies, such as those in Eastern Europe in the throes of conversion from a communist system to free markets, there is a role for micro and small businesses in the fight against poverty and economic dislocation. In **Russia**, for example, USAID helps to stimulate economic growth as well as a private sector mentality, by fostering the development of micro, small and medium-sized enterprises at selected regional sites around the country.

USAID facilitates business support services and greater access to finance for entrepreneurs. As a result, more than 25,000 jobs were created in 1999. Entrepreneurs receiving support from USAID's business support centers were able to obtain \$37 million in credit through 1999, short of expectations but an increase over the \$29 million they obtained in 1998. Women have received 71 percent of the loans that USAID-funded partner organizations have made to enterprises. Russia is gradually recovering from the financial crisis that plagued it in 1998; GDP grew at a modest 3.2 percent in 1999.

Programs Failing to Meet Expectations

Programs in Eritrea, Namibia, and Haiti failed to meet Agency expectations. USAID's Rural Enterprise Investment Partnership in **Eritrea** was at the point of contracting the advisors needed for its first loans when war broke out with Ethiopia. The war prevented disbursement of funds under the rural enterprise lending facility, technical assistance, and program support components. An alternative disbursement mechanism has recently been put in place, and implementation picked up sharply in the middle of FY 2000.

In **Namibia**, the economic growth rate fell to 1.8 percent in 1997 and dropped again in 1998. While growth returned to 2.6 percent in 1999, further deterioration may be expected as the effects of the Angolan conflict in northern Namibia spill over onto business activity. As a result of the poor business climate, USAID's program has not been meeting the targets set.



The program has been revised to focus on small and medium enterprises (SMEs), which represent the most attractive targets-of-opportunity for promoting economic growth and job-creation. As reformulated, the strategy directly addresses the need for private sector managerial and entrepreneurial skills, and for improved business support services and technology linkages for SMEs.

As mentioned earlier, the government of **Haiti's** progress toward economic reform, privatization, investment promotion and secondary cities development was disappointing, leading to mixed results of USAID's program to help increase incomes of the poor. Further sustainable economic growth will not be possible if the government continues on a course of anti-investment policies and inaction.

Strengthen Democracy and Good Governance

This section discusses the performance of the D&G objectives of USAID's operating units as of September 30, 1999, drawing on the self-assessments of these units. It provides examples of results achieved through USAID efforts undertaken around the globe and

discusses operating unit objectives that failed to meet expectations.

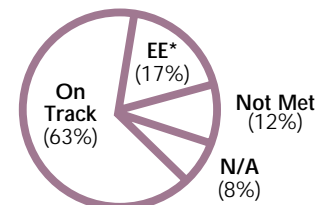
Program Objectives/Approaches

Table C.1 shows the number of USAID operating units that pursue each major area of program concentration as a primary purpose within the democracy and governance goal. Many of the operating units have programs in more than one area.

For this reporting period, each operating unit categorized its programs under one of the four democracy and governance objectives. The Agency has a total of 107 democracy and governance objectives carried out in 75 operating units around the world.

In 1999, the unique role played by USAID democracy and governance programs was highlighted by the fact that 85 percent of all operating units- more than in any other goal area- had linked their strategies to this Agency goal. In addition, 36 USAID Missions linked their democracy strategies to the Department of State's Mission policy planning document, thus indicating that increased coordination and collaboration of democracy support are taking place in the field.

USAID Operating Units Linked to Democracy and Governance
Self Assessment Scores (FY 1999)



* Exceeding expectations
Total SOs: 107

Self-Assessment of Performance by Missions and Other Operating Units

During 1999, 80 percent of Agency operating units met or exceeded targets in their democracy and governance strategic objectives; however, in 11 countries, accomplishments failed to meet expectations. In **Uzbekistan** and **Kazakhstan**, government repression and unfair presidential and parliamentary elections undermined strategic objective efforts to increase citizen participation. Similarly, in **Slovakia** and **Turkmenistan**, efforts to promote increased citizen participation were undermined by negative popular perceptions of democratic reforms in the former and a lack of government acceptance of the nongovernmental organization (NGO) sector in the latter. In **Armenia**, public perceptions of corruption, citizen disengagement from the political process, and ongoing political turmoil created an environment in which there was little chance of achieving the desired democracy program impact. In **Macedonia**, the combination of spillover effects of the Kosovo crisis, low levels of civic awareness, and an adverse political culture negatively affected efforts in areas critical to achieving expected progress.

Table C.1: Democracy and Governance Programs
(Primary Framework Links Only)

Program Concentration	No. of Operating Units	No. of Strategic Objectives
Rule of Law/Human Rights	20	21
Politically Active Civil Society	37	40
Accountable Government Institutions	30	36
Credible Political Processes	10	10
Totals		107

In **Tanzania**, implementation of its program to promote civil society-government partnerships fell behind because of personnel constraints and weakened citizen interest in such activities in the aftermath of the bombing of the U.S. Embassy. In **Liberia**, the Mission's democracy activities were severely curtailed as a result of security incidents, human rights violations, corruption, and the government's assistance to rebels in **Sierra Leone**. Finally, in **Haiti** and **Nicaragua**, efforts to promote political participation and inclusive governance fell short of desired targets because of an overall deterioration in democratic institutions and processes in the former and inadequate government support and the slow recovery from Hurricane Mitch in the latter.

a. USAID Objective: "The Development of Politically Active Civil Society Promoted"

Of the 75 USAID operating units with democracy and governance programs, 38 percent have a primary focus on promoting a politically active civil society. Regionally, this objective has been critical to the Europe and Eurasia countries, where 17 of the 22 operating units are pursuing it to accelerate countries' democratic transitions. Elsewhere, 13 operating units in Africa, 3 in Latin America and the Caribbean, 3 in Asia and the Near East, as well as 2 in the Global Bureau, report carrying out civil society programs.

USAID aims to effect change by facilitating the development and strengthening of the various elements of civil society. Major areas of program concentration include improved legal frameworks to

protect and promote civil society, increased citizen participation in the policy process and oversight of public institutions, increased institutional and financial viability of civil society organizations, enhanced free flow of information, and strengthened democratic political culture. Examples of USAID activities and accomplishments in these areas are described below.

Examples of USAID Program Results
Increased Citizen Participation in the Policy Process and Oversight of Public Institutions

The enabling environment for civil society organizations has been traditionally weak in **Tanzania**. During the past three years, USAID has worked with other donors to improve the regulatory framework for NGOs and to broaden access by civil society to policy discussions and decision making. In a landmark achievement in 1999, the government and local NGOs finally approved a policy paper that will provide the foundation for increased civic involvement in policymaking and governance in the future.

Strengthened Democratic Political Culture

While the fragile political and economic situation in **Slovakia** during the past year has limited the impact of USAID's democracy and governance program, meaningful results have still been achieved. According to the Mission, one of its most significant activities was to develop a national civic-education training methodology aimed at promoting democratic attitudes and behaviors. In 1999, as a result of these efforts, the Ministry of Education approved the inclusion of civic-education training as part of the recertification program for teachers,

and now several universities and training centers include this methodology in their programs.

Program(s) Failing to Meet Expectations

The consolidation of democracy takes many years, and civil society efforts are often subject to significant setbacks during times of political instability. For example, the bombing of the U.S. Embassy in Tanzania weakened citizen interest in some areas and transferred attention away from civil society activities. This helped limit the potential effects of Mission civil society programming. This experience indicates that civil society efforts require a long-term and focused commitment by USAID and other donors, perhaps more modest expectations of results, and adequate staff and other resources. In Tanzania's case, USAID has responded by filling key staff vacancies and strengthening Mission democracy and governance program functions.

b. USAID Objective: "More Transparent and Accountable Government Institutions Encouraged"

Of the 75 operating units promoting democracy and governance, 31 percent have programs with a primary focus on improving capacities of government institutions. Regionally, this objective has been critical to the **Europe and Eurasia** countries, where 12 of 22 operating units are pursuing it to accelerate countries' democratic transitions. Elsewhere, six operating units in **Africa**, seven in **Latin America and the Caribbean**, four in **Asia and the Near East**, and one in the Global Bureau carry out programs to strengthen government institutions.



While many citizens of developing countries recognize the intrinsic value of democracy, they are also concerned with a government's ability to function. In general, governance issues pertain to the ability of government to develop an efficient and effective public management process. Because citizens lose confidence in a government that is unable to deliver basic services, the degree to which it is able to carry out its functions at any level is often a key determinant of a country's ability to sustain democratic reform.

USAID works to effect change by facilitating the development and strengthening of government institutions. Major areas of program concentration include decentralizing government functions and decision-making processes, strengthening legislatures, improving government integrity, promoting more effective policy implementation, and improving civilian- military relations. An example of USAID activities and accomplishments in these areas is described below.

Example of USAID Program Results

Government Integrity

Corruption has long been a major problem in **Tanzania**; therefore, USAID has focused its democracy and governance resources on promoting the development of a national anticorruption strategy for the government. In response, during the past year, the government created a new Department for Good Governance within the President's Office, which presented and gained cabinet approval for a National Anticorruption Strategy and Action Plan. USAID provided technical

assistance to prepare the new strategy and plans to fund new activities under it in the future. During 1999, moreover, related USAID-supported anticorruption efforts were also bearing fruit; for example, as a result of work by the newly established Department for Good Governance, two high-ranking government officials and an influential representative of the private sector were charged and jailed for corruption.

Program(s) Failing to Meet Expectations

All democracy and governance activities supported by foreign governments are politically sensitive and are thus sometimes difficult to manage. USAID's effort to strengthen the legislature in **Egypt** did not meet expectations in part because of government concerns that project staff would have undue influence on legislature proceedings. After protracted negotiations with government officials, the Mission agreed to take a new implementation approach and extended the legislative strengthening activity through 2001.

c. USAID Objective: "Rule of Law and Respect for Human Rights of Women, as Well as Men, Strengthened"

Of the 75 operating units with democracy and governance programs, just over 21 percent have a primary focus on strengthening the rule of law and respect for human rights. Operating units in all regions, including six in **Latin America and the Caribbean**, seven in **Europe and Eurasia**, four in **Asia and the Near East**, one in **Africa**, and two in the Global Bureau carry out rule of law and human rights programs.

A well-developed justice system serves as the underpinning of a democratic society and modern economy. USAID works to improve respect for human rights and strengthen the rule of law in order to help resolve conflicts and foster social interaction in accord with legal norms and societal values. The Agency also provides services in accord with societal demands and expectations and helps curb the arbitrary exercise and abuse of power by other branches of government, elites, and privileged groups. Major approaches used by operating units to support this objective include strengthening justice-sector institutions, improving legal frameworks and codifying human rights, and increasing citizens' access to justice. Examples of USAID activities and accomplishments in these areas are described below.

Examples of USAID Program Results

Strengthening Justice-Sector Institutions

In **Malawi**, the Mission funded a comprehensive assessment of the courts' administrative and management systems. Based on broad consultations, including the full cooperation of the judiciary, the assessment made comprehensive recommendations for improving these court systems. By the end of 1999, the assessment's key recommendations had been accepted by the judiciary and were placed on a priority list for implementation. As a result, a five-year schedule of activities has been established to overhaul and streamline court management and administration.



Increasing Citizens' Access to Justice

In **Bangladesh** and **Tanzania**, Mission-funded activities have helped increase citizen access to justice through alternative dispute resolution programs. In Bangladesh, more than 21,000 new cases were processed in mostly rural areas. In Tanzania, in conjunction with the government's introduction of alternative dispute resolution procedures in all of the country's courts down to the district level, USAID provided training for 276 judges and magistrates. This training and the increased use of alternative dispute resolution has helped expedite case processing, reduce costs, and build public confidence in the legal system.

Program(s) Failing to Meet Expectations

Nicaragua's overall progress in its democratic transition did not meet Mission expectations in 1999. USAID and other donors' efforts were blocked by the combined effects of poor government performance and the slow recovery from Hurricane Mitch. For example, recent changes in the membership of the Justice Commission of the National Assembly have undercut political will in support of criminal procedure reform, making it necessary to re-create a broad-based consensus in favor of such efforts.

In **Armenia**, progress on the Mission's rule-of-law programs was slower than expected for most of 1999. For example, even though legislative changes strengthened the structural independence of the judiciary, informal dependence on historically strong prosecutors continued. Similarly, political turmoil

in the country has helped delay expected constitutional reforms.

d. USAID Objective: "Credible and Competitive Political Processes Encouraged"

Ten percent of USAID's 75 Missions have programs in this objective area. Although no operating units in **Europe and Eurasia** carry out programs in this area, three operating units in each of the Agency's other regions have programs focused on enhancing political processes.

Although other elements of democracy can develop before competitive elections are held, a country cannot be truly democratic until its citizens have the opportunity to freely and fairly choose their representatives. However, free and fair elections are not the be-all and end-all of competitive political processes. Other major political institutions, such as political parties, also have to be developed. Accordingly, USAID works to bring about credible and competitive political processes through support for electoral reform, voter education programs, and strengthening political parties. Examples of USAID activities and accomplishments in these areas are described below.

Examples of USAID Program Results

Impartial Electoral Frameworks

USAID's support to civil society organizations in **Benin** helped introduce key electoral reforms, including amending the electoral code and helping the autonomous national electoral commission gain permanent status. These efforts helped reduce electoral fraud, contributing significantly to the country's successful legislative election in 1999.

Credible Electoral Administration

In support of the legislative and presidential elections that marked the transition from military to civilian rule in **Nigeria**, USAID-funded contractors provided analytical reports to the Independent National Electoral Commission. Commission officials said that these reports helped them correct some of the worst technical deficiencies in their system of electoral administration. In addition, the Mission's election assistance program became the platform on which women were mobilized to vote and women leaders were drawn to run for office. One USAID-assisted NGO network supported 24 women to run for local council positions, and 16 of them won election.

Effective Oversight of Electoral Processes

In **Indonesia**, USAID assistance helped the government to hold the most free and fair legislative election since 1955. Mission efforts included a massive election-monitoring program, which recruited more than 600,000 nonpartisan volunteers who were trained and deployed to 320,000 polling stations. The first nationally representative statistical sample of the election results objectively and impartially confirmed the voting results, thus disproving self-interested and exaggerated claims of fraud.

Informed and Active Citizens

Also in **Nigeria**, USAID supported a nationwide voter education program in anticipation of the critically important national elections held in 1999. Among this activity's achievements were 184 radio and television programs, which reached



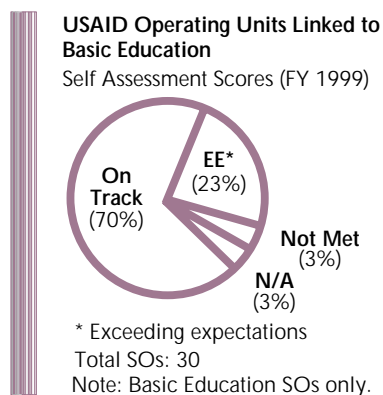
an estimated 12 million people. As a result, voters were reportedly often more aware of electoral procedures than many polling personnel. Moreover, a post-elections national survey found that these voter education efforts had enhanced citizen participation in the elections, as well as public confidence in the results.

A USAID-supported media and operations center became the hub for election communication and information throughout **Indonesia** and internationally, thereby helping ensure transparency in the 1999 elections. More than 150 organizations from both electronic and print media relied on this center to get immediate results of the election process. This helped overcome possible threats to the election's legitimacy that otherwise often threatened past elections. In addition, Mission-funded voter awareness and education programs introduced democratic concepts and voting practices to 100 million (out of 110 million) eligible Indonesian voters in 26 provinces.

Build Human Capacity through Education and Training (HCD)

This section discusses the performance of USAID programs under the human capacity development (HCD) goal, drawing on the self-assessments of performance by Missions and other operating units. It highlights the two HCD objectives and describes the approaches used by the Agency to accomplish these objectives. It provides examples of results achieved through USAID efforts undertaken around the globe,

discusses programs that failed to meet expectations, and reveals plans for further progress.



Program Objectives/Approaches

USAID supports human capacity development around the world through programs directed at two broad objectives:

- 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
- a. **USAID Objective: "Access to Quality Basic Education for Underserved Populations, Especially for Girls and Women, Expanded"**

Self-Assessment of Performance by Missions and Other Operating Units

USAID Missions and other operating units reported a total of 30 strategic objectives in basic education: 10 country programs plus a regional program in **sub-Saharan Africa**; 2 country programs in **Asia and the Near East**; 7 country programs plus a regional program in **Latin America and the Caribbean**; and the Global Bureau Centers for Human Capacity

Development (G/HCD) and for Women in Development (G/WID).

Of these 30 strategic objectives in basic education, 93 percent were judged to have met or exceeded expectations for FY 1999. Those judged to have exceeded expectations included programs in **Namibia, Jamaica, Nicaragua**, and regional programs in **Africa** and in **Latin America and the Caribbean**.

Program(s) Failing to Meet Expectations

All USAID programs under the basic education objective met or exceeded expectations.

Country Focus of USAID Basic Education Programs

As a general matter, USAID allocates its basic education funding among host countries on the basis of their educational needs and their commitment to reform. More specifically, the Agency concentrates on countries with major inadequacies in access or quality at the primary level, but whose governments demonstrate a clear willingness to do what is necessary to reduce or eliminate those inadequacies. In this context, USAID pays special attention to educational barriers affecting girls. Judgments based on educational criteria must then be weighed against similar judgments regarding support for program efforts in other goal areas, the overall country assistance budget, the availability of funds for basic education versus other goals for the Agency overall and in each region, and many other factors. The basic education countries identified in this chapter's section on country progress reflect the outcome of these judgments.

Basic Education Program Clusters

1. Basic education for children. The great majority of USAID's funding and program efforts in basic education support expanded and improved basic education for children. In principle, this category spans efforts in preprimary education and other early childhood development programs, primary education, and secondary education. The common thread among these elements is a concern that all children— girls and boys alike— gain the core skills that they will need to function effectively in all aspects of later life: literacy, numeracy, and habits of critical thinking. In practice, USAID strongly concentrates on ensuring equitable access and improved quality in primary education. The Agency's focus on primary education reflects the following:

- The especially high returns to improved and more accessible primary schooling in most developing countries, especially in the poor countries where most of our basic education programs operate
- The wide-ranging impacts of primary education in terms of faster economic growth, reduced income inequality, increased child survival and family health, reduced fertility, improvement in the status of women, and increased support for democracy and civil liberties
- The recognition that better and more accessible primary schooling is essential to ensure broad educational opportunity at all levels— especially for girls, the

children of the poor, and children of other disadvantaged groups

- International agreements supported by the United States that recognize improved and more accessible primary schooling as the proximate step toward achieving education for all

Of the 19 USAID country programs working on basic education for children in FY 2000, all concentrated mainly or exclusively on improving basic education at the primary level, based on the indicators chosen by the Missions to capture the impact of their programs.

Although conditions in most USAID-assisted countries confirm the need to concentrate on primary education, changes in those conditions can cause a shift in program focus. For example, in **El Salvador**, USAID is currently developing a program to improve the quality and availability of preschool care for young children in rural areas by developing curricula and training programs for caregivers in both public and private settings. This shift reflects a judgment that the reform process in primary education has developed sufficient momentum and acceptance that further steps should be left to the national government, allowing USAID to turn its attention to the next step: ensuring that rural children are mentally, emotionally, and physically ready to learn by the time they enter primary school.

2. Adult literacy. In addition to USAID's support for basic education for children, a few Missions support efforts aimed at promoting literacy among adults and adolescents who have missed out on a primary

education. In FY 2000, only the Missions in **Nigeria** and **Guatemala** sought funding for adult literacy programs; these appropriations totaled \$3 million, compared with the Agency total of \$117 million in support for basic education for children

Basic Education Program Approaches

USAID uses four broad approaches to achieve results within basic education. In keeping with the Agency's overall focus, these approaches are mainly aimed at the primary level, but could be adapted to efforts aimed at other levels of basic education.

1. Policy reform efforts encourage the host government to adopt and implement policies that promote access to basic education and improve educational quality at that level. These efforts often include technical assistance in identifying appropriate policies, based on international experience. Missions also work to build support for educational policy reform among local communities, the private sector, and civil society.

USAID policy work in basic education rests on a broad consensus about the following overall policies needed to ensure equitable access to a basic education of adequate quality:

- Adequate support for education in national, provincial, or local budgets
- Use of available public funds to subsidize primary and sometimes lower-secondary schooling, with households shouldering more of



the costs of higher levels of education

- Equity in allocating funds between urban and rural areas
- Adequate support for textbooks, learning materials, and other nonsalary elements in the educational budget

USAID's efforts to promote educational policy reform vary widely, according to country circumstances. In **sub-Saharan Africa**, USAID has relied heavily on nonproject budgetary assistance to host governments, with disbursements tied to adoption of policy changes negotiated between USAID and the host government. This approach has the advantage of strengthening the position of reform advocates within the host government, but it requires considerable budgetary flexibility and careful monitoring of compliance. Another important approach, used by Missions in all regions, involves promoting public awareness of the need for educational reform, through sponsorship of workshops and conferences and through direct support for organizations lobbying for educational reform. Finally, USAID's access to grant funds often places the Agency in a key position to help leverage much larger flows of concessional lending by other donors.

Among the four broad program approaches, educational policy reform is often the most difficult and usually takes longer to achieve. Nevertheless, experience shows that without reforming the underlying policies, sustainable educational

progress may be impossible to achieve.

2. Institutional development involves efforts to help the host country build the institutional capacity to plan for, provide, and assess basic education services. Improving basic education requires, along with appropriate policies, that the host government effectively manage the financial and human resources devoted to that purpose. Doing so involves myriad decisions on such issues as the siting of new schools, trade-offs among student-teacher ratios, teacher pay scales, funding of teacher training, funding of student testing, funding of textbooks and materials, and more. To help build institutional capacity, USAID funds training for educational officials, provides management information systems, and sponsors regional partnerships to share information and increase awareness of international best practices.

3. Improving educational practices at the classroom level involves promoting the adoption of effective teaching methods, learning materials, and educational technologies. In this area especially, USAID supports applied research and pilot studies to identify educational practices that improve learning. Under this approach, Missions provide funding for in-country teacher training, along with technical assistance to strengthen the capacity of local teacher training institutions. In particular, USAID promotes the adoption of teaching methods that involve students in the learning process (traditional methods often rely on rote).

The Agency also promotes improvements in curriculum content,

both to increase the relevance of student skills to the demands of the workplace and to adjust the pace and sequence of teaching to what children learn at different ages. This includes supporting the development of new textbooks and learning materials and helping build domestic capacity to carry out these tasks. Also, Missions help host countries develop cost-effective methods of student assessment and encourage them to use appropriate kinds of tests for different purposes.

4. Promoting community participation entails trying to enhance the strength and effectiveness of local communities' role in the process of educational decision making. The aim is to make the educational system more responsive to its ultimate customers— parents seeking a decent education for their children.

Choices among these four broad approaches (and the larger task of designing an assistance strategy for basic education) require a careful assessment of host-country conditions: the government's willingness to carry out needed reforms, the potential role of civil society in providing effective support for reforms, the current status of system-level and student-level indicators, existing basic education policies and institutions, the priorities and capacities of other donors, and other conditions. Some of these conditions can be assessed from available objective data. Others may require special data-gathering efforts or on-the-ground familiarity with political and bureaucratic realities. In many countries, Missions have adopted an integrated approach



to basic education reform, combining program elements drawn from two or more of these approaches to address both access and quality problems.

Examples of Basic Education Program Results

In **Benin**, the Mission has adopted an integrated approach to increase primary enrollments, particularly among girls, and to improve educational quality through better educational materials and methods of instruction. The program has five interdependent key objectives: 1) improved key pedagogical systems and inputs, initially targeted toward 250 experimental schools, with gradual adoption by the remaining 4,000 primary schools; 2) increased equality of access; 3) government maintenance of adequate financing for primary education; 4) increased community and government participation in schools; and 5) improved institutional capacity for educational planning, management, and accountability. With strong support from the central government, this holistic approach has produced dramatic results. The overall enrollment rate exceeded its target by four percentage points, while the improved quality of primary instruction and the availability of new textbooks and workbooks for students helped raise the pass rate in the experimental schools to 82 percent, compared with 70 percent using the old curriculum.

In **Ethiopia**, the Mission has also used an integrated approach to help raise both enrollment and retention rates of students in targeted regions, Tigray and the Southern Nations, Nationalities, and Peoples Region (SNNPR). Between 1995 and 1999,

enrollments have increased from two of every five school-aged children to three in five in Tigray and to one in two in SPNNR. The latter region recorded a 15 percent increase in enrollment in 1999 alone.

In **Peru**, the Mission has worked closely with a national advocacy group, the National Network for Girls' Education in Peru. The Mission supported the Network in disseminating an agenda that identified the impediments to expanding girls' access and in working with the government to develop policies and programs to address those impediments. The Mission has supported the establishment of local networks to promote quality education for rural girls in four provinces in Peru where girls suffer particularly high rates of dropout from primary school. As a result, opportunities for basic education in those areas have expanded, with the share of girls enrolled at the appropriate grade in primary school rising from 20 percent in 1996 to 27 percent in 1999. This case illustrates the need for broad participation by stakeholders at all levels to push the educational reform process forward.

In **Malawi and Mali**, USAID has supported the establishment of community schools to help increase community participation in educational decision making, with the ultimate goal of increasing access and improving quality in primary schooling. In Malawi, local surveys and training of communities have helped identify local constraints to educational quality; action plans to address those constraints were then developed and implemented. In

Mali, the Mission has provided communities with training in governance to increase their capacity to manage primary schools.

In **Morocco**, USAID is helping the GOM and the Ministry of Education, under the new National Charter of Education and Training, to shift the manner in which the curriculum is designed. For the first time, the GOP allows 30% of the curriculum of each region and its provinces to be decided locally. Once this decentralized methodology for curriculum development is tested and finalized, the localized curricula will be made available through education technology. USAID in Morocco has successfully promoted information technology and multi-media centers within teacher training colleges. Faculty, students preparing to become teachers, and teachers in in-service training have made use of the multi-media centers.

In **South Africa**, the Mission has supported the efforts of local NGOs in improving classroom teaching. The same NGOs have also helped build management capacity in district education offices so that those offices can provide effective support to schools and be held accountable for the quality of schooling.

In **Guatemala**, USAID is supporting intercultural and bilingual primary education to achieve increased access for indigenous children in Quiche Province. Enrollment rates in the province have increased sharply among both boys and girls.

In the area of adolescent and adult literacy, USAID has developed the



EDUCATODOS program in **Honduras** to provide access to basic education for out-of school youth and young adults. The program has exceeded its targets in expanding access among these groups. Elsewhere, women's literacy programs delivered through NGOs (e.g., in **Nepal**) and through private-sector associations (e.g., in **Guatemala**) have helped provide an alternative means to expand access to basic education among disadvantaged groups.

Basic Education Midlevel Results Indicators

Tables C.2 through C.5 summarize some of the indicators that USAID Missions are using to measure the impact of their basic education programs; the tables cluster these indicators according to the kinds of results that Missions are trying to achieve. For certain dimensions of progress in basic education, country-level indicators can be aggregated across programs into "midlevel" results indicators, which provide a rough idea of the Agency's overall impact. In particular, changes in overall and gender-specific enrollment typically lend themselves to adding up among country programs, as shown in tables C.2 and C.3.

For other, equally important dimensions of educational development, differences in the data available to measure progress prevent meaningful aggregation. Thus improvements in educational quality, increased system efficiency, and increased support and involvement of parents and local communities in basic education usually resist aggregation, despite being at the center of several of

USAID's basic education programs. For this reason, tables C.4 and C.5 are limited to listing representative indicators of results in these areas to help illustrate the range and extent of results that Missions are targeting.

Changes in overall primary enrollment. Table C.2 summarizes changes in overall primary school enrollment implied by Mission-reported changes in enrollment ratios during the last year for which data are available. In each case, the change in enrollment ratio is multiplied by an estimate of the number of children of primary school age within the target area to produce an estimate of the change in the number of children enrolled in primary school implied by the reported change in the enrollment ratio. These estimates are added to produce the estimated total number of children affected (shown at the bottom of the table). Almost all the

education efforts are used in computing the aggregate enrollment figure.

It must be emphasized that the figures in the "implied-change" column of table C.2 are estimates only, shown to illustrate the aggregate impact of USAID programs. In contrast, most of these Missions are actually targeting changes in enrollment ratios, rather than specific numbers of children affected. With these caveats in mind, the table implies a one-year increase of between 800,000 and 900,000 boys and girls enrolled in primary school in the five countries included in the total, as the result of increased enrollment ratios targeted by USAID Missions. To the extent that these one-year increases reflect permanent improvements in access to primary schooling resulting from USAID basic education programs, the number of children ultimately

Table C.2: Changes in Total Primary Enrollment/Access Targeted by USAID Basic Education Programs

Country	Enrollment Rates	Children in Age Group	Value of Measure, Latest Available Year	Value of Measure, Previous Year	Change in Measure	Implied Change in Number Enrolled/Affected	Used in Implied Total?
Benin	GER	1,070,309	77.0%	76.0%	1.0%	10,703	yes
Ethiopia	GER - national	14,722,762	45.8%	42.0%	3.8%	559,465	
	GER - Tigray	728,127	58.4%	56.1%	2.3%	16,747	yes
	GER - SNNPR	2,846,885	49.2%	47.9%	1.3%	37,010	yes
Guinea	GER	1,300,571	53.5%	51.0%	2.5%	32,514	yes
Mali	GER	1,775,273	53.9%	50.0%	3.9%	69,236	yes
	Gross access rate	295,878	52.9%	47.1%	5.8%	17,161	
Uganda	GER	4,377,695	131.0%	115.0%	16.0%	700,431	yes
	NER	4,377,695	93.0%	85.0%	8.0%	350,216	
El Salvador	Rural children aged 7-10 attending school	N/A	82.4%	80.7%	1.7%	N/A	
Implied total change in enrollment during previous year:						866,641	

GER = gross enrollment ratio; NER = net enrollment ratio. See section B for definitions.

countries shown in this table are in **sub-Saharan Africa**, where Missions are working to expand access to primary schooling. In the case of **Ethiopia**, only the reported increases in enrollments for the two regions where USAID concentrates its basic

education efforts are used in computing the aggregate enrollment figure.

Changes in primary enrollment by girls. Table C.3 provides a similar aggregation of Mission-reported program results based on targeted

changes in girls' enrollment in primary school. Two factors make it difficult to compare the results shown in this table with those shown in table C.2: first, many of the programs targeting girls outside of **sub-Saharan Africa** concentrate on subnational areas, for which estimates of the number of school-age children were not yet available. Even more important, from a

at the primary level. Table C.4 summarizes a third set of Mission-reported results indicators, all intended to measure gains in educational quality. These include reduced grade repetition, increased pass rates at the end of particular grades or on school-leaving exams, improved classroom practices, and an increased share of children completing particular grades. The last

programs. In particular, educational quality is the principal focus of most USAID basic education programs in **Latin America and the Caribbean**, where access to primary schooling tends to be less pressing an issue than in **Africa** and **Asia and the Near East**. The relative prominence of enrollment indicators mainly reflects the greater "countability" of enrollment. In contrast, data on student learning- the best measure of educational quality- are nonexistent or highly unreliable in most developing countries. As a result, improvements in quality are harder to capture with available objective data, so fewer Missions include such measures in their results reporting, even when paying careful attention to quality issues in the field. Identifying additional, widely applicable measures of educational quality and promoting more widespread collection and reporting of these measures by Missions are important issues for USAID.

Table C.3: Changes in Girls' Primary Enrollment/Access Targeted by USAID Basic Education Programs

Country	Enrollment Rates	Girls in Age Group	Value of Measure, Latest Available Year	Value of Measure, Previous Year	Change in Measure	Implied Change in Number Enrolled/Affected	Used in Implied Total?
Benin	GER - girls	550,230	61.0%	60.0%	1.0%	5,502	yes
Ethiopia	GER - girls, national	7,361,381	45.8%	31.0%	14.8%	1,089,484	
	GER - girls, Tigray	359,264	53.8%	50.2%	3.6%	12,934	yes
	GER - girls, SNNPR	1,378,746	33.5%	31.0%	2.5%	34,469	yes
Guinea	GER - girls	650,285	40.0%	36.9%	3.1%	20,159	yes
Mali	GER - girls	879,887	44.4%	40.3%	4.1%	36,075	yes
	Gross access rate - girls	146,648	45.7%	41.0%	4.7%	6,892	
Egypt	School enrollment of girls in Upper Egypt	N/A	69.8%	68.7%	1.1%	N/A	
	Cumulative number of girls benefiting from USAID support through formal and nonformal programs		41,489	34,282	7,207	7,207	
Morocco	Girls' enrollment ratio in pilot schools - 1st grade	N/A	42.0%	47.0%	-5.0%	N/A	
	Girls' enrollment ratio in pilot schools - 6th grade	N/A	34.0%	31.0%	3.0%	N/A	
El Salvador	NER - girls, rural areas	N/A	83.5%	81.4%	2.1%	N/A	
Guatemala	GER - girls, Quiche	N/A	79.1%	64.7%	14.4%	N/A	
	Rural primary gender equity ratio in Quiche, based on gross enrollment ratios	N/A	78.1%	75.1%	3.0%	N/A	
Implied total change in girls' enrollment during previous year:						88,980	
GER = gross enrollment ratio; NER = net enrollment ratio. See section B for definitions.							
Gross access rate = GER in first grade.							

quantitative standpoint, is the fact that USAID/**Uganda** does not target or report primary enrollment on a gender-disaggregated basis; as a result, we cannot know how many of the newly enrolled Ugandan children shown in the previous table are girls. For the remaining four countries, the estimated increase in girls' primary enrollments during the past year- roughly 89,000- is just over half of the combined increase for boys and girls for those countries. *Improvements in educational quality*

measure is used on the assumption that parents will keep their children in school only as long as they perceive that the school is providing an education worth postponing children's entry into the labor force. Many of the quality indicators shown in the table apply specifically to schooling for girls.

The table underrepresents USAID's emphasis on educational quality, which is a central concern in almost all of the Agency's basic education

Decentralization and parental/ community support. Several USAID Missions promote the decentralization of basic education systems, along with a stronger role for local communities and greater support and involvement by parents in the educational process. Table C.5 shows a number of the indicators that Missions use to report these efforts. As with educational quality, this table probably understates the priority that USAID places on this issue, because many aspects of decentralization are qualitative and difficult to measure objectively.



Table C.4: Representative Indicators of Improvement in Educational Quality Targeted by USAID Basic Education Programs

Country		Rate or Value of Indicator		
		Most Recent Year	Previous Year	Change
Benin	Primary school repetition rate	26.0%	26.0%	0.0%
	Pass rate on primary school leaving exam	69.0%	67.0%	2.0%
Ethiopia	Percentage of program-assisted schools with repetition rates less than 11% among 4th-grade girls: Tigray	68.0%	67.0%	1.0%
	Percentage of program-assisted schools with repetition rates less than 11% among 4th-grade girls: SNNPR	52.2%	52.3%	-0.1%
Ghana	Teachers in targeted schools using pupil-focused teaching practices	37%	15%	25%
	Number of targeted schools pursuing community school improvement programs			
Uganda	Completion rate, grade 4	116%	106%	10%
	Completion rate, grade 7	61%	53%	8%
Egypt	Pass rate among girls in USAID-supported schools	98%	100%	-2%
Morocco	Girls' 6th-grade completion rate, USAID-assisted schools	53%	26%	27%
Haiti	3rd-grade pass rate in USAID-supported schools	76%	71%	5%
	Girls' 3rd-grade pass rate in USAID-supported schools	76%	68%	8%
Honduras	Pass rate among students in USAID-assisted alternative education program	66.4%	65.0%	1.4%

b. USAID Objective: "The Contribution of Host-Country Institutions of Higher Education to Sustainable Development Increased"

Higher-Education Program Approaches

USAID's efforts to strengthen the development contribution of host-country institutions of higher education follow two broad approaches:

- Higher education as means: support for a wide range of partnerships between host-country and U.S. institutions of higher education, aimed at achieving development results across the full range of USAID's Strategic Plan
- Higher education as end: a narrower set of efforts aimed specifically at strengthening the overall performance and capabilities of host-country institutions

Although distinguishing between these two approaches helps in articulating USAID's work in higher education, in practice the two approaches overlap in important ways. Thus in supporting partnerships involving host-country institutions, USAID usually seeks to achieve sustained improvements in their capacity to deliver results, especially results related to the immediate aim of the partnership (e.g., developing improved crop varieties, developing

new curricula in public administration or agroforestry, and training human rights lawyers). Conversely, most USAID efforts to strengthen a particular institution of higher education choose that institution on the basis of its potential to contribute to USAID's development goals (e.g., a business school, a law school, or a department of agricultural science or environmental studies).

Examples of Higher-Education Program Results

USAID support for higher education contributes to results in all of the Agency's strategic goals and objectives. The varied nature of those results, together with the fact that they are often viewed as a means to achieve other development ends, makes it difficult to aggregate those results into meaningful measures of impact at the Agency level. This is especially true of partnerships involving higher education. The Center for Human Capacity Development in USAID's Global Bureau administers a number of programs that link U.S. institutions of higher education with host-country counterparts and tracks measures of the impact of these partnerships. Since 1998 the **Africa** Bureau has

Table C.5: Representative Indicators of Decentralization and Parental/Community Support Targeted by USAID Basic Education Programs

Country		Rate or Value of Indicator		
		Most Recent Year	Previous Year	Change
Ghana	Number of targeted schools pursuing community school improvement programs	40	18	26
	Percentage of communities active in decision making in targeted schools	87%	11%	76%
Guinea	Primary schools in targeted regions with active parental/community support	203	65	138
Malawi	Percentage of schools with functional school management committees	77.6%	13.2%	64.4%

provided support for sustainable partnerships with African universities under the Education for Development and Democracy Initiative; impact measures, including greater financial self-reliance and stronger emphasis on community service, have been identified, but the necessary data not yet collected. Finally, the Bureau for **Europe and Eurasia** has invested in helping colleges and universities in the region become effective sources of training in business, law, and other fields critical to the transition to democratic governance and a market economy. Much of this investment has been reported under budget codes for economic growth, democracy and governance, etc., based on the kind of training involved. Further information on these efforts is contained in the Agency's Budget Justification, together with the annual results reports of these Bureaus and their respective operating units.

Summarizing Agency impact is somewhat easier in the case of efforts aimed specifically at institutional strengthening, because of their smaller number:

In **Egypt**, USAID has awarded 53 linkage grants to support cooperative research by U.S. and Egyptian universities to help solve problems facing Egyptian business and industry, 79 percent involving the private sector. Businesses benefiting from the research have committed to covering the local currency costs of the research performed on their behalf and a mission. In addition to the benefits to local industry and Egyptian economic growth, the linkage grants program has helped

promote the importance of applied research, something of a new idea in Egyptian higher education.

In **South Africa**, USAID has provided grants to U.S. colleges and universities to work with historically disadvantaged institutions (HDIs) in areas such as financial management and internal control; supported eight HDIs in upgrading their curricula in selected areas; and placed scholars in the HDIs through the International Foundation for Education and Self-Help. An evaluation (1999) concluded that these scholars have made significant contributions to strengthening the host HDIs in research, management, curriculum, and student development.

In **Bulgaria**, U.S. support for the American University of Bulgaria (AUBG) has produced a university that has become a regional center for training young people to move into leadership positions. AUBG launched a new leadership program in 1999 targeting Kosovars and ethnic Albanians. This program provided an important opportunity for the Kosovars to complete their education in a secure multiethnic and multicultural environment.

In **Eritrea**, USAID has financed short-term and long-term training of civil servants in various agencies of the Eritrean government- including the faculty and staff of the University of Asmara- through the Eritrean Technical Assistance Project (TAP) and the Civil Society/Microenterprise Project. Among other elements, the program has included a linkage program between the University of Asmara and the University of North Carolina at Chapel Hill in the fields

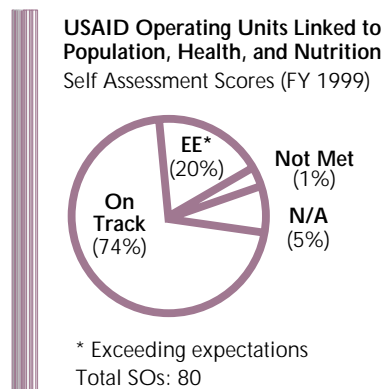
of law, journalism, and social sciences.

Program(s) Failing to Meet Expectations

Eritrea. Implementation of the program just mentioned has been essentially suspended this year, pending a redesign and reorientation of the program. Although this strategic objective has failed to meet expectations overall, the portion focused on higher education appears to have been an exception: the Mission reports that the redesigned program will place stronger emphasis on human capacity development. In the meantime, the University of Asmara has worked with the Mission to put into place agreements with U.S. universities in the fields of law, health, business, and the social sciences.

Stabilize World Population and Protect Human Health (PHN)

This section discusses the performance of the HPN objectives of USAID's operating units as of September 30, 1999, drawing on the self-assessments of these units. It provides examples of results



achieved through USAID efforts undertaken around the globe and



discusses operating unit objectives that failed to meet expectations.

Program Objectives/Approaches

USAID seeks to help stabilize world population and protect human health through programs directed at five broad objectives:

- Unintended and mistimed pregnancies reduced
- Infant and child health and nutrition improved and infant and child mortality reduced
- Deaths, nutrition insecurity, and adverse health outcomes to women as a result of pregnancy and childbirth reduced
- HIV transmission and the impact of the HIV/AIDS pandemic in developing countries reduced
- The threat of infectious diseases of major public health importance reduced

Self-Assessment of Performance by Missions and Other Operating Units

Throughout this discussion, examples of program results include activities that were on track, exceeded expectations, and missed expectations. However, even if expectations were not met according to the quantitative measure for an activity, the overall strategic objective may be on track when all activities contributing to the objective are considered.

a. USAID Objective: "Unintended and Mistimed Pregnancies Reduced"

USAID programs under this objective focus on helping families achieve their desired family size by reducing fertility and encouraging child

spacing and by reducing the use of abortion as a method of family planning, especially in E&E.

To address both types of results, the Agency concentrates on five key program areas:

- Access to, and demand for, voluntary family-planning services so that people can freely choose the number and spacing of their children
- Improved quality, availability, and acceptability of family-planning and related reproductive services
- A positive policy environment for voluntary family-planning and reproductive health (FP/RH) services
- Enhanced long-term capacity of local institutions to design, finance, implement, and evaluate programs
- Development and improvement of contraceptive technology

Examples of USAID Program Results

Changes in fertility and contraceptive prevalence are measured at the country level every three to five years through demographic and health surveys (DHSs). In countries where DHSs were conducted, the 1999 results showed that several countries have had rapid decreases in total fertility during the past five to six years. Some of the results that stand out are found in **Nicaragua, El Salvador, Egypt, and Bangladesh**. For instance, total fertility rate (TFR) in **Nicaragua** dropped from 4.6 in 1993 to 3.9 in 1998. In **El Salvador**, there was a decline from 3.9 in 1993 to 3.5 in 1998. In **Egypt**, fertility rates continued their steady long-term trend downward through 1999: TFR

had dropped from 3.6 children per family in 1995 to 3.1 at the time of the pilot for the 2000 DHS.

Contraceptive use by married women has increased by more than one percentage point per year since 1992, when the level was 47 percent. In **Bangladesh**, where USAID has been the largest donor and has maintained a strong partnership with the government since the mid-1970s, there has been an astounding reduction in the total fertility rate. Overall births per woman decreased from 7-8 to 3, and fertility in urban areas is now at the replacement level of 2.1 births per woman.

To assess USAID programs on an annual basis, measures that are more closely related to program activities are more useful than the TFR measure. The contraceptive prevalence rate (CPR) and couple-year of protection (CYP) are widely accepted measures for this purpose. Contraceptive prevalence is a proxy for fertility reductions because research shows that the correlation is strong. USAID uses sales and/or distribution of contraceptives to calculate CYP, a standardized measure of the amount of contraceptive use required to provide a year's worth of protection against pregnancy. From the Agency's reports, it appears that program interventions are affecting CPR. For example, since 1995, availability of family-planning services in **Uganda** has doubled. The use of modern contraception has increased 1.5 percent annually, resulting in an overall CPR of 21 percent. In **West and Central Africa**, a region that consistently underperforms in most indices, USAID's program has made

significant progress, although CPR remains low. For instance, in **Cote d'Ivoire, Cameroon, Togo, and Burkina Faso**, use of modern contraceptives has risen steadily since our program's inception and is on track to reach a target CPR of 10 percent by the end of 2000. While all four countries are showing gains, the DHS data show that CPR increased most dramatically in **Cote d'Ivoire**, from 6 percent in 1994 to 10 percent in 1998/99.

Guatemala is another one of our population success stories, with CPR increasing from 31 percent to 38 percent between 1995 and 1999 and exceeding the 2000 target of 35 percent. However, TFR decreased only modestly from 5.1 to 5.0 during the same period, pointing to a need for additional analysis to understand these potentially conflicting results. In **Haiti**, the CPR for modern methods increased from 16 percent in USAID project areas in 1997 to 25 percent in 1999. USAID had expected CPR to reach 27 percent by 1999, but achievement fell short in part because of high discontinuation rates, which are now being addressed by USAID.

USAID estimates that in FY 1999 more than 4.6 million new contraceptive users were reached in 11 countries. Much of the FY 1999 increase has been realized in the **Africa** region. For example, in **Benin** condom sales increased 65 percent from 1998 to 1999, and oral contraceptive sales exceeded targets by 42 percent. In **Eritrea**, through the Agency's efforts, around 90 percent of the traditional outlets are now selling USAID-procured condoms. CYPs increased from 7247 in 1998

to 8014 in 1999 based on Ministry of Health (MoH) data. While less rapid than projected, the CYP increase is noteworthy, given the current state of military mobilization. Two thirds of all health facilities with staff trained through USAID showed increased CYP, with a net increase overall. CYPs exceeded expectations by 59 percent in **Tanzania**. New users of family planning reached nearly 1.1 million. CPR has increased to 15 percent for modern methods, exceeding planned figures. Modern contraceptive use for married women in **Zimbabwe** has increased steadily, from 42 percent in 1994 to 50 percent in 1999. The number of users obtaining supplies from the private sector increased from 12 percent in 1994 to 17 percent in 1999, largely as a result of the USAID/DFID-cofinanced PROFAM activity that supplies low-priced contraceptives.

Underpinning the moves to increase contraceptive prevalence are programs that will heighten demand through education and through increased numbers of sites that offer quality services to both men and women. In **Jordan**, USAID supported an innovative communications program aimed at men and religious leaders. In surveys undertaken following the program campaign, 90 percent of the men interviewed could correctly comprehend and explain family-planning messages. The percentage of men who want to use family planning increased from 74 to 84 percent. To improve local access, the Agency has also helped mobilize local mayors in **Africa** to support provision of reproductive health services to high-risk groups. By 1999, 14 African municipalities

in seven countries were better able to plan, implement, and evaluate these services. The initiative trained 1,700 persons in clinical FP services, 100 community-based peer educators in outreach, and 400 community leaders in advocacy.

With USAID support, a program sponsored by the **Ethiopian** Evangelical Church increased knowledge of at least one modern contraceptive to 90 percent of the population in the focus area, compared with the national average of 63 percent. In the same area, CPR increased from 4 percent at baseline to 34 percent in FY 1999. Peer education programs emphasizing reproductive health are multiplying in Mali. The government has expanded the target age range for these programs to ages 10 to 24 in order to include vulnerable groups such as adolescents and young adults. This expansion has been an important change. In 1999, USAID supported the training of more than 2,500 peer educators, and 760 peer educators reached 100,000 youth with reproductive health information.

In **Malawi**, access to the full range of FP services increased. Twenty-eight hospitals across the country are now providing comprehensive service. In **Mozambique**, the expansion of FP services in 1999 exceeded expectations. By the end of the year, 150 health posts in the focus area were providing FP services, up from zero in 1997 and nearly double the 1998 figure. We continue to make progress in increasing the number of FP sites in **Nigeria's** 14 states (out of 36) where modern contraceptives are available. The number of community-based distributors



increased 14 percent from FY 1998, and the number of sites offering clinical services increased 27 percent (from 44 in 1998 to 56 in 1999).

Improving the quality of services is the linchpin for increasing access to, and informed choice about, reproductive health services. This was the principal focus of an initiative in **Brazil**, PROQUALI, which succeeded in establishing the first clinic-level accreditation program in **Latin America**. The community-based network that has emerged from this initiative is working with municipal decision makers to increase funding of local health systems under Brazil's newly decentralized health program. In **Tanzania**, training of health workers in integrated reproductive health was successfully redirected to rural health facilities that had demonstrated the largest need. This change led to a significant increase in the percentage of government facilities with one trained service provider (from 59 percent in 1996 to 72 percent in 1999). Other impressive gains came in the **Kyrgyz Republic**. Family doctors from the newly formed primary health care practices completed USAID-sponsored updates in contraceptive technology (with average post-training scores of 96 percent), making modern reproductive health services available in virtually all 425 practices.

In the former Soviet bloc countries, USAID programs aim to educate women to use contraception rather than abortion for family planning. This improves women's reproductive health and reduces maternal

mortality. In **Russia**, early 1999 saw the completion of the women's reproductive health initiative, which increased access to modern family-planning services and information in 14 oblasts (which are equivalent to large states in the United States). A 1999 CDC reproductive health survey found that contraceptive prevalence continues to be very high— at approximately 70 percent, a level comparable to that found in a 1996 CDC survey. In spite of this, abortion rates in Russia remained among the highest in the world. Nevertheless, abortion had fallen in the two project areas and not in the control area.

Results have been more encouraging in Central Asia where over the past decade, there have been consistent declines in abortion as more women have had access to contraceptives. In **Uzbekistan**, according to the Ministry of Health, the general abortion rate has continued to decline during the past five years, from 20 per 1,000 in 1995 to 10 in 1999. In **Kazakhstan**, where the leading cause of maternal mortality is abortion, the DHS shows an improving picture from 1995 to 1999. More couples are using modern contraceptive methods (52 percent of married women in 1999, compared with 46 percent in 1995), and the abortion rate declined (57 per 1,000 women aged 15- 45 in 1995, compared with 47 per 1,000 in 1999). USAID's effort in **Romania** to promote the use of modern contraception as an alternative to abortion has shown its impact in sharp declines in maternal mortality, from 98/100,000 in 1990 to 41/100,000 in 1998. According to

the 1999 reproductive health survey among married women aged 15- 44, modern contraception use increased from 14 to 30 percent since 1993.

To strengthen host-country family-planning programs, USAID focuses on ways to build durable institutions, policies, and practices that will continue to influence in-country decisions, regardless of donor presence. The opportunities vary, depending on the local politics and opportunities, and success takes many forms. Some of the most powerful levers to achieve sustainable programs are viable financing systems and organized advocacy. Good examples of progress in these areas were reported in 1999. Seven countries, **Bolivia**, **Ecuador**, **Egypt**, **India**, **Mexico**, **Philippines**, and **Turkey**, either increased their financing for FP/RH or improved resource mobilization. In **Romania**, family planning is now included in a health insurance fee-for-service package. Also, a women's election advocacy strategy has been implemented by the Romanian Reproductive Health Coalition and seeks to include women's issues in the political parties' platforms. With USAID phasing out its support in the health and family-planning sectors in Ecuador after FY 2001, more emphasis has been placed on the sustainability of services. Innovative health policy changes were made in the MoH, including implementation of fees for services in hospitals and the decentralization of MoH budgeting. In **Morocco**, the MoH demonstrated continued commitment to finance reproductive and child health programs, actually spending more for contraceptives

than originally planned. Furthermore, the financing of FP/MCH services is being diversified, with private-sector contraceptive sales increasing by 22 percent in 1999. In **Egypt** there has been continued progress in sustainability indicators, with an increase in the GoE's percentage share of national family-planning program costs (from 49.5 percent in 1996- 97 to 52.9 percent in 1997- 1998).

b. USAID Objective: "Infant and Child Health and Nutrition Improved and Infant and Child Mortality Reduced"

USAID's child health and survival programs focus on achieving reductions in infant and child mortality. The Agency works in seven program areas to achieve these objectives:

- Expand access to, and use of, key child health interventions that prevent and control the five primary childhood illnesses: diarrheal disease, acute respiratory infection, malnutrition, malaria, and vaccine-preventable diseases
- Improve quality, availability, acceptability, and sustainability of key child survival interventions
- Improve child nutritional status, including improving breastfeeding patterns
- Prevent the spread of childhood diseases by developing, testing, and replicating priority environmental health interventions
- Strengthen the capacity of local institutions to provide quality child health interventions

- Promote establishment of an enabling environment for the delivery of key interventions
- Strengthen research on topics in child survival, including new vaccines, simple technologies, and service delivery approaches

Our programs also address key factors contributing to poor child health, such as the need to improve maternal health to protect the outcome of pregnancy

Examples of USAID Program Results

During 1999, USAID maintained its global technical leadership role in child survival. Many of our achievements were made possible through collaborative work with other donors and have global or regional significance:

- Taking a leading role in a global initiative for injection safety (the Safe Injection Global Network, "SIGN").
- Assessing barriers to including new vaccines in national immunization programs in four countries, ensuring that findings are integrated into investment strategies for the Global Alliance for Vaccines and Immunizations (GAVI).
- Defining the "household/ community" component of the Integrated Management of Childhood Illness (IMCI) approach with an Interagency Working Group, developing a structured approach for its introduction and implementation, and with Pan American Health Organization (PAHO) launching the household/

community component in five **LAC** countries.

- Expanding national vitamin A supplementation programs throughout **Africa**, in collaboration with UNICEF and WHO.
- Developing infant feeding guidelines for use in high HIV/AIDS endemic areas.
- Developing and testing (initially for polio) a community-based disease surveillance approach.
- Providing the model for large-scale quality assurance programs funded by the World Bank in **Indonesia, Niger, and Ecuador** and for national programs in **Chile** and **Costa Rica** (polio cases reduced by 85 percent since 1989 and transmission of the polio virus limited to only 30 countries).

Through 1998, while overall infant and under-5 mortality reductions have been stagnant or increasing in the **Africa** and **E&E** regions, examples from **ANE** region reflect the gains being made there. At the country level, 1999 DHS results from two countries showed encouraging progress in reducing child mortality. When taken together with measures of USAID program interventions, the impact can be linked to Agency efforts. **Cambodia**, which started the period with the highest level of under-5 mortality, was among the countries in the region enjoying the largest decline. Infant mortality declined significantly between 1990 and 1999, in large part because of improved immunization coverage. However, exceptionally high rates of HIV/AIDs among adults threaten these gains in Cambodia. According



to the **Egypt** 1999 pilot mini-DHS, under-5 and infant mortality declined between 1998 and 1999, exceeding planned targets. The small sample size and number of deaths on which mortality estimates are based dictate caution in interpreting short-term change, but the survey did indicate that a long-term decline is continuing. Since 1982, under-5 mortality has fallen from 151.5 deaths/1,000 births to 53/1,000. The infant mortality rate fell from 94.9/1,000 in 1982 to 39.5/1,000. Despite these hopeful trends, mortality levels are unacceptably high relative to the region (e.g., the IMR in Jordan is 30/1,000).

Programs to address vaccine-preventable diseases are at the core of USAID's child survival program and are designed to improve under-5 mortality in the future. During 1999, USAID Missions reporting on immunizations had generally positive results, but there were some disappointments in achieving targets for full immunization coverage for children. During 1995-99, complete vaccination coverage of children 12-23 months old increased from 43 percent to 60 percent, meeting the original 2000 target. However, some countries fell short of targets. For instance, in **Haiti**, full immunization coverage was 56.2 percent, rather than the 64 percent targeted. This still represents progress over the 1994 rate of 30 percent, a significant gain given the political problems during this time period. In the **Philippines**, the percentage of fully vaccinated children has stalled at 64 percent in 1999, and the percentage of live births covered by tetanus-toxoid may actually be declining. This was reported to be down 4.6

percentage points to 33.2 percent in 1999. The Mission conducted research during FY 2000 and discovered that the percentage of fully immunized children and the percentage of live births covered by tetanus toxoid increased slightly from 1999 to 2000. Almost 100 local governments, representing nearly 90% of the population, are now combining staff and funds with USAID support in a program specifically focused on improving this situation..

Many countries are having noteworthy successes with immunization initiatives. Thirty-five of 36 African countries now have national immunization plans, and USAID successfully encouraged WHO/AFRO to produce a new regional immunization strategy. In Zambia, a measles vaccination coverage rate of 81 percent was achieved.

In the **LAC** region, targets were met for measles vaccination (five/five countries reached 95 percent coverage), and coverage with DPT3 and TT2 in eight child-survival emphasis countries rebounded after slippage in 1998. In **Bolivia**, USAID was the major donor in this year's national immunization campaign, which focused on eradication of measles. The goal of 95 percent coverage was exceeded. In complementary activities, 62 percent of targeted children received a third dose of DPT, exceeding the 1999 expected level of 46 percent. As a result of USAID technical assistance to the government of the **Kyrgyz Republic** (GOK), newborns are being immunized against hepatitis B for the first time. In 1999,

46 percent of newborns were vaccinated. In **Uzbekistan**, the government has changed its policy as well, resulting in 25 percent of newborns being immunized against hepatitis B in 1999, compared with none in 1998.

With a grant from USAID, UNICEF implemented immunization and health education programs— as a result of which, 80 percent of **Azerbaijan's** children are fully immunized, 87 percent are immunized against measles, and 96 percent against polio.

USAID has been involved in the global campaign to eradicate polio since 1988. When these efforts began, there were 35,000 reported polio cases, but WHO estimated that there were actually 10 times this number of cases. In 1999, there were 7,124 polio cases reported. Concurrently, the number of polio-endemic countries declined to 30 in 1999 (from 130 in 1988). The most intensive eradication efforts are being conducted in 10 priority countries: the polio reservoir countries of **Bangladesh, India, Pakistan, Ethiopia, and Nigeria**, and the war-torn countries of **Afghanistan, Angola, the Democratic Republic of the Congo, Somalia, and Sudan**. USAID is a major donor in seven of these countries. While interruption of the transmission of the wild polio virus will not be completed by the end of 2000, we are on track, and the goal is within our grasp. It is now clear that interruption of the transmission can be achieved by the end of 2001 or shortly thereafter.

During the past year, some of the

achievements in the campaign against polio in **Africa** included the national effort to immunize approximately 90 percent of 10 million targeted children in **the Democratic Republic of the Congo**. House-to-house national-immunization-day (NID) campaigns for polio eradication in **Nigeria** led to 34.2 million and 35.4 million children receiving immunization against polio during rounds one and two of the campaigns, respectively. In **Zambia**, 96 percent of eligible children in 34 districts received oral polio vaccine. Nearly 4 million children in **Mozambique** were vaccinated during NID campaigns conducted by the MoH during 1999. Planning and logistical support from private voluntary organizations (PVOs) contributed to the overall effort. For the first time, the 1999 NID campaigns also provided vitamin A supplements, reaching 97 percent of all children aged 6 months to 59 months.

The Agency is continuing its fight against child malnutrition. Recognizing that moderate malnutrition also has severe effects on childhood development, in the past year we have shifted our child nutrition activities to concentrate on this aspect. USAID recommendations for refocusing child nutrition programs have been widely disseminated to the PVO community. As a result, PVO Title II food aid programs in **India, Benin, Bolivia, Honduras, and Guatemala** have adapted the recommendations to the specific program context. With the support of other donors concerned with a preschool nutrition program, USAID-assisted programs in **India** successfully brought about a change

in the strategy. Children under 2 are now targeted for take-home rations.

AIN, a model preventive health and nutrition intervention developed by USAID in **Honduras**, has proven so successful that the World Bank is now implementing it in **Bolivia and Nicaragua**. USAID will replicate the model also in the **Dominican Republic**. Designed to engage the community and families of children under age 2 in joint efforts to maintain adequate growth, it focuses on household health care practices such as breastfeeding, increasing child feeding, home care of illness, and health referrals. The emphasis on adequate monthly weight gain is a shift from the traditional focus on nutritional status (a more static measure of attained growth). In **Honduras**, the first year of implementation included these remarkable results:

- Almost universal participation (98 percent of those under 2)
- More children gaining weight
- In communities with the highest levels of malnutrition at baseline, a decrease from 39 to 8 percent
- In communities with medium levels of malnutrition, a decrease from 25 to 10 percent
- In communities with low levels at baseline, all children improved

In **Madagascar**, where 1 in 10 babies dies before reaching its first birthday, regional data show that the percentage of infants aged 0- 6 months who are exclusively breastfed grew from 24 percent to 55 percent during 1996- 99. This response to a USAID-supported

program should result in a decrease in infant mortality in the next few years. In **Haiti**, 1999 data showed a continuing decline in malnutrition rates. Height-for-age measurements revealed programwide improvement in chronic undernutrition of 10.8 percentage points over two years, from 37.8 percent in 1997 to 27 percent in 1999.

While malnutrition is usually associated with a lack of food, nutritional status is strongly influenced by the presence or absence of essential micronutrients in the diet. USAID sponsors supplementation and food fortification programs in many countries to improve food quality. Ever more countries are included in programs to provide vitamin A to deficient populations. In 1998- 99, USAID assisted 18 countries to add this nutrient to their national immunization day programs. In **Zambia**, 84 percent of all children under 5 receive these supplements as part of ongoing, routine health care activities of the district health management teams. In **Nepal**, similar distribution systems expanded from 58 to 65 of the 75 districts and reached 90 percent of children in the targeted districts.

In the past few years, **Honduras and Guatemala** have demonstrated that the fortification of sugar can help improve the micronutrient status of the population. **Nicaragua** recently joined its neighbors in the universal vitamin A/fortification of sugar. USAID provided technical assistance to the government and the six local sugar producers, who began fortifying nearly all the sugar produced in Nicaragua, improving



the health of the two thirds of Nicaraguan children who suffer from some degree of Vitamin A deficiency.

In **Eritrea**, all salt produced by large-scale producers is now iodized. UNICEF, with USAID funding, distributed iodination equipment for small-scale producers in the Southern Red Sea Zone and has resolved distribution obstacles in the Northern Red Sea Zone. At this point, more than 90 percent of all salt is iodized, and surveys show that iodine deficiency has been reduced from 82 percent to 25 percent.

The examples from **Nicaragua** and **Eritrea** point out that these programs not only meet the immediate needs of children but can also improve the capacity and performance of established national industries. Local salt and sugar producers changed their traditional practices and introduced innovative approaches to solve their countries' health problems. We have seen similar innovations whereby the PVO community partnered with large corporations in promoting truly entrepreneurial programs, whose designs have wide applicability across the developing world. The results achieved are durable, responsive, and replicable. They demonstrate how public-private partnerships increase access to services for previously underserved populations and create economic opportunities:

- Project HOPE/**Malawi** developed a collaborative program with private tea plantations to provide preventive health services for women and children under 5. Seeing the success of this effort,

Malawi's largest agriculture firm replicated the model and is now reaching a population of more than 200,000 agricultural workers and their families. Project HOPE also replicated the model in Guatemala, helping the agricultural estates and other partner agencies to provide services to the families of approximately 85,000 resident and migrant workers. USAID is interested in replicating the model as a means to rebuilding health infrastructure in disaster-stricken areas.

- Land O'Lakes (LOL) and its partner, Health Partners, a Minnesota-based health care corporation, worked with **Ugandan** dairy cooperatives to assist them in opening a health cooperative providing community-based health services to their members. After their initial success, LOL expanded operations into **Tanzania** and conducted a seminar on dairy development and health for cooperative representatives from **Uganda, Kenya, Zambia, and Malawi** to explore further expansion.

While partnering is an effective method for achieving sustainability, PVOs have undertaken a variety of approaches. A 1999 evaluation of the sustainability of PVOs that benefited from two USAID programs was assessed. The findings from this study will be used to develop a cost-effective approach for the PVOs to measure sustainability within their programs and for USAID to determine how to track sustainability achievements across USAID programs.

The exploratory study, conducted in February and March 2000, assessed sustainability of child survival grants in **Bolivia** and **Bangladesh**. The study included 14 PVOs and their NGO partners (a total of 8 in Bolivia and 6 in Bangladesh) with grants that started on (or before) 1985 and ended by 1997. In general, results indicate strong evidence of sustainability in both countries. Major findings include the following:

- Through alternative sources of funding, many project activities were continued after USAID funding had ceased. Of eight PVOs in **Bolivia**, five continued activities for an average of two years with other sources of funding. Of six PVOs/NGOs in **Bangladesh**, four continued most child survival services with private funds. In Bolivia there was little significant cost recovery because government policy does not support it. In Bangladesh, three out of four organizations providing direct services reported from 3 to 40 percent recovery of recurrent costs. The capacity built through the child survival grants resulted in greater organizational capacity of PVOs and their local partners, including technical and managerial capacities, and institutionalization of lessons learned. In Bolivia, three PVOs/NGOs used their child survival grants to begin work in the country for the first time. All three have remained and expanded their programs. Thousands of government workers in both countries have received training in both curative and preventive health care and in management.

- Community structures created or reinforced under the grant continued to function. Committees and volunteers continued to work in six areas where PVO/NGO projects had operated (three in **Bolivia** and three in **Bangladesh**).
- Five PVOs demonstrated sustained impact in communities from two to four years after the PVO-initiated activities had been discontinued. A new baseline study in **Bolivia** (with substantial overlap with old communities) found that oral rehydration therapy (ORT) use had been sustained: 47 percent at baseline, 77 percent at project end, and 71 percent two years later. A survey in **Bangladesh** five years after the end of the project revealed that 79 percent of children were fully immunized in the project area, compared with 56 percent in adjacent communities.

Program(s) Failing to Meet Expectations

Examples are cited above of activities in **Haiti** and the **Philippines** that did not meet expectations.

c. USAID Objective: “Deaths, Nutrition Insecurity, and Adverse Health Outcomes to Women as a Result of Pregnancy and Childbirth Reduced”

The Agency’s maternal health strategy aims to:

- Increase access to, and use of, quality maternal and reproductive health interventions at the community, family, and individual levels
- Improve nutritional status

- Ensure birth preparedness
- Improve treatment of life-threatening obstetrical complications
- Ensure safe delivery and postpartum care
- Improve long-term capacity of local institutions

Examples of USAID Program Results

Provision of accessible, culturally sensitive, high-quality maternal health services is crucial for promoting health and nutrition and rapidly treating life-threatening obstetric complications.

The diversity of USAID’s programs reflects differences in the health care infrastructure that exist in partner countries, as well as cultural traditions of inpatient vs. home birth settings. At one end of the spectrum is the Kosice/Providence hospital partnership. It saved many lives by improving the clinical practice of perinatal, neonatal, pediatric, and gynecological medicine in eastern **Slovakia**. The partnership helped create a new infrastructure for clinical care, upgrades in nursing practice, and clinical protocols to control infection and manage pharmacology. The perinatal mortality rate in Kosice fell from 6.9/1,000 in 1995 to 4.1/1,000 in 1997. The mortality rate in one referral hospital dropped from 15.1/1,000 to zero, and in another from 8.4/1,000 to 1.3/1,000. Improved management of high-risk pregnancies resulted in a reduction of the perinatal mortality rate in eastern Slovakia from 19.1 percent to 5.15 percent, and the neonatal rate from 24.2 percent to 7.2 percent.

In whatever setting, there is compelling evidence that when births are attended by medically trained personnel with needed resources, risks to the mother are reduced and outcomes are improved. Also, when women perceive that they are receiving quality care, they increase use of clinical services prior to delivery. Survey data show that the number of births attended by medically trained personnel is increasing in all regions, except **Africa**. Many USAID programs have shown excellent results from programs to increase the percentage of deliveries with trained attendants and to improve the quality of service delivery. For instance, in **Indonesia**, the percentage of deliveries in South Kalimantan managed by a trained midwife rose significantly from 37 percent in 1996 to 58 percent in 1999. USAID’s maternal and neonatal program introduced an essential obstetrics training package that has been adopted for use by the MoH and other donors. In **Uganda** an increase in trained personnel matches an increase in demand for better care. The number of nurses and midwives trained to provide integrated RH/MCH services increased by 50 percent, bringing the total trained to 936, and a greater proportion of women delivered at health facilities (56 percent in 1999 compared with 48 percent in 1995). The percentage of pregnant women who received at least one antenatal visit remained high (90 percent), and 72 percent received the minimum of three antenatal visits recommended by the MoH.

Seven of 10 countries in the **LAC** region increased coverage of



deliveries with trained health personnel. Four now audit at least 20 percent of maternal deaths. In **Bolivia** 51 percent of pregnant women received advice and assistance from competent attendants during birthing, exceeding the 45 percent target.

Furthermore, women who are educated about their pregnancy and possible risks are better able to make decisions that will benefit their health and the health of their baby. In **Guatemala**, a setting where 95 percent of the births occur in the home, information, education, and communication (IEC) programs in six districts have increased demand for and utilization of, hospital-based essential obstetric care services by 50-77 percent. In **Bolivia**, at the community level, USAID focuses on empowerment of women and culturally appropriate approaches to effective self-care and preparation for birth. "Autodiagnosis" has been expanded to 513 communities and contributed to a 120 percent increase in attended deliveries in health facilities in rural municipalities over 10 years. This was also supported by recent extension of health insurance to cover maternity care. Women in Bolivia who heard the innovative and very popular radio drama, "Destiny's Diary," aired in local languages reaching 650,000 people, were more likely to recognize complications and plan for obstetric emergencies. USAID's IEC activities continue to be recognized as some of the most effective and successful in Uganda. Achievements include an increase in the number of women who can name at least three significant signs of a complicated

pregnancy from 13 percent in 1997 to 18 percent in 1999. In addition, more women report coming earlier for their first antenatal visit.

Program(s) Failing to Meet Expectations

But not all programs meet expectations. In the **Indian** state of Uttar Pradesh, two National Family Health Surveys show that the percentage of deliveries attended by health professionals increased from 17.2 percent in 1993 to 22.4 percent in 1998. However, a recent survey indicated that this measure decreased by 3.1 percentage points in 1999. The reasons for the decline in the proportion of births attended by health professionals are not clear, but the decline may be due to staff shortages in district hospitals. The mission is actively trying to identify the reasons for this decline and, together with its implementation partners, to take corrective action. However, despite successful pilot programs, we will proceed cautiously as we scale up activities to cover all of Uttar Pradesh during the next several years.

d. USAID Objective: "HIV Transmission and the Impact of the HIV/AIDS Pandemic in Developing Countries Reduced"

Under this objective, the Agency focuses on five key program areas:

- Increase the quality, availability, and demand for information/services to change sexual risk behaviors and cultural norms to reduce HIV transmission
- Develop, test, and promote HIV/AIDS prevention and care interventions

- Enhance the quality, availability, and demand for sexually transmitted infection (STI) management and prevention services
- Increase NGO community and public- and private-sector organizations to prevent HIV transmission and to support persons with HIV/AIDS and their caregivers, families, and survivors
- Improve the quality, availability, and use of evaluation and surveillance information

USAID's strategy is based on the need to continue and expand efforts to prevent HIV transmission and to mitigate some of the worse consequences of the pandemic, especially its impact on individuals, families and communities. USAID supports those interventions which have a proven, demonstrated impact in preventing HIV/AIDS transmission:

- Changing high-risk sexual behavior through education and counseling. In Uganda, HIV prevalence has been reduced by nearly 50 percent in young urban women by promoting a delay in the outset of sexual activity and the adoption of safer sex practices.
- Reducing the prevalence of other sexually transmitted infections (STIs). A study in Tanzania demonstrated a 42 percent drop in new HIV infections through proper clinical management of STIs.
- Increasing the distribution and use of condoms through social marketing programs which increase both knowledge and access to affordable condoms.

Condom use represents one of the most effective ways of preventing HIV transmission.

- Reducing mother to infant HIV transmission. USAID-supported field work has demonstrated new ways to reduce mother to infant transmission which accounts for more than 10 percent of new HIV infections.

In addition to prevention programs, USAID supports efforts to mitigate the impact of the epidemic on individuals and communities. These include voluntary testing and counseling programs, support to faith-based groups and other community organizations providing care to individuals and families affected by HIV/AIDS, training for public and private health care providers and work with the Peace Corps, private voluntary organizations, and others on support for orphans and other vulnerable children.

An important program dimension is the emphasis on practical research, application of lessons learned, and measuring results. USAID supports the U.S. Bureau of the Census initiative to regularly update the HIV/AIDS International Surveillance Database, a unique resource that is used by all international partners to track the HIV/AIDS pandemic and the impact of interventions. USAID's global leadership in clinical and operations research bolsters its prevention and mitigation strategies, enabling it to provide assistance and support for state-of-the-art, cost-effective services that directly reach individuals and communities.

Examples of USAID Program Results

USAID's portfolio includes about ten initiatives designed to carry out proven HIV/AIDS interventions and enhance the Agency's response to the epidemic. Cooperating agencies support Missions and countries in implementing HIV prevention and mitigation programs, provide regional and country HIV/AIDS social marketing expertise, and develop and disseminate the most effective methods of combating HIV/AIDS through operations research. The Joint United Nations Programme on HIV/AIDS (UNAIDS), the U.S. Bureau of the Census, and the Centers for Disease Control and Prevention also work with the Agency to coordinate national strategic planning for HIV/AIDS and strengthen surveillance systems.

As of spring 2000, USAID was working on HIV/AIDS programs in 46 countries and had become the global leader in this international fight, because of the Agency's strong field presence, technical leadership, significant and sustained financial support, and its extensive, long-term relationships with host-country institutions. Relationships developed in the field provide the foundation for USAID's track record for building sustainable systems, using highly participatory approaches, and applying lessons learned to enhance the effectiveness and efficiency of programs. USAID-sustained investments in **Uganda** have resulted in a reversal of the explosive upward trends, and in **Senegal** have kept prevalence low. Recent reports from **Zambia** also suggest a reversal of the epidemic with prevalence declines among 15- 19-year-olds. These positive results have guided USAID's

development of an overall expanded plan to combat the AIDS pandemic.

Changing Behavior

Changing the behavior of people at high risk for transmitting or contracting HIV/AIDS is central to the Agency's efforts. In **India**, targeted USAID-funded HIV/AIDS prevention activities began in the State of Tamil Nadu in 1997. By the end of 1998, all four high-risk groups targeted by the program achieved significant and sustained changes in their sexual behavior. For example, condom use with a nonregular sex partner increased among commercial sex workers from 56 percent (baseline in 1996) to 80 percent and by male factory workers from 17 percent to 50 percent (source: AIDS Prevention and Control Project, Tamil Nadu, 1999). Thus the program has shown a statistically significant increase in condom use among sex workers and their clients, as well as the reduction of nonregular partners (see table, "Condom Usage"). Since sexually transmitted diseases (STDs) increase the likelihood of transmitting and acquiring HIV, an increase in care-seeking behavior is another important accomplishment of this program. There was, however, a decline in care seeking between 1998 and 1999. This may be attributable to the dramatic increase in condom use and decreasing number of STD infections.

Other behavioral surveillance surveys conducted in **Indonesia** and **Senegal** (1998) showed that between 1996 and 1998, there was increasing condom use in some high-risk groups, but decreasing use in others. For instance, in **Indonesia**, the



percentage of locally based female sex workers in Jakarta using a condom at last commercial sex dropped from 48 percent in 1996 to 35 percent in 1998. However, condom use among female commercial sex workers increased sharply from 37% in 1998 to 48% in 1999 thanks to expanded outreach efforts and condom distribution. .

Condom Sales

Use of condoms is one of the primary prevention strategies. In 1998- 99, USAID-supported programs continued to increase annual sales. Presently, USAID is supporting condom social marketing programs in 36 countries. During CY 1999, these programs sold a total of 348.9 million male condoms. If trends prior to the end of September 2000 continue, the number sold will exceed 363 million- a 3 percent increase.

USAID supports the introduction of the female condom through social marketing programs. In 1999, these programs sold 871,000 female condoms, and the current rate for 2000 suggests that more than 938,000 will be sold by the end of the year- an 8 percent increase.

During 1996- 99 in the 16 **African** countries included in the Leadership and Investment in Fighting an Epidemic (LIFE) initiative, condom sales/distribution increased in all countries, except **Malawi**. In some countries (**Mozambique** and **Rwanda**), the increase was as high as fourfold. In **Zimbabwe**, condom social marketing succeeded in increasing condom sales/distribution 38-fold, from 230,000 to almost 9

million (source: Population Services International, 2000). In **Peru**, USAID-supported condom purchase and distribution increased from 38.9 million in 1997 to 46.3 million in 1999. In **Honduras**, USAID's NGO partner in HIV/AIDS prevention reached full implementation, distributing almost 3 million condoms.

High-Level Political Support

The successful results in **Senegal**, **Uganda**, and **Zambia**, are attributed in part, to strong national leadership at the highest level of government. In **Zimbabwe**, there was a major breakthrough in publicly demonstrating high-level support with the launch of the USAID-funded National AIDS Policy by President Mugabe on World AIDS Day. The policy launch took place after two-and-a-half years of consultations involving more than 6,000 people and 84 meetings at the national, provincial, district, and sectoral levels. In its 1999 budget statement, the government effected its first "AIDS Levy," a 3 percent tax on taxable earned income to finance HIV/AIDS-related activities. The Parliament approved the establishment of a National AIDS Council to facilitate a multisectoral government approach to tackling HIV/AIDS.

USAID involvement has resulted in increased political commitment at the highest level in Ghana and has begun to generate a multisectoral response to the epidemic. This was accomplished through presentations of a computerized AIDS impact model during 1999. These enabled USAID to effectively advocate for an intensified response among

parliamentarians, government ministries, religious groups, and local leaders. USAID also supported the government with technical assistance to develop a draft national HIV/AIDS strategy.

In **Malawi**, USAID funding was pivotal in supporting the development and launch of the new five-year strategic framework for HIV/AIDS. The President of Malawi gathered political, religious, and business leaders together to personally launch the new plan and call for concerted action to reduce the transmission of HIV/AIDS. One of the most encouraging developments is the increasing demand for voluntary counseling and testing (VCT). Since 1992, USAID's program has seen only modest increases in demand. Following the President's call for action, demand for VCT increased considerably. The local NGO served 5,663 clients in 1999, a 62 percent increase from 3,497 clients in 1998. The recent introduction of same-day results from blood tests is also believed to be a contributing factor and should increase demand even more in 2000.

Diagnosis and Treatment of Sexually Transmitted Infections (STIs)

USAID supports improved, expanded STI control programs in 16 countries. Assistance ranges from developing more effective national guidelines for the diagnosis and treatment of STIs to training health workers and increasing demand for services among vulnerable groups.

During the first six months of FY 1999, infectious syphilis cases in **Jamaica** were reduced by 40 percent through prevention, detection, and

treatment programs. The program focused on the high-risk group of STI clinic attendees. Routine HIV testing among sentinel groups has been carried out in three parishes since 1990. Although there had been a steady increase between 1990 and 1998 (from 3.1 percent to 7.1 percent), HIV seroprevalence among sentinel groups in 1999 remained at the 1998 level.

In **Ghana**, USAID has been working with the government to educate members of the army and national police, as well as the general population, in HIV/STI prevention and to provide improved STI control services to those who are infected. While it is very unusual for USAID to work with either of these groups, members of the army and police are vulnerable to the disease and can transmit the virus from one area of the country to the other. As a result of the program, 12 police care providers have been trained in STI symptom management, and 65 peer educators operate nationally. In the military, 90 individuals have been trained as condom sales agents to expand availability of condoms to this vulnerable population.

Care and Support Services

USAID is funding programs that offer HIV/AIDS care and support services to individuals, families, and communities in 22 countries. These include protection of human rights, access to voluntary counseling and testing, psychosocial support, basic medical and palliative care, treatment and prevention of opportunistic infections (particularly TB), community-based economic support, and support for children affected by AIDS.

e. USAID Objective: "The Threat of Infectious Diseases of Major Public Health Importance Reduced"

The Agency's infectious-disease strategy focuses on four program areas:

- Reduce antimicrobial resistance
- Improve tuberculosis prevention, control, and treatment
- Improve malaria prevention, control, and treatment
- Improve local capacity for surveillance and response

USAID has combined research with global technical leadership and partnerships to advance results at the field level. Our global leadership is indicated by the development and adoption of Global Action Plans for the control of antimicrobial resistance and for TB, as well as by the adoption by the WHO Roll Back Malaria initiative of USAID's basic approach to malaria. These plans will generate increased international attention to these areas and will guide and accelerate coordinated responses from all major international partners.

Examples of USAID Program Results

National achievements across all USAID regions are improving conditions at the local level. For instance, in **Nepal**, infectious disease and antimicrobial surveillance systems have been established. USAID has also developed and launched a new program to track and combat malaria drug resistance along the **Thai-Cambodia** border. Drug resistance is a tremendously important issue for our ability to treat

malaria worldwide, and it has implications for reducing mortality in the Mekong River area and other regions. During 1999, we also established an important cross-disciplinary electronic network that brings together malaria and maternal health experts to share technical information, program developments, and research findings over a wide area. The placental malaria network is providing assistance to programs in **Burkina Faso, Tanzania, Zambia, and Kenya**.

USAID is heavily involved in the effort to reduce the threat of the global tuberculosis epidemic. We are funding the expansion of tuberculosis treatment in **South Africa** by training staff in Directly Observed Treatment, Short-course (DOTS) therapy. DOTS decreases hospitalization and treatment time and returns people to their communities more quickly. At the request of the National Tuberculosis Program, we will expand support to reduce and manage multidrug-resistant tuberculosis. In **India**, USAID has been working in partnership with WHO to support the development of the Model Center for Tuberculosis Control, Training, and Research in Tamil Nadu. This program has been extremely successful in implementing DOTS, conducting demonstrations and training, and strengthening TB control activities in surrounding areas.

Underpinning TB control programs is the need for trained personnel and adequate laboratory equipment. In **El Salvador**, USAID targeted 59 out of the 127 Ministry of Health laboratories across the nation for



improved diagnostic equipment and better supervisory and technical skills of lab personnel. During the second month of TB treatment, 81 percent of the cases in 2000 showed improvements, compared with only 66 percent in 1998.

In **Russia**, USAID is working in collaboration with the Ministry of Health, CDC, WHO, and others to control the tuberculosis epidemic in three pilot areas. In the first region, the program has achieved successful treatment levels of approximately 83 percent, demonstrating that international TB treatment protocols can work in Russia.

USAID collaborated with the government of **Kazakhstan** (GOK) in 1998 to develop the first policy on tuberculosis treatment in the region consistent with the improved World Health Organization (WHO) Directly Observed Treatment, Short-course (DOTS) approach. GOK started DOTS in 21 sites nationwide, and by 1999, 14 of these sites were achieving cures in at least 75 percent of their patients with TB. USAID's substantial work with the GOK also paid off in the decline of TB deaths by 27.6 percent from 1998 to 1999 (38.4 deaths per 100,000 in 1998 to 27.8 in 1999). However, successful treatment of TB is dependent on many factors, including drug quality. USAID's assistance in the tendering process in Kazakhstan resulted in the purchase of high-quality TB drugs for the entire country, thus not wasting money on ineffective drugs and increasing the number of people cured.

In the **Kyrgyz Republic**, USAID also helped create a model surveillance

framework to prevent and control hepatitis. Three sites to verify, report, and track hepatitis cases were established this year. Hepatitis cases are verified in the region's first infectious disease reference laboratory, equipped and opened with USAID support. This laboratory has developed quality control standards (reference panels) for diagnosing the various types of hepatitis. USAID also helped set the official practice guidelines on hepatitis for all health care workers.

f. USAID Initiatives in Health System Strengthening

The biggest challenge facing developing countries is to make optimal use of their scarce resources and to direct those resources in a way that will best meet the needs of the population. USAID Missions have recognized the importance of establishing health systems and strengthening those that already exist in order to build a sustainable capacity for countries to provide health services. The types of changes that are possible depend on the local economic, social, and political context, as well as the human and institutional capacity.

Health system strengthening focuses on improving the financing, management, and delivery of health care services. Over time, the three functions should be integrated for available health care resources to be used most efficiently and effectively. We are pursuing many different strategies to build on whatever opportunities exist. During the past year, we have contributed to important advancements in strengthening health systems, ranging from establishing new financing, provider payment, management, and

delivery systems to providing clinical training and basic quality improvement techniques to health care personnel.

New Provider Payment Systems

Provider payment systems that are based on providing cost-effective services are an important feature in developing a sustainable health care system. In Central Asia, the **Kyrgyz Republic** and **Kazakhstan** are undergoing complete transformations of their health service delivery and financing systems. With USAID technical guidance, physicians were trained to be specialists in primary care, established group practices outside of the polyclinics, and became financially independent. During 1999, 56 percent of these 390 primary health care practices (PHCPs) in the **Kyrgyz Republic** were paid by the Health Insurance Fund under a capitated rate payment system that was designed with USAID assistance. These reforms are leading to a more cost-effective health care system as scarce health care resources are redirected toward the most pressing public health concerns. Providers are using management information systems to understand the impact of the new incentive payment systems and to operate more efficiently.

From 1998 to 1999, the total number of health care providers reimbursed by new payment systems in **Kazakhstan** increased from 134 to 342 in two oblasts. Providers included hospitals, polyclinics, and primary health care practices. In these two oblasts, as a result of attractive new payment methods, the number of newly restructured primary health care practices

(PHCPs) tripled, from 151 to 453. With increased numbers of PHCPs, more families have access to care. In the three largest cities of these oblasts, PHCPs now cover 85 percent of the population. Besides access to care, the types of services available affect the families' quality of health care. The percentage of practices in urban centers that offered expanded services increased from 36 to 71 percent in Zhezkazgan and Satpaeva cities and from 71 to 87 percent in Semipalatinsk. Expanded services included treatment of childhood illnesses, sexually transmitted infections, and reproductive health care.

New Ways to Finance Health Care Services

Initiatives to address the generation of resources to finance health care in the developing world have taken many forms, including prepaid health insurance systems, new drug financing funds, the introduction of user fees, and tax reform. Examples of important achievements during the past year that have the potential to reform the generation and use of host-country health care budgets are described below.

In the **Philippines**, USAID supported the Friendly Care Foundation, Inc. (FCFI) in an effort to boost the private sector's share in providing family planning and maternal health services. FCFI provides financially sustainable, demand driven reproductive health services to middle income patients.

In **Rwanda**, the USAID-financed pilot prepaid health program has enrolled more than 67,000 subscribers since August 1999, with 17,000 enrolling during February 2000 alone. The

program is now progressing rapidly with new subscribers. The Ministry of Health (MoH) is very committed to expanding this program nationwide and is working with USAID to develop an effective strategy for expansion.

In **Senegal**, results from a pilot program in health financing have been very positive in identifying innovative mechanisms for increasing community ownership of all health activities. In 1999, local contributions in the form of tax revenues represented 8.7 percent of the operating budgets at the health district level. In fact, the actual contribution of local tax revenues increased by 39 percent from 1998 to 1999. This significant increase is a direct outcome of the pilot program and is consistent with requirements of new decentralization laws.

In **Romania**, the Ministry of Health has decided to employ the USAID-funded hospital cost-containment model nationwide. The model, a diagnosis-related group (DRG) system, promotes efficient management of hospital resources, the largest component of the health care budget.

USAID support resulted in the publication of *Guidelines for Achieving Equity: Ensuring Access of the Poor to Health Services Under User Fee Systems*. This cutting-edge guidebook, based on case studies in five countries, gives practical guidelines for setting equitable user-fee exemption systems for the poor.

It was distributed throughout **Africa**, and **Guinea** and **Mali** are now testing innovative equity strategies. The government of **Kenya's** cost-sharing

program, assisted by USAID, generated \$10 million, up 15 percent from FY 1998, and exceeded its target.

In **Ethiopia**, the national budget allocated to the health sector in 1999 nearly met its target and was maintained at the same level as FY 1998 in spite of the major increase in defense spending to support the conflict with Eritrea. The government has raised the level of public resources allocated to primary and preventive health care by an annual average of 11 percent during the past three years.

Under the program established by the district health teams in **Malawi**, more than 400 communities (more than double the targeted number of 200) are now administering drug-revolving funds that ensure an immediate supply of malaria medications and oral rehydration salts to children living in rural villages.

In **Guatemala**, about 3.5 million inhabitants that did not have access to health care services in 1996 are now served under a new model based on public-private partnerships whereby the MoH regulates the systems and provides financial resources and supplies and NGOs provide the human capital and local expertise.

Improving Management Skills

The government of **Albania** is aware of the urgent need to revitalize and modernize its health care system, but lacks resources and has been slow to act. Working with USAID advisors, key health care administrators are acquiring the knowledge and skills



needed to manage their scarce resources more efficiently and effectively at the central level (the Ministry of Health) and at the district, hospital and polyclinic levels. Durres Hospital and University Hospital Center of Tirana have implemented techniques to improve hospital operations, which are beginning to serve as models for the rest of the hospital system.

Under the Communist system, there was an inappropriate allocation of resources. The number of hospital beds is now being reduced to reflect the shift toward a more responsive primary health care system. At Durres Hospital, where the main building collapsed in 1995, a strategic planning process has matched available resources with a long-range plan for a replacement hospital. At the University Hospital Center, administrative and medical records were computerized. In both hospitals, pharmaceutical and medical supply purchasing and distribution have been computerized. Several national conferences have been held to share the information and management techniques developed at the pilot hospitals with more than 80 hospital managers and administrators from all over Albania.

Quality Improvement

In **Rwanda**, an effort that has won customer appreciation for USAID is the quality assurance initiative, which has succeeded in improving the organizational approach to service quality at the Central Kigali Hospital and smaller health centers. Plans are underway for the MoH to replicate this success by institutionalizing the quality improvement approach and applying

it to other health centers and hospitals in Rwanda in FY 2000.

The quality of services in **South Africa** improved in 1999, with significant gains in the availability of the seven essential drugs (from 43 percent in 1998 to 91 percent in 1999). Management of critical health conditions also improved, as evidenced by the increase in the management of STDs from 56 percent to 70 percent.

A greater proportion of trained health staff in **Uganda** performed to standard (80 percent in 1999, compared with 66 percent in 1998), indicating an increase in technical competence and provision of quality services, as well as improved interpersonal relations and counseling of clients.

In **Tajikistan**, a Family Medicine Training Center opened in 1999, the result of a primary health care skills building program developed by U.S. and Tajik partners. Other programs in Tajikistan have improved access to basic health services for 260,000 people and established 62 village health committees covering approximately 85,000 beneficiaries. A revolving pharmaceutical fund established with USAID support has enabled 17,000 patients to purchase or receive needed medications.

In one region of **Russia**, more than half of adult deaths were related to cardiovascular disease. More than 89 percent of the hypertension patients in the pilot sites are now managing their disease themselves, according to international treatment protocols. As a result, hypertensive crises have dropped 57 percent, and

hospitalizations from such crises have been reduced an impressive 92.5 percent.

Building Skills of Nurses

Albanian nurses from across the country met with other nurses from throughout Central Europe and the former Soviet Union and returned home to establish an Albanian nursing association. This association will help the MoH to establish national standards for nursing accreditation. As part of the USAID program, nurses are now receiving in-service training opportunities to improve their skills and enhance their status in the health care system.

USAID is continuing to provide limited support to three Nursing Learning Resource Centers (NLRCs) in **Central Asia**. These centers serve as important sources of information and education for nurses. Also, nurses from **Tajikistan** are now participating in the Central Asian Nursing Council, an organization inspired by a U.S.- Central Asia health partnership program.

Using the Internet

A small, but high-impact USAID activity in **Ukraine** has been the establishment of 12 Learning Resource Centers. They provide Internet linkages to medical on-line sites. One of these centers, Odessa Oblast Hospital, was named one of the top-20-visited Russian language medical sites. Such connectivity to worldwide medical literature opens up new avenues of communication and moves the concept of transparency forward.

Information Technology

In **East** and **South Africa**, the number

of databases in priority development areas increased to 32 in 1999, exceeding the program target of 29. A database of more than a thousand network members was established at the new Regional Center for Quality of Health Care at Makerere University, **Uganda**, to facilitate dissemination of information and support fundraising efforts for the Center's consulting needs.

Manage the Environment for Long-term Sustainability (ENV)

This section discusses the performance of the ENV objectives of USAID's operating units as of September 30, 1999, drawing on the self-assessments of these units. It provides examples of results achieved through USAID efforts undertaken around the globe and discusses operating unit objectives that failed to meet expectations.

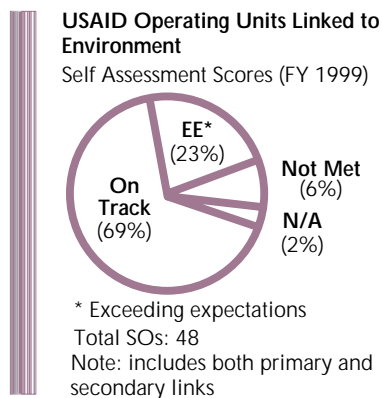
Program Objectives/Approaches

USAID seeks to protect the environment for long-term sustainability around the world through programs directed at five broad objectives:

- 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
- Sustainability of natural resources management increased

Self-Assessment of Performance by Missions and Other Operating Units

The Global and **E&E** bureaus have met 100 percent of their objectives. The **LAC** and **ANE** bureaus have made similar progress, meeting 96



percent (23 out of 24 primary or secondary coded environmental objectives). Finally, the **Africa** bureau has met 89 percent of its objectives (8 out of 9 primary or secondary coded environmental objectives). The overall Agency environmental performance total for FY 1999 is 92 percent, or 44 out of 48 primary and secondary coded environmental objectives met or exceeded expectations.

a. USAID Objective: "Biological Diversity Conserved"

USAID pioneered and now supports one of the most comprehensive biodiversity conservation programs of any bilateral donor. The Agency has contributed to safeguarding biological diversity through its efforts to 1) improve the management of biologically significant areas, 2) promote the sustainable use of biological resources, and 3) support the conservation of genetic diversity.

Examples of USAID Program Results

In FY 1999, the Agency launched the

\$33 million Global Conservation Program. Jointly funded by USAID and leading private conservation organizations, this program addressed threats to 18 biologically rich sites around the world, notably the Himalayas of **Nepal**, the Amboseli-Kilimanjaro region of **East Africa**, the Amazon, the Bering Sea, and the forests of the Lower Mekong River. This new program represents an innovative partnership with organizations such as the World Wildlife Fund, The Nature Conservancy, and Conservation International. Once the program matures to the point where it can produce results, it will be measured against already established baselines.

In **Botswana**, USAID's efforts over many years to promote community-based natural resource management (CBNRM) are bearing fruit. Africa's largest herd of elephants is found in the Chobe Enclave and the surrounding Chobe National Park in Botswana. Communities surrounding the park had been until recently only bearing the costs of living so close to wildlife without reaping any monetary benefits. In 1989, the government of Botswana chose this area as a pilot project for USAID. With support from USAID, the Chobe Enclave Conservation Trust (CECT), comprising five surrounding villages, was established to manage the area. In 1999, the CECT partnered with a safari firm to enable local communities to profit from the conservation of the area's biodiversity. Between 1999 and 2004, the CECT share of revenue generated from safari activities will be about US\$1 million. The CECT will then use these finances to fund village infrastructure and fledgling



businesses. This CBNRM program thus provides local communities an important incentive to conserve their rich biodiversity.

Peru and USAID established a \$24 million fund under the Americas' Fund to support conservation, preservation, and protection-type activities. USAID support has stimulated adoption of an array of environment and natural resource institutional and policy-related laws, regulations, and procedures. This has resulted in a policy shift away from traditional mitigation strategy to one where industrial pollution is reduced at the source. Also, Peru has increased the amount of protected natural areas to 17.9 hectares, which is approximately equivalent to 14 percent of the national territory.

Program(s) Failing to Meet Expectations

In **Zimbabwe**, USAID has supported the Communal Areas Management Program for Indigenous Resources (CAMPFIRE) since 1989. FY 1999 targets for this program were not met because of unexpected losses of key staff. CAMPFIRE was 12 percent short of its revenue target of US\$2,200,000. The Agency is aware that staff retention can be a problem for any program and makes every effort to plan accordingly. Generating income for local communities, predominantly through fees from sport hunting, is a key component of the program. The cumulative total generated during the past decade is more than US\$13 million. Half of this total has been channeled into local communities as

cash dividends to households or for community development projects. Wildlife population surveys indicate that key indicator species such as water buffalo and elephant populations have remained stable or increased. However, the Agency is aware of the need to review activities such as CAMPFIRE's in the light of increased poaching and habitat management challenges in some areas of Zimbabwe.²

b. USAID Objective: "The Threat of Global Climate Change Reduced"

USAID's \$1 billion Climate Change Initiative: 1998- 2002 expands the Agency's efforts to help USAID-assisted countries 1) reduce net greenhouse gas emissions, 2) reduce vulnerability to the threats posed by climate change impacts, and 3) increase participation in the United Nations Framework Convention on Climate Change. Agency activities in facilitating environmentally benign energy services and its forestry and land use activities also contribute to the goals of the Initiative.

Examples of USAID Program Results

One of the major components of the Agency's Climate Change Initiative is its involvement in Technology Cooperation Agreement Pilot Project (TCAPP)- an interagency program with the Department of Energy and the Environmental Protection Agency. Designed to assist the United States in meeting its obligations under the United Nations Framework Convention on Climate Change (UNFCCC), TCAPP facilitates international investment in clean

energy technologies. In FY 1999, TCAPP implemented 10 major investment activities and events worldwide, including business matching programs, private-sector solicitations, policy reform actions, prefeasibility studies, and donor meetings. One notable program in FY 1999 helped develop regional technology priorities for the Southern African Development Community.

The Agency's work in **Ukraine** exemplifies its efforts to increase participation in key climate change negotiations. Through its Climate Change Initiative, the Agency provided technical assistance to help the formation of an Inter-Ministerial Committee for the Implementation of the UNFCCC and the timely submission of Ukraine's National Communication to the UNFCCC Secretariat. Ukraine's election to the Vice Presidency of the Conference of Parties confirms Ukraine's active participation in the international response to global climate change.

In the **Philippines**, the Agency's global climate change strategy is to mitigate greenhouse gas (GHG) emissions from the power sector by expanding the use of clean fuels and promoting more efficient electricity generation, distribution, and consumption. The goal is to avoid the release of some 20 million metric tons of carbon dioxide (CO₂)-equivalents into the atmosphere by 2002 while maintaining energy production. By promoting a cleaner fossil fuel (natural gas) as an alternative to coal, this reduction in CO₂-equivalents will be achieved in

² The World Wildlife Fund (WWF) issued a warning of poaching increases of many kinds of wildlife, including elephants, and rhinos ensnared by accident. According to WWF, this poaching was linked to armed groups involved in land seizures.



2002 when the natural gas-fired power plants become operational.³

Program(s) Failing to Meet Expectations

According to the self-assessments conducted by Missions and other operating units, all programs met or exceeded performance expectations.

c. USAID Objective: "Sustainable Management of Urbanization, Including Pollution Management, Promoted"

USAID works with cities around the world to improve the living conditions of the urban poor and to protect the environment through reducing pollution, saving energy, and improving waste management. The Agency also works directly with municipalities to enhance their ability to deliver environmental services. Promoting partnerships with the private sector to reduce pollution and manage waste treatment is another important component of USAID's approach in cities.

Examples of USAID Program Results

Working through its Regional Urban Development Offices (RUDOs), the Agency reached 150 municipalities and national associations of municipalities during FY 1999. In **Indonesia**, for example, the focus was on "twinning" the goal of delivering environmental services with job creation. Approximately 1,700 labor-intensive infrastructure projects were developed. In cooperation with the World Bank, 50 million person-days of work are

expected to be generated in East and West Java, which will both employ locals and provide much needed improvements in access to water, shelter, and sewage facilities. In **Morocco**, Agency efforts to strengthen local government and help it become more responsive to environmental problems made demonstrable progress. Local government officials met the need for wastewater treatment in the Al-Attaouia region through the construction of a cutting-edge treatment plant. The 15,000 residents of this region will no longer suffer the health, aesthetic, and environmental effects of the release of untreated wastewater in their neighborhoods.

Using the new Development Credit Authority (DCA) for the Agency's urban lending effort has led to impressive accomplishments in FY 1999. In **South Africa**, 22,000 previously neglected households were provided with access to basic services. In **Poland**, a recently completed eight-year program generated a hundred thousand homeownership loans from 20 commercial banks. PROMUNI, a municipal infrastructure finance program in **Central America**, also recently came to an end, having helped 867,490 families through improved infrastructure. These efforts improved the access to clean sanitation and water and the environment of the communities.

Program(s) Failing to Meet Expectations

In some cases, factors beyond the Agency's control can hamper meeting activity goals. In Ecuador, for example, USAID helped create and worked through an NGO, Oikos, to improve the capacity of selected public and private institutions to prevent pollution. However, many industrial firms went out of business during Ecuador's serious political and economic crisis. This prevented the program from meeting all its goals. No major adjustments will be made to the activity at this point, because it ended in September 2000. The primary focus now will be to ensure the sustainability of past efforts. Oikos should be well placed to continue its work beyond USAID support once the crisis in Ecuador ends, because it has been able to attract funding from other donors.

d. USAID Objective: "Use of Environmentally Sound Energy Services Increased"

USAID energy programs assist countries by 1) promoting energy-sector reform, 2) establishing free market policies, 3) instituting improved energy standards, and 4) strengthening institutions that enhance energy development through private-sector participation. In addition, USAID provides training and technical assistance to encourage legal and regulatory reform, institutional development, and private investment in energy infrastructure.

³ A variety of gases (termed greenhouse gases) contribute to global climate change, with the most prevalent one, carbon dioxide, produced primarily by the combustion of fossil fuels. Each greenhouse gas contributes to climate change to a different extent. CO₂-equivalents are used as a common measure of the climate change potential of these gases relative to that of CO₂. Natural gas gives off only one half as much carbon dioxide (CO₂) per unit of energy produced as does coal and is made up predominantly of methane (CH₄), which itself is a greenhouse gas if it is released into the atmosphere.



Examples of USAID Program Results

In **Ghana**, the Agency secured a \$1.5 million grant from the Africa Trade and Investment Program in FY 1999 to assist the Economic Community of West African States (ECOWAS) to develop training and technical assistance for the West African Gas Pipeline Project— a \$1.8 billion U.S. public- private venture currently in development. This assistance has improved the capacity of energy officials in **Nigeria, Togo, Benin, and Ghana** to negotiate a commercially developed and managed project with private-sector pipeline partners. Expected benefits include greater availability of natural gas to meet **West Africa's** regional energy needs, better access to electricity, and a 10 percent reduction in greenhouse gas emissions from the flaring of natural gas in Nigerian oil fields.

Program(s) Failing to Meet Expectations

In **Egypt**, the Agency is working to increase the number of vehicles using compressed natural gas (CNG) as a fuel, thus reducing automobile air pollution. Although ambitious 1999 targets for CNG conversion were not met, the current rate of conversion, facilitated through the import incentives of the U.S. Commodity Import Program, suggests that FY 2000 targets will be reached.

e. USAID Objective: "Sustainable Management of Natural Resources Increased"

The Agency's natural resource programs include 1) improved management of coastal zones, forests, and water resources; 2) increased use of sustainable agricultural practices; 3) enhanced public and community awareness of

natural resource sustainability issues; and 4) improved policy environment and use of economic and financial incentives.

Examples of USAID Program Results

In FY 1999, an additional 12 million hectares, primarily in **Latin America** and **Indonesia**, were brought under improved management through Agency efforts. More specifically, the coastal zone of an entire province in **Indonesia**, 19 new community forest districts in **Nepal**, and a large expanse of the Pantanal wetlands in **Bolivia** were added in FY 1999.

In **Nepal**, working with the government and groups of farmers in FY 1999, USAID facilitated the transfer of irrigation management to water users associations (WUAs) composed of farmers. The West Gandak Irrigation System WUA saw its budget, generated through irrigation service fees, increase an astounding 56-fold over three years. The improved irrigation has led to increased farmer incomes from crop production and other home activities promoted by USAID, such as kitchen gardens. Replicability of this project is expected over much of Nepal's terai region, as 68,000 hectares of government-managed irrigated systems are being transferred to private farmers' groups during the next few years.

Mapping traditional lands and monitoring their resource use is a relatively recent practice. It is seen as an effective tool to institute participatory decision making within the community and raise awareness of environmental threats and ways to conserve resources. For example, in **Indonesia**, villagers used information generated by a recent mapping

exercise to expel a logging concession from community-owned lands. Similarly, in another village, citizens prevented the entry of an oil palm plantation into their ancestral lands.

Another USAID approach involves raising community awareness of environmental issues through the use of the mass media. In **Egypt**, for example, the Agency disseminated information on environmental issues, using print, television, and radio, reaching approximately 32.9 million persons, twice as many persons in FY 1999 as in the previous year.

In **Peru**, through USAID-funded technical assistance, viable and environmentally sound economic alternatives to coca farming are being developed. Already, there are more than 8,000 participating Andean coffee farmers who receive a premium price in return for quality beans and other crops destined for the U.S. and Lima markets. As a result of the removal of key constraints to on-farm production, USAID is now expanding into "hard core" coca-producing areas, helping to reduce the supply of cocaine destined for the United States.

Program(s) Failing to Meet Expectations

According to the self-assessments conducted by Missions and other operating units, all programs met or exceeded performance expectations.

Promote Humanitarian Assistance (HA)

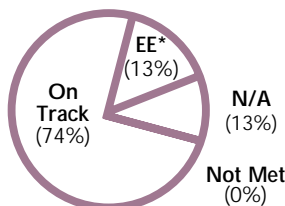
This section discusses the performance of USAID programs under the Humanitarian Assistance goal, drawing on the self-assessments

of performance by missions and other operating units. It highlights the two Humanitarian Assistance objectives and describes the approaches the Agency uses to accomplish these objectives. It provides examples of results achieved through USAID efforts undertaken around the globe and reveals plans for further progress.

Program Objectives/Approaches

USAID provides humanitarian assistance to millions of people around the world. The Agency supports humanitarian assistance through programs directed at two broad objectives:

USAID Operating Units Linked to Humanitarian Assistance
Self Assessment Scores (FY 1999)



* Exceeding expectations
Total SOs: 31

- Urgent needs in times of crisis met
- Personal security and basic institutions to meet critical intermediate needs and protect human rights reestablished

The number of USAID operating units (excludes Bureau for Humanitarian Response) with strategic objectives that supported the humanitarian assistance goal and objectives increased from 20 the previous year to 24. The largest increase was in **Latin America and the Caribbean** (from 1 to 8)- largely because of Hurricanes Mitch, Georges, Lenny, and Floyd.

Self-Assessment of Performance by Missions and Other Operating Units

All Missions and other operating units reported meeting expectations.

a. *USAID Objective: "Urgent Needs in Times of Crisis Met" (Relief Assistance)*

USAID provides humanitarian assistance in response to three types of situations: natural disasters, man-made disasters, and complex emergencies. Natural disasters are caused by physical hazards such as fire, flood, drought, earthquake, and disease outbreak. Man-made disasters are caused by human error, such as a building collapse or industrial accident. Complex emergencies may include natural disasters such as droughts, but are frequently caused or complicated by civil strife. They are manifested in armed conflict, displaced populations, hunger, and death.

FY 1999 was a year of unprecedented crises that dramatically increased relief assistance. The Bureau for Humanitarian Response's Office of U.S. Foreign Disaster Assistance (OFDA) responded to 65 declared disasters in more than 63 countries. These included 17 complex emergencies, 41 natural disasters, and 7 man-made disasters. OFDA obligated more than \$294 million to respond to these disasters, compared with \$186 million in FY 1998 in response to 87 disasters. OFDA provided a wide range of emergency assistance that included search-and-rescue operations; emergency health and medical services; therapeutic and supplemental feeding for the malnourished; and provision of potable water, sanitation facilities, shelter, clothing, and survival kits. A

most significant accomplishment in recent years, and in particular in FY 1999, was the effective application of prevention, mitigation, and preparedness interventions with relief activities. Disaster response and operations are closely coordinated with other U.S. agencies, including the Departments of Defense and Agriculture, the U.S. Geological Survey (USGS), the Centers for Disease Control and Prevention (CDC), the U.S. Public Health Service, and the National Oceanic and Atmospheric Administration (NOAA).

Public Law 480 (P.L. 480) Title II emergency food aid is managed by the Bureau for Humanitarian Response's Office of Food for Peace in coordination with USDA, regional bureaus, and Missions. USAID provides the majority of U.S. food assistance used to respond to emergencies and disasters. In FY 1999, USAID provided 792,116 metric tons of emergency food aid, valued at more than \$513 million, to more than 30 countries. USAID programs implemented primarily by U.S. PVOs and the World Food Programme (WFP) reached at least 16 million beneficiaries, the majority of which were in **Africa**. USAID also provided food aid for an additional 10 million beneficiaries through bilateral assistance programs to **Ethiopia** and **Rwanda** and to the World Food Programme's global Protracted Relief and Recovery Operations.

In the **Latin America and Caribbean** region, major hurricanes devastated **Central America** (Hurricane Mitch) and the **Caribbean** (Hurricane Georges) during September and



October 1998. The region suffered approximately \$10 billion in damages. USAID provided emergency food aid, shelter, water, sanitation, and health services to millions of people. The timeliness and scope of activities were critical in saving lives, reducing human suffering, and preventing civil unrest and widespread outbreaks of diseases. In **Honduras** and **Nicaragua**, USAID's role was critical in facilitating U.S. military participation in search-and-rescue activities, rapid assessments, and delivery of relief commodities to areas cut off from major transportation routes. There was no major disease outbreak. This is evidence of the effectiveness of preventive health measures and swift action to restore water and sanitation to affected areas.

In the aftermath of Mitch, USAID swiftly authorized the use of Title II development food commodities already in-country. Airlifted food already prepositioned in U.S. ports arrived within a week after the hurricane. Through U.S. PVOs and WFP, USAID distributed 132,700 metric tons of emergency food aid (valued at more than \$81 million) to 2.3 million beneficiaries, representing 94 percent of targeted beneficiaries. As a result, their nutritional status was maintained or improved. Beneficiaries identified food-for-work programs as critical for rebuilding their communities. These programs rehabilitated more than 13,108 kilometers of road and repaired more than 26,608 houses.

In addition, Congress approved \$621 million in supplemental funding for the **LAC** region. USAID implements

more than \$100 million of this funding with the specific U.S. government agencies identified in the Supplemental. It chairs sector working groups, established under the umbrella of the White House Interagency Working Group. As the lead agency in disaster relief and mitigation, USAID provided the initial leadership and guidance to develop complementary work plans across implementing organizations. This set the stage for a well-coordinated U.S. government reconstruction effort, working with numerous government municipalities and nongovernmental and community-based organizations. USAID initiated activities aimed at restoring economic and social indices to prehurricane levels. Programs are restoring basic necessities that will mitigate health risks, restore shelter and food-supply levels, reactivate economic activities, and improve disaster mitigation. The focus of programs is on disaster preparedness and reconstruction, public health, economic reactivation, education, and housing. The standard is to "build back better."

In the **Dominican Republic, El Salvador, Guatemala, Haiti, Honduras, and Nicaragua**, USAID is rebuilding homes, recovering agricultural productivity, and strengthening national- and community-level disaster preparedness. For example, in the **Dominican Republic**, the recovery phase met the immediate needs of more than 400,000 poor Dominicans in the most severely affected areas. This was accomplished by the effective reprogramming of existing Mission funds and coordination with other funds such as Child Survival, P.L. 480, Section 416(b), and

international disaster assistance funds. USAID collaborated on an innovative \$15 million small-scale farmer recovery program with the sale of donated wheat, constructed 3,000 temporary shelter units for 46,500 people, and repaired 32 water systems for 17,500 individuals.

Besides responding to hurricanes in the Latin American and Caribbean region, USAID also assisted countries affected by natural disasters in other parts of the world. These include earthquakes (**Afghanistan, Colombia, Greece, India, Taiwan, Tajikistan, and Turkey**), floods (**Cambodia, Chad, China, The Gambia, Honduras, Hungary, Mali, Mauritania, Mozambique, Philippines, Republic of Korea, Thailand, and Vietnam**), volcano (**Cameroon**), and drought (**Ethiopia**).

In the **Europe and Eurasia** region, the crisis in the Balkans was the most complex emergency in FY 1999. In spring 1999, 700,000 Albanian Kosovars were forced to cross the borders into **Albania, Macedonia, and the Federal Republic of Yugoslavia Republic of Montenegro**. USAID response teams provided emergency food rations, tents, blankets, plastic sheeting, hygiene kits, and water jugs when other pipelines did not exist. These activities saved the lives and reduced the suffering of thousands of people. The shelter program, initiated in fall and winter 1999, housed more than 290,000 people. USAID funded more than 50 percent of the agriculture rehabilitation effort, revitalizing the livelihoods of more than 70,000 families. It provided more than 80,090 metric tons of Title II emergency food commodities that benefited 2 million people. The

Refugee Nutrition Information System (RNIS) of the UN reported that "overall, the international community was successful in preventing acute malnutrition among the Kosovar refugees."

In addition to the catastrophes described above, USAID continued to respond to protracted complex emergencies in **sub-Saharan Africa (Angola, Burundi, Liberia, Sierra Leone, Sudan, and Uganda)** and in **Asia and the Near East (Indonesia)**—which will be reported on next year. As predicted in the previous year, complex emergencies involving civil conflict continued to consume significant resources.

The relief objective integrates approaches to strengthening capacity of institutions to conduct early warning, disaster preparedness, and mitigation. These efforts help predict and lessen the impact of disasters and improve countries' ability to cope with crises through training of national and local governments and community-based organizations. The Famine Early Warning System (FEWS), operational in 17 countries in **Africa**, contributes to drought and disaster preparedness by improving the quality and effectiveness of information and response systems. Information is produced in a timely manner and used extensively by donors and governments to support target interventions that help to avert large-scale emergency food distribution. For example, FEWS promoted a consensus to the rise in food insecurity in **Ethiopia** and helped avert large-scale emergency food distribution in **Kenya**. It helped build consensus on the need to improve food aid targeting in **East Africa**.

Program(s) Failing to Meet Expectations

According to the self-assessments conducted by Missions and other operating units, all programs met performance expectations.

b. USAID Objective: "Personal Security and Basic Institutions to Meet Critical Intermediate Needs and Protect Human Rights Reestablished" (Transition Assistance)

Postconflict transitions are manifested in armed conflict, large-scale human rights abuses, and destroyed infrastructure such as the institutions of governance. Interventions link short-term responses addressing immediate postconflict rehabilitation needs to longer-term sustainable development approaches. Community impact is an essential element of all transition approaches. Transition activities create or support participatory mechanisms to address community needs in conflict-prone areas. This fosters decision making at the grassroots level on priority issues in rehabilitation, recovery, and reintegration. Focus on community-level participation improves long-term prospects for peace and strengthens government delivery of municipal services. USAID included community impact activities in most transition country strategies.

During FY 1999, USAID provided transition assistance to 29 countries. The Bureau for Humanitarian Response's Office of Transition Initiatives (OTI) responded to 18 complex emergencies and implemented nonemergency transitions in 12 other countries. Of these, **Indonesia, Nigeria, and Kosovo** consumed 60 percent of

OTI's resources. In FY 1999, USAID obligated more than \$37 million in response to these transitions (compared with \$15.7 million in FY 1998).

Programs in transition countries were increasingly integrated into USAID Mission strategic frameworks following Agency guidance on strategic planning. Thus transition activities were increasingly linked to both longer-term development plans and to the Mission Program Plans coordinated by the Embassy.

Devastating natural disasters and continued conflict in transition countries in **Latin America and the Caribbean** undermined progress toward sustainable development and threatened democratic gains. USAID responded to these deteriorating conditions through peace building, conflict resolution, and the promotion of democracy at the local level. USAID's transition program in **Guatemala** reduced and mitigated conflict in target communities. Training in conflict management of newly elected mayors and key staff helped their relationship with local communities and facilitated dialogue on policies affecting their municipalities. Efforts in conflict mediation and community-led development activities reached 6,396 families. In **Haiti**, community-level efforts reshaped public- and private-sector relationships to improve community services in education and health. For example, community mobilization efforts resulted in democratically elected PTA organizations that met several times a year in 52 percent of the 788 USAID-supported schools. The increased involvement of parents



and teachers improved attendance and made schools focal points of the community.

In **sub-Saharan Africa**, USAID's program results were tempered by having to work in difficult and deteriorating conditions. Increases in the number of refugees and IDPs, in conjunction with stalled democratic progress in many transition countries, complicated humanitarian and development responses. Despite this, USAID and its partners implemented and managed programs that achieved positive and meaningful results in moving from relief toward development assistance, conflict resolution, crisis mitigation, and democracy building.

Despite the conflicts and increased insecurity in **Angola**, USAID met many of its targets. Thirty-four communities established Community Development Committees to rehabilitate war-affected populations. More than 350,000 children and 355,000 women received assistance. In three provinces, USAID trained 480 community health workers to provide and improve prenatal care of 47 percent of women registered in the refugee camps. USAID assisted 650,000 people through programs that rehabilitated or opened 74 schools, 5 grinding mills, 4 major markets, 168 latrines, 415 kilometers of roads, 81 bridges, 490 kilometers of irrigation canals, and sources of potable water.

In the **Democratic Republic of the Congo**, USAID helped maintain stability in a few areas under extreme economic and political duress. Programs emphasized building a well-informed and vibrant

peace-building network involving dozens of nongovernmental organizations, communities, and local governments. This network helped solve national, provincial, and community problems through participatory processes. Forty-nine local activities improved rural transportation systems, clinics, and markets. USAID strengthened local capacity by providing 750 extension workers with a training package to promote democracy, good governance, and peace.

USAID targeted communities in **Rwanda** to strengthen links between relief and development and to build local capacities for peace. USAID trained 15,000 newly elected officials in 30 communes to manage local, small-scale development projects and provided grants and technical assistance to women's associations in agriculture and livestock raising. In FY 1999, USAID transitioned several relief-oriented activities into longer-term development programs.

Financial crisis- in combination with natural disasters, conflict, and unconsolidated peace processes- in transition countries in **Asia and the Near East** created opportunities for democratic progress and movement toward sustainable development. USAID programming in the region responded to these opportunities through the promotion of democracy, economic growth, and conflict resolution at the local level.

In **Lebanon**, the Rural Community Development aided the transition process by returning rural communities to economic and social viability. Local citizen committees

selected and implemented projects and contributed at least 25 percent of the cost. This program involved 251 rural communities and 600,000 people in basic infrastructure, income-generation, civic participation, and environmental activities. The program reacts quickly to new transition opportunities in the country. For example, within two weeks of the withdrawal from occupied areas in the South, USAID helped local communities initiate 65 new activities.

Indonesia continued its democratic transition by holding legislative and national elections. New electoral laws permitted the formation of new parties and reduced the military's legislative representation. Citizen confidence was achieved with the organization of an international observation Mission (managed under USAID mechanisms) and issuance of impartial reports on the process. USAID supported local preelection voter education coverage, grassroots political education, public service announcements reaching 130 million citizens, and training for newly elected government officials and journalists. Broader sections of the public, particularly women, were represented through direct citizen involvement and NGO activities. USAID supported a program that enabled 800 subdistricts to voice their opinions for the first time. Community priorities are now incorporated in the decision-making process. Despite positive movement toward democracy and governance, however, increased insecurity continues to threaten the transition process in Indonesia.

International conflict and internal



civil strife in the Balkans and the rest of Tajikistan continued in 1999. In Bosnia/Herzegovina, Croatia, Kosovo, and Tajikistan, USAID responded to resulting humanitarian crises with programs that provided short-term relief and promoted economic growth and democracy at the community level.

USAID programs in **Azerbaijan** fostered self-sustaining, community-based solutions to meet the needs of people. Through small-scale income generation projects, assistance to communities helped mobilize local efforts and resources for business development and job creation, benefiting more than 35,000 individuals.

In **Bosnia/Herzegovina**, USAID's programs have encouraged refugee returns and provided incentives for returnees to stay. Partnered with U.S.-SFOR troops and local governments, USAID helped to restore community infrastructure and create short-term employment opportunities. For instance, 9,500 short-term jobs were created in 1999, and 17,000 people were permanently employed through work in reconstructed facilities. More than 18,500 children attend reconstructed schools, and repaired power systems are serving 25 percent of Bosnia's population.

In **Croatia**, USAID helped with increased integration of Serbian minorities into communities in Eastern Slavonia. For instance, USAID-sponsored Serb-language radio broadcasts paved the way for increased security within communities by bringing together different ethnic groups and promoted

official acceptance of Serb presence in Eastern Slavonia. Also, USAID increased by 25 percent its assistance to clients in dealing with legal matters related to return and fielded election monitors for each of three elections.

In **Kosovo**, USAID supported programs that improved coverage of Kosovar issues in the Federal Republic of Yugoslavia by fielding journalists from Serbia and Montenegro. USAID grants strengthened linkages between refugee camps and host communities in Montenegro, helped engage local communities in Kosovo in identifying and prioritizing community improvement needs, and helped with election/civil registration activity immediately following the cessation of the Kosovo conflict.

USAID supported peace and reconciliation in **Tajikistan** through transition programs, such as the Tajikistan Social Investment Fund, that mobilize communities to help themselves on long-term development issues and income generation. More than 200,000 Tajik citizens benefited from USAID assistance in 1999.

Program(s) Failing to Meet Expectations

According to the self-assessments conducted by Missions and other operating units, all programs met performance expectations.



Part D

Inspector General Audit: Reports on USAID's Consolidated Financial Statements, Internal Controls, and Compliance for Fiscal Year 2000



**REPORTS ON USAID'S
CONSOLIDATED FINANCIAL STATEMENTS,
INTERNAL CONTROLS,
AND COMPLIANCE FOR FISCAL YEAR 2000**

**Report No. 0-000-01-006-F
February 26, 2001**

Washington, DC



U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

February 26, 2001

MEMORANDUM FOR M/CFO, Michael T. Smokovich

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

SUBJECT: Independent Auditor's Reports on USAID's
Consolidated Financial Statements, Internal
Controls, and Compliance for Fiscal Year 2000,
Audit Report No. 0-000-01-006-F

The Office of Inspector General is transmitting its reports on the audit of U.S. Agency for International Development's (USAID's) fiscal year 2000 financial statements, related internal controls, and compliance with applicable laws and regulations. As agreed, only selected items were reviewed, as set forth in the reports attached. An additional report on your Management Discussion and Analysis will be prepared and transmitted in spring 2001.

Under the Government Management Reform Act of 1994, USAID is required to prepare consolidated fiscal year-end financial statements. USAID is required to submit audited financial statements to the Office of Management and Budget and the Department of the Treasury by March 1 following fiscal year end.

We do not express an opinion on USAID's fiscal year 2000 consolidated financial statements because our audit scope was impaired. This impairment resulted because USAID has not implemented adequate financial management systems to produce complete, reliable, timely, and consistent financial information without making material year-end adjustments. Due to time constraints, we were unable to assess the reasonableness of the adjustments and the reliability of the balances reported.

USAID's internal controls have improved during the past 12 months. However, additional corrective actions are



still needed to correct deficiencies reported in our previous reports. USAID had not fully implemented adequate internal controls to ensure that its financial information was reliable, complete, timely, and consistent. Concerning USAID's compliance, we noted 3 material instances of noncompliance with United States government laws and regulations.

Because USAID has embarked on a significant effort to improve the systems that produce its financial statements and has not fully implemented all corrective actions needed to improve its accounting and financial systems, we agreed that it would be most beneficial to concentrate fiscal year 2000 audit efforts in the following five significant areas:

- Reporting credit program receivables,
- Accounting for Advances to Grantees,
- Calculating and reporting accounts payable and accrued expenses,
- Reconciling and managing USAID's fund balance with the U.S. Treasury, and
- Preparing the Management Discussion and Analysis (MD&A) Section,

We issued individual reports for the first four areas¹ and you agreed to the recommendations contained within each of the reports. We will issue a report for the MD&A section in the spring of 2001.

We have evaluated and incorporated comments provided to our draft report in Appendix I & II.

I would like to express my sincerest appreciation for the courtesies extended by your staff to the auditors over

¹ (1)Audit on USAID's Credit Programs and Related Internal Controls for Fiscal Year 2000; (Audit Report No. 0-000-01-002-F), issued February 15, 2001; (2) Audit of USAID's Advances and Prepayments for Fiscal Year 2000, (Audit No.0-000-01-003-F), issued February 15, 2001; (3) Audit of USAID's Accounts Payable and Accrued Expenditures for Fiscal year 2000 (Audit No. 0-000-01-004-F), issued February 15, 2001, and (4)Audit of USAID's Fund Balance with Treasury for Fiscal Year 2000, (Audit No. 0-000-01-005-F), issued February 15, 2001.



the past year. The Office of the Inspector General is looking forward to working with you on the audit of the fiscal year 2001 financial statements and seeing improved systems and controls.



EXECUTIVE SUMMARY

The Government Management Reform Act 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. This law and applicable auditing standards require the Office of Inspector General to:

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

For fiscal year 2000, the Office of the Inspector General agreed with USAID's management to focus our audit effort on the high-risk balance sheet line items, the Management Discussion & Analysis (MD&A), general controls, and followup on prior recommendations. We issued a series of reports that communicated the results of our audits conducted on selected material line items reported in USAID's fiscal year 2000 balance sheet. In the individual reports, we made recommendations to improve USAID's ability to calculate and report its balances at fiscal year end. (*See Appendix IV for a listing of reports issued for fiscal year 2000*). Accordingly, we have not expressed an opinion on the fairness of USAID's financial statements.

Auditor's Opinion on USAID's Fiscal Year 2000 Financial Statements

We do not express an opinion on the consolidated financial statements² for the fiscal years ending September 30, 2000, because our audit scope was impaired. This impairment resulted because USAID has not implemented adequate financial management systems to produce complete, reliable, timely and consistent financial statements without material year-end adjustments. In an effort to address a deficiency reported in our previous audit reports, USAID changed its methodology for calculating and reporting accounts payable, which resulted in a material adjustment being made, which we were unable to validate.

² See Appendix VI for USAID's Consolidated Financial Statements for Fiscal year 2000 that includes the balance sheet reviewed.



Further, the Department of Health and Human Services, the agency that provides payment and management services to USAID for its advances to grantees, experienced system problems during the third and fourth quarters of fiscal year 2000. As a result, USAID's management had to develop a methodology to estimate the balances for the accrued expenses related to advances to grantees and the outstanding advances at yearend. This also resulted in material year-end adjustments being made, which we were unable to validate.

Due to time constraints, we were unable to evaluate the reasonableness of the new methodologies and the reliability of the balances reported. In addition, USAID had not completed its implementation of our recommendations made to correct previously identified deficiencies. The uncorrected system deficiencies and material adjustments created a consequential risk that the financial statements could contain material misstatements. Accordingly, we have not expressed an opinion on the fairness of the financial statements. (*See pages 3 to 5*).

Report on Internal Control Weaknesses

We found that USAID made improvements in some significant areas of its financial statements. However, USAID has not implemented adequate financial management systems to produce complete, reliable, timely and consistent financial statements without material year-end adjustments. Although USAID has made some improvements in its financial management systems over the past year, management had not fully implemented corrective actions previously recommended. As a result, USAID continues to make material—in excess of \$3 billion—adjustments to its year-end accounts payable and advances balances.

In addition, USAID did not consistently report reliable financial information and computer security deficiencies continue to exist. Finally, USAID needs to strengthen its internal controls over the performance information reported in the MD&A. Detailed information concerning the selected material line items reported on the balance sheet and the computer security issues identified can be found in the reports identified in the appendices of this report.

USAID Did Not Consistently Report Reliable Financial Information

USAID did not consistently report reliable financial information. Although USAID has improved its credit program and fund balance internal controls, its managers need to strengthen their processes for recording and reporting financial information in accordance with generally accepted accounting principles. We found that certain financial information reported by USAID was not consistently complete, reliable, and timely. As a result, material adjustments were made after year-end. USAID reported that its financial management systems do not fully comply with some federal financial management system requirements, standards, and the U.S. Government Standard General Ledger at the



transaction level. USAID has identified the current primary accounting system as a material weakness in its fiscal year 1999 Accountability Report and has decided to report these same material weaknesses in the fiscal year 2000 Accountability Report, which will be issued on March 1, 2001.

Computer Security Deficiencies Continue to Exist

In the past year, USAID has made significant progress in improving its computer security program. However, additional work is required to fully implement an effective computer security program.

The OIG has issued several audit reports³ identifying computer security deficiencies that expose USAID to unacceptable risks that resources and sensitive data might not be adequately protected from loss or destruction. The deficiencies exist because USAID has not implemented an effective computer security program as required by the Computer Security Act and OMB Circular A-130 “Management of Federal Information Resources”.

Responding to OIG audits that identified computer security vulnerabilities, USAID identified its overall computer security program and NMS security and access controls as material weaknesses in its fiscal year 1997 Integrity Act Report, and its Accountability Reports for fiscal years 1998 and 1999. However, in the draft Accountability Report for fiscal year 2000, the NMS security and access controls weaknesses are no longer considered a material weakness by USAID. However, USAID’s other computer security program deficiencies still represent a material weakness. (*See pages 6 to 16*).

Report on Compliance with Laws and Regulations

USAID did not comply with provisions of three laws affecting the financial statements. Consequently, USAID has no assurance that all transactions were executed in accordance with:

1. Laws governing the use of budget authority and other laws and regulations that could have a direct and material effect on the Principal Financial Statements or Required Supplementary Information.
2. Other laws, regulations, and government-wide policies identified in Appendix C of OMB bulletin 01-02.

³ 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), issued March 1, 1999; Audit of General Controls Over USAID’s Mainframe Computer Environment (Audit Report No. A-000-99-004-P) issued March 1, 1999; Audit of General Controls Over USAID’s Client-Server Computer Environment (Audit Report No. A-000-99-005-P), issued on March 1, 1999; and Audit of USAID’s Actions to Correct Financial Management System Planning Deficiencies (Audit Report No. A-000-00-003-P), issued August 24, 2000.



We have provided examples of noncompliance with the specific laws and regulations in the attached reports. (*See pages 17 through 27*).

For our audit of USAID's fiscal year 2000 financial statements, we statistically selected and reviewed the financial transactions at 10 missions. Specific details on reportable conditions found will be reported by the individual Regional Inspectors General to the responsible mission management officials.

Office of Inspector General
February 26, 2001



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INTRODUCTION

Background

The United States Agency for International Development (USAID) was created in 1961 to advance the United States' foreign policy interests by promoting broad-based sustainable development and providing humanitarian assistance. USAID has an overseas presence in over 70 countries, 42 of which have fully operational and formal USAID missions. In fiscal year 2000, USAID had total obligation authority of \$7.5 billion.⁴

Under the Government Management Reform Act of 1994, USAID is required to submit audited financial statements to the Office of Management and Budget (OMB) and appropriate Congressional Committees. Pursuant to this Act, USAID has prepared for FY 2000: (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 principal statements, and (7) other accompanying information.

Objectives

OMB Bulletin No. 01-02 and related GAO guidance establish the minimum audit requirements for federal financial statements. For fiscal year 2000, this Bulletin required us to:

- Determine whether USAID's principal financial statements present fairly in all material respects, in conformity with federal accounting standards, the (1) assets; (2) liabilities and net position; (3) net costs; (4) change in net position; (5) budgetary resources; and (6) reconciliation of net costs and budgetary obligations.
- Report on USAID's internal control structure related to these financial statements, as well as, to the internal control structure related to the performance measures contained in the "USAID's Management Discussions and Analysis" section.

⁴ See Appendix V for USAID's Consolidated Financial Statements for Fiscal year 2000 including its "Financial Report MD&A" section.



- 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.

For the first objective, in agreement with USAID management, our fiscal year 2000 audit focus was placed on the following material line items in USAID's balance sheet for which our audit risk was assessed as high: (1) Fund Balance with the U. S. Treasury; (2) Credit Programs; (3) Advances and Prepayments; and (4) Accounts Payable. If we were unable to determine whether, at a minimum, the financial statements were fairly presented, we would, to the extent practicable, obtain sufficient evidence about closing balances to help enable us to form an opinion on subsequent year's financial statements. We were not able to fully implement this objective because the scope of our work was impaired.

For the second objective mentioned above, we attempted obtained an understanding of the components of USAID's internal controls relating to the existence and completeness assertions relevant to the financial statements and the performance measures included in the Management Discussion and Analysis.

The third objective mentioned above included determining 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 Federal Financial Management Improvement Act (FFMIA) of 1996. The scope of our work included those financial management systems that were operational in USAID during fiscal year 2000. To make this determination, we followed the implementation guidance for FFMIA issued by the OMB on September 9, 1997.

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 control structure, and compliance with applicable laws and regulations.



REPORT ON USAID'S CONSOLIDATED FINANCIAL STATEMENTS

Based upon an agreement between USAID's Management and the Office of the Inspector General, we audited USAID's Financial Statements for the fiscal year ended September 30, 2000. USAID Management is responsible for the preparation of its financial statements; our responsibility is to express an opinion on the financial statements based on our audit. The opinions we can issue are:

- Unqualified—if we find that the financial statements are presented fairly in all material aspects.
- Qualified— if we find that the financial statements are fairly presented except for a material departure or exception that is explained in the report.
- Adverse— if we find that the financial statements are not fairly presented.

Instead of issuing one of the three above opinions, we may choose not to give an opinion because an audit of sufficient scope could not be conducted due to limitations or the condition of the financial records.

We were unable to conduct our audit in accordance with generally accepted government auditing standards and the OMB Bulletin 01-02 because we were unable to obtain reasonable assurance about the financial information presented in USAID's fiscal year 2000 Financial Statements. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether USAID's Financial Statements was free of material misstatements. 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 could not express an opinion on USAID's financial statements for the fiscal year ended September 30, 2000, because our audit scope was impaired. USAID has not implemented adequate accounting and financial management systems to produce complete, reliable, timely and consistent financial statements without material year-end adjustments. We found that USAID has changed its methodology for calculating accrued expenses. However, USAID had not changed its methodology and systems for valuing advances to grantees. As a result, USAID made about \$3 billion in net (*see Table 1*



below) adjustments to the figure reported in its general ledger. We were unable to fully evaluate the reasonableness of those adjustments to determine the reliability of the balances reported.

USAID's Net Adjustments to Balance Sheet Items Reviewed

Line Item	Net Adjusted Amounts (Billion)	Statements Affected
Accounts Payable	\$2.350	Balance Sheet, Net Cost
Advance and Prepayments	0.767	Balance Sheet, Net Cost
Credit Programs	0.267	Balance Sheet, Net Cost
Fund Balance with Treasury	0.018	Balance Sheet, Budgetary Resources
Total Year-end Adjustments	\$3.402	

Table 1

In addition, USAID had not completed its implementation of the recommendations made to correct previously identified deficiencies. The uncorrected system deficiencies created a consequential risk that the financial statements, including the performance MD&A information, could contain material misstatements.

OIG and USAID officials agreed to focus the fiscal year 2000 audit efforts on the material line items on USAID's balance sheet. We issued a series of reports that communicated the results of our audits conducted on selected line items reported in USAID's fiscal year 2000 balance sheet. In the individual reports, we made recommendations, when applicable, to improve USAID's ability to calculate and report its balances at fiscal year-end (*See Appendix IV for a listing of reports issued for fiscal year 2000*). Accordingly, we have not expressed an opinion on the fairness of the financial statements.

Finally, with respect to the internal controls relating to the performance information reported in the Management Discussion and Analysis (MD&A), we attempted to gain an understanding of the design of the significant internal controls relating to the existence and completeness assertions as required by OMB Bulletin No. 01-02. However, our scope was impaired because we selected and reviewed a sample of Agency level performance indicators, which USAID officials informed us would be reported in the MD&A. Subsequently—after our fieldwork was almost complete—USAID officials informed us that the performance information previously identified would *not* be reported in the MD&A, but USAID officials instead decided to report on operating unit level indicators in the MD&A.



Based on OIG performance audits,⁵ we were able to comment on the internal controls over the performance information reported in the MD&A. Based on those audits, we know that USAID's operating units did not consistently report credible performance information—which was the basis for the MD&A. Also, based on our limited review, the MD&A was not prepared in accordance with OMB Bulletin No. 97-01.⁶

The following Report on Internal Controls briefly discusses three significant problems:

1. The financial management systems at USAID cannot produce complete, reliable, timely and consistent financial statements without material year-end adjustments. (*See table 1*)
2. Computer security deficiencies continue to exist.
3. Internal controls over MD&A performance information must be strengthened.

As described in the preceding paragraphs, the scope of our work was impaired to such an extent that we are unable to express and do not express an opinion on the accompanying balance sheet, un-audited financial statements, and their related footnotes, due to time constraints, we were unable to evaluate the reasonableness of the material balance sheet adjustments made by USAID. The table on the preceding page shows the adjustments that were made to USAID's account balances at the end of fiscal year 2000.

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February 26, 2001

⁵ Audit of USAID/Malawi's Performance Monitoring for Indicators Appearing in the Fiscal Year 2002 Results Review and Resource Request Report; (Report No. 4-612-01-001-P), issued October 19, 2000; Audit of Global Bureau's Center for Economic Growth and Agricultural Development's Performance Monitoring for Indicators Appearing in the Fiscal Year 2002 Results Review and Resource Request Report; (Report No. 9-000-00-003-P), issued September 26, 2000; Audit of USAID/Ghana's Performance Monitoring for Indicators Appearing in the FY 2001 Results Review and Resource Request; (Report No. 7-641-00-007-P), issued June 30, 2000; Audit of USAID/Brazil's Performance Monitoring for Indicators; (Report No. 1-512-00-005-P), issued July 17, 2000.

⁶ We reviewed and are commenting on the draft MD&A dated November 14, 2000. Subsequent MD&As have been received; however, the contents of those subsequent MD&As have not affected the results of our initial review.



REPORT ON USAID'S INTERNAL CONTROLS

As stated previously, we attempted to audit the accompanying financial statements of USAID as of September 30, 2000 but our report on the financial statements disclaims an opinion on whether it was presented fairly because the scope of our work was impaired. In planning and performing our work to report on USAID's financial statements, we obtained an understanding of the internal control structure by:

- reviewing the design of relevant policies and procedures,
- determining whether they have been placed in operation, and
- assessing control risk.

We gained an understanding of the internal controls only to determine the extent of our auditing procedures for reporting on USAID's fiscal year 2000 financial statements. We do not express an opinion on USAID's overall internal control structure.

As a result of problems noted in previous years' audits, and because USAID had not yet completed actions to correct these deficiencies, the OIG agreed with USAID to focus the fiscal year 2000 audit efforts on the material line items on the balance sheet, the Management Discussion and Analysis, and compliance with applicable laws and regulations. We issued a series of reports that communicated the results of our audits conducted on the selected line items reported in USAID's Fiscal year 2000 Balance Sheet. In the individual reports, we made recommendations to improve USAID's ability to calculate and report its balances at fiscal yearend (*See Appendix IV for a listing of reports issued for fiscal year 2000*).

Background on Internal Controls

Under the *Accounting and Auditing Act* of 1950, the *Federal Managers' Financial Integrity Act* (FMFIA) of 1982 and implementing policies established by the Office of Management and Budget (OMB), USAID's management is responsible for establishing and maintaining effective systems of internal control. To fulfill this responsibility,



management must make estimates and judgments to assess the expected benefits and related costs of internal control policies and procedures. The General Accounting Office has issued *Standards for Internal Controls in the Federal Government* that executive agencies must follow in establishing and maintaining an effective internal control structure as required by law and executive branch policies.

The objectives of an internal control structure, according to the OMB's Bulletin No. 01-02, are to provide management with reasonable assurance about the:

- Reliability of financial reporting—transactions are properly recorded, processed, and summarized to permit the preparation of the Principal Statements in accordance with the federal accounting standards, and the safeguarding of assets against loss from authorized acquisition, use, or disposition.
- Reliability of performance reporting—transactions and other data that support reported performance measures are properly recorded, processed, and summarized to permit the preparation of performance information in accordance with criteria stated by management.
- Compliance with applicable laws and regulations—transactions are executed in accordance with (a) laws governing the use of budget authority and other laws and regulations that could have a direct and material effect on the Principal Statements, and (b) any other laws, regulations and government-wide policies identified by OMB in Appendix C of Bulletins 01-02.

Because of inherent limitations in any internal control structure, errors or irregularities may still occur and not be detected. Also, predicting whether the internal controls will be effective in the future is risky because changes in conditions may require additional controls and the effectiveness of the design and operation of policies and procedures may deteriorate.

Scope of Our Consideration of USAID's Internal Controls

We obtained an understanding of the design of relevant policies and procedures and whether they had been placed in operation to meet the objectives of an internal control structure noted above. We also assessed control risk for the areas noted above.

Because USAID had not completed actions to correct deficiencies noted in previous audits⁷ we focused our fiscal year 2000 audit efforts on selected material line items reported on its balance sheet, the MD&A, general controls, and follow-up on prior recommendations.

⁷ See Appendix III of this report.



We do not express an opinion on the internal control structure because the purpose of our audit was to: (1) determine our auditing procedures for reporting on the financial statements, and (2) identify areas where we could assist the agency with improving its accounting policies and procedures and the reliability of its financial reports. We assessed control risk, performed tests, and issued a series of reports that communicated the results of our audits conducted on the selected material line items and made recommendations to improve USAID's ability to calculate and report its balances at fiscal year end (*See Appendix IV, for a listing of reports issued for fiscal year 2000*). In assessing risks, we considered material internal control weaknesses identified by USAID's management in its Accountability Report, and our prior and current audit efforts related to financial and internal control matters.

We do not express an opinion on the performance information identified in the MD&A section of USAID's financial statements, as the expression of such an opinion was not the purpose of our work. Although OMB requires the OIG to gain an understanding of internal controls over the performance information and report deficiencies that come to our attention, scope impairments prevented us from conducting our work as required. Nevertheless, we are able to comment on the internal controls related to the performance information reported in the MD&A. (See "Internal controls over MD&A performance information must be strengthened" section of this report.)

Even though our work was impaired as discussed above, we noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants and OMB Bulletin No. 01-02. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect USAID management's ability to demonstrate that the control objectives noted above were met.

Some are serious enough to be considered material weaknesses. A material weakness is a condition in which the design or operation of one or more internal control elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material to the financial statements may occur and not be detected promptly by employees in the normal course of performing their duties.

The following section briefly summarizes our findings for those matters that we consider to be reportable conditions and material weaknesses. Our work would not necessarily disclose all material weaknesses in the internal control structure.



Audit Findings

USAID Has Made Improvements In Its Financial Management Systems, But Additional Corrective Actions Are Needed

USAID has made improvements in its financial management systems, but additional corrective actions are needed to produce complete, reliable, timely, and consistent financial information.⁸ USAID had not fully implemented corrective actions previously reported and, as a result, made material year-end adjustments that may make the financial statements unreliable. We found that USAID has made improvements in reporting its Credit Program Receivables and reduced the differences between its records and the U.S. Treasury's records. However:

- Financial management systems still need improvements,
- Computer security deficiencies continue to exist, and
- Internal controls over MD&A performance information must be strengthened.

We have provided additional information regarding these areas below. USAID reported most of these material weaknesses in its fiscal year 1998, 1999, Accountability Reports and in its 2000 Accountability Report, which will be issued on March 1, 2001. USAID has also properly reported the systems deficiencies to OMB.

USAID's Financial Management Systems Still Need Improvements

Over the past year, USAID has continued to strengthen its financial management systems related to reporting credit program receivables and fund balance with the U.S Treasury. However, improvements are still needed for: (1) calculating and reporting accounts payable and (2) accounting for advances to grantees with letter-of-credit agreements. *Appendix IV lists the reports that address each area in detail.*

⁸ See Appendix III for the status of uncorrected findings and recommendations from prior audits that affect the current audit objectives.



Reporting Credit Program Receivables - USAID continues to improve its processes and procedures for reporting credit program receivables. However, despite its improvements in this area, we identified significant discrepancies between the loan information maintained by Riggs Bank⁹ and USAID's records. At September 30, 2000, USAID had absolute discrepancies totaling approximately \$459 million (\$267 million net) between its general and subsidiary ledgers.

These discrepancies occurred because:

- Riggs Bank posted adjustments to its loan system throughout fiscal years 1999 and 2000, under USAID direction, without adequate support.
- USAID used the September 30, 1999, closing balances from its legacy systems and adjusted those balances with only the current year activities recorded in Riggs Bank's loan system to prepare its Credit Program trial balance for fiscal year 2000. USAID did not record all the adjustments posted to the Riggs Bank loan system during 1999 and 2000.

USAID identified and reconciled approximately \$366 million (\$182 million net) of the \$459 million differences, which existed between its subsidiary and general ledger. USAID made the necessary adjustments for these differences. With our concurrence, USAID also posted a one-time unsupported adjustment of approximately \$93 million (\$85 million net) for the remaining unreconciled differences between its general ledger and its subsidiary ledger. These entries were necessary to bring USAID's general ledger into agreement with its subsidiary ledger.

Reporting Fund Balance with the U.S Treasury - USAID has also improved its internal controls in this area. However, we identified reportable conditions that if corrected, would enable USAID to provide a more reliable account of its Fund Balance with the U.S. Treasury and more reliable financial information to its oversight agencies at fiscal yearend. These reportable conditions do not have a material impact on the USAID Fund Balance with Treasury line item reported on its balance sheet. The significant reportable conditions are:

- USAID did not consistently and completely reconcile differences, of about \$18 million, between its records and the U.S. Treasury records, and
- USAID did not consistently comply with OMB reporting requirements for submitting quarterly budgetary reports.

⁹ In 1998, USAID entered into a contract with Riggs National Bank to provide loan servicing and financial management services for USAID's loan portfolios. As of October 1, 1999, USAID's legacy systems were discontinued and Riggs National Bank's loan system became USAID's subsidiary ledger for its loan portfolio.



USAID needs to continue researching and resolving all outstanding reconciling items and develop and implement procedures to obtain the necessary information needed from its overseas missions to submit quarterly budget reports to OMB.

Calculating and Reporting Accrued Expenditures and Accounts Payable – We were unable to determine whether USAID properly calculated and reported accounts payable to permit the preparation of reliable financial statements as of September 30, 2000. Initially, USAID’s plan was to calculate its accounts payable using a statistical model for its Washington activities based on the obligations recorded in the New Management System (NMS). However, USAID officials abandoned this plan because of uncertainties about the reliability of the scheduled completion dates for the grants and contracts recorded in NMS, needed for the model.

On December 12, 2000, USAID informed us that a new methodology was used to calculate accounts payable, which resulted in an adjustment in excess of \$1.9 billion. Subsequently, on December 20, 2000, USAID informed us that this methodology was further modified, and an additional adjustment of about \$0.4 billion was recorded, for a total adjustment of approximately \$2.3 billion. The amount of substantive testing needed to determine the reasonableness of the new methodology and the reliability of the adjustment would have been prohibitive and unattainable by the statutory deadline for submitting the audited financial statements to the Office of Management and Budget. Accordingly, we were unable to determine the reliability of the amounts reported for accounts payable. This is unacceptable under any conditions.

We were unable to determine whether USAID’s methodology for calculating accounts payable for its Washington activities complied with the generally accepted accounting principles. Under USAID’s planned statistical methodology, accounts payable estimates calculated for its Washington activities would not be supported by actual or constructive receipt of goods and services.

Under its new methodology, USAID’s Office of Financial Management performed a trend analysis to establish its accounts payable balance for fiscal year 2000 based on the accounts payable calculated and reported during fiscal years 1997 through 1999 and the disbursements for the subsequent accounting periods. As a result of the new methodology, for fiscal year 2000, USAID made an adjustment in excess of \$2.3 billion to more accurately report accrued expenditures and accounts payable balances in its financial statements. Due to time constraints, we were unable to determine the reasonableness of the new methodology and the reliability of the adjustment.

Accounting for Advances to Grantees – We were unable to determine whether USAID’s advance account balance was reliable as of September 30, 2000, because:

- (1) USAID’s use of the cash pooling method of accounting for advances may hinder its ability to report reliable status of financial and budgetary resources at the obligation and appropriation level.



- (2) USAID did not promptly record 603 grant agreements and modifications, totaling approximately \$633 million, in the grant financial accounting system.
- (3) USAID transferred unliquidated obligations totaling about \$1.3 billion to the Department of Health and Human Service's Payment Management System without verifying the accuracy of the transferred balances.
- (4) USAID did not follow its established policy of performing a monthly reconciliation between the advance subsidiary ledger and its general ledger. At September 30, 2000, there was an unexplained difference of \$126 million between USAID's general ledger and its advance subsidiary ledger. USAID did not know which, if either, had the correct balance.
- (5) USAID's general ledger system did not provide an adequate audit trail for the \$1.3 billion advance balance reported.
- (6) USAID did not promptly record expenses totaling about \$767 million in its general ledger.

USAID agreed with our prior recommendations to change its methodology for disbursing advance to grantees, which would have corrected items one to four above. However, in fiscal year 2000, OMB issued a proposed amendment to Circular A-110 that proposed mandatory requirements for Federal Agencies to offer the pooled advance method to grantees. Because of this proposed change in regulations, USAID decided, with our concurrence, that the only practical course of action was to suspend its conversion of grantees to the obligation method of disbursing advances to grantees pending a final ruling by OMB. Therefore, USAID continues to use the pooled method for disbursing advances to grantees.

To date, OMB has not issued a final ruling on the pooling of advance issue. However, per the Federal Register Notice on the Federal Financial Assistance Management Improvement Act of 1999 dated January 17, 2001, the CFO Council's Grants Management Committee is clarifying differing positions on the pooled method issue for advances and will specify when pooling is applicable.

Mission Activity – For fiscal year 2000, we statistically selected and reviewed financial-related activities at 10 USAID missions.¹⁰ The reportable conditions identified at the missions were communicated to management at the individual missions and are not repeated in this report.

¹⁰ The ten missions selected for review were those in Jordan, Egypt, Ghana, Guinea, the Philippines, Indonesia, Russia, El Salvador, Botswana, and Mozambique.



Computer Security

Deficiencies Continue to Exist

Computer security deficiencies continue to exist at USAID. We have issued several audit reports¹¹ identifying certain computer security deficiencies that exposed USAID to unacceptable risks that resources and sensitive data may not be adequately protected from loss or destruction. The deficiencies exist because USAID has not implemented an effective computer security program as required by the Computer Security Act and OMB Circular A-130 “Management of Federal Information Resources”.

As previously stated, in its Accountability Reports, USAID identified its overall computer security program and NMS security and access controls as material weaknesses in its fiscal year 1997 Integrity Act Report, and its Accountability Reports for fiscal years 1998 and 1999. At the date of this report, the NMS security and access controls weakness is no longer considered a material weakness because USAID made security improvements to the NMS software, developed a detailed NMS Security Plan and conducted a comprehensive Security Certification and Accreditation of NMS. Since 1997, USAID has also made progress in developing a computer security program. These efforts, which include long-term and short-term improvements, are still underway.

The OIG identified general control weaknesses during three of the four audits mentioned above, which were conducted at USAID/Washington during fiscal year 1999. During fiscal year 2000, the OIG’s evaluation was based largely on USAID’s progress in addressing the general control and security deficiencies identified in previous reports. The review concluded that eleven of the recommendations, from the three general control audit reports, were not closed until September 2000. More importantly, USAID’s own computer security assessments identified numerous vulnerabilities through its network scans of systems located in USAID/Washington and overseas missions. As a result, USAID’s computer systems and the operations that rely on these systems were vulnerable to disruption and misuse. Of particular concern is the need to improve and fully test USAID’s plans for maintaining continuity of operations. In the event of a disaster, USAID does not have an adequate disaster contingency plan that could affect its continuing operations.

General controls are the structure, policies, and procedures that apply to an entity’s overall computer operations. These controls create the environment in which application systems and controls operate. If general controls are weak or ineffective, they severely diminish the reliability of controls associated with individual applications. Without effective general controls, application controls may be rendered ineffective by circumvention or modification.

¹¹ 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), issued March 1, 1999; Audit of General Controls Over USAID’s Mainframe Computer Environment (Audit Report No. A-000-99-004-P), issued March 1, 1999; Audit of General Controls Over USAID’s Client-Server Computer Environment (Audit Report No. A-000-99-005-P), issued on March 1, 1999; and Audit of USAID’s Actions to Correct Financial Management System Planning Deficiencies (Audit Report No. A-000-00-003-P), issued August 24, 2000.

Progress Correcting Financial Management System Planning Deficiencies - In

August 2000, an OIG audit¹² disclosed that USAID made progress in correcting the five financial management system planning deficiencies identified in a prior audit¹³, but only two of the five deficiencies have been fully corrected. The remaining three deficiencies have been only partially corrected by USAID management.

The five planning deficiencies that were identified in the March 1, 1999, FFMIA audit report included the following:

- (1) the lack of an agency-wide information technology target architecture,
- (2) the lack of a financial management system portfolio that met OMB's guidelines for selecting information technology investments,
- (3) the lack of a modular acquisition strategy,
- (4) an inadequate financial management system remediation plan, and
- (5) the lack of a program management office to oversee the development of an integrated financial management system.

Since we reported the above deficiencies, USAID has developed (1) an agency-wide information technology target architecture, (2) a financial management system portfolio, (3) a modular acquisition strategy, and (4) a financial management system remediation plan. USAID also established a program management office to oversee the development of an integrated financial management system.

However, we found that USAID's financial management system portfolio was not developed in accordance with OMB guidelines, and that the remediation plan was not adequate. In addition, we found that the lines of authority for the program management office need to be clarified.

The OIG's analysis of the FFMIA remediation plan in the USAID CFO FY 2002 document¹⁴ disclosed that USAID's remediation plan does not fully comply with OMB Circular No. A-11 requirements. There was significant improvement from the prior year's plan in disclosing resources, remedies, and target dates; but, the world-wide deployment of the core financial system plan does not have specific target dates and required resources. The remediation plan states that USAID will achieve compliance

¹² Audit of USAID's Actions to Correct Financial Management System Planning Deficiencies (Audit Report No. A-000-00-003-P), issued August 24, 2000.

¹³ 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), issued March 1, 1999.

¹⁴ USAID CFO FY 2002 Financial Management Budget Justification, dated January 2001.



with FFMIA in FY 2003 by implementing an integrated financial management system at USAID/Washington and 2 pilot Missions; however, USAID may not achieve this goal until the system is implemented world-wide. In addition, the plan does not identify officials responsible for bringing the system into compliance as required in the July 19, 2000 revision of OMB Circular No. A-11, “*The Preparation and Submission of Budget Estimates*”.

The January 4, 2001, revision to Implementation Guidance for FFMIA of 1996, effective for financial and audit reports for fiscal year 2000, requires auditors to report on agency failures to meet deadlines in remediation plans. Our comparison of the prior and current year’s remediation plans indicates that USAID will not meet milestones outlined in the previous year’s plan. See *table 2 below*:

Comparison of Prior and Current Year’s Remediation Plans

System	FY 2000 Target Dates	FY 2001 Target Dates
Core Financial System, USAID/W	4 th Quarter 2000	*1 st Quarter 2001
Managerial Cost Accounting System	2000	2002
Procurement System	2002	2003
Core Financial System at 2 Pilot Missions	March, 2001	4 th Quarter 2001
Core Financial System World-wide	4 th Quarter 2002	None

Table 2

USAID officials stated that the slippage of the target dates was primarily due to a re-evaluation of their product acquisition process and a decision to mitigate the risk of proceeding too quickly with the implementation of a complex and key system.

Internal Controls Over MD&A

Performance Information Must be Strengthened¹⁵

USAID did not prepare the MD&A in accordance with OMB Bulletin No. 97-01, as amended, “Form and Content of Agency Financial Statements,” dated October 16, 1996. For example, the MD&A did not:

- Compare actual results to goals or benchmarks or
- Report results that relate to the performance measures developed in USAID’s 1997 Strategic Plan¹⁶, which was current for fiscal year 2000.

¹⁵ The OIG will issue a separate audit report that will further explain the details relating to this section.

¹⁶ The USAID 1997 Strategic Plan was subsequently revised and the Agency began reporting against the objectives of the individual operating units.



The Chief Financial Officer (CFO) worked collaboratively with USAID's Bureau for Policy and Program Coordination (PPC) to develop a plan to prepare the MD&A for fiscal year 2000. As agreed to in the plan, PPC provided the CFO with USAID's draft Performance Overview.¹⁷ However, because USAID's draft Performance Overview did not include all of the information needed for the MD&A, the CFO was not able to prepare the MD&A in accordance with OMB Bulletin No. 97-01. As a result, USAID's MD&A for fiscal year 2000 did not provide financial statement users with a fair presentation of its program performance.

In addition, as discussed previously, we were not able to review the performance information because of the scope impairment. However, the OIG is conducting a series of audits relative to the operating units' performance reports—which forms the basis of the performance information reported in the MD&A. Based on the audits completed to date,¹⁸ we determined that the operating units did not consistently report credible performance information as required by Automated Directives System E203.5.5, "Performance Monitoring"¹⁹. Credible performance information was not consistently reported because the operating units needed to develop and implement a proper system of internal controls for monitoring program performance. Specifically, operating units needed to prepare performance-monitoring plans and perform data quality assessments—two key elements of USAID's performance monitoring system. As a result of USAID's reliance on the operating units' performance information, the MD&A may not consistently provide financial statement users with credible performance information for decision-making purposes.²⁰

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February 26, 2001

¹⁷ The Performance Overview, a Government Performance and Results Act of 1993 document, is intended to discuss the performance of USAID's programs in fiscal year 2000.

¹⁸ Audit of USAID/Malawi's Performance Monitoring for Indicators Appearing in the Fiscal Year 2002 Results Review and Resource Request Report; (Report No. 4-612-01-001-P), issued October 19, 2000; Audit of Global Bureau's Center for Economic Growth and Agricultural Development's Performance Monitoring for Indicators Appearing in the Fiscal Year 2002 Results Review and Resource Request Report; (Report No. 9-000-00-003-P), issued September 26, 2000; Audit of USAID/Ghana's Performance Monitoring for Indicators Appearing in the FY 2001 Results Review and Resource Request; (Report No. 7-641-00-007-P), issued June 30, 2000; Audit of USAID/Brazil's Performance Monitoring for Indicators; (Report No. 1-512-00-005-P), issued July 17, 2000.

¹⁹ ADS E203.5.5 was superseded by sections of ADS 201 and 203 in August 2000. However, ADS E203.5.5 was effective at the time the performance reports were prepared.

²⁰ This finding is based on reports already issued which contained recommendations that are not repeated in this report.



REPORT ON USAID COMPLIANCE

We attempted to review USAID's financial statements for the year ended September 30, 2000. Our report does not provide an opinion on the financial statements. Our objective was to determine whether the account balances reported on USAID's Fiscal year 2000 financial statements were accurately stated in all respects. USAID management is responsible for compliance with applicable laws and regulations related to its financial statements and balance sheet.

Although we were unable to fully audit and report on USAID's compliance with laws and regulations because of the limited scope of our review, instances of potential material noncompliance came to our attention with regards to the requirements of the following:

- Chief Financial Officers Act of 1990
- Federal Financial Management Improvement Act of 1996
- Computer Security Act of 1987

We have reported other instances of noncompliance with applicable laws and regulations in the internal control section of this report. The following sections discuss instances of potential noncompliance with laws and related regulations listed above.

Chief Financial Officers Act of 1990

USAID has not fully delegated sufficient responsibilities and authority to the Chief Financial Officer (CFO) to successfully implement an integrated financial management system required by the Chief Financial Officers Act of 1990 and executive branch policy.

The Chief Financial Officers Act of 1990 (Public Law No. 101-576) requires each federal agency's CFO to develop and maintain an integrated financial management system, including financial reporting and internal controls which:

- Comply with applicable accounting principles, standards, and requirements, and internal control standards.
- Comply with such policies and requirements as may be prescribed by the Director of the Office of Management and Budget (OMB).

- Comply with any other requirements applicable to such systems.
- Provide for: (1) complete, reliable, consistent, and timely information which is prepared on a uniform basis and which is responsive to the financial information needs of agency management; (2) the development and reporting of cost information; (3) the integration of accounting and budgeting information; and (4) the systemic measurement of performance.

Federal Financial Management Improvement Act of 1996

The Federal Financial Management Improvement Act of 1996 (FFMIA) requires USAID to implement and maintain a financial management system that complies substantially with: (1) Federal requirements for an integrated financial management system; (2) applicable Federal accounting standards; and (3) requirements to post transactions to the United States Standard General Ledger at the transaction level.²¹ These requirements are detailed in OMB Circular No. A-127, Financial Management Systems. Section 7 of this Circular identifies the requirements or characteristics that Federal financial management systems should possess. Other policy documents further detail these requirements.²²

The FFMIA also requires that our audit of USAID's financial statements report on whether the financial management system complies with the above mentioned accounting and system requirements. The following information summarizes USAID's noncompliance with those requirements.

Nature and Extent of Noncompliance

During fiscal year 2000, USAID's financial management systems did not substantially comply with the FFMIA's accounting and system requirements. Although USAID managers have committed to follow disciplined practices to modernize USAID systems and have taken several steps to do so, significant improvements are not achievable until existing systems are replaced or modernized. As a result, during fiscal year 2000, USAID's financial management systems did not comply substantially with: (1) federal financial management system requirements, (2) applicable federal accounting standards, and (3) requirements that transactions be posted to the United States Standard General Ledger at the transaction level as required by FFMIA.

²¹ In this section, we report on USAID's compliance with Federal requirements for financial management systems rather than its compliance with the Act itself.

²² Office of Management and Budget's Circulars No. A-130, Management of Federal Information Resources, No. A-134, Financial Accounting Principles and Standards, No. A-11, Preparation and Submission of Budget Estimates, and No. A-34, Instructions on Budget Execution; U.S. Treasury's Treasury Financial Manual. In particular, the Joint Financial Management Improvement Program has published several documents describing detailed functional requirements that systems should possess to perform effectively.



Financial management systems' deficiencies that we first reported during fiscal year 1997 continue to exist.²³ This occurred because USAID's New Management System (NMS) did not operate effectively. Therefore, USAID has had to rely on a combination of outmoded legacy systems, informal and unofficial records maintained by individual managers or organizational units, and NMS—which suffers from technical and operational problems.

However, during fiscal year 2000 and 2001 USAID installed, configured, tested, and readied a new, core financial system software. This new system, Phoenix, began supporting Washington financial operations on December 15, 2000. Key financial data including obligation, expenditure, and loan information have been migrated to the new system.

Federal Financial Management System Requirements – USAID's financial management systems did not substantially comply with Federal financial management system requirements. These requirements are designed to enable agencies to provide complete, reliable, timely, and consistent information to decision makers and the public. Agencies, including Treasury and OMB, need this information to: (1) carry out their fiduciary responsibilities; (2) deter fraud, waste, and abuse; (3) facilitate efficient and effective delivery of programs; and (4) hold agency managers accountable for the way government programs are managed. The Congress needs this information to oversee government operations, and the public, to exercise their right of access to government information. Thus, a key objective of financial management systems is to ensure that reliable financial and program performance data are obtained, maintained, and reported.

During fiscal year 2000, our audits and USAID's management assessments confirmed the continuing existence of financial management system deficiencies that we reported during fiscal year 1997.²⁴ As a result, in fiscal year 2000, USAID's financial management systems did not substantially comply with Federal financial management system requirements. For example, USAID:

- Lacked an agency-wide classification structure, which standardizes data definitions and formats for financial management systems.
- Relied on multiple incompatible systems that cannot exchange data and thus, did not have an integrated financial management system.

²³ 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) issued March 2, 1998.

²⁴ Audit of the Worldwide Deployment of the New Management System (NMS), (Audit Report No. A-000-97-004-P), issued March 31, 1997; Audit of USAID's Efforts to Resolve the Year 2000 Problem, (Audit Report No. A-000-97-005-P), issued July 11, 1997; Audit of USAID's Compliance with Federal Computer Security Requirements, (Audit Report No. A-000-97-008-P), issued September 30, 1997; Audit of the Internal Controls for the Operational New Management System, (Audit Report No. A-000-97-009-P), issued September 30, 1997, and Audit of the Status of USAID's New Management System (NMS), (Audit Report No. A-000-97-010-P), issued September 30, 1997.

- Had not implemented effective computer security controls.
- Did not have a financial system that met Joint Financial Management Improvement Program requirements to (a) support the Prompt Payment Act, (b) support external reporting needs, and (c) ensure that costs are accumulated and reported with proper matching of periods, segments, and outputs.
- Had not implemented an effective accrual methodology.
- Did not have a financial system able to attribute costs to organizations, locations, projects, programs, or activities.
- Did not record accounts receivable in accordance with the U.S. Standard General Ledger at the transaction level.

Federal Accounting Standards – USAID’s financial management systems may not comply with applicable Federal accounting standards. Specifically, we were unable to determine whether USAID financial management systems complied with the Statements of Federal Financial Accounting Standards No. 1, Accounting for Selected Assets and Liabilities. However, we determined that USAID financial management systems did not comply with Statements of Federal Financial Accounting Standards No. 4, Managerial Cost Accounting Concepts and Standards for the Federal Government.

Accounting For Selected Assets and Liabilities

Statement of Federal Financial Accounting Standard No. 1 states that when an entity accepts title to goods, whether the goods are delivered or in transit, the entity should recognize a liability for the unpaid amount of the goods. It adds that if invoices for those goods are not available when financial statements are prepared, the amounts owed should be estimated. We were unable to determine whether USAID’s methodology for calculating accrued expenditures and account payable for its Washington activities complied with generally accepted accounting principles.

USAID initially planned to use a statistical model to calculate accounts payable for its Washington activities based on obligations recorded in the New Management System (NMS). This plan was abandoned due to USAID’s uncertainty, about the accuracy of the scheduled completion dates for contracts recorded in NMS. As a result of this uncertainty a new methodology was adopted by USAID to calculate accounts payable.

Under its new methodology, the Office of Financial Management performed a trend analysis of the accounts payable calculated and reported during fiscal years 1997 through 1999 and the disbursements for the subsequent accounting periods to establish its accounts payable balance for fiscal year 2000. As a result of the new methodology for fiscal year 2000, USAID made an adjustment in excess of 2.3 billion. Due to time



constraints, we were unable to evaluate this new methodology and the reasonableness of the adjustment.

Managerial Cost Accounting Concepts and Standards for the Federal Government

USAID has not implemented Statement of Federal Financial Accounting Standards No. 4. USAID did not comply with five fundamental elements of managerial cost accounting:

- Requirement for cost accounting - Each reporting entity should accumulate and report the costs of its activities on a regular basis for management information purposes.
- Responsibility segments - Management of each reporting entity should define and establish responsibility segments.
- Full cost - Reporting entities should report the full costs of outputs in general purpose financial reports.
- Inter-entity costs - Each entity's full cost should incorporate the full cost of goods and services that it receives from other entities.
- Costing methodology - Cost of resources consumed by responsibility segments should be accumulated by type of resource.

This standard requires federal agencies to be able to provide reliable and timely information on the full cost of their programs, activities, and outputs by responsible segments. The cost assignments should be performed using one of the following methods listed in order of preference: (a) directly tracing costs wherever feasible and economically practicable; (b) assigning costs on a cause-and-effect basis; or (c) allocating costs on a reasonable and consistent basis. Cost information developed for different purposes should be drawn from a common data source, and output reports should be reconcilable to each other. Currently, USAID's financial system is not able to attribute costs to organizations, locations, projects, programs, or activities.

Use of United States Standard General Ledger at the Transaction Level - USAID did not record Accounts Receivable, Mission activities, Non-Expendable Property, and Loans in accordance with the United States Standard General Ledger at the transaction level. USAID did not have an integrated accounting and financial management system.

Cause of Noncompliance

Ineffective processes for managing information resources continue to be the primary cause of USAID's difficulties deploying effective information systems. USAID reported deficiencies in its processes for managing information resources as a material weakness in its fiscal year 1997, 1998, 1999, and planned 2000 reports under the Integrity Act.

Although USAID has taken steps to implement disciplined processes, and in September 1999, awarded a contract for a commercial-off-the-shelf core accounting system to replace its current core accounting system, significant improvements are not achievable until (1) the new system is installed and made operational and (2) other financially-related systems are replaced or modernized. However, during FY 2000 and 2001 USAID installed, configured, tested, and readied a new core financial system software. This new system, Phoenix, began supporting Washington financial operations on December 15, 2000.

Organization Responsible for Noncompliance

The Clinger-Cohen Act of 1996 makes the head of each agency, in consultation with the Chief Financial Officer (CFO) and Chief Information Officer (CIO), accountable for establishing policies and procedures that ensure that: (1) agency information systems provide financial and program performance data for agency financial statements; (2) financial and performance data are provided to financial management systems in a reliable, consistent, and timely manner; and (3) financial statements support assessments and revisions of mission and administrative processes, and measurements of the performance of information technology investments. Thus, the CFO and the CIO, reporting to the Administrator, share responsibility for implementing and maintaining an effective and efficient financial management system that meets Federal requirements for financial management systems. At USAID, both the CFO and CIO positions are located within the Management Bureau.

Recommendations

In our March 1999 audit report, [Audit of USAID's Progress Implementing a Financial Management System that Meets Federal Financial Management Improvement Act Requirements](#),²⁵ we reported weaknesses in USAID's FFMIA remediation plans. That report recommended that before acquiring any financial management system components, USAID should:

1. complete an Agency-wide information technology target architecture,
2. use the target architecture to define USAID's financial management system portfolio,
3. complete a modular acquisition strategy, and
4. revise its remediation plan and develop sufficiently detailed supporting plans.

²⁵ [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), issued March 1, 1999.



The report also recommended that USAID establish a strong program management office with the responsibility, authority, and resources to apply disciplined practices to implement financial management system improvements.

As of January 31, 2000, USAID had made management decisions to complete a modular acquisition strategy and to revise its remediation plan and had taken final action to complete an agency-wide information technology target architecture, to use the target architecture to define the Agency's financial management system portfolio, and to establish a program management office to implement financial management system improvements.

In an August 2000 report²⁶, we followed-up on the open recommendations in the above report. We reported that USAID should:

- (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 Making²⁷; and apply the process to prioritize USAID's financial management system investments as part of a portfolio of planned information technology investments for USAID's Fiscal Year 2002 budget submission to OMB;
- (2) Revise the financial management systems remediation plan to include the estimated resources, remedies, and intermediate target dates needed to implement an integrated financial management system as required by the Federal Financial Management Improvement Act of 1996; and
- (3) 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.

We expect to report on our follow up work in the OIG's next Semiannual Report to Congress, which will cover the period ending March 31, 2001.

Progress Implementing an Integrated Financial Management System

The Federal Financial Management Improvement Act (FFMIA) requires that each agency implement and maintain financial management systems that comply with Federal financial management systems requirements including Office of Management and

²⁶ Audit of USAID's Actions to Correct Financial Management System Planning Deficiencies, (Audit Report No. A-000-00-003-P), issued August 24, 2000.

²⁷ Executive Guide: Leading Practices in Capital Decision Making (GAO/AMID-99-32, December 1998)

Budget's Circular Number A-127. USAID's goal is to implement an integrated financial management system in accordance with these requirements by fiscal year 2003.

To attain this goal, USAID established the Office of Financial Systems Integration to plan for and acquire USAID's financial systems. This Office, under the direction of the Chief Financial Officer and Chief Information Officer, is also preparing an overall plan to modernize USAID's legacy systems as components of an integrated financial system.

USAID is in the process of implementing an integrated financial management system using commercial-off-the-shelf software that will comply with the FFMIA and the Clinger-Cohen Act of 1996. Because USAID's integrated system will include legacy system information, USAID will need to convert and move data from existing systems to the new core financial management system. This new system is being implemented in several phases.

- Phase I focused on implementing the core financial accounting component of the new integrated financial management system (Phoenix). Deployment was initially scheduled for completion by October 1, 2000; however, USAID senior management delayed the start date. The actual deployment date was not until December 15, 2000.
- Phase II is the pilot implementation of the core accounting system at two overseas missions (Egypt and El Salvador). This is scheduled for completion by April 1, 2001; however, phase II may also be delayed.
- Subsequent phases will focus on deploying the new system to other missions.

The OIG identified several concerns with the Phoenix implementation before the scheduled deployment. These include:

- Compressed and limited software testing of functional requirements and lack of parallel operations.
- Delays in migrating data from the old to the new system.
- Incomplete and untested contingency plan to ensure continued operation in the event of unforeseen problems occurring before or after deployment.
- Deferral of some system functionality until December 2000 and later.
- Uncertain attendance at user training sessions.
- No process to document the showstoppers and the final decisions authorizing deployment of the system.



The OIG expressed these concerns and recommended that USAID thoroughly test Phoenix and work out any operational problems to better assure that the system will operate effectively and provide reliable information to managers. To address such concerns, USAID delayed the deployment, took action to conduct more testing, increased users' participation, and designed a project tool to assess the operational readiness of Phoenix.

Computer Security Act of 1987

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. OMB Circular No. A-130 contains executive branch policy for implementing this law.

In September 1997, the OIG reported²⁸ that management deficiencies had prevented USAID from implementing an effective computer security program as required by the Computer Security Act and the Office of Management and Budget. These deficiencies exposed USAID to high risks that resources will not be adequately protected from fraud or misuse. The deficiencies occurred because USAID did not implement an adequate system of management controls to support an effective computer security program. In this regard, USAID had not: (1) developed an organizational structure that clearly delegated responsibility and provided appropriate authority; (2) established planning policies needed to provide a foundation for an effective security program; and (3) implemented key management processes to ensure that security requirements were met.

The OIG conducted a series of audits of USAID's general computer security controls during fiscal year 1999²⁹. The OIG found that USAID had not implemented effective general controls over its mainframe, client server (which hosts the NMS), and USAID Mission computer systems. Specifically, the OIG identified deficiencies in: (1) the entity-wide security program and management; (2) access controls; (3) application software development and change processes; (4) segregation of computer system duties; (5) system software change controls; and (6) continuity of services controls. A primary reason for ineffective general controls is the lack of an agency-wide security program that includes clear security responsibilities and agency-wide security processes.

²⁸ [Audit of USAID's Compliance with Federal Computer Security Requirements](#), (Audit Report No. A-000-97-008-P), issued September 30, 1997.

²⁹ [Audit of USAID/Peru's General Controls Over the Mission Accounting and Control System](#), (Audit Report No. 527-99-001-P), issued December 30, 1998; [Audit of Access and System's Software Security Controls Over the Mission Accounting and Control System](#), (Audit Report No. A-000-99-002-P), issued 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), issued March 1, 1999; [Audit of General Controls Over USAID's Mainframe Computer Environment](#), (A-000-99-004-P), issued March 1, 1999; and [Audit of General Controls Over USAID's Client-Server Environment](#), (A-000-99-005-P), issued March 1, 1999.



During fiscal year 2000, the OIG's review of audit recommendations that were intended to resolve the above general control weaknesses and USAID's computer security assessments confirmed the continuing existence of general control weaknesses. For example, our review found that nineteen of the twenty recommendations contained in our 1999 audit reports remained open during fiscal year 2000. More importantly, USAID's assessment found that computer security vulnerabilities continue to exist at USAID/Washington and overseas Missions. To illustrate, the assessments conducted at the overseas missions ranged from high to low risk because local officials did not consistently implement the security practices.

USAID has made significant progress in developing a program to improve its ability to protect computerized information. For example, USAID has updated security policies, developed a security evaluation process that requires certification by USAID management, developed and conducted on-site risk assessments at six missions, and performed security evaluations and certifications of NMS. Also, USAID officials have crafted a Model Information System Security Program. This program provides a framework for identifying and disseminating to other government agencies a complete set of 'best practices' for implementing an effective computer security program. The program has been recognized by the Chief Information Officers Council, General Services Administration, and others, as an innovative and comprehensive approach that could benefit the entire Federal Government.

Although significant improvements in USAID Information Systems Security have occurred, much work remains to be done to fully implement an effective computer security program. USAID estimates that computer security vulnerabilities will not be fully corrected until 2003.

Office of Inspector General
February 26, 2001



APPENDIX I
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**OIG EVALUATION OF USAID
MANAGEMENT COMMENTS**

USAID's management agreed with the findings in this report and commented that they are pleased to see that the OIG noted the improvements the Agency has made regarding the two largest assets on the balance sheet—Fund Balance with the U.S. Treasury and Credit Program Receivables. USAID management further agrees that additional work is needed to improve the reporting of advances and accounts payable, the other two items on the balance sheet reviewed by the OIG in the fiscal year 2000 audit. With our concurrence, USAID's management is waiting on the decision from the Chief Financial Officer's Council Grants Management Committee to determine whether the Agency will convert all grants from the pooled method to the grant-by-grant basis. For accounts payable, USAID's management commented that the \$2.3 billion adjusting entry, developed using a trend analysis, was needed to correct the previously accrual calculated by the New Management System. USAID will use the same trend analysis to develop its accounts payable amounts for fiscal year 2001. The OIG plan to review this methodology and any resulting adjustments in detail during our fiscal year 2001 GMRA audit.

USAID management noted that they have revised the approach to performance reporting in response to criticism about the manageability of its strategic plan. The revision was incorporated in USAID's fiscal year 2000 Strategic Plan to begin reporting at the operating unit level in fiscal year 2000. USAID management further recognized our observation about the credibility of the performance reporting in the fiscal year 2000 Accountability Report. In response to our observation, USAID noted that they are implementing workshops worldwide for managing, planning, and offering technical assistance to the operating units to improve quality control of its performance-monitoring plan. As necessary, the OIG will evaluate the effectiveness of this implementation during our fiscal year 2001 GMRA audit.

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



USAID'S MANAGEMENT COMMENTS



U. S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

February 16, 2001

MEMORANDUM

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

FROM: M/CFO, Elmer S. Owens *ES Owens*

SUBJECT: Independent Auditor's Reports on USAID's Balance Sheet, Internal Controls, and Compliance for Fiscal Year 2000, Audit Report No. 0-000-01-00X-F

Thank you for the opportunity to comment on the subject draft report. We are in general agreement with the audit findings and look forward to working with you and your staff to remove the remaining barriers impairing your ability to render an opinion on the Agency's financial statements.

In the draft report on internal control, we were pleased to see that you noted the improvements the Agency has made regarding the two largest assets on the balance sheet (Fund Balance with Treasury and Credit Program Receivables). Agency and contractor staff expended significant time, effort and resources to bring these line items up to date. As regards the other two balance sheet items, advances and accounts payable, we agree that additional work is needed. On the issue of pooled letter of credit advances, we cannot proceed to a final solution, as you know, until the Chief Financial Officer's Council Grants Management Committee concludes its work.

As for accounts payable, the report noted that we made a \$2.3 billion adjusting journal entry to more accurately report FY 2000 accrued expenses. This entry was the net amount of the entry required to reverse the accrual amounts calculated by the New Management System, which we agreed were overstated,

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WASHINGTON, D.C. 20523

**APPENDIX II**
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and the more accurate amounts we estimated using a trend analysis. Therefore, this entry is better described as a correcting entry rather than a material year end adjustment. The accrual amounts for FY 2001 will be developed using the same trend analysis methodology as used for FY 2000. We hope that your office will be able to initiate the audit work in time to determine the reliability of the estimates.

The internal control report also identifies three problems related to performance reporting. These are: (1) reported results are not related to the performance measures developed in USAID's 1997 Strategic Plan; (2) actual results are not compared to benchmarks or targets; and (3) operating units may not be consistently reporting credible performance information.

As noted in the FY 2000 Accountability Report, the Agency revised its approach to performance reporting in FY 2000 to respond to criticism by others, including the OIG, that the performance goals identified in the 1997 Strategic Plan were beyond its manageable interests. This revision was incorporated in the Agency's 2000 Strategic Plan and we began reporting against the objectives of the individual operating units in FY 2000. Your observations about the credibility of performance reporting in the FY 2000 Accountability Report have been recognized by the Agency and we are implementing workshops worldwide in Managing for Results and Performance Measurement Planning and offering expanded technical assistance to the operating units to improve quality control of performance monitoring plans.

Thank you and the entire audit team for the professional manner in which the audit was conducted. We look forward to working with you on the FY 2001 GMRA audit as we move closer to a clean opinion on the Agency's financial statements.

Cc: A-AA/PPC, K. Schofield
M/CFO, M. Smokovich
PPC, S. Merrill
PPC, G. Britan
M/CFO, T. Cully
M/FM, D. Ostermeyer
M/MPI, S. Malone-Gilmer
M/MPI, K. Schwartz
M/FM/CAR, T. Vapniarek
M/FM/CAR, E. White
M/FM/LM, M Washington



**STATUS OF UNCORRECTED FINDINGS
AND RECOMMENDATIONS FROM 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 as rapidly as possible. The following audit recommendations directed to USAID remain uncorrected and/or final actions have not been completed as of September 30, 2000. We have also noted where final action was taken subsequent to fiscal year-end but prior to the date of this report.

**Reports on USAID's Financial Statements, Internal Controls, and Compliance for Fiscal year 1996
Audit Report No. 0-000-97-001-C February 24, 1997**

Recommendation No. 1: We recommend that USAID's Chief Financial Officer:

- 1.1 Develop and implement procedures to ensure that journal vouchers for the general ledger are properly prepared by accounting staff and reviewed by supervisors;
- 1.2 Require that journal vouchers be adequately supported prior to entering the financial data into the general ledger; and
- 1.3 Provide adequate supervision to ensure that all adjusting entries entered into the general ledger system are supported and authorized.

Recommendation is pending final action by USAID

Recommendation No. 2: We recommend that USAID's Chief Financial Officer:

- 2.2 Develop and implement detailed written procedures, which provide adequate guidance to the financial management staff for properly recording transactions as they occur;



APPENDIX III
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Recommendation is pending final action by USAID

**Audit of the Worldwide Deployment of the
New Management System (NMS)**
Audit Report No. A-000-97-004-P March 31, 1997

Recommendation No. 2: We recommend that USAID assign a senior manager to manage the NMS project reporting directly to the CIO, AA/M, or USAID Administrator. Direct the project manager to work with the CIO to prepare an implementation plan identifying the steps, timeframes, and resources needed to: (1) analyze the technical and implementation problems that currently limit NMS from achieving its full potential; (2) implement disciplined IRM processes; and (3) identify alternative implementation strategies, including pilot testing, prototyping, and incremental deployment of NMS capabilities.

Recommendation is pending final action by USAID

Recommendation No. 3: We recommend that USAID assign a senior manager to develop and manage a performance-based acquisition plan that requires the contractor to deliver a fully functioning system—or a subset of the system—that meets financial management and USAID requirements.

Recommendation is pending final action by USAID

**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.
- 2.3 Revising policies to incorporate a planning process that will provide a sound foundation for an effective computer security 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.

Recommendation is pending final action by USAID

**Audit of the Internal Controls for the
Operational New Management System
Audit Report No. A-000-97-009-P September 30, 1997**

Recommendation No. 1: We recommend that the Assistant Administrator for Management design, document, test, and implement a system of internal controls for the New Management System that complies with the General Accounting Office's Standards for Internal Controls in the Federal Government.

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. 3: Until USAID implements a compliant accounting and financial management system, we recommend that the Chief Financial Officer develop and implement a methodology to accrue expenditures and adjust outstanding advances and prepayments to ensure that the financial statements are not materially overstated.

Recommendation is pending final action by USAID

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

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Recommendation No. 8: We recommend that the Chief Financial Officer:

Implement a comprehensive policy that will incorporate an automatic assessment of interest charges against all delinquent receivables, and that these assessments are actively monitored for managerial and statutory reporting purposes.

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;

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 the New Management System (NMS) Status
Audit Report No. A-000-98-004-P March 31, 1998

Recommendation No. 1: We recommend that the Chief Information Officer complete a detailed analysis of the costs, benefits, and risks to (1) implement commercial procurement and budget packages and/or (2) use cross servicing for procurement and budget functions before deciding to repair the NMS Acquisition and Assistance, and Budget subsystems.

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

**Audit of General Controls Over USAID's
Mainframe Computer Environment
Audit Report No. A-000-99-004-P March 1, 1999**

Recommendation No. 4: To clarify security roles and responsibilities, we recommend that the CIO and CFO work with the Assistant Administrator for Management to determine the specific assignments of security roles and responsibilities needed to meet the requirements of the Chief Financial Officers Act of 1990 and OMB Circular A-130; and specifically delegate appropriate responsibility, authority, and resources to the Chief Financial Officer, other program managers, and technical and oversight staff.

Recommendation is pending final action by USAID



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**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. 2: We recommend that USAID's Office of Financial Management develop and implement procedures to:

- 2.1 Conduct, on a timely basis, accurate and complete reconciliation process.

Recommendation is pending final action by USAID

Recommendation No. 6: Because USAID does not properly identify and record the letter of credit disbursements, we recommend the Office of Financial Management:

Require all requests for advances through the letter-of-credit system include the specific obligation number and amount of the advance requested;

- 6.2 Identify the record that the advances disbursed through the letter-of-credit system against the proper obligation at the time of the disbursement; and

Recommendation is pending final action by USAID

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 Credit Programs and
Related Internal Controls Audit Report
No. 0-000-00-002-F, February 1, 2000**

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

- 2.1 Complete the rescheduling and forward updated information on rescheduled loans to Riggs National Bank and ensure that the bank's system reflects this information.
- 2.2 Research and make a determination about whether the adjustments recorded by Riggs National Bank was needed.



- 2.3 Direct Riggs National Bank to correct all adjustments that were not needed to the September 30, 1998 USAID Loan Accounting Information System (LAIS) loan balances.

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. 1: We recommend that the Office of Financial Management develop procedures to reduce its backlog of unprocessed vouchers and establish a methodology of estimating incurred expenses that should be reported against the outstanding advances at fiscal year end.

Recommendation is pending final action by USAID

Recommendation No. 2: We recommend that the Office of Financial Management develop procedures to ensure that grant agreements and amendments are promptly recorded in the financial systems and develop ways to integrate its financial systems.

Recommendation is pending final action by USAID

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 Accrued Expenses,
Accounts Payable, And Related Internal Controls
Report No. 0-000-00-004-F, February 9, 2000**

Recommendation No. 1: We recommend that USAID's Office of Financial Management Develop a methodology for calculating accrued expenses and accounts payable at fiscal year-end in accordance with the Federal Accounting Standards Advisory Board accounting standards.

Recommendation is pending final action by USAID



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**Report on USAID's Fund Balance with
the U.S. Treasury and Related Internal Controls
Report No. 0-000-00-005-F, February 17, 2000**

Recommendation No. 4: We recommend that the Office of Financial Management record the liquidations of the advances disbursed against the 1998/1999 Development Assistance appropriation (728/91021) to the benefiting appropriation and replenish those funds to the 1998/1999 Development Assistance appropriation prior to the close of fiscal year 2000 and implementation of the new accounting system.

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. 2: We recommend that the Chief Financial Officer revise the financial management systems remediation plan (i.e., the Chief Financial Officer's Five Year Plan, Modernization Plan, and the Office of Management and Budget Circular A-11 budget schedules) to include the estimated resources, remedies, and intermediate target dates needed to implement an integrated financial management system as required by the Federal Financial management Improvement Act of 1996.

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



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**INTERNAL CONTROL REPORTS ISSUED
FOR FISCAL YEAR 2000**

The following is a list of the individual reports issued on USAID's fiscal year 2000 financial statements major line items:

Audit on USAID's Credit Programs and Related Internal Controls for Fiscal year 2000, Report No. 0-000-00-002-F, February 15, 2001.

Audit on USAID's Advances and Related Internal Controls for Fiscal year 2000, Report No. 0-000-00-003-F, February 15, 2001.

Audit of USAID's Accrued Expenses, Accounts Payable, and Related Internal Controls for Fiscal year 2000, Report No. 0-000-00-004-F, February 15, 2001.

Audit on USAID's Fund Balance with the U.S Treasury and Related Internal Controls for Fiscal year 2000, Report No. 0-000-00-005-F, February 15, 2001.



Part E

USAID's Financial Remediation Plan



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1. Overview

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

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

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

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

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

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

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

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

Michael Smokovich
Chief Financial Officer

2. CFO Goals and Strategies

2.1 Background

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

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

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

2.2 USAID CFO Vision

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

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

2.3 USAID Strategic Goals and Management Objectives

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

- Broad-based economic growth and agricultural development encouraged.

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

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

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

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

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



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

2.4 CFO Strategic Objectives

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

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

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

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

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

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

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

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

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

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

Each of these IRs is discussed in greater detail below.

IR 1.1: Improve Agency Financial Accountability

Background:

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

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

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



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

Accomplishments:

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

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

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

Tasks and Initiatives:

- Publish four additional ADS chapters in FY 2001:

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

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

Performance Indicators and Targets:

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

IR 1.2: Improve Agency Financial Management Systems.

Background:

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

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

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



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

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

Accomplishments:

- Successfully retired 8 financial management systems on the FY

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

- The New Management System underwent a system security certification and accreditation process. A risk assessment was conducted, system security improvements were implemented, and internal controls were strengthened. The CFO authorized NMS to process sensitive and mission-critical financial information.
- Successfully acquired, configured and implemented in early FY 2001 a modern core financial system utilizing American Management Systems, Inc. Momentum® Financials software products certified compliant with Joint Financial Management Improvement Program (JFMIP) requirements. The system is referred to as Phoenix and is implemented initially to support the Agency's Washington financial operations.
- The Agency's core financial system, Phoenix, received a security certification and accreditation for Washington operations in accordance with Federal requirements and coincident with the deployment of Phoenix in early FY 2001.

- A program office, reporting directly to the CFO, oversees the IFMS Program and the Financial Systems Integration (FSI) Project acquiring and implementing the core financial system, Phoenix. An executive level steering committee, consisting of the CFO, Chief Information Officer (CIO) and the Assistant Administrator for Management (AA/M) monitors performance of program activities.
- Updated the Agency's Integrated Financial Management Systems Modernization Plan. The IFMS Modernization Plan provides an improved description of the Agency's target financial management systems structure (see Section 4), projects, cost estimates, sequencing plans, and intermediate target dates.
- Successfully implemented a cross-serving agreement with the U.S. Dept. of Agriculture's National Finance Center (NFC) for personnel and payroll transaction processing services. The NFC provides improved service quality at lower overall transaction costs. The Agency will retire its legacy personnel and payroll systems and the mainframe that supports them.
- Received statutory authority to establish a Working Capital Fund (WCF) for the expenses of personal and non-personal services and supplies for International Cooperative Administrative Support Services. The CFO has established a

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



working group to develop the operating procedures for the WFC.

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

Tasks and Initiatives:

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

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

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

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

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

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

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



accreditation of MACS at 38 overseas accounting stations in 2002.

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

Performance Indicator and Targets:

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

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

IR 1.3: Improve Management of Receivables

Background:

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

Accomplishments:

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

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

Tasks and Initiatives:

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



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

Performance Indicators and Targets

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

IR 1.4: Improve Administration of Agency Grant Programs

Background:

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

Accomplishments:

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

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

Tasks and Initiatives:

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

Performance Indicators and Targets:

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

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

Background:

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

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

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

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



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

Accomplishments:

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

Tasks and Initiatives:

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

Performance Indicator and Target:

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

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

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

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

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

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

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

Background:

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

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

Accomplishments:

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

Tasks and Initiatives:

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

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

Performance Indicator and Target:

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

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

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

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

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

- IR 3.1: USAID recruitment and retention programs maintain adequate levels of qualified financial managers.
- IR 3.2: Training and communications promote an understanding of financial management policies and procedures.

Each of these IRs is discussed in greater detail below.

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

Background:

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

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

These trends have affected USAID's financial management staff.

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

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

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

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

Accomplishments:

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

Tasks and Initiatives:

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

Performance Indicators and Targets:

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



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

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

Background:

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

Accomplishments:

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

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

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

Tasks and Initiatives:

- A comprehensive course on financial management for non-

financial personnel which will be implemented during FY 2001.

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

Performance Indicators and Targets:

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

3. Audited Financial Statements

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

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

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

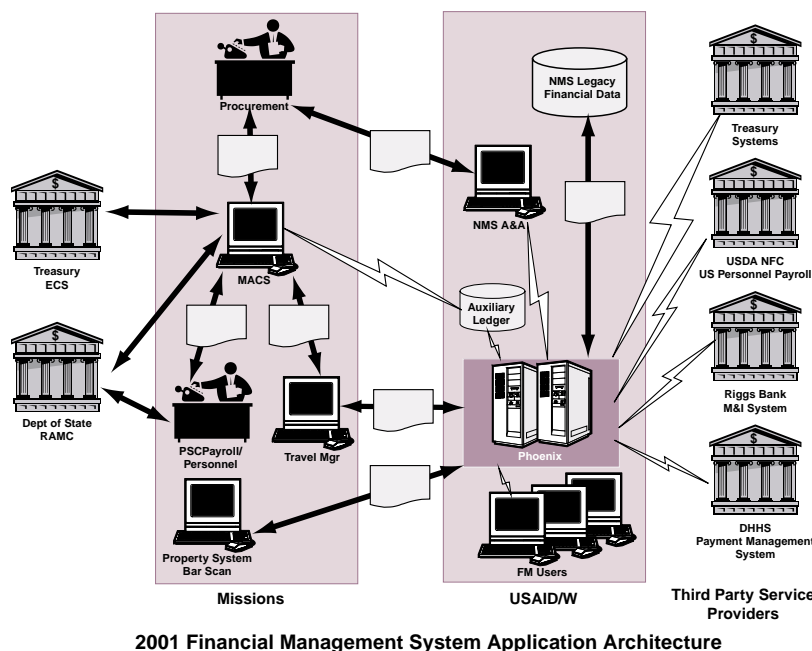


Figure E.1: Current Financial Management Systems Structure

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

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

4. Financial Management Systems Structure

4.1 Current Financial Management Systems Structure

Baseline Financial Management Systems

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

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



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

New Management System (NMS):

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

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

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

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

Mission Accounting and Control System (MACS):

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

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

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

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

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

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

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

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

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

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

Other Baseline Financial Management Systems:

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



single Washington database for reporting purposes.

Information Management System (CIMS).

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

Deficiencies in Baseline Financial Management Systems

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

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

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

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

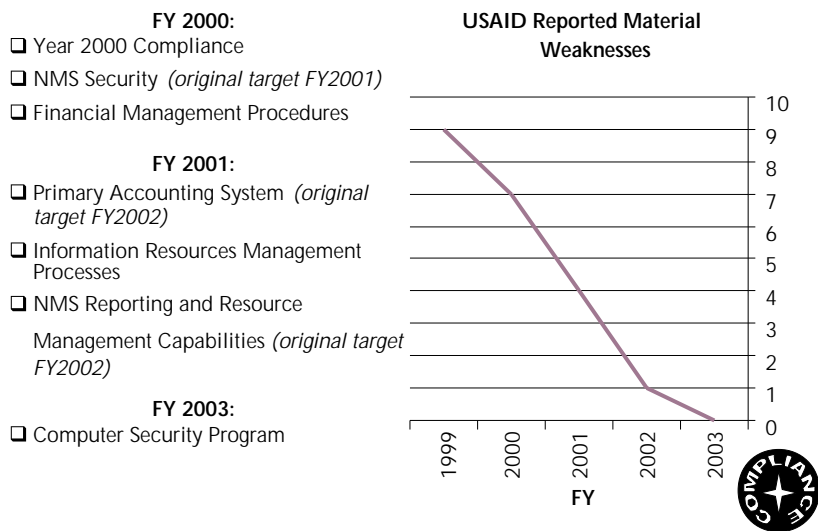


Figure E.2: Planned Corrections of Material Weaknesses Reported by USAID

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

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

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

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

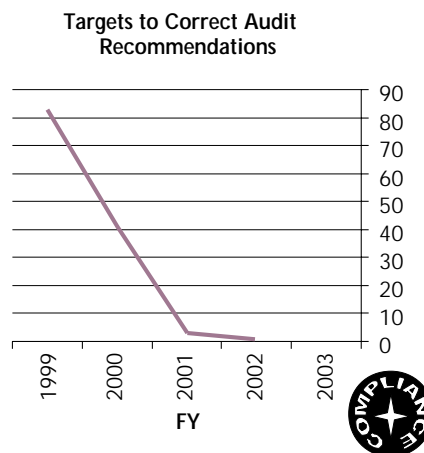


Figure E.3: Planned Corrections for OIG Audit Findings and Recommendations

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

Reporting and Resource

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

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

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

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

The following summarizes key deficiencies highlighted in open

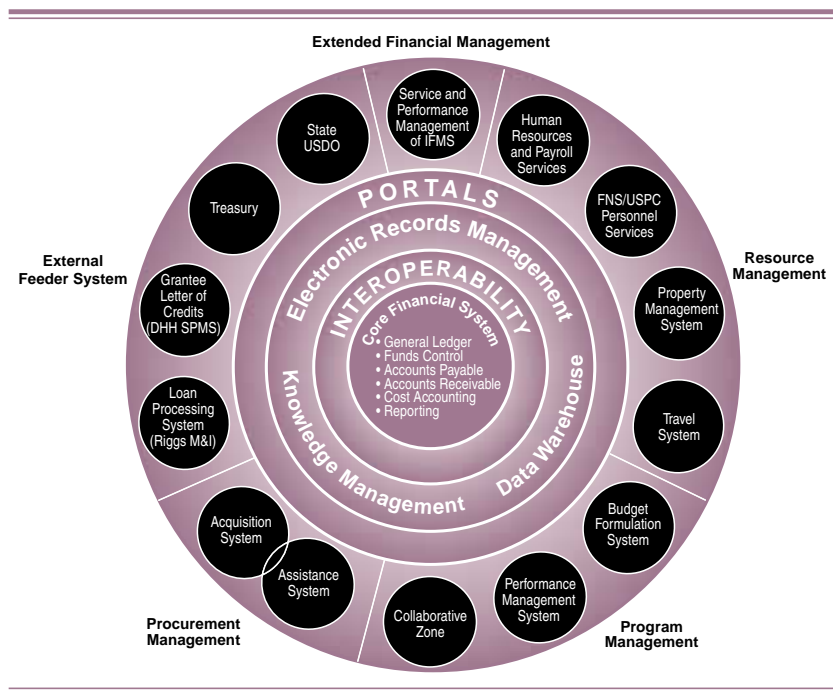


Figure E.4: Target Integrated Financial Management System Logical Model

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

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

audit recommendations that will largely be closed in FY 2001:

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



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

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

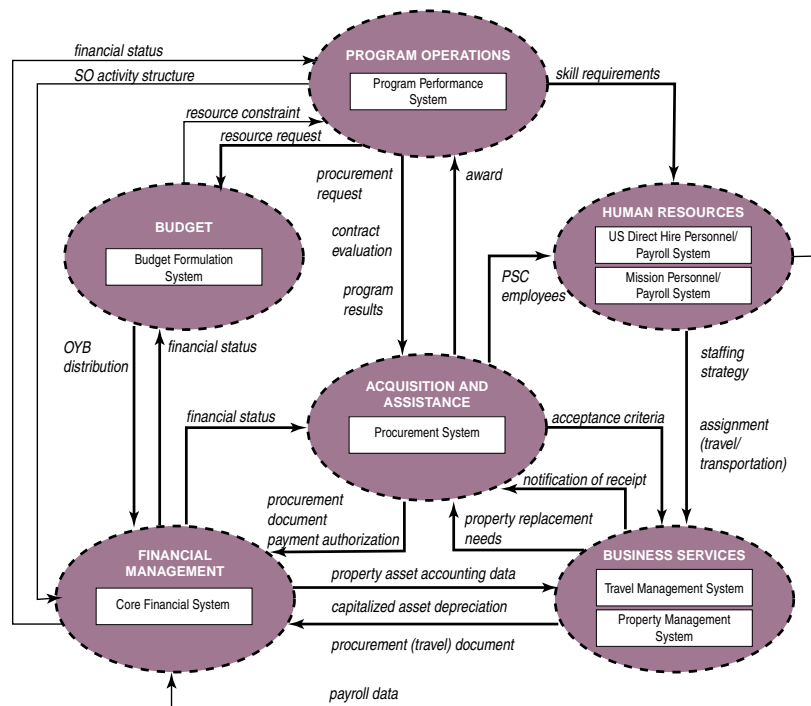


Figure E.5: Logical Business Architecture

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

4.2 Target Financial Management Systems Structure

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

remain focused on information needs to support Agency decisions.

The target financial management system will:

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

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

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

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

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

Enterprise Solution Integration Lab:

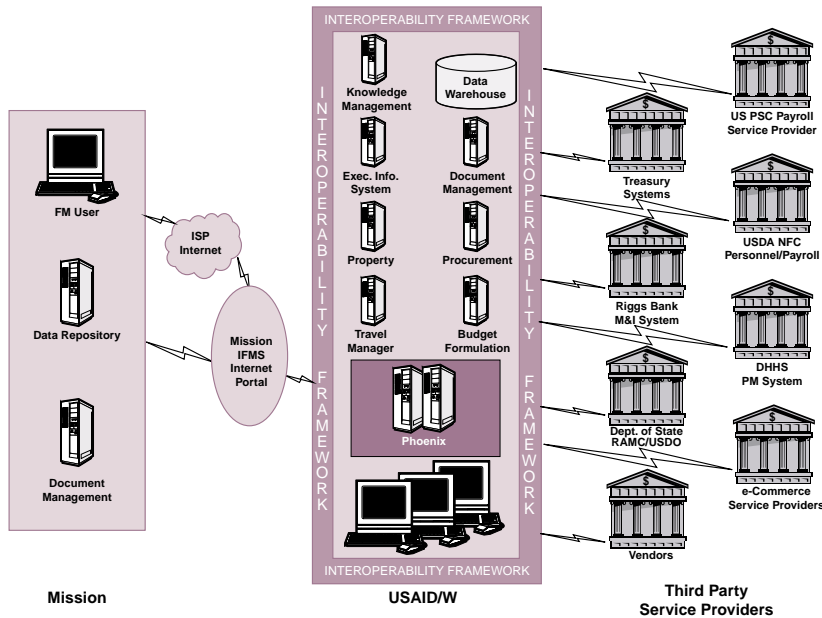
Given the global nature of USAID's mission, its overseas operations and diverse technical infrastructure an enterprise systems engineering approach is needed for designing the IFMS. This approach will involve users and technical staff in evaluating alternative concepts of operation, system design approaches,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

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

4-3 Financial Management Systems Strategy

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

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



2005 Financial Management System Application Architecture

Figure E.6: Target Financial Management System Architecture

evolution of commercial software products.

- Utilize a data warehouse to integrate information outside of the applications.
 - Acquire system components in an incremental fashion.
 - Plan enhancements to system capabilities as releases within the framework of enterprise configuration management practices.
- During 2000, Agency business area representatives under the leadership of the Chief Information Officer (CIO) ranked and sequenced the IT investment priorities for FY 2001 through FY 2003. The significant IT projects that the Agency is requesting funding in the FY 2002 budget submission include:
- Financial Systems Integration Project:** Complete implementation of Phoenix in Washington with interfaces to major feeder systems and pilot Phoenix at two missions. Improve overall systems security at overseas accounting stations, certify and accredit MACS security, and enhance MACS auxiliary ledger interface with Phoenix.
 - Wide Area Renovation Project:** Deploy dedicated, scalable, secure, manageable, and faster telecommunication services overseas.
 - NOS/Exchange Upgrade Project:** Upgrade overseas network operating systems and e-mail software.
 - Procurement Systems Improvement Project:** Replace NMS A&A with a modern commercial procurement software

product and integrate it with Phoenix.

4.4 Planned Major System Investments

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

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

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

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

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

various technology alternatives to support budget formulation and performance reporting.

Financial Management Data

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

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

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

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

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

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



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

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

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

4.5 FFMIA Remediation Plan

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

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

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

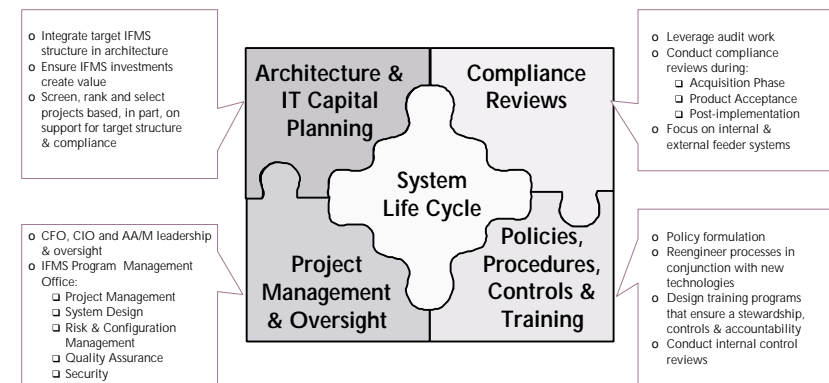


Figure E.7: Life Cycle Approach to Financial Management System Compliance

Financial Management System

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

financial management system that complies substantially with:

- Federal requirements for an integrated financial management system.

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

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

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

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

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

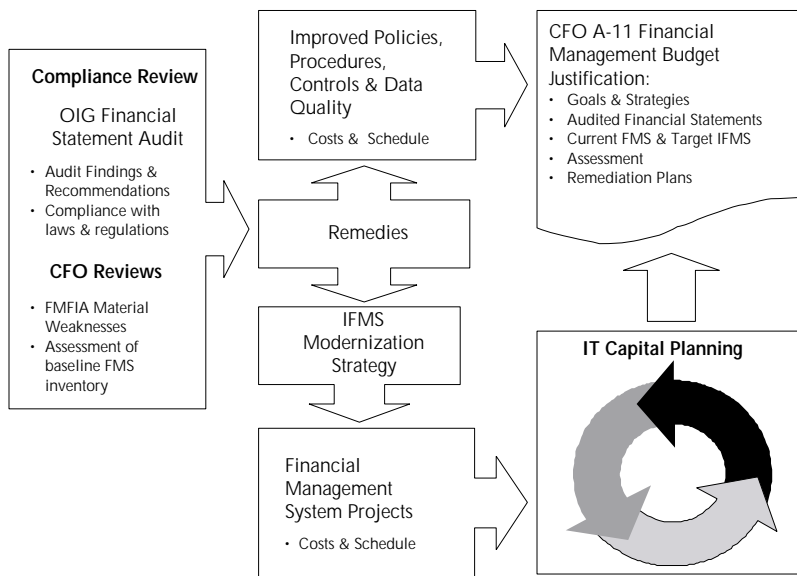


Figure E.8: USAID FFMIA Remediation Planning

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

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

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



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

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

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

FFMIA Remediation Strategy:

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

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

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

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

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

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

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

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

Computer Security: Each financial management system component will

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

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

Remedies, Resources and

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

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

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



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

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

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



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



Deficiencies	Planned Remedies & Targets
Indicator: Existing reviews and audits required by A-130, Appendix 3, do not disclose material deficiencies.	
<p>The IG audit of the Agency's FY 1999 financial statements disclosed areas of non-compliance with the Computer Security Act (CSA) and implementing policies. USAID has not implemented an effective computer security program with:</p> <ul style="list-style-type: none"> • An organizational structure that clearly delegated responsibility and appropriate authority; • Planning policies to provide a foundation for an effective security program; and • Key management processes to ensure security requirements are met. <p>USAID reported a material weakness in its FY 1999 Accountability Report in its computer security program.</p>	<p>Substantial improvements in the Agency's information system security program were implemented in FY 2000 that address organizational structure, policies and key management processes.</p> <p>During the 1st quarter of FY 2001, the Phoenix core financial system will receive a system security certification and accreditation by appropriately designated authorities following improved system security planning policies and management processes.</p> <p>During FY 2001 and FY 2002, planned system and general control environment risk assessments at overseas accounting stations, risk mitigation, MACS system security planning, security training, delegation of authorities, certification and accreditation of the security of the network systems, and MACS at all overseas accounting stations will sufficiently reduce the materiality of this deficiency.</p>

Federal Accounting Standards:

Indicator: An unqualified opinion or a qualified opinion or disclaimer issued by the auditor for reasons other than the Agency's ability to prepare auditable financial statements.	
<p>The IG could not express an opinion on the Agency's FY 1999 financial statements because their audit scope was impaired by a poorly functioning accounting and financial management systems from which USAID was unable to produce accurate, complete, reliable, timely and consistent financial information. The uncorrected system deficiencies created a consequential risk that the financial statements could contain material misstatements.</p> <p>Agency reported material weaknesses in its FY 1999 Accountability Report in its Primary Accounting System and Reporting and Resource Management Capabilities.</p>	<p>Implement the Phoenix core financial system in 1st quarter of FY 2001 that calculates and reports accounts payable and accrual expenses in compliance with Federal requirements and standards.</p> <p>Improved reconciliation and management of the fund balance with Treasury in FY 2000 and reduce the materiality of cash reconciling items in FY 2001.</p> <p>Implement in FY 2001, based on updated policy guidance from OMB, improvements in accounting for advances to grantees with letter-of-credit agreements to enable the IG to audit advance account balances.</p>
Indicator: The agency produces managerial cost information consistent with the standards in SFFAS4.	
<p>The IG reported in the audit of the FY 1999 financial statements that USAID did not comply with the five elements of managerial cost accounting and had not implemented SFFAS No. 4. USAID's financial system is not able to attribute costs to organizations, locations, projects or activities.</p>	<p>Implement the Phoenix core financial system in 1st quarter of FY 2001 with a managerial cost accounting subsystem.</p> <p>Develop cost allocation models with cost drivers in FY 2001 to attribute costs to Agency goals.</p> <p>Implement the MACS Auxiliary Ledger as an interface between Phoenix and the overseas accounting system. Begin capturing transaction level detail in the MACS Auxiliary Ledger by 4th quarter of FY 2001.</p> <p>Implement further enhancements to MACS Auxiliary Ledger to fully implement cross-walk tables between MACS ACS and Phoenix ACS to support mission strategic objective cost allocations by 4th quarter of FY 2002.</p> <p>Update cost allocation model in FY 2002 to allocate the costs of Agency programs to the operating unit and strategic objective level.</p>



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



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

1. Core Financial System - Phoenix:

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

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

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

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

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

2. Financial Management Data Warehouse:

- Planned Milestones and Releases:

- Solution demonstration for data warehouse tools and integration of multiple data repositories for reporting - 4th Qtr of FY 2002.
- Integrate multiple data repositories from financial management feeder systems into the data warehouse in FY 2003.
- Extract, transform and load Phoenix financial data into data warehouse in FY 2003.
- Data warehouse system security C&A updated for Agency-wide deployment in FY 2003.

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

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

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

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

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

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

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



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

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

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

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



5. Grants Management

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

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

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

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

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



List of Abbreviations and Acronyms

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



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

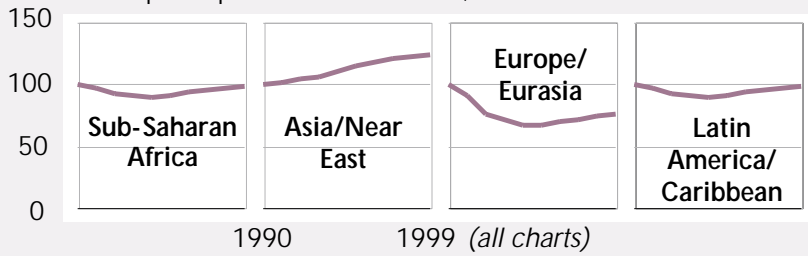


PVO	Private Voluntary Organization
R4	Results Review and Resource Request
SEED	Support for East European Democracy
SFFAS	Statement of Federal Financial Accounting Standards
SO	Strategic Objective
State	U.S. Department of State
STD	Sexually Transmitted Disease
STI	Sexually Transmitted Infection
TEIA	Target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

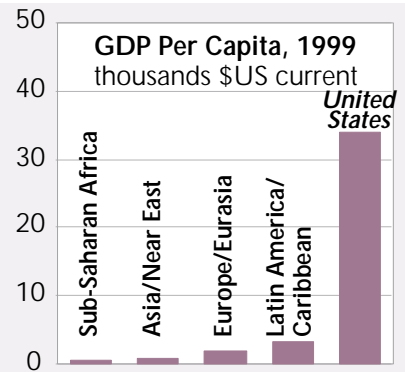
The Development Context

Economic Growth, 1990-1999

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

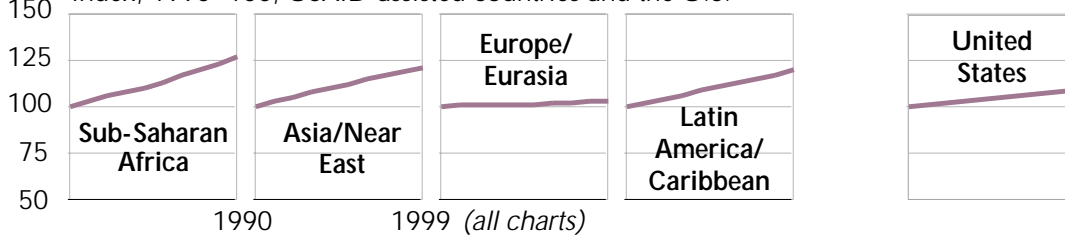


Source: IMF and World Bank



Population, 1990-1999

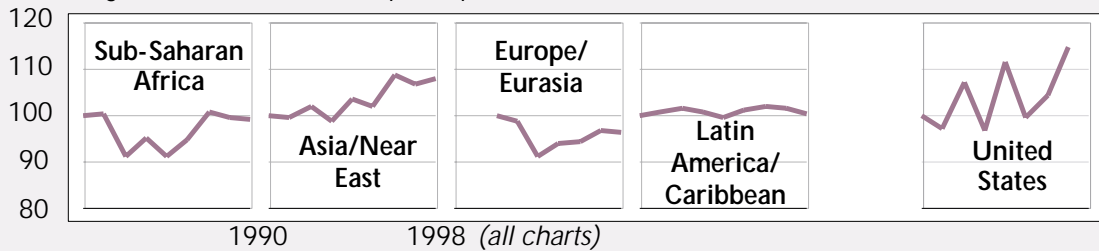
index, 1990=100, USAID-assisted countries and the U.S.



Source: World Bank

Agriculture, 1990-1998

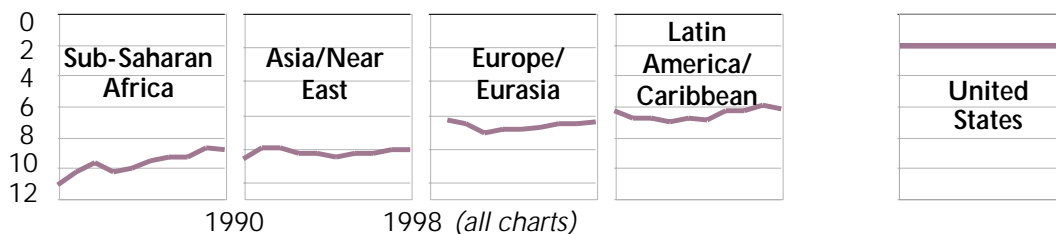
Agriculture, value added, per capita index, 1990=100, USAID-assisted countries and the U.S.



Source: World Bank

Democracy and Governance, 1990-1999

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

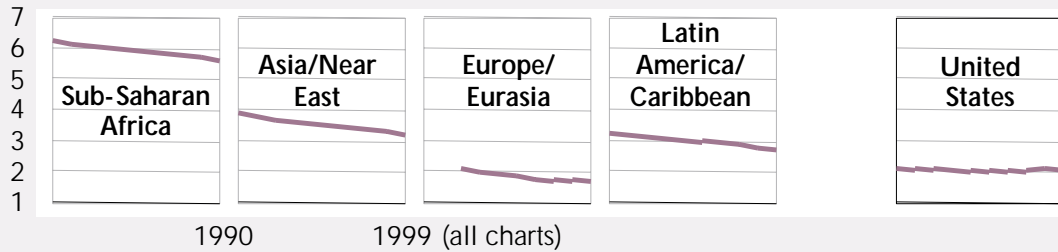


Source: Freedom House Foundation

The Development Context

Total Fertility Rate, 1990-1999

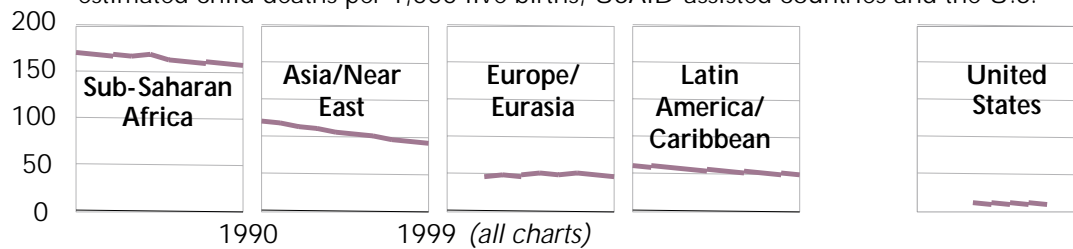
estimated births per woman of child bearing age, USAID-assisted countries and the U.S.



Source: US Bureau of the Census

Under-5 Mortality Rate, 1990-1999

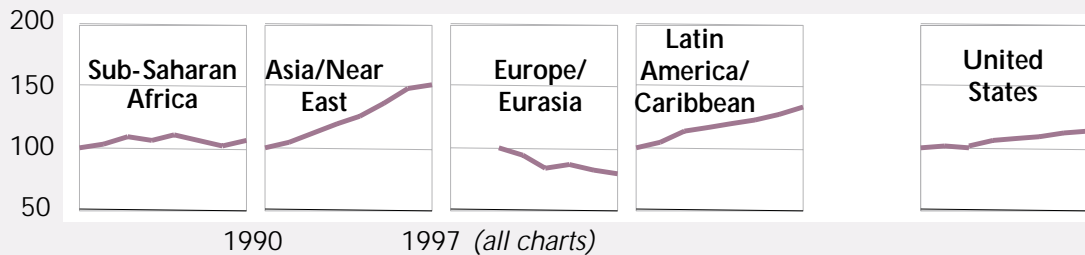
estimated child deaths per 1,000 live births, USAID-assisted countries and the U.S.



Source: US Bureau of the Census

Carbon Dioxide Emissions, 1990-1997

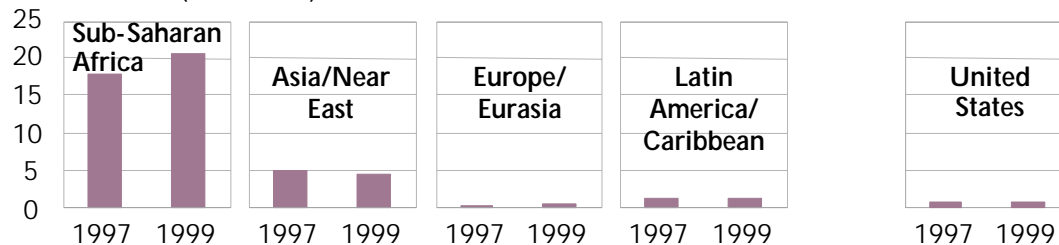
Total emissions index, 1990=100, USAID-assisted countries and the U.S.



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

Adults Living with HIV/AIDS, 1997, 1999

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



Source: UNAIDS



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