1999 Accountability Report

U.S. Agency for International Development

Foreword

This fiscal year 1999 Accountability Report is the U.S. Agency for International Development's second report under an Office of Management and Budget pilot program to streamline and consolidate certain statutory financial management and performance reports into a single document. The report consolidates the reporting requirements of the Chief Financial Officers Act, the Government Performance and Results Act, the Federal Managers Financial Integrity Act, and Management's Report on Final Action on the Office of Inspector General audit recommendations.

The report includes the Agency's financial statements and the inspector general's opinion on the statements, internal controls, and compliance with laws and regulations. It also highlights the Agency's performance and the effectiveness of its programs in achieving U.S. foreign policy objectives.

All comments regarding the content and presentation of this report are welcome. Electronic copies of this report and the fiscal year Agency Performance Report are available on the Agency's World Wide Web site: www.info.usaid.gov. Appendix B to this report lists additional sources for detailed performance information.

Comments may be addressed to

U.S. Agency for International Development
Office of the Chief Financial Officer
1300 Pennsylvania Avenue N.W.
Room 2.10
Washington, D.C. 20523

For additional information about the Agency, please contact

U.S. Agency for International Development
Bureau for Legislative and Public Affairs
1300 Pennsylvania Avenue N.W.
Washington, D.C. 20523

March 1, 2000 PD-ABS-030

Contents

Administrator's Message

I am pleased to present the U. S. Agency for International Development's Accountability Report for fiscal year 1999. The report highlights our program and management performance during the year.

When I accepted the position as the Administrator for USAID, I accepted an obligation to look closely at the Agency's mission and to help create the environment necessary to accomplish its goals. I have four main priorities that I believe will further that objective.

I would like to improve our relationship with Congress and explain to the American people precisely what it is we do. We have solid success stories to tell. They will convince people that foreign aid is a good thing that they can support.

I believe it is vitally important to the Agency's mission that we efficiently and effectively manage the taxpayer's funds in order to achieve a solid return on their investment. We must continue the momentum in improving our management efficiency, procurement, and information systems.

It is also important to enhance the evolving relationship with the Department of State. Our programs open overseas markets; create stability; fight disease, drugs and terrorism; and promote democracy. In this light, the USAID budget is as much a national security budget as it is a foreign aid budget, and it requires a close working relationship with the Department of State.

Finally, a major concern for me is the security of all our people here in Washington and overseas. I intend to work closely with the State Department and the Office of Management and

Budget to improve the security of our facilities here and abroad.

Looking back on fiscal year 1999, we made significant progress in addressing management vulnerabilities and in making USAID a more results-oriented Agency. USAID staff made a significant effort to ensure a successful Year 2000 rollover. Detailed plans were put in place to upgrade hardware and software, replace or repair mission-critical systems, and establish contingency plans worldwide. USAID experienced no disruptions in administrative or program operations as a result of the Y2K problem.

We improved the management of credit programs by contracting out certain loan-servicing and accounting functions to a commercial bank. As a result of this action, the direct-loan program is no longer a material weakness for the Agency.

We developed a plan to modernize the Agency's financial management systems over the next five years. The cornerstone of the modernization plan is a commercial off-the-shelf accounting system acquired during the fiscal year. We will be implementing the accounting system in Washington during fiscal year 2000 and in all field missions by fiscal year 2002. I am confident that financial accountability will dramatically improve when this system is implemented worldwide.

We are committed to managing for results and continue to make improvements in our attempts to implement the Government Performance and Results Act. The Agency's results reporting system has been streamlined to provide management with better and more timely information for decision-making at a greatly reduced cost. We issued better guidance on data quality and improved Agency training on performance measurement and reporting. The Agency's fiscal year 2001 Annual Performance Plan incorporates midlevel indicators that will provide a better link between USAID activities and the high-level indicators in the Agency Strategic Plan. As a result of our progress, performance reporting was also removed as a material weakness. We will make a continual effort to ensure that performance reporting is aligned with the Strategic Plan and management needs.

When our priorities are accomplished, the Agency will be in a much stronger position to carry out its development and humanitarian mission and to promote peace and stability in the world.

J. Brady Anderson

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

Mission and Organization

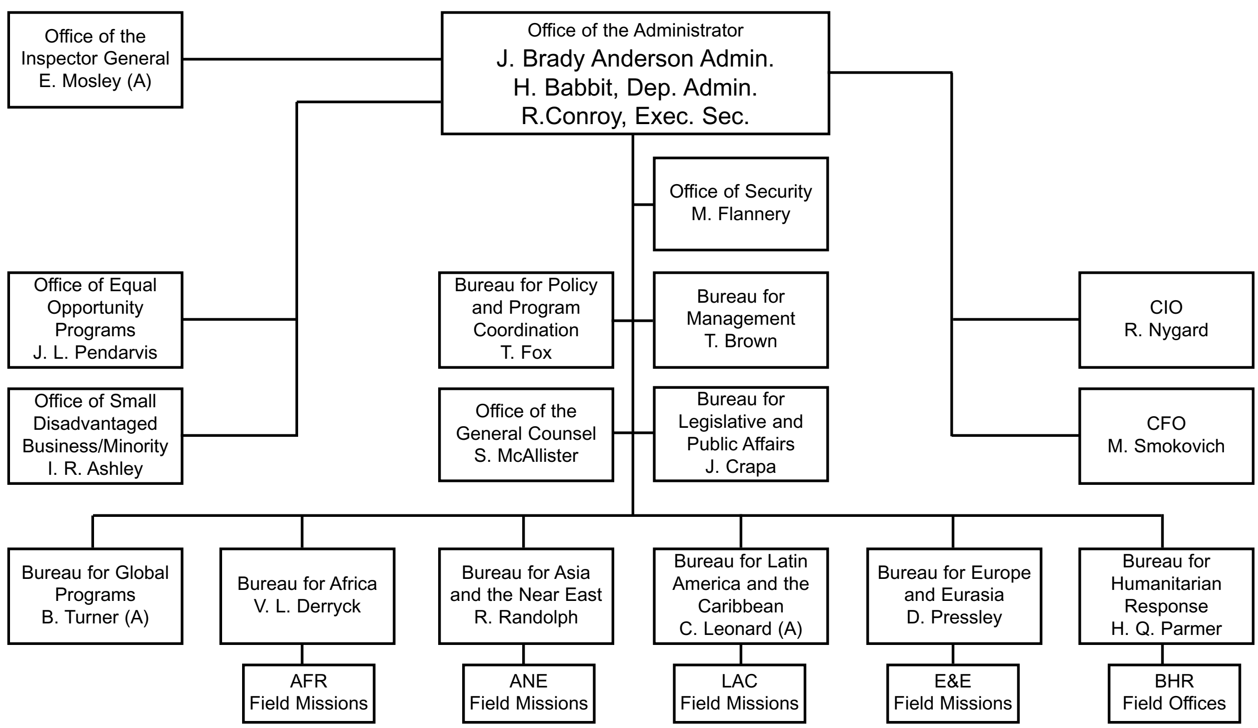
Americans have long been known for their generosity in providing assistance to those in need. The U.S. Agency for International Development is the primary federal government agency that provides help for people living in other countries. This assistance goes beyond meeting humanitarian needs in times of crisis to providing long-term assistance to combat many of the scourges of modern times: poverty, bad government, poor education, high mortality rates and overpopulation, and environmental degradation. USAID's history goes back to the period following World War II, when help was given to friend and foe alike to support recovery from the war's devastation, primarily through President Truman's Marshall Plan. The Eisenhower administration expanded this assistance with the International Cooperation Agency. In the Foreign Assistance Act of 1961—which is still the fundamental legislation formalizing foreign aid—John F. Kennedy created USAID as it now is.

USAID has always supported goals in the U.S. national interest, whether it was to combat the spread of communism during the Cold War or, in more recent years, working to achieve greater global stability. The Agency rarely works alone to achieve its goals. Almost all work is done in partnership with the countries themselves. In most cases, the contribution a country makes to help itself far exceeds USAID's direct contribution. In addition, the Agency works with other assistance agencies: multilateral agencies such as the World Bank and the International Monetary Fund or the United Nations family of organizations such as the UN Development Program, UNICEF, and the World Health Organization. USAID also works with other countries that provide development assistance, such as Japan, the United Kingdom, the European Union, and a host of others.

USAID rarely implements programs. Most work is done either in tandem with country agencies or in partnership with U.S. private voluntary organizations such as CARE, World Vision, and scores of other partners, both large and small. These partners include indigenous nongovernmental organizations, universities, American businesses, international agencies, and other U.S. government agencies. While much of USAID's work is done with U.S.–based contractors, a major management goal for the Agency is to increase the amount of work done through voluntary organizations, and thereby spread to the rest of the world what might be the best aspect of American culture—people getting together to help themselves and one another.

The Agency is headquartered in Washington. It has representation in more than 70 countries and small programs in 50 more. Organizationally, as shown on the following page, USAID is divided into a number of central bureaus that provide support to the entire Agency, four regional bureaus that provide oversight to field programs, and the Bureau for Humanitarian Response, which manages many of the Agency relief programs. The Agency implements development assistance in four regions of the world—Africa, Asia and the Near

U.S. Agency for International Development Organizational Chart



East, Latin America and the Caribbean, and Europe and Eurasia. USAID has three regional service offices and small offices in five countries (Belgium, France, Italy, Japan, and Switzerland) providing coordination with other donor nations.

USAID's direct-hire staffing levels have declined by 38 percent over the past 10 years (see figure 2.1). At the end of fiscal year 1999, the Agency had 2,061 U.S. direct-hire employees, around 4,000 employees hired locally in countries where development programs are implemented, and some 800 U.S. nationals working under a variety of temporary mechanisms.

Program Performance

USAID organizes its activities around seven goal areas—six development goals and a management goal. This Accountability Report provides an overview of the progress in implementing those goals. Performance information on the development goals reflects FY98 data because of problems inherent in gathering data from many countries and developing reliable trend analyses. The results are primarily the

Table 2.1. USAID FY99 Budget Authority (in $ millions)

Special Assistance Initiatives	$434
Development Assistance	1,185
International Disaster Assistance	387
Economic Support Fund	2,531
Assistance for the NIS of the former Soviet Union	562
Child Survival and Disease Program Funds	595
Operating Expenses	503
Central America s Caribbean Emergency Disaster Relief	582
Commodity Credit Corp. (from the Department of Agriculture)	382
Other	122
Total	$7,283

Figure 2.1. Total USAID Direct Hire Staff, 1990–99*
(in thousands)

Total USAID staff
FY90 3,262
FY99 2,061

Foreign Service
FY90 1,655
FY99 1,017

Civil Service
FY90 1,607
FY99 1,044

*Excludes Office of the Inspector General.
Source: USAID.

outcome of several years of effort by many organizations, including host governments and other donors. The six goal areas that are critical to sustainable development are as follows:

- **Broad-based economic growth and agricultural development encouraged.** USAID undertakes programs to expand and strengthen critical private markets, encourage more rapid and enhanced agricultural development, and expand access to economic opportunity for the rural poor. USAID has 242 strategic objectives in economic growth. Seventy-five percent of those were performing at an acceptable or better level.

- **Democracy and good governance strengthened.** USAID works with local and national governments and American, international, and indigenous private voluntary organizations and nongovernmental organizations to support free and fair elections, to teach the skills of democratic governance, and to help citizens empower themselves and become full participants in their own development. USAID has 235 strategic objectives that contribute to democracy and governance objectives. Seventy-six percent of those performed at a “meets” or “exceeds” expectations level.

- **Human capacity built through education and training**. USAID has been a major supporter and technical leader for basic education programs for more than two decades. Improving education in poor countries leads to faster, more sustainable development and helps strong democratic institutions emerge. The Agency has 33 strategic objectives targeting basic education worldwide. Of these, 26 met or exceeded expectations. The remainder either failed to meet expectations or had mixed results.

- **World population stabilized and human health protected.** USAID’s programs to stabilize the world’s population and protect human health in the developing world lead to a better quality of life for individuals while also serving U.S. national interests by contributing to global economic growth, sustainable environment, and regional security. Worldwide, the Agency has 215 strategic objectives that address some aspect of population and health. Overall, 82 percent of the strategic objectives were deemed to meet or exceed their targets.

- **The world’s environment protected for long-term sustainability.** Rapid population growth, accelerated industrialization, and growing urbanization are increasing the demands on the earth’s finite natural resources, especially in the developing world. USAID contributes more resources to addressing environmental problems than any other donor. The Agency currently has environment activities in 55 countries. On the whole, the

Agency has been successful at meeting regional and local environmental targets, less so in meeting overall Agency performance goals.

- **Lives saved, suffering reduced, and conditions for political and economic development reestablished.** USAID’s work in humanitarian assistance seeks to save lives, reduce suffering, protect health, and advance peaceful change. The number of people requiring USAID assistance rose from 41 million in 1997 to 141 million in 1998.

Management Performance

USAID's management goal of "remaining a premier bilateral development agency" affirms the Agency's commitment to getting the most value from taxpayer dollars while making the greatest possible difference for development.

During FY99, USAID strengthened its leadership, enhanced its learning capacity, deepened its partnerships, and increased the efficiency and effectiveness of its management systems. The Agency revised and streamlined results reporting to make performance information more relevant and useful to decision-making. USAID adjusted annual goal reviews to ensure that performance information was fully reflected in the top-level program and budget deliberations. The Agency enhanced the validity and verifiability of performance data by developing explicit data quality standards and incorporating them in expanded training and technical assistance. The Agency assertively partnered with other donors to ensure harmony and coherence in policies and programs, with particular emphases on issues involving trade, poverty, conflict prevention, emergency assistance, and the environment.

The Agency also substantially improved management and information systems by instituting more rigorous and systematic planning and implementation of information technology investments. Resources dedicated to acquiring a new accounting system, Y2K remediation, and improving information systems achieved significant results.

Financial Highlights

USAID's inspector general was unable to express an opinion on the FY99 financial statements. The chief financial officer and the Office of the Inspector General agreed to dedicate audit resources to data-quality problems during the FY99 audit. The Inspector General's Audit on the financial statements, internal controls, and compliance for FY99 is included in the report. The "Financial Highlights" section of this report provides the Agency's analysis of the financial statements.

USAID's financial management systems do not fully comply with federal financial management system requirements, applicable federal accounting standards, and the U.S. Standard General Ledger at the transaction level. During FY99, USAID acquired a commercial off-the-shelf accounting system that will serve as the cornerstone of a business systems modernization program. The new system will be launched in Washington during FY00 and in field offices during 2001 and 2002.

Management Controls

The Agency is reporting seven material weaknesses in control systems or procedures. Significant progress was made in addressing problems with the direct-loan program and program performance reporting. These areas were removed as material weaknesses for the Agency. The "Management Controls" section of the report provides more detailed information on material weaknesses and the Agency report on management actions in response to audit recommendations required by the Inspector General Act.

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.

Program Performance

USAID is the primary U.S. agency providing humanitarian assistance and supporting sustainable development and the transition to democracy. The Agency mission—helping people achieve economic and social stability—is part of the U.S. leadership role, which has become more important as donor assistance in general has shrunk since the end of the Cold War. The Agency represents the United States' commitment to addressing the world's problems and helping others help themselves.

This chapter summarizes what USAID is doing and shows development trends in a world in transition. Further detail on performance results are available in the Agency's fiscal year 2001 Annual Performance Plan, the Agency Performance Report for fiscal year 1999, and country-specific Results Reporting and Resource Request (R4) annual reports.

The Agency's Development Goals

USAID has six development goals that promote sustainable development. They are as follows: 1) broad-based economic growth and agricultural development encouraged, 2) democracy and good governance strengthened, 3) human capacity built through education and training, 4) world population stabilized and human health protected, 5) the world's environment protected, and 6) lives saved, suffering reduced, and conditions for political and economic development reestablished.

Encouraging Broad-Based Economic Growth and Agricultural Development

Broad-based, equitable economic growth benefits all groups in society, including the poor. The main factors affecting whether countries can achieve broad-based growth and reduced poverty are 1) establishment of a policy environment that promotes efficiency and economic opportunity for all members of society, 2) institutions that are soundly organized and managed, and 3) good government.

USAID's programs expand and strengthen critical private markets, encourage more rapid and enhanced agricultural development, and broaden access to economic opportunity for the rural and urban poor. Since economic policies in recipient countries are key to the success of USAID programs and to continued economic growth in the country, USAID places a high priority on programs concentrating on policy and institutional reform.

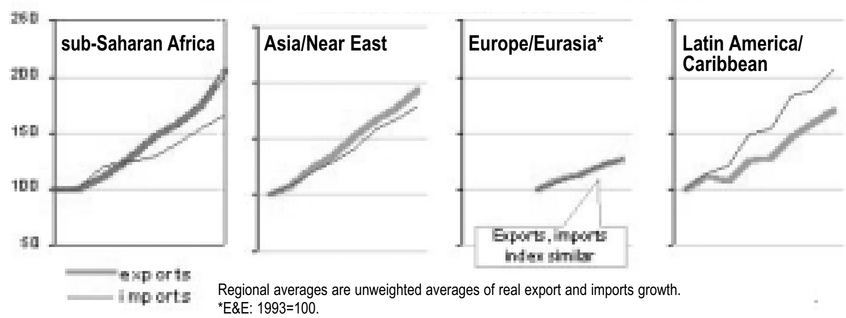
Promoting economic growth and agricultural development around the world not only helps the disadvantaged, but it also benefits Americans. When developing-country economies become more open, global demand for U.S. goods and services increases. Indeed, U.S. exports to developing countries, including some in **Europe and Eurasia,** amounted to roughly $275 billion in 1998, a return nearly 40 times the total amount of assistance the United States provides annually to the developing world (see figure 3.1 for details of rapid global rises in imports and exports in developing countries).

USAID's operating units have 244 strategic objectives around the world that are related to economic growth. Of that number, 117 address private markets, 60 improve agriculture development and food security, and 67 increase economic access for the poor. Seventy-five percent of the total performed at an acceptable or better level.

As a result of international donor assistance and various forms of international finance, developing countries are making progress. Figures 3.2 and 3.3, for example, demonstrate that, particularly for **sub-Saharan Africa** and **Europe and Eurasia,** gross domestic product and agricultural growth per capita have generally exceeded target levels. GDP in **Asia and the Near East** and **Latin America and the Caribbean** were weaker last year, primarily because of continentwide economic downturns beyond the scope of USAID or any donor to influence.

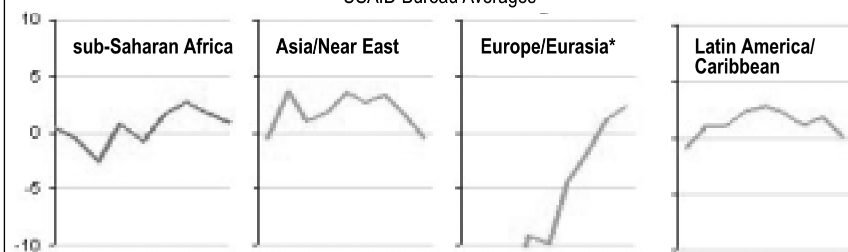
The most important area in which Agency programs are not meeting targets is in the Economic Freedom Index. The proportion of countries with improving scores fell in **Africa, Asia and the Near East,** and **Europe and Eurasia**. **Latin America** remained constant. This illustrates the complex environment in which USAID works. Certainly, the unpopularity of opening markets was demonstrated both inside and outside the World Trade Organization conference in Seattle last fall, where demonstrators reflected a frosty attitude among participants. Nevertheless, the goal remains worthy. Figure 3.1 shows the rapidly increasing imports and exports driving many developing-nation economies. USAID, in collaboration with other donors and multilateral institutions, will continue to work to eliminate restrictive barriers to economic growth and create policy environments that permit vibrant and open markets.

Figure 3.1. Exports and Imports of Goods and Services, 1990–97
USAID-Assisted Countries With Contributing Programs (Annual Growth Index 1990=100)



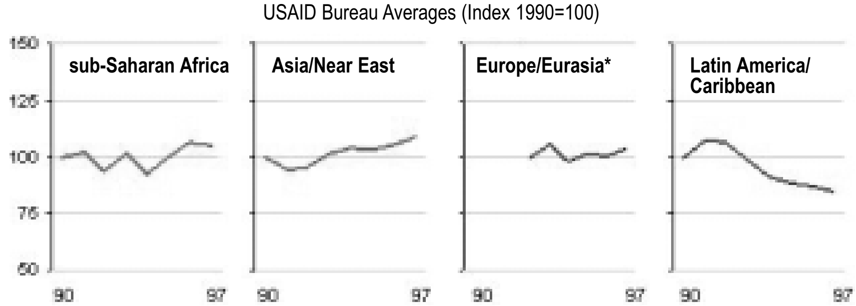
Regional averages are unweighted averages of real export and imports growth.
*E&E: 1993=100.
Source: World Bank.

Figure 3.2. GDP per Capita Annual Growth, 1990–98
USAID-Assisted Countries With Poverty-Reduction Programs,
USAID Bureau Averages



Regional averages are unweighted.
*E&E region: rate for 1992= —15% (not including Croatia).
Countries omitted: Eritrea, Serbia/Montenegro, West Bank/Gaza.
Source: World Bank.

Figure 3.3. Agriculture per Capita, 1990–97
Low-Income USAID-Assisted Countries With Agricultural Development Programs,
USAID Bureau Averages (Index 1990=100)



Regional averages are unweighted.
*E&E region: index is 1992=100 (Moldova missing 1993 data).
Source: World Bank.

Country Example

USAID-supported market liberalization in **Mozambique,** combined with direct assistance to farmers and rural entrepreneurs, resulted in a 44 percent increase in the volume of maize marketed by households in 1998, while prices received by maize farmers rose by 65 percent. The value of cashew exports reached $35 million, exceeding the $33 million target.

USAID promotes the development of microenterprises and small businesses in **Morocco** by supporting the new Al Amana lending institution. In 1998 alone, Al Amana expanded from 3 to 27 new branches, hired 64 new credit agents, and approved 9,150 loans totaling $2.25 million. USAID has similar programs in **Bangladesh, Cambodia, India, Jordan, Lebanon,** and **the Philippines.**

Democracy and Good Governance Strengthened

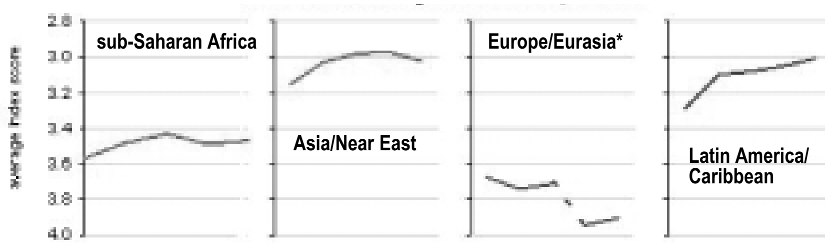
As we end the bloodiest century, the goal of developing a community of democratic nations becomes ever more important. In the past decade alone we have witnessed the collapse of communism and the end of the Cold War, with the subsequent emergence of many countries making a transition to market economies and democratic governance. In many places internal conflict has accompanied an opportunity for freedom. We recognize that our best hope to prevent a recurrence of conflict is to create democratic states. The developed world must find solutions to the crisis of governance in an uncharted political environment.

For several years, USAID has been a leader in promoting democracy and good governance. Although the Agency continually sharpens its skills in this new field, a wide variety of donors and recipient nations recognize USAID's leadership. Despite relatively low resources available for promoting democracy, the Agency is often called on to serve as lead donor in countries around the world. Agency programs are concentrated in four major areas:
1) strengthening rule of law and respect for human rights, 2) encouraging credible and competitive political processes, including elections, 3) developing a politically active civil society, and 4) encouraging transparent and accountable government institutions. The programs the Agency undertakes to meet these objectives are not opportunities merely to strengthen democratic processes, but also to promote synergies between democracy and good governance and other Agency goals. One example of this is in health, where establishing citizen committees to manage local health care results in greater political control and better health care for local residents.

USAID has 236 strategic objectives that promote democracy and good governance: 53 address the rule of law and human rights, 36 support more competitive political processes, 71 support civil society, and 65 promote more responsive government institutions. Some 76 percent of these performed at a "meets" or "exceeds" expectations level.

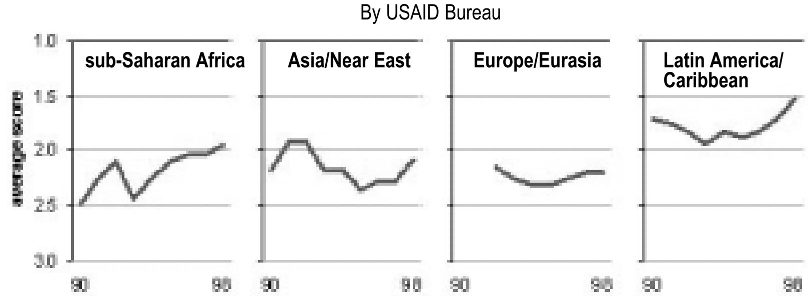
As figure 3.4 shows, the development of democracy does not follow a predictable or linear path. USAID has been able to capitalize on its own experience to respond quickly to democratic openings in such high-priority countries as **Indonesia** and **Nigeria.** The Agency

Figure 3.4. Economic Freedom Index, 1995–99
USAID-Assisted Countries With Contributing Programs,
USAID Bureau Average Overall Scores



Regional unweighted averages.
*Central Asian Republics not reported 1995—97.
Source: Heritage Foundation.

Figure 3.5. Freedom House Classifications, 1990–98
USAID-Assisted Countries With Democracy Programs,
By USAID Bureau



Unweighted regional averages free=1, partly free=2, not free=3 (see methodology).
E&E: 1992—1998, Eritrea n/a 1990—92, West Bank/Gaza n/a before 1996.
Source: Freedom House.

realizes that flexibility of programming and timing of assistance can make the difference in countries where fragile institutions and weak civil society require support.

Overall, the process of democratic development continues to gain momentum, as figures 3.4 through 3.7 show. The Agency's 1999 targets called for a net increase in rankings for three countries, one in each region except for **Latin America.** There, change—starting at a much higher level—was expected to go more slowly. In fact, these targets were exceeded, with seven countries showing overall improvements in their Freedom House ratings. Targets for **Asia and the Near East** and **Latin America and the Caribbean** were exceeded.

More and more nations continue to adopt democratic institutions, ranging from a free press to independent judiciaries. In recent years, representative government has become a reality for millions more people around the world. It has engendered democratic institutions, free and open markets, an informed and educated populace, a vibrant civil society with shared democratic values, and a relationship between state and society that encourages pluralism, participation, and peaceful resolution of disputes. The democratization process, though, is not irreversible. The course over the last decade or so is shown in figures 3.5 and 3.6. Threats that USAID must address include weak institutions,

Country Example

In **Slovakia,** USAID supported a nonpartisan civic education effort led by a team of 11 non-governmental organizations as one element in the return to a reform-oriented national agenda. The network brought in support from other donors and grew to 50 organizations across the country. USAID provided these NGO leaders with the project management, coalition building, and advocacy skills needed for this campaign.

In **Peru,** legal clinics and conciliation centers provided free services to the poor in more than 31,000 instances, 60 percent of them related to domestic violence and child-support cases brought by women.

The Agency supported a women's organization in **Senegal** to implement a pilot mobilization and education program on female genital cutting, traditionally practiced on girls aged 2 to 10. Catching the national spotlight, the women were praised for their efforts by the Senegalese president. In February 1998, parliament passed a law prohibiting the practice.

closed elections, the corrosive effect of corruption, and competition for scarce government resources. Any of these can stall democratic transitions and result in ethnic or civil strife. Democracy assistance efforts must go hand in hand with programs in economic growth, ensuring that political openings undergird access to free markets.

Building Human Capacity Through Education and Training

Most developing nations have made substantial progress in raising primary and secondary enrollment rates and achieving basic literacy, yet many have a long way to go in achieving universal primary education. Moreover, the poor quality of education in many countries contributes to high rates of grade repetition and school dropout. Poor quality and access affect girls more severely than boys (see figure 3.8) and lead to significant gender gaps in primary and secondary enrollment and completion.

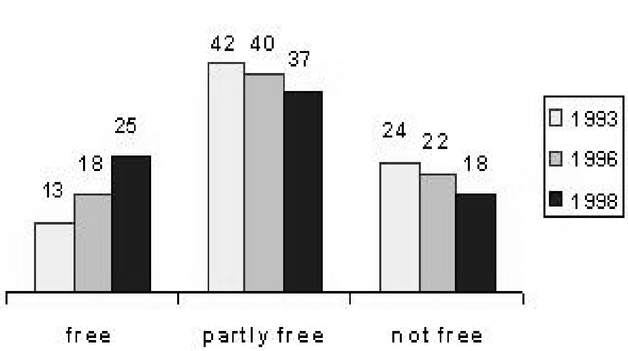
USAID has been a major supporter and technical leader for basic education programs for over two decades. Despite diversity among countries, education sectors face common challenges. In almost all regions, expanding access to basic education and improving quality and equity are the highest priorities. Even though this has not been a severe problem in **Europe and Eurasia,** it is of increasing concern as educational services and standards have slipped recently in many parts of that region.

In 1998 USAID assistance helped countries 1) develop and adopt policies that made basic education better and more accessible, 2) build capacity to manage their education systems and train teachers more effectively, 3) promote the adoption of innovative teaching methods and better educational materials, 4) encourage the use of technology, including distance learning through radio and the Internet, and 5) promote more community participation in educational decision-making.

USAID has 33 strategic objectives targeting basic education worldwide. Of these, 26 met or exceeded expectations. The remainder either failed to meet expectations or had mixed results.

While most countries in each region are moving toward universal primary enrollment, several are not, and good data are generally not available. Indeed, a major reason for countries' falling short appears to be a lack of good recent data. In response to inadequate education statistics in many countries, USAID supported the development and testing of a new education survey in 1998 to be combined with Demographic and Health Surveys, an instrument already known for its excellent data. This will provide missions that

Figure 3.6. USAID-Assisted Countries Free, Partly Free, and Not Free, 1993, 1996, 1998



Source, both charts: Freedom House.

Figure 3.7. Freedom House Classifications For USAID-Assisted Countries, 1998

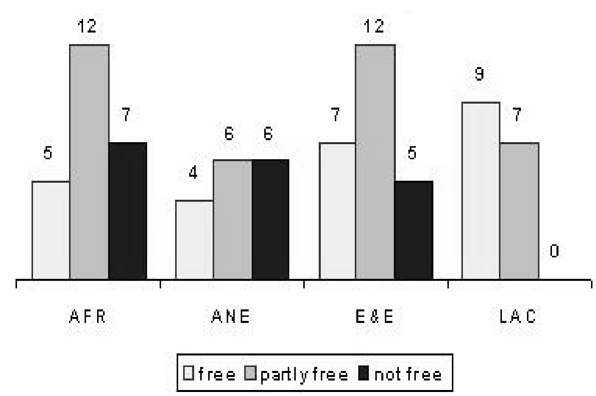
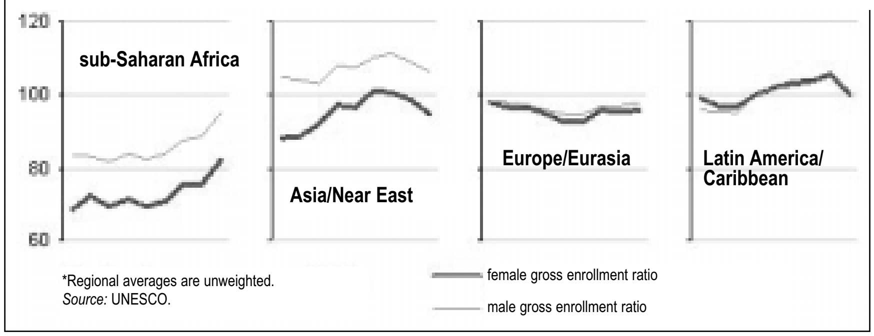
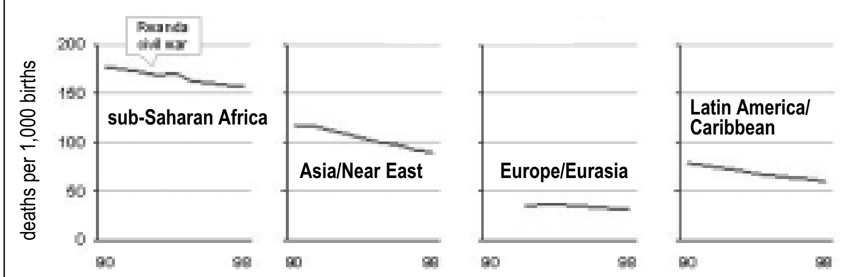


Figure 3.8. The Difference Between Girls' and Boys' Primary Enrollment Ratios, 1988–96
USAID-Assisted Countries by USAID Bureau



*Regional averages are unweighted.
Source: UNESCO.

Figure 3.9. Under-5 Mortality Rate, 1990–98
USAID-Assisted Countries With Contributing Programs, by USAID Bureau



Weighted regional averages by total births.
Europe/Eurasia: 1992—98.
Source: U.S. BUCEN.

conduct Demographic and Health Surveys with supplementary information, although even these data will be available only at five- to seven-year intervals.

Each bureau is approaching the issue of expected shortfalls differently:

- The Africa Bureau has a strategy of promoting an "education sector support" approach.
- LAC is coordinating its efforts closely with the International Development Bank and the World Bank in expanding access to secondary schools over the next five years.
- ANE will actively address the need for greater investment in basic education, including special attention to improving literacy rates.
- The Europe and Eurasia Bureau, which had concentrated on higher education, is finding that primary school enrollments may be declining.

Stabilizing Population Growth And Protecting Human Health

USAID's programs to stabilize the world's population and protect human health (PHN) in the developing world lead to better quality of life for individuals. They also serve U.S. national interests by contributing to global economic growth, a sustainable environment, and regional security. In addition, reducing illness, death rates, and population pressures lowers the risk of humanitarian crises in countries where population growth is the highest. Improved reproductive health of women, another component of USAID's programs, is a pivotal issue in sustainable development and global economic growth. The ability of women to meet their basic health care needs, including access to quality family planning services, boosts their independence and self-esteem. It also improves their ability to participate in family, community, and economic endeavors.

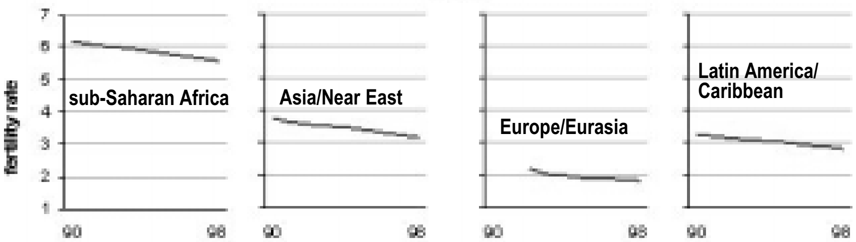
Protecting human health in developing and transitional countries, including addressing nutrition problems, also directly affects public health in the United States. Unhealthful conditions elsewhere in the world raise the incidence of disease and the threat of epidemics that could directly affect U.S. citizens. Whether safeguarding the health of Americans or helping reduce the human suffering that often leads to chaos and conflict, the United States has a direct interest in population, health, and nutrition issues worldwide.

Enormous gains have been made in protecting human health and stabilizing population growth. Millions of children's lives have been saved, and fertility rates have continued to decline in all regions (see figures 3.9 and 3.10). As a global leader and one of the

USAID PHN PERFORMANCE GOALS

- **Fertility rate decreased by 20 percent by 2007**
- **Mortality rates for infants and children under 5 cut by 25 percent by 2007**
- **Maternal mortality ratio reduced by 10 percent by 2007**
- **Number of new HIV infections slowed**
- **Proportion of underweight children under 5 in developing countries reduced**
- **Threat of infectious disease reduced**

Figure 3.10. Total Fertility Rate, 1990–98
USAID-Assisted Countries With Contributing Programs, by USAID Bureau



Weighted regional averages by female population of childbearing age (15—49).
Europe/Eurasia: 1992—98.
Source: U.S. BUCEN.

largest bilateral donors in the PHN sector, USAID can claim significant credit for these achievements. In collaboration with the rest of the development community, including host countries, its programs are contributing to achieving the performance goals outlined in the FY99 Annual Performance Plan. The Agency pursues a diverse set of strategies and programs to meet the challenges presented by different country contexts and health care systems.

But to progress further in health and to safeguard the health gains achieved during the past few decades, the Agency needs to address changing disease patterns and shifting demographics. The biggest challenges are the HIV/AIDS pandemic, stagnating immunization rates, and the emergence of antimicrobial-resistant strains of infectious disease, such as tuberculosis and malaria. At the current pace, meeting development goals in **Africa** for 2007 will be difficult, as the effects of these trends are taking a devastating toll there.

Worldwide, 85 operating units have 215 strategic objectives that address some aspect of PHN. Overall, some 82 percent of strategic objectives were deemed to meet or exceed their targets.

The latest data available on fertility reduction and mortality rates for children under 5 show steady but uneven progress toward reaching the Agency's 10-year goals. Because of the staggered date of surveys across the regions and the two- to three-year time lag in the issuance of PHN data by international organizations, it is too early to know whether the FY99 Annual Performance Plan targets will be met. The most recent data suggest that total fertility rates are not declining at the expected rates in **Africa** and **Latin America and the Caribbean.**

Progress with child survival appears to be ahead of target in all regions except Africa, which is lagging behind expectations primarily because of the HIV/AIDS pandemic and political instability, which disrupts health care services. One of the important effects of USAID's work in democracy and governance and in conflict prevention is the increased availability of health care services in peacetime and under good

Country Example

By the end of a pilot emergency obstetric care project in **Morocco** during 1995–98, 287 staff had been trained, 30 sites were offering care for the first time, and the medical school curriculum had been improved. Facilities now serve 75,000 pregnant women each year. Over the three-year period 1995–97, USAID programs combating maternal mortality contributed to a decline from 332 to 228 deaths per 100,000 births.

In **El Salvador** between 1993 and 1998, infant mortality—a problem addressed by several donors including USAID—dropped from 41 to 35 per 1,000. Mortality for children under 5 dropped from 12 to 8 per 1,000.

USAID worked closely with Japan and other donors to carry out national immunization days for polio in 73 countries, reaching more than 450 million children. Since 1988, reported polio cases worldwide have dropped from 350,000 cases to 6,500 cases per year.

The latest USAID-sponsored Demographic and Health Survey in **Bolivia** showed that use of modern contraceptive methods rose from 17.7 percent of fertile women in 1994 to 25 percent in 1998, largely owing to USAID assistance. The Agency supplies nearly two thirds of all contraceptives in the country. As a result, fertility dropped more than 12 percent in this period, to 4.2 children per woman.

management. Despite some regions not showing the anticipated results in declining fertility and child survival, the Agency feels that the track record over the past 30 years warrants staying the course until better options are available.

Protecting the World's Environment for Long-Term Sustainability

Rapid population growth, accelerated industrialization, and growing urbanization are straining the earth's finite natural resources, especially in the developing world. There have been many environmental catastrophes, such as the 76 percent shrinkage of the Aral Sea, once the world's largest inland body of water. Nearly one half of the world's population of 6 billion live in cities. As this number continues to rise, it will have a dramatic effect on demand for natural resources, including water and energy, and the treatment and disposal of wastes. What is less obvious is that environmental degradation often strikes at those who can least withstand it. Natural disasters such as hurricanes, floods, and earthquakes often deal a harsh blow to the poorest of the poor. Many developing countries lack the capacity to respond to disasters, increasing the likelihood of political instability. Nor do many countries have strong national environmental plans and sustainable policies for environmental management. Whatever its source, environmental degradation directly and severely limits economic growth. The World Bank recently reported that the effect of doubling emissions of carbon dioxide can cut the gross domestic product of developing countries by as much as 10 percent and dramatically reduce crop yields
.

USAID contributes more resources to addressing environmental problems than any other donor. Nonetheless, the Agency, even when working closely with host countries, cannot solve all these problems. This will take time, persistence, and more resources than any one donor has available. But USAID can work to help stem environmental decline. The Agency aims its efforts at just five environmental objectives: 1) biodiversity conservation, 2) global climate change, 3) urbanization and pollution prevention, 4) more efficient energy production, and 5) traditional natural resource management. The Agency is currently working in 55 countries to meet these goals.

In various planning documents, the Agency sets broad performance goals as well as more specific country, regional, and local targets. On the whole, we have been successful at meeting regional and local environmental targets but less so in meeting overall Agency performance goals. Last year, close to

Country Example

USAID funds the Central American Commission of Environment and Development, which has helped governments draft environmental laws and regulations. These include pollution control regulations in **Costa Rica, El Salvador, Guatemala,** and **Nicaragua**; waste water regulations in **El Salvador** and **Panama**; and a new biodiversity law in Nicaragua. As a result of training in environmental enforcement and compliance, Central American governments have begun to levy fines. **Belize** is cracking down on maritime companies for destruction of coral reefs. **El Salvador** is enforcing penalties for illegal cutting of forests and mangroves. **Honduras** is fining officials for improperly granting environmental permits.

In **Africa,** local management of natural resources works best when linked to market-oriented enterprises. Since 1991 the average growth in income generated through USAID-funded natural resource management programs has doubled every year. Further, for the first time, analysis of satellite imagery demonstrates that land that has been under improved management practices over the past 20 years is now gaining significant vegetation over a large area, linking better management practices and conservation.

The Agency has significant water resource management programs in **India, Indonesia,** and the **Middle East,** where the degradation and depletion of water resources pose the most critical challenges to sustainable development. In **Morocco,** USAID helped 24 municipalities (representing 2.8 million people) construct new water and waste facilities, as well as urban green space, roads, and recycling plants.

80 percent of all operational units met their environmental targets. No one knowledgeable with the state of the world's environment should be too surprised that USAID has not met its higher order goals. Those goals, while worthy, are beyond what the Agency can accomplish in a five-year—let alone a one-year—period. These typically reflect pernicious, long-standing national and global environmental issues. In addition to host countries, major partners in this effort include the World Bank and all the regional development banks and several UN organizations.

Overall, most environment programs are meeting their objectives. In biodiversity, for example, where USAID's target is a 1 percent per year increase in the area of nationally protected land, the Agency met its goals in all regions except for Europe and Eurasia. Failure in this region is largely due to a significant decrease in protected lands in **Russia.** Over a quarter of Russian protected lands became vulnerable during 1994–97. But the Central Asian Republics, particularly **Kazakhstan,** all showed positive trends.

Where the Agency is working to improve access to environmental services, the **Asia and Near East** region met its target of a 1 percent per year increase in access to safe water and sanitation services. All other regions increased access but did not reach their targeted levels. These indicators capture national-level outcomes but do not accurately reflect the Agency's more concentrated efforts on key municipalities. As a result, new indicators are under review.

Probably nowhere in the Agency is measurement of goals more difficult than in environmental activities. Clearly, USAID is working toward protection of biodiversity, slowing of greenhouse-gas emissions, and more efficient energy production. But all of these are governed by factors well beyond the Agency's control. The booming economies of Asia, for example, require more energy. Even if energy is produced more efficiently, the absolute quantity of greenhouse gases is likely to rise. Similarly, the effects of national environmental policies can take a long time to be felt and are particularly dependent on appropriate enforcement. While we are able to look at specific outputs of individual activities, it is extremely difficult—and perhaps too early in the environmental development process—to track changes at a higher level of magnitude.

Saving Lives, Reducing Suffering, And Reestablishing Conditions For Political And Economic Development

USAID's work in humanitarian assistance reflects fundamental values and ideals concerning saving lives, reducing suffering, protecting health, and advancing peaceful change. The United States has a long and generous tradition of providing assistance to

disaster victims, especially women and children. The primary purpose of humanitarian assistance is to save lives and reduce suffering. Although it is not a substitute for long-term development programs, humanitarian assistance can safeguard investments in economic and social development. Humanitarian assistance also plays an important role in furthering U.S. interests in times of peaceful transition and development. There is also a direct economic benefit to the American public, as exemplified by the Title II 480 food aid program, which provides for the sale of surplus U.S. food commodities. This program has helped develop markets for U.S. agricultural products worldwide.

The Agency's humanitarian assistance addresses three broad categories of emergencies: natural disasters, man-made disasters, and complex emergencies. Man-made disasters are caused by human error in design or management, such as a building collapse or industrial accident. Complex emergencies are generally caused by or result in civil strife, and are manifested in armed conflict, death, displaced populations, hunger, and injury. In addition, the Agency supports longer term rehabilitation and recovery for countries in transition emerging from complex emergencies.

Helping societies and governments shift from emergency relief to the reestablishment of political and social stability is an important component of USAID's humanitarian assistance. Demobilization of ex-combatants and removal of land mines enhances local security. Strengthening local governance and institutions promotes reconciliation and helps societies reintegrate. Rebuilding social and physical infrastructure combines relief with transitional and developmental assistance.

USAID has led the effort to involve other donors in humanitarian assistance efforts and has served as a focal point for other U.S. agencies, such as the departments of Agriculture, Defense, and State. USAID remains the largest bilateral donor in humanitarian assistance. The donor community coordinates its contributions with host country governments and utilizes the expertise of government and nongovernmental organizations in designing and implementing programs. Voluntary organizations play an important role in implementing USAID-funded programs.

Humanitarian crises affected an estimated 418 million people in 1998. Natural disasters accounted for 315 million, while complex emergencies affected an additional 103 million. The number of people requiring USAID assistance rose from 41 million in 1997 to 141 million in 1998. The Agency responded to 87 declared disasters in 1998, of which 65 were natural disasters, up from 27 the previous year. Several of the major emergencies were associated with weather abnormalities related to the El Niño phenomenon. The economic effects of this environmental change are estimated at $33.2 billion worldwide, affecting virtually every development sector and touching nearly every aspect of USAID's portfolio.

The Agency was also called on to help in situations of civil strife following conflict. Despite the greater number of natural disasters in 1998, the majority of funding was devoted to complex emergencies, primarily in **Africa.** The Greater Horn of Africa Initiative documented conflict as a major cause of increased food insecurity in that region. In **Latin America and the**

Caribbean, postconflict programs helped countries shift from dictatorships to more democratic governments.

In Europe and Eurasia, ongoing emergencies in **Bosnia** accounted for a significant share of 1998 assistance, which emphasized community rehabilitation and economic stabilization. USAID also continued to provide essential food, health, water, and sanitation. Natural disasters such as Hurricanes Mitch and Georges and the worldwide impact of El Niño have affected GDP growth in many countries. The “hurricane of the century,” Mitch affected 2.3 million people, caused more than $5 billion in damage, and drove down the annual GDP growth rates of Honduras and Nicaragua by several percentage points each.

Over the past two years, the Agency has restructured its approaches to the full spectrum of humanitarian assistance, bringing more attention to preventing crises as well as to moving out of crisis into normalcy. The humanitarian assistance goal area now consists of three objectives:

- Prevention—increased emphasis on USAID’s role in preventing conflict
- Relief—direct aid and donor coordination
- Transition—ensuring that common elements form the core of USAID’s strategy in postconflict transition

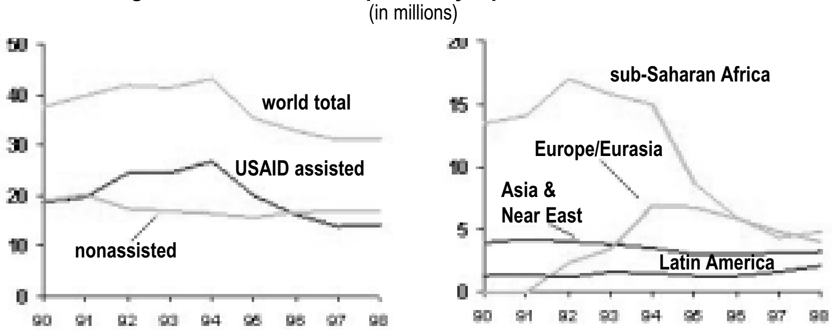
These objectives highlight the fact that complex emergencies form the heart of current relief efforts, and that the Agency needs to be as involved in preventing them and assisting with the transition back to normalcy as it is with responding to immediate needs. These issues have been key to the Agency’s humanitarian assistance work during the past two years, even though they were not incorporated in the FY99 Annual Performance Plan.

Prevention, the newest of the three, is the area in which the Agency has the least experience. To address that, USAID is changing how it works in countries that may devolve into violence. It has issued new policy guidance to missions worldwide to encourage them to analyze the risk of conflict and recommend measures to address these vulnerabilities. The Agency has coupled this with conflict-prevention training for USAID employees and others. It has also selected pilot countries in **Africa, Europe and Eurasia,** and **Asia and**

Country Example

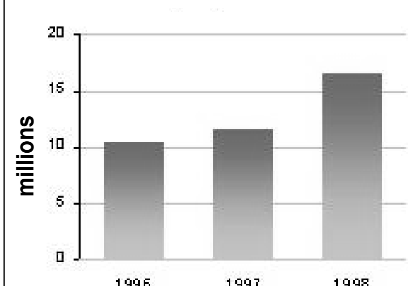
The Office of Foreign Disaster Assistance not only provides food. When Hurricane Georges swept across the **Dominican Republic,** critical shortages of food, water, and shelter developed. Malaria, cholera, dengue, conjunctivitis, and respiratory infections were serious health problems. OFDA worked with the Pan American Health Organization and the Peace Corps to address this crisis. The office provided water tanks, water purification supplies, and generators to power municipal water pumps.

Figure 3.11. Persons Displaced by Open Conflict, 1990–98
(in millions)



Source: U.S. Committee for Refugees.

Figure 3.12. Number of Beneficiaries of Title II Emergency Food Aid



the Near East for programs to identify and reduce risks. Clearly, these programs are experimental since we have little experience in how to address the issues that lead to war. Finally, we are working with the other major donors to ensure policy coherence and improved operational effectiveness.

While USAID cannot claim that these new programs are having an impact, certainly assistance provided by the world donor community is helping ameliorate crises that occurred earlier in the decade. Figure 3.11 shows the decline in numbers of persons displaced by conflict over the past 10 years. While marked improvement was evident between 1994 and 1998, the Agency is concerned that the first decade of the new millennium will bring more conflict and population displacement, and it is doing its best with limited resources to address the root causes leading to crisis.

The second objective, *relief,* is easier to discuss and understand. In 1998 the Office of Foreign Disaster Assistance responded to 87 declared disasters, up from 48 the previous year. A major part of U.S. assistance, one that is often ignored, is that provided by USAID's Title II emergency food aid. Surplus U.S. crops, purchased by the Department of Agriculture, are given to USAID to manage. Private voluntary organizations and the World Food Program usually provide direct assistance. In 1998 this assistance reached 16.4 million beneficiaries (see figure 3.12), an increase of 42 percent over the previous year. In 1998 USAID provided over 920,000 metric tons of food to 22 countries and gave more than 200,000 metric tons to the World Food Program's protracted relief operations in 12 countries. This latter contribution represents 41 percent of the total tonnage of food the World Food Program received from all donors. While U.S. food aid often goes through other agencies, in total, we can be proud of being the largest food aid donor in the world.

The mounting emphasis on food aid goes along with closer monitoring of the effect of this on children's nutrition. All food aid recipients are required to track nutritional status. In some cases—such as a program in **Sudan,** where malnutrition rates dropped from 40 percent to 12 percent in seven months—the changes have been dramatic. This program has led USAID's efforts to reach the U.S. foreign policy goal of maintaining and reporting on the nutritional status of children in areas requiring humanitarian assistance. This also helps reduce the death rate of those affected by disaster.

The third humanitarian assistance objective relates to the way the Agency assists countries as they emerge from complex emergencies. USAID responds creatively to *transition* opportunities around the world and translates these experiences into policy options and technical expertise for wider use. Some of these mechanisms, centered in the Office of Transition Initiatives, provide the following support.

- Analyzing and developing program tools to address specific transition issues
- Pilot-testing new approaches, including support for a wide variety of change agents in a society (such as alternative media and significantly including women as peacemakers)
- Providing expertise in specific sectors, such as use of the media in **Bosnia** or demobilization and reintegration of former combatants in **Guatemala**
- Giving rapid and responsive assistance in changing situations
- Establishing economic programs in secondary cities to stem flight of rural populations to capitals

Link Between Performance and Financial Reports

USAID is developing a management cost accounting program that will allow it to better link specific performance to specific funds. This is a challenging area for USAID because of the nature of our mission. Budget numbers are difficult to tie to results and aren't easily compared. In addition, many intervening factors differ from site to site. For example, the extent of host country or other donor cofinancing varies widely, making quantifying cost-effectiveness problematic in even one location, let alone on a comparative basis. Despite these problems, the establishment of the management cost accounting program should provide additional information for this type of analysis.

Owing to the nature of development, a lag invariably occurs between when money is spent and when results are achieved. Typically, achieving results requires continuous investments over time. Since the results reported in any particular year are the accomplishment of prior-year expenditures, linking current-year expenditures to current-year results may be misleading.

Management Performance

USAID's fiscal year 1999 Annual Performance Plan not only identified performance goals for the Agency's development programs, but it also articulated the Agency's management goal of "remaining a premier bilateral development agency." This management goal expresses USAID's commitment to being a leader in economic and humanitarian assistance, to pioneering effective solutions to pressing development problems, and to delivering development assistance as efficiently and effectively as possible. In essence, the management goal affirms the Agency's commitment to getting the most value from taxpayer dollars while making the greatest possible difference for development. This chapter of the Accountability Report discusses USAID's progress toward achieving the management goal.

In the Annual Performance Plan for FY00, the FY99 performance goals were reorganized and recast. Activities and initiatives previously framed under five performance goals were subsumed under three new performance goals: 1) leadership and learning capacity strengthened, 2) partnering strengthened, and 3) management support systems strengthened. The Agency's FY01 Annual Performance Plan has built on this foundation to articulate a larger set of management targets that are clearly and consistently linked to a revised Agency goal of ensuring that "USAID evolves into a model 21st-century international development agency."

The FY01 plan added a performance goal explicitly concerned with its implementation of USAID's "Reform Road Map," developed and disseminated in FY99. It includes the kind of specific management activities and targets that the Office of Management and Budget, the General Accounting Office, and congressional stakeholders have requested. It also identifies three higher level "outcome" indicators, adding two new measures of management improvement to the existing indicator on assistance by private voluntary organizations (PVOs) and non-governmental organizations (NGOs). These changes reflect Agency efforts over the past 12 months to more fully implement and incorporate management reforms in the FY01 Annual Performance Plan.

This Accountability Report looks at accomplishments during fiscal years 1998 and 1999 in terms of the new framework of objectives and activities presented in USAID's FY00 and FY01 Annual Performance Plans. The Agency's FY99 Agency Performance Report provides more detailed information on the FY99 performance goals and indicators, even though they have been largely replaced. That report also provides more detailed reporting of USAID's accomplishments against specific performance targets.

Leadership and Learning Capacity Strengthened

The developing world presents a complicated and ever changing array of problems and opportunities. To remain a premier development agency, USAID must comprehend the shifting currents of development to apply innovative and effective approaches to achieve the best results possible. To manage for results successfully, the Agency must also effectively monitor and evaluate the performance of its programs and learn from experience. And USAID must communicate, share, and apply the knowledge gained to influence the entire development community.

Reform Road Map Developed and Implemented

USAID surveyed staff and partners extensively in FY98 to identify factors hindering full implementation of management reforms approved in 1995. After top managers decided it was essential to aggressively address obstacles to improving management, the Agency in FY99 developed a Reform Road Map. It identified the actions that needed to be taken, by whom, and by when to create an agency that managed effectively for results.

To oversee implementation of the Reform Road Map, the USAID Administrator formed a change management group, cochaired by the assistant administrator for policy and the assistant administrator for management. This group, in turn, created an operations governance team charged with identifying Agency policies and procedures in need of repair and the USAID staff capable of accomplishing that task. The Reform Road Map articulates important activities, indicators, and targets for the management-improvement activities reported in this chapter.

Annual Goal Area Performance Reviews Strengthened

During FY99, USAID significantly expanded the scale and scope of its annual goal area reviews and more fully integrated the reviews into its program and policy decision-making. Findings from goal area reviews were reflected in top-level policy and budget deliberations and in plans for future evaluations and analyses.

The FY99 goal reviews also paid special attention to crosscutting issues and identified synergies across goal areas that bore heavily on results. Two of the most significant such issues were the role of women in development and the importance of collaborating and participating with customers and partners.

In general, this year's goal area reviews placed considerably more emphasis on factors affecting performance, concentrating on information that was most important and useful to managing for results. Some findings from the FY99 reviews had substantial implications for program management. One of the most striking common themes was the importance of recipient-country policies and institutions on program performance.

The goal reviews also revealed the continuing tension between centralization and decentralization within the Agency itself. Although regional and cross-border programs are growing, and although USAID addresses global issues and strives to achieve global progress, most development problems still pertain to individual countries. Those countries are, after all, where programs are implemented, where progress occurs, and where policies and institutions are manifest. The tension between global goals and country programming also was reflected in concerns about the extent to which Agency performance goals and country strategic objectives are within our realistic manageable interests and whether, with declining resources, USAID's programs are being spread too thin.

USAID manages the foreign assistance program in a way that responds to both country-based and U.S. foreign policy priorities. For foreign assistance to be relevant, it must address both together. The Agency must respond to high-level goals that tie to foreign policy objectives, as well as to country-level results that are achievable and manageable within the Agency's mandate, resource levels, and decentralized programming mode. The goals discussed in the FY99 Annual Performance Plan do not convey an adequate picture of the specific contributions USAID provides to the higher goals. We are reviewing those Agency goals to determine if they should simply provide the country context objectives in which we frame the USAID program and whether we should revise our Agency performance goals to attribute performance more clearly.

To improve the selection of future goals, a bottom-up analysis of Results Review and Resource Requests (R4) documents was conducted to identify the most commonly used indicators in field programs. Both contractors and Agency staff were involved in preparing these analyses. This process, more fully described in the FY01 Annual Performance Plan, may yield new performance goals and indicators that will better measure year-to-year Agency performance.

Performance Data Quality and Availability Enhanced

During FY99, USAID continued working energetically to improve the quality and availability of performance data within and beyond the Agency. Some important accomplishments:

- Agencywide training on "managing for results"
- Expansion of technical assistance for missions and offices
- The technical analysis of performance data quality and coverage
- The selective review of operating-unit performance reports and monitoring plans

- Implementation of performance measurement workshops for field staff and partners
- Creation of a Web-accessible database of performance information for every USAID operating unit
- Development and dissemination of standards on performance data and indicator quality (*Performance Monitoring & Evaluation Tips No. 12*)

To manage for *results* rather than simply for *reporting* results, and in response to staff and partner feedback about Agency reforms, USAID in FY99 streamlined mission and office reporting requirements. This helped better serve management's information needs. USAID/Washington encouraged operating units to eliminate irrelevant indicators, to stress reporting on the indicators most pertinent to decision-making (regardless of the level of results involved), and to identify the indicators expected to be most relevant next year.

Reflecting this guidance, the average number of indicators reported for each operating unit strategic objective dropped from 9.0 in FY97 to 4.4 in FY98. The percentage of missions and bureaus reporting data at the level of strategic objectives (end outcomes, in terms of the Government Performance and Results Act) also dropped in FY98 (from 64 percent to 49 percent). This reflected the fact that more missions were reporting data on intermediate results that were more directly related to their programs. These data generally proved more relevant for assessing performance and more useful to Agency decision-makers.

Capacity to Measure Performance Strengthened

The percentage of operating-unit strategic objectives for which performance data were reported rose substantially, from 64 percent in FY97 to 87 percent in FY98. It remained at about the same high level (84 percent) in FY99. Missions and offices have now developed the capacity to measure performance. In general, they have at least one indicator for each strategic objective with a baseline, a target, and actual data. Having actual performance data for 84 percent of strategic objectives exceeds the target of 80 percent set last year.

A review of the data by Agency goal indicates that performance data were most difficult to obtain in the areas of democracy and governance (reflecting the complexity of concepts and measures) and humanitarian assistance (reflecting the emphasis on delivering emergency assistance, rather than on measuring impact). We will place more attention on developing better indicators and data in both of these areas over the coming year.

Data Quality: Comparability Over Time

Seventy-nine percent of the strategic objectives for which operating units reported data in fiscal year 1998 had comparable data reported the previous year. This level of consistency in reporting provided a meaningful basis for year-to-year comparisons of strategic-objective progress and for trend analyses.

Data Quality: Improved Reliability and Validity

During fiscal years 1998 and 1999, the Office of the Inspector General (OIG) audited the quality of the results data reported by 18 USAID operating units and found room for improvement. Although the Agency believes that some of the criteria applied in this audit were overly rigid and that many of the quality problems identified were relatively minor, USAID strongly agreed with the OIG about the importance of having valid and reliable performance data. USAID management and the OIG are now working more closely to develop a shared understanding of the level of data "accuracy," "completeness," "validity," and "support" that is acceptable and feasible. The Agency also moved quickly to develop and disseminate an initial set of USAID standards on indicator and data quality early in FY99.

Data Quality: Gender Differences

For USAID to carry out its commitment to address gender issues in development programs and to improve the status of women, Agency policy requires that certain performance indicators be disaggregated to reflect differences in results for men and women whenever feasible and relevant. Though many of the current Agencywide development trend indicators are not amenable to such sex disaggregation, we will consider the need to document results for women compared with men as we reconfigure indicators in the future.

At the mission level, the extent to which performance data are gender disaggregated varies considerably across missions. It depends on both the amount of attention given to gender in programming and the content of the program. In FY99, when Agency guidance did not specifically reiterate the desirability of reporting gender-disaggregated results, the number of missions including such data dropped. Therefore, the guidance for 2000 specifically requests reporting on gender.

Performance Data More Widely Available and Used

During FY98, USAID established an initial database of operating-unit performance information that Agency management used to assess information quality. In FY99, USAID not only established a similar database of operating-unit performance indicators, strategies, and R4 narratives, but we also made those data and other performance information accessible on the Internet for both Agency staff and the external audiences.

Capacity to Learn From Experience Strengthened

While well-chosen performance indicators can signal whether programs are doing well or poorly, they rarely provide a sufficient basis for definitive performance judgments. Even less frequently do they indicate clearly what should be done. Managing for results requires not just performance measurement; it also requires learning from experience through research and evaluation. That includes research and evaluation conducted by USAID *and* by outside organizations such as the Office of the Inspector General, the General Accounting Office, and other donors and partners. Although recent staff cuts have reduced the number of studies the Agency conducts, USAID has more effectively targeted its evaluations and research at the most important and actionable development issues, as described in the next two sections.

USAID's Operational-Level Evaluations

Each year, USAID's missions and offices (the Agency's operating units) conduct hundreds of formal and informal evaluations. Most are intended to inform the design, implementation, planning, or decision-making about particular activities. Findings from the evaluations are reported in each operating unit's R4 and in specific evaluation documents. The findings are a major input into the Agency's goal reviews.

Copies of operating-unit evaluations are added to USAID's institutional memory, the development information system. During FY99, 325 evaluations completed in FY98 (200) and FY99 (125) were added. Once evaluations are abstracted and scanned into USAID's institutional memory, they can be easily located, accessed, and searched through electronically to inform planning and decision-making throughout the Agency and beyond. Indeed, in FY98, USAID responded to more than 150,000 requests for information and documents from its institutional memory. More than 40,000 of these requests come from USAID staff and contractors applying lessons learned from evaluations to plan and design new programs. Operational-level evaluations are also analyzed as part of larger, Agencywide policy and evaluation studies.

USAID's Central Evaluations

The Agency's central evaluations examine the effectiveness of activities in achieving results across country settings and goal areas. They explore alternative approaches to achieving results in new or controversial program areas. Lessons learned are disseminated to senior managers, technical staff, partners, and the wider public. Such evaluations often have a substantial effect on Agency policies, strategies, programs, and budgets.

Every year, USAID develops an agenda of evaluation topics that reflects the most significant issues emerging from the Agency's annual goal reviews and from broader consultations with USAID managers, technical staff, and external audiences.

Partnering Strengthened

USAID's long history of founding and nurturing partnerships serves the Agency well as it develops the ever more complex, innovative, and forward-looking relationships on which success in the 21st century will rest. Having established healthy partnerships with a vast array of institutions, donors, developing countries, businesses, and civil society organizations, USAID is poised to meet future challenges.

The Agency has continued working energetically to achieve greater donor consensus through the transatlantic dialog, the Organization for Economic Cooperation and Development's Development Assistance Committee, and other bilateral and multilateral forums. During FY99, USAID emphasized the development of shared approaches to globalization (the diminishing significance of national boundaries because of increased cross-border trade, improved communications, more numerous joint ventures, increased travel, and freer movement of capital).

Clearly, increasing globalization has of late rendered several factors particularly relevant. For example, development assistance now represents only a small proportion of overall financial flows to the developing world. This means that forces and institutions beyond the foreign assistance realm must contribute to achieving development goals, if those goals are to be realized.

Efforts to deal with globalization also have underscored mechanical impediments to partnership at the field level. Although donors and their host-country partners need more than ever before to work closely together, a morass of bureaucratic and legal inconsistencies emerge each time they try. Two aspects of this that require urgent attention are the harmony of donor program practices and procedures and the standardization of packaging and other commercial requirements to apply specifically to nutrition and health.

The Common Agenda with Japan continues to be one of USAID's most effective bilateral partnerships. Begun in 1993, the agenda seeks to increase the effectiveness of U.S. and Japanese assistance in population and health by increasing consultation and cooperation in planning, implementing, and evaluating programs and projects at the global and mission levels.

Partnerships with American foundations are also playing an increasingly prominent role in the Agency's work. Although foundations traditionally operate independently, USAID during FY99 continued interacting with foundations at both the policy and program level, providing technical assistance and leveraging resources for its many NGO partners.

In the population, health, and nutrition goal area, USAID also has actively collaborated with development agencies and multilateral donors. As a result, USAID has influenced those donors' programming and, through coordinating mechanisms at the country level, fostered policy and program donor coherence. In particular, USAID and the European Community have agreed to collaborate in seven areas in reproductive health and in child survival and infectious diseases.

Another area of coordination where USAID has been both an intellectual leader and the preeminent donor is conflict resolution and prevention. While other donors have often resisted acknowledging the links between issues of peace and conflict and development, USAID worked closely with them during FY99 to further their understanding of this essential connection.

The Agency also made a major contribution to the donor community this past year by developing indicators for democracy, good governance, civil society, political process, and rule of law. The indicators are designed to measure what USAID missions are accomplishing and then to aggregate results to assess what the Agency as a whole is accomplishing. During FY99, USAID presented this approach—a breakthrough in donor practices—to members of the Development Assistance Committee Informal Network on Participatory Democracy and Good Governance. The reaction was enthusiastic. Currently, USAID and the German development agency (Gesellschaft für Technische Zusammenarbeit, or GTZ) are cosponsoring a democracy workshop that will include donors and participants from other developing countries. We foresee other such partnerships in the future.

During FY99, USAID also served as a prominent member of the Development Assistance Committee's Informal Network on Poverty Reduction. Specifically, the Agency funded U.S. analysts who worked with British and German colleagues in drafting the scope of work for the network's activities for the next two years. In so doing, USAID ensured that poverty and food insecurity issues remained linked. That in turn enhanced coherence among donor policies developed in response to the World Food Summit and the Development Assistance Committee's 21st-century targets.

In collaboration with the United Kingdom and with support from France, USAID's leadership and technical expertise also ensured integration of gender issues into the Development Assistance Committee's poverty work. The Agency continues to lead the DAC Informal Network on Poverty Reduction's gender-mainstreaming effort. These contributions are critical, because the DAC is viewed in the development community both as the leader in current thought on poverty reduction and as the forum in which consensus views on poverty reduction issues are most highly regarded.

The Agency has long been a leader in developing and using many different approaches to fostering local participation. One area in which USAID has particularly excelled: promoting host-country ownership outside the bilateral context. The Agency pioneered the New Partnerships Initiative, which works on policy at the national level and connections among government, business, and civil society at the local level. The initiative was one of the primary inspirations for the World Bank's Comprehensive Development Framework, issued in 1999. It also resonates with the Development Assistance Committee's strategy for *Shaping the 21st Century* and with the UN's new interagency framework.

In 1999, USAID also published *Partnering for Results: A User's Guide to Intersectoral Partnering*. This handy compendium helps development professionals, government officials, and host-country citizens employ new mechanisms to expand local ownership, increase the impact of development assistance, and energize new partnerships across diverse sectors.

USAID has a particularly successful history of partnering with NGOs in carrying out population, health, and nutrition activities at the community level. That approach has promoted local ownership and has been critical for ensuring long-term sustainability for child-survival and family-planning programs. USAID's Population, Health, and Nutrition Center has partnered effectively with developing country institutions for applied and operations research. A few of those partners: the International Center for Diarrheal Disease Research in **Bangladesh,** the Nogouchi Research Institute in **Ghana,** and the National Institute for Public Health in **Mexico.**

The Development Assistance Committee's 21st-century strategy provides an important source of support for USAID's view (now widely adopted by the donor community) that successful development entails the integral involvement of host countries and their peoples in planning, implementing, and evaluating donor programs. The DAC strategy rests on the notion that donors share a common vision and can work together to realize that vision in the field. During fiscal year 1999, for example, USAID, GTZ, the World Bank, the UN Development Program, and other bilateral development agencies worked collaboratively with the government of **Bolivia** to strengthen programs in the justice sector. The lessons learned from this innovative partnership will be discussed at an Organization for Economic Cooperation and Development session during fiscal year 2000. The Agency is also striving to integrate 21st-century strategy concepts into its work with the European Commission, the G–8 process, the World Bank Development Committee, and in the Administrator's bilateral meetings.

Management Support Systems Strengthened

USAID has made substantial progress in building management systems and procedures needed for the Agency to deliver the best possible development results. Improvements in financial management, information management, human resources management, administrative services, and grant and contract services have enhanced accountability and moved USAID closer to full compliance with statutory requirements aimed at more efficient and effective performance.

Strengthened Information Management

The Agency has followed through on an information strategy to better support its business and comply with the Clinger–Cohen Act and the Government Performance and Results Act. We have developed a draft Information Management Strategic Plan for FY01 through FY05. The plan defines USAID's approach for implementing an integrated information technology architecture that will guide preparation, evaluation, and selection of information-technology investments.

Year 2000 Compliance

The highest priority information management activity during 1999 has been completing Year 2000 compliance work for USAID mission-critical systems. By September 1999, six of the seven critical systems were compliant. The last mission-critical application, the New Management System, was renovated in May 1999; validation and implementation were completed by November 1999. Agencywide Y2K workstation upgrades were completed under budget.

The Agency conducted 49 host-country assessments of Y2K readiness this past fiscal year. The assessments examined program-related information systems and levels of Y2K preparedness in critical sectors such as power, telecommunications, and transportation. We shared information from the studies with the foreign affairs community through an interagency group led by the State Department. USAID has an initiative in progress to share, through its missions and programs, standard tools that combine the common elements of Y2K contingency planning and repair strategies.

A Y2K business continuity and contingency plan was developed to cover the Agency's core business processes. It concentrated on the financial processes that support Washington and overseas field offices. At our field sites, USAID worked closely with the State Department, which has the lead in preparing local contingency plans for U.S. government agencies at each post. USAID experienced no disruption in administration or program operations as a result of the Y2K problem.

Information Resources Management Processes

The chief information officer and the Capital Investment Review Board reviewed, selected, and evaluated information-technology investments (including Y2K investments) during the past fiscal year. In FY99, the Agency completed the definition of IT systems and infrastructure required to support USAID strategic objectives.

The Information Management Strategic Plan for FY01 through FY05 (expected for approval early in 2000) will define the approach to implementing an integrated framework for acquiring and maintaining information technology that achieves USAID's goals. This framework will guide preparation, evaluation, and selection of information technology investments. USAID completed a review of the current situation during FY99 and will establish targets early in FY00. Developing the architecture, though, is an iterative and dynamic process that will continue evolving as the Agency's business processes evolve.

New Management System

The Agency's New Management System was designed to integrate information resources for budgeting, procurement, financial management, and program operations. Since its deployment in 1996, significant system performance problems have impaired the Agency's program and resource management capability. In FY99, USAID continued its efforts to overcome system weaknesses and improve system functionality while simultaneously developing more effective replacements that rely primarily on commercial off-the-shelf software and cross-servicing agreements.

All investments in the New Management System were overseen by the Agency's Capital Investment Review Board and by a CIRB subcommittee, the NMS executive team. Since Y2K received top priority in all investment decisions, most NMS functional upgrades were tabled in deference to Y2K compliance upgrades.

The Agency instituted rigorous configuration management processes on the New Management System software. The error rate of software releases has dropped dramatically, and FY99 year-end closing within NMS was performed with minimal unnecessary downtime—a significant improvement from previous closings. These practices are currently being applied to the Y2K compliance effort and will enable the Agency to achieve full compliance with a tested and verifiable level of confidence.

Overseas Mission Connectivity

The Agency is examining different satellite network schemes to support smaller missions and regionalize services. As a first step, USAID offices in **Europe, Japan,** and **Namibia** were linked to the Agency's intranet through local commercial Internet services. We installed Very Small Aperture Terminals at five of our smaller missions and examined new firewall technologies for missions relying on the Internet for connectivity.

Information Security

USAID developed a plan for the Information System Security Program that outlines the actions to bring the Agency into full compliance with the Computer Security Act and Office of Management and Budget guidance by FY03. The plan directly addresses information security concerns, drawing on knowledge and resources from other federal agencies and private information security initiatives. A program to carry out best practices has been recognized by the chief information officer community and the Office of the Inspector General for its quality and effectiveness.

Improved Assistance and Acquisition

Greater teamwork between contracting personnel and technical staff led to better and earlier procurement planning. Joint efforts helped eliminate many routine obligation obstacles. The availability of expanded training courses, for both procurement and nonprocurement professionals, helped improve staff knowledge of acquisitions and assistance requirements.

Forty-two competitive procurements were completed for Washington offices during the FY98 procurement cycle. The average timeframe of these procurements was 192 days. The actual time line ranged from 69 to 510 days, with only 3 of the 42 exceeding one year.

More than 360 procurement personnel worldwide attended 24 acquisition and assistance certification courses during FY99. These courses were held at seven overseas missions and in Washington. Attendees included contracting officers, executive officers, and foreign service national staff of both professions.

A significant portion of the training for nonprocurement personnel was provided as part of the in-house Reaching for Results course. About 14 courses were held, and 500 professionals (including activity managers and cognizant technical officers) received training. Additionally, 185 activity managers and cognizant technical officers underwent training related to grants management and performance-based contracting through commercial vendors.

Improved Financial Management

USAID continued to execute its strategy for an integrated financial management program that will support operational efficiency and data integrity. A chief financial officer was appointed in February 1999. A central program management office was established under the direction of that officer to oversee business planning, acquisition planning, and systems implementation of an integrated financial systems program. The chief financial officer will be responsible for integrating modernization of those financial and mixed financial systems included within the guidance of Office of Management and Budget circular A–127.

During FY99 the Agency completed detailed requirements analysis and acquired a commercial off-the-shelf core accounting system that will serve as the cornerstone of our business systems modernization program. The requirements conform with the standards and guidelines prescribed by the Office of Management and Budget. The current plan is to launch the new system in Washington in October 2000 and to implement the system in field offices during FY01–02.

USAID's Modernization Plan for Integrated Financial Management Systems will ensure that the Agency implements a financial management system to support our global mission. The plan lists priorities for replacing the Agency's remaining major financial support systems over the next five years (such as budget, procurement, human resources, property management, and performance management). Detailed plans are provided for systems identified for execution in FY00 and FY01. USAID will execute each of these in close coordination with the chief information officer, using methodologies established by that officer.

The chief financial and chief information officers worked closely with the Office of the Inspector General to improve the quality of financial information. The inspector general did not render an opinion on the FY99 financial statements. The chief financial officer and OIG agreed on a plan to expend audit resources on data-quality problems during the FY99 audit. This will increase the likelihood that the inspector general's office can express an opinion on the FY00 consolidated financial statements.

USAID completed actions in FY99 that establish an effective system of checks and balances for its direct-loan program. The loan servicing function was outsourced to Riggs National Bank. The Office of Management and Budget certified the Agency to manage the Development Credit Authority. Most significantly, this enabled USAID to eliminate its loan systems from the list of Agency material weaknesses.

Strengthened Administrative Management

With the relocation now complete of USAID headquarters staff to the Ronald Reagan Building, the Agency placed greater emphasis on achieving operational efficiencies both in Washington and overseas.

USAID has taken the lead among U.S. government agencies in providing services in several countries as a part of the International Cooperative Administrative Support Service. The Agency is providing administrative support services in two missions. Beginning in FY00, we expect to offer administrative support services in nearly a dozen missions.

In FY99 the Agency identified 10 of its overseas properties that cannot be occupied and will be liquidated. Once these properties are sold, we plan to construct new properties that would eliminate expensive annual rental fees.

Strengthened Human Resources Management

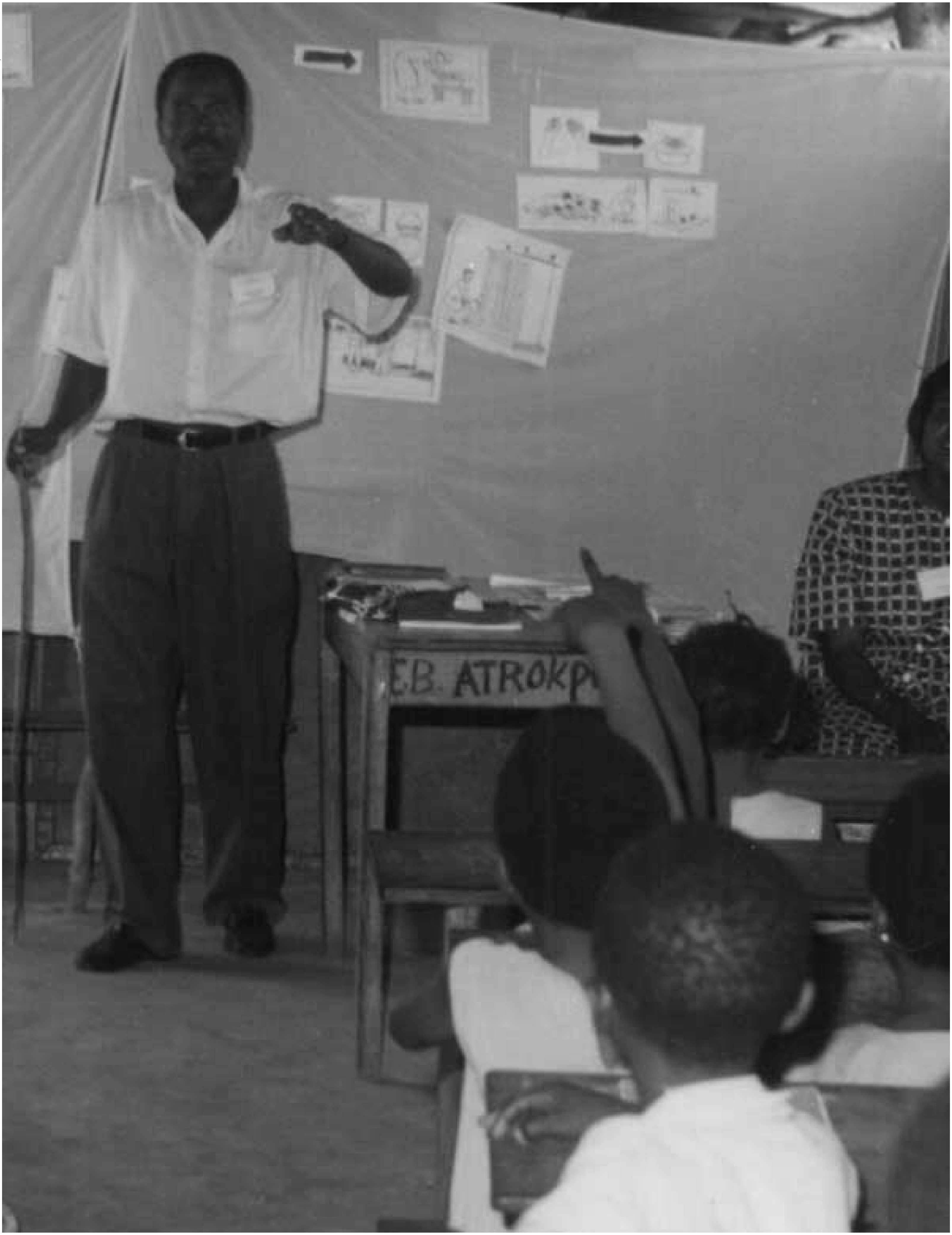
The Agency undertook several initiatives to ensure that there is adequate staff with appropriate skills to fulfill its mandate. An intensive position review effort helped reshape the work force to reinforce financial, managerial, and technical accountability for USAID-managed resources.

The Agency's management council, functioning as the approval authority for all outside hires, made sure that only positions representing a long-term need were filled. Additionally, an annual foreign service recruitment plan reflecting the Agency's personnel needs was developed and approved. In FY99, USAID filled 100 percent of its overseas positions identified as critical.

Building staff knowledge and skills is critical for effective management and oversight of Agency resources. Although USAID has reduced its staff by 35 percent since 1993, it strives to maintain its staffs' technical skills. The Agency has shifted to competency-based training for both existing staff and new entrants. We have developed a series of new staff training programs. These courses teach teamwork, leadership, senior leadership, managing for results, and organization and operations. New mission directors attended an orientation program tailored to expose them to critical management issues the Agency faces.

The Agency also provided technical training in a variety of fields. Procurement training included contract law, contract administration, procurement management certification, and simplified acquisitions and grants management. Other technical training included language training, computer training, and training to keep staff current in technical specialties such as environment, economic growth, health and population, democracy and governance, and human capacity development.

We also developed a new-entrant training program. Beginning in October 1999, new entrants began completing relevant training before starting their first overseas assignment. Upon completing training, their knowledge will be assessed to ensure they possess the requisite primary technical skills, managerial skills, and interpersonal skills.


E.B. ATROKP

Analysis of 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 constitute the difference (net position). Two major line items, Fund Balance With Treasury and Credit Program Receivables, represent 91 percent 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, Micro and Small Enterprise Development, and Direct Programs.

During fiscal year 1999, USAID's total assets increased by approximately 6 percent, or $1 billion. The increase is largely due to the establishment of a new appropriation, the Central America and Caribbean Emergency Disaster Recovery Fund, and the receipt of supplemental funds to provide humanitarian assistance to Kosovo.

The line item with the most significant change in activity from FY98 to FY99 is Accounts Receivable With the Public. This line-item increased 6,000 percent, from $2 million to $124 million. The increase is due to anticipated collections of $120 million from the Polish–American Enterprise Fund over the next three years. Forty million dollars is reported as a current receivable and $80 million as a noncurrent receivable in the footnotes to the statement. Additionally, this receivable is considered a nonentity asset and is offset by an intragovernmental liability for the same amount, since the funds are to be returned to Treasury.

Credit program liabilities represent 80 percent of USAID's total liabilities. The bulk of these liabilities are reported as Due to U.S. Treasury and Liabilities for Loan Guarantees. Due to U.S. Treasury represents the cumulative difference between the Credit Program Liquidating Fund revenues and expenses that are considered payable to Treasury. Liabilities for Loan Guarantees represent the estimated default cost of loan guarantees as calculated in accordance with the Credit Reform Act of 1990.

Both Intragovernmental Accounts Payable and Debt decreased by over 35 percent from FY98 to FY99. The decrease in Intragovernmental Accounts Payable is due to an adjustment to improve the accuracy of classifying payables as intragovernmental or public. It is noteworthy that the overall decrease of accounts payable from $1,698 million to $1,539 million is largely due to a significant effort to improve the efficiency in processing payments. The decrease in Debt from $308 million to $198 million is due to principal repayments made during the year. For FY99, there were no new borrowings.

Statement of Net Cost

This statement provides the reader with an understanding of the full cost of operating USAID programs. In FY99 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 $7,413 million decrease in net position during FY98. The decrease is due primarily to a change in the presentation of Resources Payable to Treasury for Credit Loan Programs. In accordance with Credit Reform guidance for liquidating accounts, $6,212 million in Treasury Resources Payable was reclassified from Net Position to Other Intragovernmental Liabilities. Another change in presentation pertains to foreign currency. During FY99, foreign currency was reclassified from Other Financing Sources to Donations. Additionally, outlays for foreign currency decreased by 63 percent. Outlays were $180 million in FY98 and $67 million in FY99.

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 80 percent of all available budgetary resources for the year. Eleven percent remains unobligated for the year, and the remaining 9 percent is available only to adjust or liquidate obligations from a prior year.

Statement of Financing

The Statement of Financing reconciles proprietary information to budgetary accounting information. This statement was prepared for the first time in FY98. Improvements were made to this statement for FY99, and it is anticipated that USAID will be able to perform a meaningful analysis between current-year and prior-year activity in FY00.

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, the statements are in addition to the financial reports used to monitor and control budgetary resources 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.

Mission Accomplishments And Innovations

USAID program and financial management performance is directly attributable to the performance of its cadre of controllers that serve our overseas missions. Because of our highly decentralized operations, controllers provide day-to-day financial management guidance and service to mission management and program officers. Controllers are also critical to assessing the quality of information included in the Agency's financial statements. This is particularly important as it relates to the timely submission of reports and the reconciliation of accounts. This section highlights the accomplishments and innovations of the overseas controllers that are making a difference in our financial performance. Innovations are being shared with financial management staffs around the world to foster continuous improvement.

USAID/Bolivia

The controller's office has negotiated an agreement with a local bank to expand the U.S. government travel credit card program to include all foreign service national employees who travel on official business. This has trimmed a significant amount of work by eliminating the need to process travel advances and follow up on collections after the completion of a trip.

USAID/Benin

The Office of Financial Management established a memorandum of understanding with the government of Benin's inspector general of finance to encourage greater collaboration between the Benin mission and the inspector general. In return for training and computer equipment, the inspector general will provide audit and assessment assistance to the USAID development program. The benefits to be derived are audit and assessment assistance to the mission at a substantial cost savings, and an increased understanding of U.S. government accounting and auditing standards by the inspector general of finance.

USAID/Bangladesh

The mission developed a number of innovative programs during the year to better train and retain employees, reduce operating costs, and increase accountability over recipients. The specific actions implemented are as follows:

- Developed an employee cross-training program to enhance employees' skill levels and provide long-term career opportunity.
- Increased the number of U.S. vendor payments by electronic funds transfer from 0 percent in FY98 to 30 percent in FY99.
- Reestablished a financial review program and developed a financial review checklist to assist in determining the adequacy of recipients' financial systems.
- Reduced reconciling items to a turnaround time of two months as compared with a year or more.
- Implemented an electronic foreign service national payroll system that reduced the amount of staff time spent on processing by more than 50 percent.

USAID/Egypt

The mission carried out four major initiatives during the year that substantially

USAID Controllers by Mission

Controller	*Mission*
James Ahn	Kazakhstan
Syed Ali	Malawi
John Ávila	Nicaragua
Jed Barton	Nepal
Larry Brady	Bolivia
Frank Breen	El Salvador
Robbin Burkhart	Ukraine
Beverly Busa	Ghana
Charles Crane	Jordan
Deborah Grieser	Guinea
Larry Grizzard	Peru
Pat Jacobs	Bosnia
Homi Jamshed	Indonesia
George Jenkins	Mali
Thomas Johnstone	Zimbabwe
Peggy Kinkopf	Rwanda
Paul Kramer	Madagascar
Barbara Krell	South Africa
Richard Lawrence	Hungary
Richard Layton	Honduras
Amanda Levinson	Kenya
Mary Lew	Ecuador
Carl Lewis	Haiti
Kamau Lizwelicha	Zambia
Linda Martin	Cambodia
Allan McKenna	Russia
Igor Nesterczuk	Senegal
David Noble	Georgia
Elizabeth Palmer	Dominican Republic
Hermie Pangan	Bangladesh
Mark Powdermaker	Uganda
James Redder	Philippines
Keith Romwall	Poland
Jim Sanford	Jamaica
Eric Schaeffer	Morocco
Kristine Smathers	Benin
Monica Stein–Olson	Tanzania
Mohamed Tanamly	Egypt
Thomas Totino	India
Thomas Walsh	Guatemala
Nimi Wijesooriya	West Bank & Gaza
George Zegarac	Mozambique

improved accountability, increased operating efficiency, and reduced costs. The improvements involved bank letters of commitment, new technology, special cost reviews, and funds accountability.

The bank letter of commitment function was transferred to the mission in March of 1998. During FY99, the mission worked with the bidding banks to substantially reduce fees and interest rates. It also enhanced the reconciliation process to keep records current and accelerated the payment process by 10 days. The latter achievement yielded an annual saving of $650,000.

The mission implemented imaging and intranet web site technologies during the year. The imaging technology will curtail hard-copy document filing once the electronic database is completed and save significant staff effort that can be used for other tasks. The intranet web site has allowed the controller's office to disseminate accounting and other internal reports along with a variety of pipeline and graphics information to the entire mission in a more user-friendly manner.

Through a number of special reviews, the mission was able to reduce the Trust Fund budget for FY00 by $500,000 and allow the Agency to redirect resources to other missions where needed. The mission also negotiated an interest rate on the Trust Funds that was 1.2 percent higher than the prevailing market rate. This achievement resulted in the generation of an additional $1.97 million in revenues per year.

USAID/Egypt has a program to improve the financial management systems of the host country and local recipients. The mission provides in-depth financial reviews and training to enhance overall accountability for U.S. government funds. The program has significantly reduced the number of financial audit recommendations, eliminated delinquent audit recommendations, and contributed to the collection of $1.2 million related to audit findings. The mission also hosts periodic workshops for local certified public accountant firms providing audit services. And it hosted a regional audit management training program for employees, CPA firm personnel, and local recipients conducted by USAID/Washington personnel to enforce a continuing commitment to accountability.

USAID/Uganda

Local security issues caused the closure of the mission at various times during the year for a total of 36 working days. In most cases, only an hour's notice was provided. The mission established procedures to continue vendor payments, process payrolls, and maintain accounting records. In addition, arrangements were made with the local bank to allow the issuance of checks by the controller, allowing payments to made while the mission was closed.

USAID/Tanzania

The mission developed a new approach to strategic planning that includes all field support contracts. This approach will enhance annual budget allocation decisions and result in improved strategic planning.

USAID/West Bank and Gaza

During the year, the mission linked its Excel spreadsheets to the mission accounting and control system. The mission estimates that this procedure will improve posting time by an average of 200 percent and allow less experienced personnel to achieve the same current posting efficiencies as its most experienced employees. Judging by the amount of time spent on transaction-posting and error-correction procedures, the mission believes individual employee productivity should increase by 15 to 30 percent.

The mission has also developed spreadsheets that simplify the reconciliation procedures with the U.S. Dispersing Office and the State Department Financial Services Center. As a result, disbursement and payroll reconciliations have been vastly simplified. That has resulted in significant staff time savings each month.

USAID/Zimbabwe

The mission implemented the electronic funds transfer system, significantly increasing the efficiency of its financial operations.

Management Controls

Management Control Program

USAID has a comprehensive management control program as required by the Federal Managers' Financial Integrity Act (FMFIA). Management control issues and weaknesses are identified through audits, reviews, studies, and observation of daily operations. During fiscal year 1999, management control assessments were conducted worldwide to ensure that management controls were in compliance with Agency policy and FMFIA standards.

USAID develops and implements detailed corrective action plans for all weaknesses identified in this process. The Agency's Management Control Review Committee, chaired by the deputy administrator, monitors the status of corrective actions and determines when they have been successful.

USAID identified nine material weaknesses in control systems and procedures in its FY98 Accountability Report. These included deficiencies with financial management systems and procedures, information systems and processes, and program performance reporting. Although the Agency has made progress toward correcting all the weaknesses, only two were removed from the material weakness list during the fiscal year. Sufficient corrective action was taken to reduce the weaknesses in "Program Performance Reporting" and the "Direct Loan Program." No new material weaknesses were identified during the FY99 management control assessment.

Annual Assurance Statement

As of 30 September 1999, 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 material weaknesses noted. This statement is based on the results of an Agencywide management control assessment, inspector general audits, and input from senior program and administrative officials.

J. Brady Anderson
Administrator

Material Weaknesses

Each of the nine weaknesses is described briefly below, along with a summary of completed and planned actions.

USAID s Primary Accounting System

USAID is replacing its primary accounting system, which 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. The Agency finalized detailed requirements for the system and completed the acquisition process in September 1999. The requirements conform to the standards and guidelines prescribed by the Office of Management and Budget. The Agency will be implementing the new system in Washington during FY00 and in field missions during FY00 and FY02. Implementation of the system worldwide will correct this material weakness by 2002.

Financial Management Procedures

The Agency's financial management policies and procedures have not been fully updated to reflect reengineered operations and have not yet been incorporated into the automated directives system. Three chapters have been issued, with an additional eight scheduled to come out during fiscal year 2000. Their completion will correct this weakness and make financial management directives easily accessible to all USAID staff.

USAID s New Management System s Security And Access Controls

The New Management System (NMS) was developed within schedule constraints that did not permit a comprehensive and integrated computer security and access control plan. As a result, weaknesses occurred with regard to the level at which controls were implemented, the design of access control roles, audit trails of system activity, user identification and password administration, and access to sensitive Privacy Act information. Procuring the core accounting system will provide a long-term strategy to address NMS security vulnerabilities and deficiencies. The anticipated correction date for this weakness is FY01.

NMS Reporting and Resource Management Capabilities

NMS reports are not always timely or accurate, nor are they sufficiently useful for managing the Agency. Numerous NMS query capabilities and reports have been developed to address this weakness, but the Agency's ability to use NMS information for decision-making remains impaired.

The NMS Change Control Board identified priority NMS improvements initiated in FY99 and planned for FY00. These improvements address deficiencies in data quality, data reconciliation, and data capture. USAID has developed and is testing an interim system to capture acquisition and assistance data from field missions. If testing and rollout are successful, the system will enable the Agency to fully meet statutory reporting requirements to the Federal Procurement Data Center and the Small Business Administration. It will also enable USAID to address ad hoc information requests from Congress, the Office of Management and Budget, and oversight entities. The long-term strategy to correct the reporting and resource management weakness is to implement the new accounting system with interfaces to other NMS modules. The planned correction date is FY02.

Information Resources Management Processes

USAID has faced organizational and management deficiencies in its information resources management processes. Selecting a contractor who can provide specialized management support and expertise has been a cornerstone of the strategy to correct this weakness. The Agency's Capital Investment Review Board for information technology is now overseeing IT investments in accordance with the Clinger–Cohen Act. The group evaluated and selected information technology investments during the fiscal year.

In FY99, USAID accepted and implemented the Software Engineering Institute's Software Acquisition Capability Maturity Model. During FY00 and FY01, USAID will train executives and project managers in techniques essential for certification of USAID as a Software Acquisition Capability Maturity Model-rated organization.

The Agency's Information Management Strategic Plan for FY01 through FY05 was developed in FY99 and should be approved early in FY00. The plan outlines the approach to implement an integrated framework for acquiring and maintaining information technology.

USAID expects to fully correct this weakness in FY01. An independent third party will audit information management tasks to ensure that they have been accomplished at the Software Engineering Capability Maturity Model level 3. In addition, senior managers will have access to tools, information, and performance measures that will allow them to directly monitor information technology tasks.

Computer Security Program

USAID has not established an information system security program that meets all requirements of the Computer Security Act of 1987, administrative policy, and regulations contained in Office of Management and Budget circulars A–123, 127, and 130. USAID has developed an Information System Security Program Plan to bring the Agency into full compliance with computer security requirements by FY03. The plan directly addresses these security concerns, drawing on information-system security activities of other federal agencies and private industry. The chief information officer community and the Agency inspector general have recognized the quality and effectiveness of the Agency's program to implement best practices.

Year 2000 Compliance

USAID identified Year 2000 (Y2K) compliance as a material weakness because of the risk of disruption from the Y2K problem, not only from the Agency's internal operating systems, but potentially from those in some 80 countries overseas.

By September 1999, six of seven mission-critical systems were Y2K compliant. The Agency renovated the last application, the NMS, in May 1999, and completed validation and implementation in November. The Agency developed, tested, and carried out comprehensive contingency plans. In addition, overseas missions verified contingency planning for USAID program operations.

USAID has not experienced disruptions in administrative or program operations as a result of the Y2K problem.

**Table 6.1.
Pending Material Weaknesses**

Title	Fiscal Year First Reported	Fiscal Year Targeted for Correction
USAID s primary accounting system	1988	2002
Financial management procedures	1993	2000
USAID s NMS security security and access controls	1997	2001
USAID s reporting and resource management capabilities	1997	2002
Information resources management processes	1997	2001
Computer security program	1997	2003
Year 2000 Compliance	1998	2000

Direct-Loan Program

USAID identified the direct loan program as a material weakness because it lacked an effective system of checks and balances. During FY99, the Agency significantly improved management of the credit programs by outsourcing credit program servicing and subsidiary ledger maintenance to a commercial bank. The Agency will incorporate the credit program general ledger into the new accounting system. In addition, a credit review board is directing the policy, planning, and implementation of the Agency's portfolio of loans and loan guarantees. These steps have enabled the Agency to remove this area as a material weakness.

Program Performance Reporting

USAID's 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. The Agency took a number of steps to address these deficiencies.

USAID clarified and streamlined reporting requirements to better link activities with the Agency's strategic plan and improve its management utility. It issued additional guidance on data

**Table 6.2.
Summary of Agency Performance in Correcting Weaknesses**

Fiscal Year	Material Weaknesses Beginning of Year	Material Weaknesses Added	Material Weaknesses Corrected	Pending Material Weaknesses
1995	14	1	5	10
1996	10			10
1997	10	4	7	7
1998	7	2		9
1999	9		2	7

quality and incorporated revised materials on performance measurement and reporting into the new Agency training program. The Agency's FY01 performance plan also incorporates midlevel indicators that will provide a better link between USAID activities and the strategic plan's high-level indicators.

While performance reporting is no longer considered a material weakness, the Agency recognizes that continued effort will be required to ensure that performance reporting is aligned with the Agency's strategic plan and management needs.

Table 6.1 identifies the Agency's seven material weaknesses, including current target correction dates. Table 6.2 provides historical information on the Agency's resolution of material weaknesses.

Material Nonconformance Of Financial Management System

USAID's financial management systems fail to fully comply with some federal financial management system requirements, and they do not meet applicable federal accounting standards or the U.S. Government Standard General Ledger at the transaction level. The Agency and the Office of the Inspector General have identified internal control and security deficiencies and other vulnerabilities (see table 6.2). USAID has signed a contract for a core accounting package; implementation is expected to be completed by FY02.

Audit Follow-Up Program

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

The OIG contracts with the Defense Contract Audit Agency to audit its U.S.–based contractors and relies on nonfederal auditors to audit the U.S.–based grantees. Foreign-based organizations are audited by either local auditing firms or the supreme audit institutions in host countries.

The OIG conducts 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.

The Agency received 738 audit reports during 1999. The reports consisted of 670 financial audits of contractors and grantees, and 68 OIG audits of Agency programs and operations (see figure 6.1).

USAID closed 529 recommendations during FY99, 132 from audits performed by OIG and 397 from financial audits of contractors and grantees. The Agency collected $10.5 million in disallowed costs, and $13.4 million was put to better use during the fiscal year.

There were 623 open recommendations at the end of the fiscal year. Of this number, 90 recommendations have been open more than a year after management decided on the appropriate course of action. The Agency must collect funds from contractors and grantees to complete action on 20 of those; the remaining 70 require improvements in Agency programs and operations. Many of these recommendations are tied to implementation of the new accounting system or deficiencies that could not be corrected within one year.

Tables 6.3 and 6.4 (see facing page) provide more detailed information on the status of recommendations with disallowed costs and recommendations that funds be put to better use. Figure 6.1 reflects the distribution of audits by type.

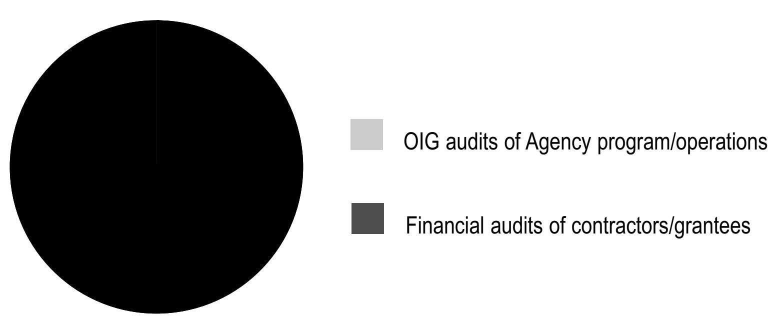
**Table 6.3.
Management Action on Recommendations That Funds Be Put to Better Use**

	Recommendations	Dollar Value ($000)
Beginning balance 10/1/98	10	13,491
Management decisions during fiscal year	29	194,526
Final action	21	13,357
Recommendations implemented	21	13,357
Recommendations not implemented		
Ending balance 9/30/99	18	194,660

**Table 6.4.
Management Action on Audits With Disallowed Costs**

	Recommendations	Disallowed Costs ($000)
Beginning balance 10/1/98	84	5,371
Management decisions during fiscal year	305	22,558
Final action	247	10,496
collections/offsets/other	243	10,474
write-offs	4	22
Ending balance 9/30/99	142	17,433

**Figure 6.1.
Audit Reports Issued in 1999**



U.S. Agency for International Development Consolidated Balance Sheet

As of September 30, 1999, and September 30, 1998 (In Millions)

	1999	1998 Restated
ASSETS (Notes 17 and 19)		
Intragovernmental		
Fund Balance with Treasury (Note 2)	$10,725	$9,735
Accounts receivable (Note 3)	385	503
Advances and prepayments (Note 4)	56	38
Total Intragovernmental	$11,166	$10,276
Accounts receivable (Note 3)	124	2
Advances and prepayments (Note 4)	989	1,036
Loans receivable (Note 5)	6,666	6,581
Cash and other monetary assets (Note 6)	180	172
Operating materials and supplies (Note 7)	18	27
General property plant and equipment (Note 8)	28	28
Total Assets	$19,171	$18,122
LIABILITIES (Notes 18 and 19)		
Intragovernmental		
Accounts payable (Note 9)	$127	$210
Debt (Note 10)	198	308
Due to U.S. Treasury	6,195	6,201
Other liabilities (Note 11)	128	21
Total Intragovernmental	$6,648	$6,740
Accounts payable (Note 9)	1,412	1,488
Liabilities for loan guarantees (Note 5)	1,068	943
Other liabilities (Notes 11 and 12)	207	196
Accrued unfunded annual leave and separation pay (Note 13)	26	27
Accrued unfunded Workers Compensation Benefits (Note 14)	45	42
Total Liabilities	$9,406	$9,436
Contingencies (Note 15)		
NET POSITION		
Unexpended appropriations (Note 16)	$9,786	$8,696
Cumulative results of operations	(21)	(10)
Total net position	9,765	8,686
Total Liabilities and Net Position	$19,171	$18,122

The accompanying notes 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, 1999, and September 30, 1998 (In Millions)

Costs:	1999	1998 Restated
Achieving Broad-Based Economic Growth		
Intragovernmental	$60	$70
With the public	2,659	3,610
Total	2,719	3,680
Less earned revenues	(18)	(18)
Net program costs	$2,701	$3,662
Building Sustainable Democracies		
Intragovernmental	39	47
With the public	1,837	325
Total	1,876	372
Less earned revenues		
Net program costs	$1,876	$372
Human Capacity Built Through Education and Training		
Intragovernmental	5	6
With the public	78	659
Total	83	665
Less earned revenues	-	(1)
Net program costs	$83	$664
Stabilizing World Population and Protecting Human Health		
Intragovernmental	65	81
With the public	897	1,087
Total	962	1,168
Less earned revenues	(3)	(1)
Net program costs	$959	$1,167
Managing the Environment for Long-Term Sustainability		
Intragovernmental	55	75
With the public	234	276
Total	289	351
Less earned revenues	(3)	
Net program costs	$286	$351
Saving Lives, Reducing Suffering, and Reinforcing Development		
Intragovernmental	52	62
With the public	330	341
Total	382	403
Less earned revenues	(35)	(29)
Net program costs	$347	$374
Less earned revenues not attributed to programs	(3)	(3)
Net Cost of Operations (Notes 20 and 21)	$6,249	$6,587

The accompanying notes 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, 1999, and September 30, 1998 (In Millions)

	1999	1998 Restated
Net Cost of Operations	$(6,249)	$(6,587)
Financing Sources (other than exchange revenues)		
Appropriations Used	6,157	6,397
Donations (non-exchange revenue)	67	50
Imputed Financing	14	14
Other Financing Sources		181
Net Results of Operations	(11)	55
Prior Period Adjustments (Note 22)		(80)
Net Change in Cumulative Results of Operations	(11)	(25)
Increase (Decrease) in Unexpended Appropriations	1,090	(7,388)
Change in Net Position	1,079	(7,413)
Net Position-Beginning of Period	8,686	16,099
Net Position-End of Period	$9,765	$8,686

The accompanying notes 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, 1999, and September 30, 1998 (In Millions)

	1999	1998
Budgetary Resources: (Notes 23 and 24)		
Budget authority	$7,283	$6,368
Unobligated balances beginning of period	1,789	1,841
Spending authority from offsetting collections	1,300	1,523
Adjustments	(1,117)	(1,130)
Total budgetary resources	$9,255	$8,602
Status of Budgetary Resources:		
Obligations incurred	7,435	6,805
Unobligated balances available	1,028	895
Unobligated balances not available	792	902
Total, status of budgetary resources	$9,255	$8,602
Outlays:		
Obligations incurred	7,435	6,805
Less: spending authority from offsetting collections		
and adjustments	(1,496)	(1,701)
Obligated balance, net beginning of period	8,441	8,365
Obligated balance transferred, net		
Less: obligated balance, net end of period	(9,254)	(8,441)
Total Outlays	$5,126	$5,028

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

U.S. Agency for International Development
Consolidated Statement of Financing
For the Years Ended September 30, 1999, and September 30, 1998 (In Millions)

	1999	1998 Restated
Obligations and Nonbudgetary Resources		
Obligations incurred	$7,435	$6,631
Less: Spending authority for offsetting collections and adjustments	(1,300)	1,325
Donations not in the budget	67	50
Financing Imputed for Cost Subsidies	14	14
Exchange revenue not in the budget	(211)	(19)
Non-exchange revenue not in the budget		2
Total obligations as adjusted, and nonbudgetary resources	$6,005	$8,003
Resources That Do Not Fund Net Cost of Operations		
Change in amount of goods, services, and benefits ordered but not yet received or provided	(1,173)	(84)
Costs capitalized on the balance sheet	(64)	(700)
Financing sources that fund costs of prior periods		(62)
Other	1,362	(754)
Total resources that do not fund net cost of operations	$125	($1,600)
Costs That Do Not Require Resources		
Depreciation and amortization	6	6
Revaluation of assets and liabilities		2
Other	39	
Total costs that do not require resources	45	8
Financing Sources Yet to Be Provided (Note 18)	74	176
Net Cost of Operations	$6,249	$6,587

The accompanying notes are an integral part of these 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. The FASAB has been recognized by the American Institute of Certified Public Accountants as the official accounting standard setter 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 and approved and issued by the above-named officials

2. Interpretations related to the SFFASes 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 and other authoritative sources) a) when no guidance is available from the other sources listed and b) when the use of such an accounting standard 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 U.S. 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 U.S. budget.

Economic Support Fund

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

Development Assistance

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

Assistance for the New Independent States of the Former Soviet Union

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

Special Assistance Initiatives

This program provides funds to support special assistance activities. The majority of funding for this program was for democratic and economic restructuring in central and eastern European countries consistent with the objectives of the Support for East European Democracy 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 and support 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 an FY99 emergency supplemental bill and is for necessary expenses to provide relief for natural disasters in Central America and Colombia.

International Organizations and Programs

The United States makes assessed payments and contributes to voluntary funds of over 25 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 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 Program supports private sector activities in developing countries by providing direct loans and loan guarantees to support local micro and small enterprises.

Israeli Loan Guarantee. Congress enacted the Israeli Loan Guarantee Program in section 226 of the Foreign Assistance Act to support the costs for immigrants resettling to Israel from the former Soviet Union, Ethiopia, and other countries. Under this program, the U.S. government guaranteed the repayment of up to $10 billion in loans from commercial sources, to be borrowed in $2 billion annual increments. Borrowing was completed under the program during FY99, with approximately $9.2 billion being guaranteed. Guarantees are made by USAID on behalf of the U.S. government, with funding responsibility and basic administrative functions resting with USAID.

Ukraine Loan Guarantee. The Ukraine Export Credit Insurance Program was established with the support of the Export–Import Bank of the United States to assist Ukrainian importers of American goods. The program commenced operations in FY96 and expired in FY99.

Development Credit Authority. The first obligations for USAID's new Development Credit Authority were made in FY99. DCA allows missions and other offices to use loans and loan guarantees to achieve their development objectives when it can be shown that 1) the project generates enough revenue to cover the debt service, including USAID fees, 2) there is at least 50 percent 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 27 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 awaiting distribution on the basis of legal determination.

Trust Funds

The *Foreign Currency Trust Funds* were established to maintain foreign currencies owned by participating governments, which the Agency holds in trust. These funds are used to pay for program and operating expense of USAID-related activities in a foreign country.

Funds may be withdrawn only by mutual agreement between the participating government and the United States. If the bilateral agreement is terminated, all remaining funds revert to the participating government.

The *U.S. Dollar Advances From Foreign Governments Trust Fund* was established to maintain advances of U.S. dollars from foreign governments or international organizations to facilitate the purposes of the Foreign Assistance Act of 1961. USAID acts in a fiduciary capacity in carrying out specific activities and programs in accordance with bilateral agreements with foreign countries. The Agency draws from the Foreign Governments Trust Fund balances to pay for related expenses.

The *Gifts and Donations Trust Fund* was established to maintain money, funds, property, and services of any kind made available by gift, device, bequest, and grant.

The *Foreign Service National Separation Pay Trust Fund* was established to fund and account for separation payments for eligible foreign service national employees who voluntarily terminate employment. It is applicable only in those countries that, because of local compensation plans, accrue a lump-sum voluntary separation benefit based upon years of service and rate of pay.

The unexpended balance in trust funds at year end is recorded in the financial statements. Further, to the extent that the income from the trust funds is used toward USAID expenses, the income is recorded as “other income” in the financial statements.

Social Progress Trust and Enterprise Development Funds

USAID has established several unique loan and enterprise funds to support economic growth in accordance with the authorizing legislation. The major funds include the *Latin American Social Progress Trust Fund,* administered by the Inter-American Development Bank, *Enterprise Funds* in central and eastern Europe and the former Soviet Union, authorized under the Support for East European Democracy and Freedom Support Acts, and *the South African Enterprise Fund,* all of which are funded by USAID appropriations. USAID does not take an active role in managing these funds beyond authorizing their transfer for the U.S. government or have any financial control over these institutions.

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 multiyear 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, multiyear, 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 receives allocation transfers from the Commodity Credit Corporation and the Department of State.

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

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

F. Fund Balances With the U.S. Treasury

Cash receipts and disbursements are processed by the U.S. Treasury. The balances with 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 that 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 nonloan or revenue-generating sources that have not been collected for a period of over one year.

I. Credit Programs Receivables

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

For loans obligated on or after 1 October 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 reestimated when necessary, and changes are reflected in the operating statement.

Loans are made in both U.S. dollars and foreign currencies. Loans extended in foreign currencies can be with or without "maintenance of value." 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 receivables 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 the stated net of an allowance for uncollectible accounts, determined by 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 reports of expenditures 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, and unserviceable operating materials and supplies.

L. Property, Plant, and Equipment

USAID capitalizes all property, plant, and equipment that have an acquisition cost of $25,000 or greater and a useful life of two years or more. Acquisitions that do not meet these criteria are recorded as operating expenses. Assets are capitalized at historical cost and depreciated using the straight-line method. Real property is depreciated over 20 years, nonexpendable personal property is depreciated over 3 to 5 years, and capital leases are depreciated according to the terms of the lease. The Agency operates land, buildings, and equipment that are provided by the General Services Administration. Rent for this property is expensed. Internally developed and contractor developed software is not capitalized because it is for internal Agency use only.

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, USAID noncontract liabilities can be abrogated by the U.S. government, acting in its sovereign capacity.

N. Liabilities for Loan Guarantees

The Credit Reform Act of 1990, which became effective on 1 October 1991, has significantly changed the manner in which USAID's loan programs finance their activities. The main purpose of the act 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 year 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, and 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 Credit Reform Act, liabilities for loan guarantees for pre-1992 loans represent unfunded liabilities. Note 18 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 similar to the 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 unavailable 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

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. 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 1 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 do not receive matching contributions.

USAID funds a portion of employee post employment benefits 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 post employment benefits costs with the unfunded portion being charged to Other Revenue Sources—Imputed Financing in accordance with SFFAS #7.

Foreign service national and third-county nationals at overseas posts who were hired before 1 January 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 with 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 because of a reduction in force, and is applicable only in those countries that, because of 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 appropriations not yet expended, including undelivered orders.

- 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.

NOTE 2. FUND BALANCES WITH TREASURY (in thousands)

Entity and nonentity fund balances with Treasury as of 30 September 1999 and 1998 consisted of the following:

Funds Balances	Entity Assets	Nonentity Assets	1999 Total	1999 Total
Appropriated funds	$ 9,932,192	$ —	$ 9,932,192	$8,833,710
Trust funds	14,213	—	14,213	12,674
Revolving funds	799,007	—	799,007	891,658
Other funds	(20,724)	1,760	(18,964)	(3,124)
Total	$10,724,688	$ 1,760	$10,726,448	$9,734,918

As of 30 September 1999 there was a cash reconciliation difference of $ 21.8 million between USAID and the Department of the Treasury's fund balances. The difference as of 30 September 1998 was $60.1 million. For FY99 and FY98 reporting purposes, USAID adjusted its fund balance downward by these differences to equal the Treasury's fund balance. By adjusting USAID's fund balance to equal Treasury's, there is consistency among various published reports. Past experience has shown the Department of Treasury's balances to be more accurate, and the differences are usually cleared when USAID processes the required disbursements.

The $21.8 million cash reconciliation difference was posted to separate fund balance subaccounts, and the cash differences remain identified as such. USAID is currently performing a reconciliation of the $21.8 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 30 September 1999 and 1998 were as follows:

	Receivable Gross	Allowance Accounts	Receivable Net 1999	Receivable Net 1998
Entity				
Intragovernmental				
Appropriation reimbursements from federal agencies	$ 414	$ —	$ 414	$ 208
Accounts receivable from federal agencies	1,142	—	1,142	1,040
Disbursing authority receivable from USDA	383,318	—	383,318	501,299
Total intragovernmental	$384,874	—	$384,874	$502,547
Accounts receivable	10,533	8,068	2,465	1,658
	10,533	8,068	2,465	1,658
Total entity	$395,407	$8,068	$387,339	$504,205
Total nonentity	$121,988	$1,678	$120,310	$ —
Total receivables	$517,395	$9,746	$507,649	$504,205

Reconciliation of Uncollectible Amounts (Allowance Accounts)

	1999	1998
Beginning balance	$ 9,543	$ 10,379
Additions	1,507	1,136
Reductions	(1,304)	(1,972)
Ending balance	$ 9,746	$ 9,543

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 the U.S. Department of Agriculture consists of obligational authority from USDA's Commodity Credit Corporation. The authority is for payment of transportation costs incurred by USAID associated with the shipment of PL 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 nonprogram-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 more that one year past due. Accounts receivable from missions are collected and recorded to the respective appropriation.

Nonentity accounts receivables of $120.3 million are composed of unavailable miscellaneous receipt funds that do not constitute budget authority and which must be returned to the Department of Treasury's general fund when collected. No nonentity accounts receivables were reported for FY98.

NOTE 4. ADVANCES AND PREPAYMENTS (in thousands)

Advances and prepayments as of 30 September 1999 and 1998 consisted of the following:

	1999	1998
Intragovernmental		
Advances to federal agencies	$55,682	$37,965
Total Intergovernmental	$55,682	$37,965
Advances to contractors/ grantees	$984,953	$887,584
Travel advances	17	4,182
Advances to host country governments and institutions		141,149
Prepayments	3,635	2,253
Advances, other	12	694
Total	$ 988,617	$1,035,862
Total advances and prepayments	$1,044,299	$1,073,827

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

NOTE 5. CREDIT PROGRAM RECEIVABLES AND LIABILITIES FOR LOAN GUARANTEES (in thousands)

USAID operates the following loan and 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 before FY92 are reported net of allowance for estimated uncollectible loans. Estimated losses from defaults on loan guarantees resulting from obligations made before FY92 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 FY91. The act requires that 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 be recognized as an expense in the year in which the direct loan or guarantee is disbursed. 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 a 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 before FY92 (allowance-for-loss method) as of 30 September 1999:

Loan Programs	Loans Receivable Gross	Interest Receivable	Allowance For Loan Losses	Value of Assets Related to Direct Loans
Direct loans	$ 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 before FY92 (allowance-for-loss method) as of 30 September 1998:

Loan Programs	Loans Receivable Gross	Interest Receivable	Allowance For Loan Losses	Value of Assets Related to Direct Loans
Direct loans	$11,566,448	$442,621	$5,856,377	$6,152,692
MSED	4,298	22	3,294	1,026
Total	$11,570,746	$442,643	$5,859,671	$6,153,718

Direct loans obligated after FY91 as of 30 September 1999:

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

Direct loans obligated after FY91 as of 30 September 1998:

Loan Programs	Loans Receivable Gross	Interest Receivable	Allowance for Subidy Cost	Value of Assets Related to Direct Loans
Direct loans	$283,355		$ 142,144	$141,211
MSED	1,968	$28	173	1,823
Total	$ 285,323	$28	$142,317	$143,034

Defaulted guaranteed loans from pre-1992 guarantees (allowance-for-loss method) as of 30 September 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 pre-1992 guarantees (allowance-for-loss method) as of 30 September 1998:

Loan Guarantee Programs	Defaulted Guaranteed Loan Receivable, Gross	Interest Receivable	Allowance for Loan Losses	Defaulted Guaranteed Loan Receivable, Net
UE	$505,579	$20,210	$240,959	$284,830
Total	$505,579	$20,210	$240,959	$284,830

Defaulted guaranteed loans from post-1991 guarantees:

There were no defaults on post-1991 guarantees for FY99 and FY98.

Guaranteed loans outstanding:

	1999		**1998**	
Loan Programs	Outstanding Principal, Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed	Outstanding Principal, Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
UE	$2,294,560	$ 2,294,560	$2,241,671	$2,241,671
MSED	40,160	20,080	30,598	15,299
Ukraine Export	—	—	141,236	141,236
Israel	9,226,200	9,226,200	9,226,200	9,226,200
Total	$11,560,920	$11,540,840	$11,639,705	$11,624,406

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 30 September 1999:

Loan Programs	Liability for Losses on Pre-1992 Guarantees, Estimate Future Default Claims	Liabilities for Loan Guarantees for Post -1991 for 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

Liability for loan guarantees (estimated future default claims pre-1992) as of 30 September 1998:

Loan Programs	Liability for Losses on Pre-1992 Guarantees, Estimate Future Default Claims	Liabilities for Loan Post -1991 Guarantees for Present Value	Total Liabilities for Loan Guarantees
UE	$347,709	$ 49,889	$397,598
MSED	—	1,965	1,965
Ukraine Export	—	28,135	28,135
Israel	—	515,076	515,076
Total	$347,709	$595,065	$942,774

Subsidy expenses for post-1991 direct loans as of 30 September 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 have been no modifications and reestimates.

3 Total Direct Loan Subsidy Expenses
Total subsidy expenses in MSED were $68,000.

Subsidy expenses for post-1991 direct loans as of 30 September 1998**:**

1 Current Year's Direct Loans
There have been no new loans disbursed in the past two years.

2 Direct Loan Modification and Reestimates

There have been no modifications and reestimates.

Subsidy expenses for post-1991 loan guarantees as of 30 September 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 have been no modifications and reestimates.

3 Total Loan Guarantee Subsidy Expenses

Total loan guarantee subsidy expenses for the UE program were $11.07 million.

Subsidy expenses for post-1991 loan guarantees as of 30 September 1998:

1 Current Year's Loan Guarantees

Loan Programs	Defaults	Fees	Interest Supplement	Total
UE	$ 11,784	$ 4,119	$ —	$7,665
MSED	—	—	—	—
Ukraine Export	—	—	—	—
Israel	63,534	63,534	—	—
Total	$ 75,318	$67,653	$ —	$7,665

2 Loan Guarantee Modifications and Reestimates

There have been no modifications and reestimates.

3 Total Loan Guarantee Subsidy Expenses:

Loan Programs	Defaults	Fees	Interest Interest Supplement	Total
UE	$11,784	$4,119	$ —	$7,665
MSED	—	—	—	—
Ukraine export	—	—	—	—
Israel	63,534	63,534	—	—
Total	$75,318	$67,653	$ —	$7,665

Administrative Expenses	**1999**	**1998**
Loan programs		
Direct Loans	—	—
UE	$5,435	$ 6,506
MSED	482	855
Ukraine Export	23	65
Total	$5,940	$ 7,426

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 that assigns risk ratings to receivables based upon the country of debtor. The total delinquent portion of USAID's credit program receivables as of 30 September 1999 is $802,052,456.06, which is allocated among 53 debtor nations. Of this amount, $511,935.51 is owed by two countries in violation of Section 620q of the Foreign Assistance Act and are more than six months delinquent. $554,318,759.20 is owed by nine countries in violation of the Brooke–Alexander Amendment to the Foreign Operations Export Financing and Related Programs Appropriations Act and are more than one year delinquent. Outstanding loans receivable for countries in violation of section 620q totaled $17,402,856.62. Outstanding loans receivable for countries in violation of the Brooke Amendment totaled $2,269,070,250.99.

2. Certain credits in the Urban and Environmental Credit Program will be subject to Paris Club restructuring in FY00. The guarantees and rescheduled claims of six debtor nations totaling $169,422,062.00 will be involved in debt reductions at rates between 50 percent and 80 percent of the outstanding receivables. The credit subsidy (cost to the U.S. government) has been calculated at approximately $12 million.

NOTE 6. CASH AND OTHER MONETARY ASSETS (In thousands)

Cash and other monetary assets as of 30 September 1999 and 1998 are as follows:

Entity cash and other monetary assets	1999	1998
Undeposited collections	$373	$1
UE and micro and small enterprise fund cash with fiscal agent	50	40
Foreign currencies	179,191	172,144
Total entity cash and other monetary assets	$179,614	$172,185
Nonentity cash and other monetary assets	—	—
Total cash and other monetary assets	$179,614	$172,185

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 $2.5 million in FY99 and $2.4 million in FY98**.** These imprest funds are not included in USAID's balance sheet. Foreign currencies are related to foreign currency trust funds, and this amounted to $179 million in FY99 and $172 million in FY98.

NOTE 7. OPERATING MATERIALS AND SUPPLIES (in thousands)

Operating Supplies and Materials as of 30 September 1999 and 1998 are as follows:

	1999	1998
Items held for use		
Office supplies	$ 6,628	$5,625
Items held in reserve for future use		
Disaster assistance materials and supplies	5,104	4,112
Birth control supplies	6,538	17,289
Total	$18,270	$27,026

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 30 September 1999 were

	Useful Life	Cost	Accumulated Depreciation	Net Book Value
Classes of fixed assets				
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 (note 12)		1,965	136	1,829
Construction in progress	N/A	—	—	—
Total		$66,712	$38,158	$28,554

The components of PP&E at 30 September 1998 were

	Useful Life	Cost	Accumulated Depreciation	Net Book Value
Classes of fixed assets				
Equipment	3 to 5 years	$28,820	$21,498	$ 7,322
Structures, facilities, & leasehold improvements	20 years	27,749	11,435	16,314
Land	N/A	3,706	N/A	3,706
Assets under capital lease		136	136	—
Construction in progress	N/A	778	N/A	778
Total		$61,189	$33,069	$28,120

- USAID PP&E includes assets located in Washington, D.C., offices and overseas field missions.
- Equipment consists primarily of electric generators, ADP hardware, vehicles and copiers located at the overseas field missions.
- Structures and facilities include USAID-owned office buildings and residences at foreign missions, including the land on which these structures reside. These structures are used and maintained by the field missions. USAID does not separately report the cost of the building and the land on which the building resides.
- Land consists of property owned by USAID in foreign countries. Usually the land is purchased with the intention of constructing an office building at the site.
- The increase in FY99 for capitalized leases represents real property capital leases in Angola. The capitalized leases from FY98 are four bungalows in Kenya that USAID has exercised its lease purchase options on that are in litigation.
- Construction in progress from FY98 was completed on 15 April 1999.

In addition to its capitalized leases, the building in which USAID operates is leased by the General Services Administration. USAID is charged rent intended to approximate commercial rental rates. Lease payments for FY98 and FY99 were $26 million. GSA is requesting a 17 percent increase for FY00.

NOTE 9. ACCOUNTS PAYABLE (in thousands)

The accounts payable covered by budgetary resources as of 30 September 1999 and 1998 consisted of the following:

	1999	1998
Intragovernmental		
Accounts payable	$ 126,683	$ 209,674
Disbursements in transit	116	125
Total Intragovernmental	126,799	209,799
Accounts payable	1,398,348	1,487,020
Disbursements in transit	13,251	1,133
Total	1,411,599	1,488,153
Total accounts payable	$1,538,398	$ 1,697,952

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 nongovernmental entities.

NOTE 10. DEBT (in thousands)

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

	Beginning Balance	Net Borrowing	Ending Balance
Urban and Environmental	$ 72,000	($24,000)	$ 48,000
Direct Loan	234,234	(86,000)	148,234
MSED	1,877	(164)	1,713
Total debt	$ 308,111	($110,164)	$ 197,947

USAID Intragovernmental debt as of 30 September 1998 consisted of the following borrowings from Treasury for post-1991 loan programs:

	Beginning Balance	Net Borrowing	Ending Balance
Urban and Environmental	$85,000	($13,000)	$ 72,000
Direct Loan	234,158	76	234,234
MSED	2,099	(222)	1,877
Total debt	$321,257	($13,146)	$308,111

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.

NOTE 11. OTHER LIABILITIES (in thousands)

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

Intragovernmental	**1999**	Noncurrent	Current	Total
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		—	1,760	1,760
Foreign Currency Trust Fund		—	179,197	179,197
Trust fund balance		—	14,193	14,193
Total		—	207,061	207,061
Total Other Liabilities		$ —	$ 335,610	$335,610

As of 30 September 1998, other liabilities consisted of the following:

Intragovernmental	**1998**	Noncurrent	Current	Total
OPAC suspense		$ —	$8,016	$8,016
Deposit and clearing accounts			(3,151)	(3,151)
Other		—	16,783	16,783
Total intragovernmental			$21,648	$21,648
Accrued funded payroll/benefits		$ —	$9,861	$9,861
Unamortized origination fees		—	2,094	2,094
Foreign Currency Trust Fund		—	170,927	170,927
Trust fund balances		—	12,674	12,674
Total		—	$195,556	$195,556
Total Other Liabilities		$ —	$217,204	$ 217,204

Intragovernmental liabilities represent amounts due to other federal agencies. All remaining other liabilities are liabilities to nonfederal entities.

NOTE 12. LEASES (in thousands)

Leases as of 30 September 1999 consisted of the following:

Capital leases	**1999**
Buildings	$1,965
Accumulated depreciation	136

Future payments due

Fiscal Year	Future Costs
2000	$1,757
2001	1,025
2002	832
2003	504
2004	—
After 5 years	—
Total future lease payments	4,118
Less: imputed interest	N/A
Executory costs	N/A
Total capital lease liability	4,118
Covered by budgetary resources	$4,118

Operating Leases

Future payments due

Fiscal Year	Future Costs
2000	$52,174
2001	50,599
2002	48,491
2003	46,781
2004	45,962
After 5 years	180,958
Total future lease payments	$424,965

Note: These data were not required for FY98. Refer to note 8 for additional information.

NOTE 13. ACCRUED UNFUNDED ANNUAL LEAVE AND SEPARATION PAY (in thousands)

Accrued unfunded benefits for annual leave and separation pay as of 30 September 1999 and 1998 are as follows:

	1999	1998
Liabilities not covered by budgetary resources		
Accrued annual leave	$26,004	$26,557
FSN separation pay liability	464	1,086
Total accrued unfunded annual leave and separation pay	$26,468	$ 27,643

NOTE 14. ACCRUED UNFUNDED WORKERS' COMPENSATION BENEFITS (in thousands)

The provision for workers' compensation benefits payable as of 30 September 1999 and 1998 are as follows:

	1999	1998
Liabilities not covered by budgetary resources		
Accrued unfunded workers' compensation	$ 7,184	$ 6,764
Future workers' compensation benefits	37,873	35,005
Total accrued unfunded workers' compensation benefits	$45,057	$41,769

The Federal Employees Compensation Act (FECA) program is administered by the U.S. Department of Labor 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. The Department of Labor 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 $45.1 million as of 30 September 1999 and consists of unpaid FECA billings for $7.2 million and estimated future FECA costs of $37.8 million.

For FY98, USAID's total FECA liability was $41.7 million and consisted of unpaid FECA billings for $6.7 million and estimated future FECA costs of $35 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 percent in year 1 and year 2, 5.55 percent in year 3, and 5.60 percent 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 is involved in seven contract appeals that could be material that are currently before the Armed Service Board of Contract Appeals. The appeals total $7.9 million, exclusive of interest and Equal Access to Justice Act fees. It is reasonably possible that there will be damages assessed against USAID in these cases.

USAID is also involved in a case before the U.S. 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. On 31 January 2000 a proposed settlement was filed. If the court approves the proposed settlement, a payment of $5.5 million will be made from the Department of Justice's judgment fund (not by USAID). The amount isn't shown as a liability, as required by FASAB, because of the immateriality with respect to the financial statements.

In addition, USAID is involved in a case before the U.S. Court of Federal Claims. The case disputes appropriate indirect cost rates to be charged where contract rates do not match Negotiated Indirect Cost Rate Agreement 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.

The building in which USAID operates is leased by the General Services Administration. USAID is charged rent intended to approximate commercial rental rates. Lease payments for FY98 and FY99 amounted to $26 million. GSA is requesting a 17 percent increase for FY00, but this is being negotiated. USAID and GSA are negotiating for a five-year lease.

NOTE 16. UNEXPENDED APPROPRIATIONS (in thousands)

Unexpended Appropriations

	1999	1998
Unobligated		
Available	$1,478,574	$1,946,567
Unavailable	5,958	19,390
Undelivered orders	8,301,178	6,731,288
Total	$9,785,710	$8,697,245

NOTE 17. NONENTITY ASSETS (in thousands)

The following information on nonentity assets is provided as of 30 September 1999:

Nonentity assets

Intergovernmental:	
Fund balance with treasury	$ 1,760
Total intragovernmental	$ 1,760
Accounts Receivable	$120,310
Total nonentity assets	$122,070
Total entity assets	$ 19,048,572
Total assets	$ 19,170,642

Nonentity 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. No nonentity fund balance with Treasury amounts were reported for FY98.

Nonentity accounts receivables of $120.3 million are composed of unavailable miscellaneous receipt funds that do not constitute budget authority and which must be returned to the Department of Treasury's general fund when collected. No nonentity accounts receivables were reported for FY98.

NOTE 18. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES (in thousands)

Liabilities not covered by budgetary resources as of 30 September 1999 and 30 September 1998 are as follows:

	1999	1998
Liabilities for loan guarantees	$417,956	$347,709
Accrued unfunded annual leave and separation pay	26,468	27,643
Accrued unfunded workers' compensation benefits	45,057	41,769
Total liabilities not covered by budgetary resources	489,481	417,121
Total liabilities covered by budgetary resources	8,916,683	9,019,129
Total liabilities	$9,406,164	$9,436,250

Note: The change in accrued unfunded annual leave and separation pay between FY99 and FY98 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 30 September 1999:

Intragovernmental assets

Agency	Fund Balance With Treasury	Accounts Receivable, Net	Advances and Prepayments	Totals
Treasury	$10,724,688	$ —	$ 12,456	$10,737,144
Dept. of Agriculture	—	383,317	13,050	396,367
Dept. of State	—	—	9,181	9,181
Dept. of Commerce	—	—	10,090	10,090
Other	—	1,564	10,905	12,469
Total	$10,724,688	$384,881	$55,682	$11,165,251

Intragovernmental liabilities

Agency	Accounts Payable	Debt	Other	Totals
Treasury	$ —	$197,947	$ —	$ 197,947
Dept. of Agriculture	33,686	—	—	33,686
Other	93,113	—	128,549	221,662
Total	$ 126,799	$ 197,947	$ 128,549	$ 453,295

Note: These data were not required for FY98.

NOTE 20. TOTAL COST AND EARNED REVENUE BY BUDGET FUNCTIONAL CLASSIFICATION (in thousands)

Total cost and earned revenue by budget functional classification as of 30 September 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

Total cost and earned revenue by budget functional classification as of 30 September 1998 restated are as follows:

Function Classification	**Gross Cost**	**Earned Revenue**	**Net Cost**
International affairs—150	$7,075,978	$489,893	$ 6,586,085
Income security—600	949	—	949
Total	$7,076,927	$489,893	$ 6,587,034

NOTE 21. INTEREST AND PENALTIES, NONFEDERAL (in thousands)

Interest and penalties, nonfederal, as of 30 September 1999 and 1998 consisted of the following:

	1999	**1998 Restated**
Interest and penalties, nonfederal		
Interest income	$15,699	$16,039
Income—penalties		
Total interest and penalties, nonfederal	$15,699	$16,039

NOTE 22. ADJUSTMENTS

There were no prior-period adjustments for FY99.

Prior-period adjustments for the period ending 30 September 1998 consisted of the following:

Equipment	$17,891
Structures, facilities, & leasehold improvements	10,072
Credit program equipment	1,977
Fund balance with Treasury	50,032
Total	$79,972

FY98 was the first year USAID depreciated its property, plant, and equipment in accordance with Statement of Federal Financial Accounting Standard No. 6, *Accounting for Property, Plant, and Equipment*. By implementing this standard, prior-period adjustments of $27.9 million were recorded to properly value PP&E.

Also during FY98, the Credit Program increased its capitalization threshold for PP&E to $25,000 to be consistent with USAID's capitalization threshold. A prior-period adjustment of $1.9 million was recorded to expense property that did not meet the $25,000 threshold.

Additionally, in FY98, USAID adjusted its fund balance to equal Treasury's fund balance. However, a portion of this adjustment related to FY97 and was classified as a prior-period adjustment.

NOTE 23. STATEMENT OF BUDGETARY RESOURCES (in thousands)

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

	1999	1998
Undelivered orders—unpaid	$ 7,734,439	$ 6,338,977
Undelivered orders—paid	1,039,228	1,408,778
Total obligations for undelivered orders	$ 8,773,667	$ 7,797,755

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

The MSED credit program utilized $632,000 in permanent indefinite borrowing authority in FY99. The terms of this borrowing included an interest rate of 5.11 percent and a maturity of four years. No borrowing authority was utilized in FY98.

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 available for reprogramming by USAID (subject to OMB approval through the apportionment process).

D. Adjustments to total budgetary resources are composed of downward obligation adjustments to match unpaid unexpended obligations, canceled authority, and budget resources rescinded by enacted legislation.

NOTE 24. DIFFERENCES BETWEEN THE STATEMENT OF BUDGETARY RESOURCES AND THE BUDGET OF THE U.S. GOVERNMENT (in thousands)

Differences exist between the information presented on the Statement of Budgetary Resources and the amounts described as “actual” in the U.S. government budget. 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 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 30 September 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

The amounts related to other agency activity as of 30 September 1998 were as follows:

	Allocated to Other Agencies	Allocated From Other Agencies
Budgetary resources		
Budget authority	$ 362,714	$ 427,797
Unobligated balance	11,661	175
Spending authority from offsetting collections	4	—
Adjustments	604	7,004
Total budgetary resources	**$** 374,983	$ 434,976
Status of budgetary resources		
Obligations incurred	$352,696	415,752
Unobligated balances available	18,994	19,224
Unobligated balances not available	3,293	—
Total status of budgetary resources	**$** 374,983	$ 434,976
Obligated balance, net—beginning of period	146,688	466,013
Obligated balance transferred, net	—	—
Obligated balance, net—end of period	119,256	540,137
Outlays	$ 370,905	$ 334,624

U.S. Agency for International Development Consolidated Balance Sheet
Statement of Supplemental Information by Major Appropriation
For the Period Ending September 30, 1999 (In Millions)

	Program Fund							Operating Fund		Other	Consolidated Total
	1010	021	1035	1037	1093	1095	1096	1000	4336		
Budgetary Resources:											
Budget authority	$434	$1,185	$387	$2,531	$562	$595	$582	$503	$382	$122	$7,283
Unobligated balances beginning of period	129	118	8	268	187	58	-	21	19	981	1,789
Spending authority from offsetting collections	-	5	-	-	-	-	-	4	-	1,291	1,300
Adjustments	8	37	17	13	5	4	-	19	62	(1,282)	(1,117)
Total budgetary resources	$ 571	$1,345	$412	$2,812	$754	$657	$582	$547	$463	$1,112	$9,255
Status of Budgetary Resources:											
Obligations incurred	418	1,209	340	2,615	525	629	479	514	463	244	7,435
Unobligated balances—available	152	135	72	197	229	28	103	32	-	80	1,028
Unobligated balances—not available	1	1	-	-	-	-	-	1	-	789	792
Total, status of budgetary resources	$571	$1,345	$412	$2,812	$754	$657	$582	$547	$463	$1,113	$9,255
Outlays:											
Obligations incurred	417	1,209	340	2,614	525	629	480	515	463	244	7,435
Less: spending authority from offsetting collections and adjustments	(8)	(42)	(17)	(16)	(5)	(4)	-	(26)	(63)	(1,315)	(1,496)
Obligated balance, net beginning of period	623	1,566	309	2,932	860	835	-	206	538	572	8,441
Obligated balance transferred, net	-	-	-	-	-	-	-	-	-	-	-
Less: obligated balance, net end of period	(511)	(1,970)	(337)	(3,215)	(753)	(1,030)	(469)	(211)	(415)	(396)	(9,254)
Total Outlays	$521	$763	$295	$2,315	$627	$430	$11	$484	$523	($895)	$5,126

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

Operating Fund

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

OTHER FUNDS

Credit Program Funds

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

OTHER FUNDS (con't)

Program Funds

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.
1038 Central America Reconciliation Assistance
1040 Sub-Saharan Africa Disaster Assistance
1075 Anti-Terrorism Demining
1500 Demobilization and Transition Fund

Trust Funds

8342 Foreign Natl. Employees Separation Liability Fund
8502 Tech. Assist. U.S. Dollars Advance From Foreign
8824 Gifts and Donations

Revolving Funds

4175 Property Management Fund
4590 Acquisition of Property, Revolving Fund

Operating Funds

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

Appendix A: Inspector General Audit

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

Financial Audit

This page left intentionally blank.

U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

February 18, 2000

MEMORANDUM FOR M/CFO, Michael T. Smokovich

FROM: IG/A/FA, Bruce N. Crandlemire

SUBJECT: Reports on USAID's Financial Statements, Internal Controls and Compliance for Fiscal Year 1999, Audit Report No. 0-000-00-006-F

Under the Government Management Reform Act of 1994, the U.S. Agency for International Development (USAID) is required to prepare consolidated fiscal year-end financial statements. The financial statements are required to be audited and submitted to the Office of Management and Budget and the Department of the Treasury by March 1 following fiscal year end. The Office of Inspector General is transmitting its reports on the Agency's fiscal year 1999 consolidated financial statements, internal controls, and compliance.

We do not express an opinion on USAID's financial statements because USAID's financial management systems could not produce complete, reliable, timely, and consistent financial information. With respect to USAID's internal controls, USAID's financial management and performance measurement systems have improved during the past 12 months. While USAID has made some improvements in internal controls, additional corrective actions are still needed to correct the accounting and financial management systems. USAID had not completely implemented adequate internal controls to ensure that financial and performance information prepared was accurate, complete, reliable, timely, and consistent. Concerning USAID's compliance, we noted four material instances of noncompliance with United States government laws and regulations. Because USAID has embarked on a significant effort to improve its systems that produce the financial statements, we agreed that it would be most beneficial to concentrate this years audit efforts in five significant areas:

- Planning for the Overview Section preparation.

- Reconciling and managing USAID’s fund balance with the U.S. Treasury.

- Reporting credit program receivables.

- Calculating and reporting accounts payable and accrued expenses.

- Accounting for Advances to Grantees.

We issued individual reports for the last four areas[1] and you agreed to the recommendations contained within each of the reports. This report contains one recommendation to improve planning for the Overview Section of the consolidated financial statements.

We received and considered the comments provided to the draft report. Based on comments to the draft report, we accept your decision to improve planning for the Overview Section. Please forward to me all information on your final actions on the recommendation to the Office of Management Planning and Innovation.

---

[1] Audit on USAID’s Credit Programs and Related Internal Controls for Fiscal Year 1999, (Audit Report No. 0-000-00-002-F), February 2, 2000., Audit of USAID’s Advances and Prepayments for Fiscal Year 1999, (Audit No.0-000-00-003-F), issued February 1, 2000, Audit of USAID’s Accounts Payable and Accrued Expenses for Fiscal Year 1999, (Audit No. 0-000-00-004-F), issued February 9, 2000, Audit of USAID’s Fund Balance with Treasury for Fiscal Year 1999, (Audit No. 0-000-00-005-F), issued February 17, 2000.

I would like to express my sincerest appreciation for the courtesies extended by your staffs to the auditors over the past year. The collaborative approach used by our staffs, together with the system improvements you indicated will be made, should ensure a successful audit next year. The Office of Inspector General is looking forward to working with you on the audit of the Fiscal Year 2000 financial statements.

This page left intentionally blank.

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

Financial Audit

This page left intentionally blank.

EXECUTIVE SUMMARY

The Government Management Reform Act of 1994 requires the U.S. Agency for International Development (USAID) to prepare consolidated financial statements and have them audited for inclusion in the government-wide financial statements. This law and applicable auditing standards require the Office of Inspector General to:

1. Express an opinion on the financial statements including performance overview information.

2. Report related internal control weaknesses.

3. Report noncompliance with applicable laws and regulations.

Auditor's Opinion on USAID's Fiscal Year 1999 Financial Statements

We do not express an opinion on the consolidated financial statements[2] for the fiscal years ending September 30, 1999, because our audit scope was impaired. This impairment resulted from poorly functioning accounting and financial management systems from which USAID was unable to produce accurate, complete, reliable, timely and consistent financial statements. USAID had not completed its implementation of the recommendation made to correct previously identified deficiencies. The uncorrected system deficiencies created a consequential risk that the financial statements, including the performance overview information, could contain material misstatements. As a result, the OIG agreed with USAID to focus our fiscal year 1999 efforts on the material line items on its balance sheet, the Overview, general controls, and following up 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 1999 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 VI for a listing of reports issued during fiscal year 1999.) Accordingly, we have not made an opinion on the fairness of the financial statements.

[2] USAID Fiscal Year 1999 Accountability Report, dated March 1, 2000.

Report on Internal Control Weaknesses

While USAID has made some improvements in its financial management systems over the past year, additional corrective actions are still needed to correct the accounting and financial management systems. USAID had not completely implemented adequate internal controls to ensure that financial and performance information prepared was accurate, complete, reliable, timely, and consistent. We found that USAID had made improvements in one significant areas in its financial statements. However, USAID has still not completed corrective actions for a number of the accounting and financial management system deficiencies previously reported. The agency has decided that many of the deficiencies can only be corrected through purchasing a new core accounting system. Two of these deficiencies were: (1) USAID did not always report reliable performance and financial information and (2) computer security deficiencies continue to exist. We have provided examples of the deficiencies identified during our audit of the overview, selected material line items reported on the balance sheet as of September 30, 1999, the computer security and prior recommendations in this report. Detailed information concerning the selected material line items reported on the balance sheet and computer security issues identified during this audit can be found in the reports identified in the appendices.

USAID Did Not Consistently Report Reliable
Financial and Performance Information

USAID did not consistently report reliable financial and performance information. USAID managers did not properly plan the preparation of the Overview to ensure that it was prepared in accordance with the OMB guidance. USAID's managers did not always process, record, and report financial information in accordance with the generally accepted accounting principles. Consequently, the financial and performance information reported was not consistently accurate, complete, reliable, and timely. USAID reported most of these material weaknesses in its fiscal year 1998 Accountability Report and has decided to report these material weaknesses in the fiscal year 1999 Accountability Report, which will be issued on March 1, 2000.

Computer Security
Deficiencies Continue to Exist

Computer security deficiencies continue to expose USAID to unacceptable risks that resources and data will not be adequately protected from loss, theft, alterations or destruction. USAID has not completed actions on prior recommendations intended to resolve general control weaknesses identified during three audits conducted at

USAID/Washington during fiscal year 1999[3]. USAID has taken measures to correct the problems identified in these report but the weaknesses have not been corrected. Therefore, Washington's financial systems are still operating in an environment without effective general controls.

Report on Noncompliance with Laws and Regulations

USAID did not comply with provisions of some applicable laws and regulations 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 Statements or Required Supplementary Information.

2. Any other laws, regulations, and government-wide policies identified by OMB in Appendix C of its Bulletin 98-08.

We have provided examples of noncompliance with the specific laws and regulations in the reports attached. (See pages 19 through 29)

Office of Inspector General
February 18, 2000

---

[3] The three Washington audits were: 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), Audit of General Controls Over USAID's Mainframe Computer Environment (Audit Report No. A-000-99-004-P) and Audit of General Controls Over USAID's Client-Server Computer Environment (Audit Report No. A-000-99-005-P), issued on March 1, 1999.

This page left intentionally blank.

Table of Contents

Table of Contents

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 1999, USAID had total obligation authority of $7.2 billion, supported by $503 million in operating expenses.[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 the principal statements: (1) balance sheet, (2) statement of net costs, (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 for the Fiscal Year 1999.[5]

Objectives

OMB Bulletin No. 98-08 and related guidance establish the minimum audit requirements for federal financial statements. For fiscal year 1999, 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; (6) reconciliation of net costs and budgetary obligations; and, if applicable, (7) custodial activity in accordance with OMB Bulletins.

---

[4] See USAID Fiscal Year 1999 Accountability Report, dated March 1, 2000 for "Financial Report Overview."

[5] See USAID Fiscal Year 1999 Accountability Report, dated March 1, 2000 for financial statements.

- 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.

- 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.

We were not able to fully implement these objectives because the scope of our work was impaired. Therefore, our report on the financial statements disclaims an opinion on whether they are presented fairly. This impairment resulted from poorly functioning accounting and financial management systems from which USAID was unable to produce accurate, complete, reliable, timely and consistent financial statements. USAID had not completed its implementation of the recommendation made to correct previously identified deficiencies.

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 1999. To make this determination, we followed the implementation guidance for FFMIA issued by the OMB on September 9, 1997. We reviewed financial management audit reports issued during fiscal year 1999, as well as USAID documents describing financial management system capabilities and deficiencies related to the major line items on the balance sheet.

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

The Government Management Reform Act of 1994 requires USAID to prepare consolidated financial statements and have them audited for inclusion in the government-wide financial statements. USAID is responsible for the preparation of its statements. This law and applicable auditing standards require the Office of Inspector General to express an opinion on the financial statements including performance overview information. An auditor can issue a report on the financial statements that provides one of three types of opinions or a conclusion that an opinion cannot be rendered. The three opinions are:

- Unqualified—issued when the auditor believes that the financial statements are presented fairly in all material aspects.
- Qualified—issued when the auditor believes that the financial statements are fairly presented except for a material departure or exception that is explained in the report.
- Adverse—issued when the financial statements are not fairly presented. This also requires that the auditor reveal the reasons for the opinion and the principal effect on the financial statements.

Instead of issuing one of the three above opinions, the auditor may choose not to give an opinion because an audit of sufficient scope could not be conducted due to limitations or condition of the financial records.

We could not express an opinion on USAID's financial statements[6] for the fiscal years ended September 30, 1999, because our audit scope was impaired. This impairment resulted from poorly functioning accounting and financial management systems from which USAID was unable to produce accurate, complete, reliable, timely and consistent financial statements. 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 overview information, could contain material misstatements. As a result of problems noted in previous years' audits, the OIG agreed with USAID to focus our fiscal year 1999 efforts on several material line items on its balance sheet. We issued a series of reports that communicate the results of our audits conducted on selected line

[6] USAID Fiscal Year 1999 Accountability Report, issued on March 1, 2000.

items reported in USAID's Fiscal Year 1999 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 VI for a listing of reports issued during fiscal year 1999). Accordingly, we have not made an opinion on the fairness of the financial statements.

The following Report on Internal Control briefly discusses two significant problems:

1. USAID did not always report reliable performance and financial information.

2. Computer security deficiencies continue to exist.

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 financial statements and their related footnotes.

Finally, with respect to the Overview section of the accompanying financial statements, our objective was not to provide an opinion on this information, but to determine whether the information was materially consistent with the information in the principal financial statements and report deficiencies that come to our attention. We did not accomplish this objective because scope impairments prevented us from completing our work.

Specifically, the engagement letter for the FY 1999 audit required USAID management to provide the draft Overview section to the OIG by November 22, 1999. However, we did not receive the draft Overview section in time to complete our audit fieldwork.[7] (See "Better Planning Needed to Ensure That the Overview Section Will Meet Requirements and Be Prepared Promptly" on pages 9 through 13 in the Report on Internal Controls for details.)

Office of Inspector General
February 18, 2000

[7] USAID's Office of Policy, Planning, and Coordination provided an unofficial draft of portions of the Overview section to the OIG on December 21, 1999. However, this first draft was missing results on three of the seven agency goals. USAID's Office of Policy, Planning, and Coordination provided an official draft on December 28, 1999.

REPORT ON USAID'S INTERNAL CONTROLS

We attempted to audit the accompanying financial statements of USAID as of September 30, 1999. However, our report on these statements disclaims an opinion on whether they are presented fairly because the scope of our work was impaired.

In planning and performing our work to report on these financial statements, we obtained an understanding of the internal control structure. In this regard, we:

- Reviewed the design of relevant policies and procedures.
- Determined whether they have been placed in operation.
- Assessed control risk.

We gained this understanding of the internal controls to determine our auditing procedures for reporting on the financial statements, not to express an opinion on the internal control structure. Accordingly, we do not express an opinion on this structure.

As a result of problems noted in previous years' audits, and because USAID's managers had not yet completed corrective actions to correct these deficiencies the OIG agreed with USAID to focus our fiscal year 1999 efforts on the material line items on its balance sheet, the Management Discussion and Analysis, and the Agency's compliance with the Federal Financial Management Improvement Act. 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 1999 balance sheet and USAID's general controls. In the individual reports, we made recommendations to improve USAID's ability to calculate and report its balances at fiscal year end (See Appendix V for a listing of reports issued during fiscal year 1999).

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 the laws and executive branch policies.

The objectives of an internal control structure, according to the OMB's Bulletin Nos. 98-08, are to provide management with reasonable—but not absolute—assurance:

- 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 98-08, and 98-08.

Because of inherent limitations in any internal control structure, errors or irregularities may still occur and not be detected. In addition, predicting whether the internal controls will be effective in the future is risky because of 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 as noted above. We also assessed control risk for the areas noted above.

As a result of deficiencies noted in previous years' audits[8] and because USAID's managers had not yet completed corrective actions to correct these deficiencies, we agreed with USAID to focus our fiscal year 1999 efforts on selected material line items

[8] See the Appendix Nos. III and IV of this report.

reported on its balance sheet,[9] the Overview, general controls, and following up on prior recommendations.

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 accuracy of its financial reports, not to express an opinion on this structure. 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 VI, for a listing of reports issued during fiscal year 1999). 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 measures identified in the Overview section of USAID's financial statements, the expression of such an opinion was not the purpose of our work. (See USAID's Fiscal Year 1999 Accountability Report, dated March 1, 2000). 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 completing our work. Specifically, the engagement letter for the FY 1999 audit required USAID management to provide the draft Overview section to the OIG by November 22, 1999. However, we did not receive the draft Overview section in time to complete our audit fieldwork.[10] (See "Better Planning Needed to Ensure That the Overview Section Will Meet Requirements and Be Prepared Promptly" on pages 9 through 13 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 Nos. 98-08. 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 have reasonable assurance that the control objectives noted above are met.

Some of the reportable conditions are also material weaknesses. A material weakness is a condition in which the design or operation of one or more internal control structure

---

[9] These selected material line items included the (1) Credit Receivables, (2) Advances and Prepayments, (3) Accounts Payable (calculated by the New Management System for USAID/Washington), and (4) Fund Balance with Treasury.

[10] USAID's Office of Policy, Planning, and Coordination provided an unofficial draft of portions of the Overview section to the OIG on December 21, 1999. However, this first draft was missing results on three of the seven agency goals. USAID's Office of Policy, Planning, and Coordination provided an official draft on December 28, 1999.

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. Our work would not necessarily disclose all material weaknesses in the internal control structure.

The following section briefly summarizes our findings and recommendations for those matters that we consider reportable conditions and material weaknesses.

Audit Finding

While USAID Has Made Some Improvements in Its Financial Management Systems over the Past Year, Additional Corrective Actions Are Needed

While USAID has made some improvements in its financial management systems over the past year, additional corrective actions are still needed because USAID has not completely implemented adequate internal controls.[11] As a result, USAID cannot prepare accurate, complete, reliable, timely, and consistent financial and performance information. We found that USAID has made improvements particularly in reporting its Credit Program Receivables. It appears that USAID has also reduced the differences between its records and the U.S. Treasury's records. However, USAID has still not fully implemented corrective actions for a number of the accounting and performance system deficiencies previously reported. Two of these deficiencies were:

- USAID did not consistently report reliable performance and financial information.

- Computer security deficiencies continue to exist.

These deficiencies represent material internal control weaknesses and hindered USAID from preparing accurate, complete, reliable, timely, and consistent financial and performance information. We have provided additional information regarding these areas below.

USAID reported most of these material weaknesses in its fiscal year 1998 Accountability Report and its fiscal year 1999 Accountability Report, which will be issued on March 1, 2000. USAID has also properly reported the system's deficiencies to OMB.

---

[11] See Appendix III for the status of uncorrected findings and recommendations from prior audits that affect the current audit objectives.

USAID Did Not Consistently Report Reliable
<u>Performance and Financial Information</u>

USAID did not consistently report reliable performance and financial information. USAID managers did not properly plan the preparation of the Overview to ensure that it was prepared in accordance with the OMB guidance. USAID's managers did not consistently process, record, and report financial information in accordance with the generally accepted accounting principles. Consequently, the financial and performance information reported was not always accurate, complete, reliable, and timely. We provided details of the deficiencies identified during our audit of the selected material line items reported on the balance sheet as of September 30, 1999. (See Appendix VI for a listing of reports issued during fiscal year 1999)

Better Planning Needed to Ensure
That the Overview Section Meet
<u>Requirements and Be Prepared Promptly</u>

USAID needs to establish internal controls to ensure that the Overview section will meet requirements and be prepared promptly. OMB Bulletin No. 97-01, "Form and Content of Agency Financial Statements," October 16, 1996, requires that the Overview section of the financial statements include a description of the results of the Agency's programs and a comparison of actual results to stated goals. The audit engagement letter between USAID and the OIG required the Agency to submit a draft Overview section to the OIG by November 22, 1999 and the final by December 27, 1999. However, because the OIG received only a portion of the draft Overview on December 28, 1999, the OIG was unable to complete its review. Based on our limited review of the draft Overview received, the performance information did not meet the requirements of OMB Bulletin No. 97-01. The requirements were not met because the Agency did not have a comprehensive plan to prepare the Overview section. Consequently, the Overview section may not provide the user with a fair presentation of the Agency's performance. The following paragraphs discuss this issue in detail.

USAID's Overview Section Needs to Meet Requirements – The purpose of the Overview section is to describe the agency's mission, activities, program and financial results, and financial condition. The Overview section should provide meaningful and relevant information about an agency's performance and disclose the extent to which programs are achieving their intended objectives. Specifically, the Overview section should:

- Describe outputs and outcomes of agency programs.
- Compare actual results of an agency's performance to goals or benchmarks.
- Summarize the agency's financial results to illustrate significant indicators of its financial operations for the reporting period.

As part of its audit of USAID's financial statements, the OIG was required to perform limited work on the internal controls[12] relevant to the performance measures included in the Overview section. Additionally, the OIG was required to report on those internal controls that have not been properly designed and placed in operation.[13]

Although we did not receive the draft Overview section of the financial statements in time to complete planned audit work, we were able to form some general conclusions both on how the report was being prepared and on its contents. For example, we determined that USAID was preparing the Overview section based on a draft of the Agency's annual performance report[14] for FY 1999. However, the OIG and the U. S. General Accounting Office (GAO) had identified material deficiencies with USAID's annual performance plan for FY 1999 (the document that forms the basis for USAID's annual performance report). Specifically, USAID:

- Identified data sources that are intended to measure the joint efforts of USAID, development partners, and host countries, rather than USAID itself.

- Did not clearly link Agency and individual country goals.

- Relied on data that are generally collected only every few years, not timely published, or are incomplete.

These deficiencies occurred because USAID reports on "high-level performance indicators" which do not describe the results of USAID activities in isolation from those of other donors or from general economic trends. For example, the indicator "Average annual growth rates in real per capita income…" which appears in the draft Overview section (as well as in the FY 1999 plan and the draft annual performance report) reflects not only USAID activities, but also other donor activities—as well as general economic trends. It appeared that these deficiencies were being carried forward into the Overview document. One Agency official recognized this deficiency noting:

> …these high level [performance indicators]…are problematic in that it is often difficult to…desegregate Agency accomplishments from efforts of host countries, other donors, or even the impact of the global economic environment.[15]

The Bureau for Policy and Program Coordination (PPC) officials stated that high level indicators were set in the annual performance plan for 1999 (prepared in 1997)—and

---

[12] Internal controls are an entity's organization, policies and procedures to help program and financial managers achieve results and safeguard the integrity of their programs.

[13] OMB Bulletin No. 98-08, Audit Requirements for Federal Financial Statements, August 24, 1998, as amended.

[14] This annual report required by the Government Performance and Results Act of 1993, compares actual performance to planned performance.

[15] This statement was made in a working draft of the Overview section. However, it was deleted from the official draft Overview section.

USAID was required to report on those indicators in the annual performance report for FY 1999.

Based on our limited review, we believe that the indicators in the draft Overview did not depict the results of USAID's performance.

USAID's Overview Section Needs to Be Prepared Promptly – Although the Chief Financial Officer (CFO) has overall responsibility for preparing the Overview section, it relies on PPC to collect and prepare information on the Agency's performance. As part of the audit planning process, the OIG and USAID negotiated an engagement letter that sets forth the roles and responsibilities of both parties for the FY 1999 GMRA audit. In this letter, USAID's CFO, agreed to provide the OIG with a draft of the Overview section by November 22, 1999—although we would have preferred to receive the draft much earlier. However, we received only a partial draft on December 28, 1999.[16] This delay impaired our ability to fully conduct our tests of internal controls over the performance information included in the Overview section.

The OIG has reported similar delays and scope impairments in a prior audit reports,[17] in which we recommended that the CFO fulfill his responsibilities for obtaining and reporting program performance information for the Overview section. In response to the report, and because the delays were attributed to a lack of coordination between the CFO and PPC, the Acting CFO stated that he would work collaboratively with PPC to obtain reliable, timely, accurate and consistent program performance information.

Lack of coordination between the CFO and PPC regarding the preparation of the Overview section continues to be a problem. The office of the CFO reported that, although there was some communication between those offices during fiscal year 1999 on this issue, these efforts were not followed through. Therefore, the CFO and PPC did not have a shared understanding of:

- Their respective responsibilities for preparing the Overview section.
- The requirements for the form and content of the Overview section.
- A schedule for its completion.

During the audit, the OIG contacted Agency officials several times to find out which indicators they would report in the Overview section. However, this information was not provided upon our requests because the Agency had not decided which indicators to include. Additionally, the draft USAID provided to the OIG on December 28, 1999 discussed only four of the seven Agency goals—and performance information for those four goals was incomplete. Since Agency officials did not timely: (1) identify which

---

[16] USAID's Office of Policy, Planning, and Coordination provided an unofficial draft of portions of the Overview section to the OIG on December 21, 1999.

[17] Reports on USAID's Financial Statements, Internal Controls, and Compliance for Fiscal Years 1997 and 1996 (Audit No. 0-000-98-001-F), issued March 2, 1998.

indicators would be reported in the Overview section or (2) provide a draft of the Overview section, the OIG could not fully assess the internal controls for preparing the Overview section.

USAID Needs to Prepare and Follow Plans for the Overview Section – USAID needs to establish internal controls to ensure that the Overview section will meet requirements and be prepared promptly. Appropriate internal controls for the Overview section would ensure USAID compliance with the form and content requirements established by OMB. Additionally, internal controls would ensure the timely preparation and submission of the Overview section for audit as required by the Government Management Reform Act. Appropriate internal controls would include the following:

- A plan for preparing the Overview section, which describes how management would ensure compliance with OMB guidelines. Specifically, this plan should provide assurance that:

    1. Events and transactions discussed in the Overview section existed as of the last day of the reporting period covered by the financial statements and were presented in their entirety.

    2. performance indicators selected for discussion in the Overview section would present a fair picture of the Agency's performance during the period covered by the financial statements.

    3. the Overview section would be prepared promptly and would be submitted for audit in accordance with timeframes established in audit engagement letters.

- A performance-monitoring plan to ensure that quality indicators and data are reported in the Overview section.

- A clear delegation of responsibility for preparing the Overview section.

We concluded that the Agency did not have a plan for preparing the Overview section or for assessing performance indicators and data selected for inclusion. Further, USAID management did not assign responsibility for drafting the Overview section until late November 1999, and had not ensured that assigned staff were aware of all relevant OMB requirements.

Consequently, the Overview section may not provide the user with a fair presentation of the Agency's performance. USAID needs to improve its planning for the Overview section. Planning what data will be reported along with designating responsibility and setting milestones would improve the reporting of Agency performance.
Agency officials have acknowledged that USAID's performance measurement system has deficiencies. According to Agency officials, USAID is taking steps to improve its performance reporting in its annual performance plan for Fiscal Year 2001. Such

improvements include clustering agency programs with common indicators to more accurately report USAID's accomplishments, rather than those of the entire donor community. Additionally, to accommodate the timely preparation of the Overview section, Agency officials have begun discussing revisions to USAID's schedule to prepare its annual performance report—which forms the basis for the Overview section.

> **Recommendation No. 1: We recommend that the Chief Financial Officer reach agreement with the Bureau for Policy and Program Coordination on the details of comprehensive plan to prepare the Overview section of the financial statements in accordance with OMB Bulletin No. 97-01.**

USAID Has Made Some Significant Financial Management Improvements

Over the past year, USAID had made improvements in one significant area in its financial statements-reporting credit program receivables. However, improvements are still needed in: (1) reconciling and managing the fund balance with the U.S.Treasury, (2) calculating and reporting accounts payable and accrued expenses, and (3) accounting for advances to grantees with letter-of-credit agreements.

Reporting Credit Program Receivables – USAID's has improved its processes and procedures in place for reporting the Credit Program Receivables. After receiving confirmation[18] valuing about $8.7 billion from 40 of the 68 borrower countries, the OIG statistically selected and reviewed 60 loan accounts. The OIG found that the individual loan account balances tested were accurate. The OIG also found that USAID financial managers were responsive to our previous audit recommendations[19] made to improve the internal controls over the credit program portfolio. However, during this review, the OIG noted that: (1) USAID's loan information maintained by Riggs National Bank had not been reconciled with the information contained in USAID's legacy loan accounting systems, Loan Accounting and Information System, and the Housing Guaranty Payment Management System; (2) USAID had not provided the most updated information to Riggs National Bank on rescheduled loans; and (3) USAID did not research and promptly resolve unapplied loan collections from borrower countries. The OIG does not consider these conditions to be material weaknesses, but rather reportable conditions.

Reconciling and Managing USAID's Fund Balance with Treasury – USAID had not implemented adequate internal controls to permit accurate and reliable reporting of the Fund Balance with the Treasury account as of September 30,1999. While reviewing USAID's Fund Balance with Treasury account and related internal controls, the OIG identified several deficiencies that hindered USAID's ability to accurately report its Fund

---

[18] OIG sent out confirmation requests to 68 borrower countries having outstanding loan balances of about $23 billion. The requests solicited confirmation of outstanding loan account balances as of June 30, 1999.

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

Balance with the Treasury at the fiscal yearend. We have provided examples of the more significant deficiencies below.

USAID did not consistently reconcile its records with the U.S. Treasury's records. USAID's Office of Financial Management and the overseas missions did not consistently properly reconcile—research and resolve—differences identified between USAID's records and the U.S. Treasury's records. The purpose of the reconciliation is to ensure the accuracy and reliability of its fund balance accounts. Instead, USAID posted unreconciled differences of $21.8 million net ($266 million in absolute dollar value) to bring its fund balance to agree with the U.S. Treasury's records. The 1999 difference was an improvement over the 1998 differences.[20] Despite the improvements, USAID's lack of an effective reconciliation process hindered USAID's ability to accurately report the Fund Balance with Treasury line item in the financial statements.

USAID's Office of Financial Management did not properly manage the use of the fiscal year 1998/1999 Development Assistance appropriation *(728/91021)*. USAID had not implemented a system of fund controls[21] to manage the funds appropriated under this appropriation as required by Title 31 of the United States Code (USC) and the General Accounting Office's <u>Policy and Procedures Manual for Guidance of Federal Agencies</u>. As a practice, USAID's Office of Financial Management used this appropriation to fund advances to grantees without regard as to whether the activities were related to this appropriation. Because of this practice, both external and internal reports generated by USAID may not be reliable and USAID is unable to determine the status of their budgetary resources. Further USAID's Office of Financial Management has committed a funds control violation and may have violated the Anti-Deficiency Act. While USAID has improved in this area, we identified several continuing problems that hindered USAID's ability to reconcile differences with the fund balance account. We provided four recommendations to assist USAID's management with improving its reconciling and reporting of the Fund Balance with Treasury line item and compliance with applicable laws and regulations.[22]

Consequently, USAID's Fund Balance with Treasury account may be less than reliable and we do not express an opinion on them.

Because we have issued a series of reports which discussed in detail our findings and recommendations which were agreed to by USAID managers regarding the four selected material line items reported on the balance sheet no additional recommendations are made in this report.

---

[20] In the September 30, 1998 financial statements the fund balance difference between USAID and the U.S. Department of Treasury was net $60 million ($590 million in absolute value).

[21] The term "fund control" refers to control over use and management of fund appropriations to ensure that (1) funds are used only for authorized purposes, (2) they are economically and efficiently used, (3) obligations and expenditures do not exceed the amounts authorized and available and (4) the obligation or disbursement of funds is not reversed or otherwise withheld without congressional knowledge and approval.

[22] <u>Audit of USAID's Fund Balance with Treasury for Fiscal Year 1999</u>, (Audit No. 0-000-00-005-F), issued February 17, 2000

Calculating and Reporting Accounts Payable and Accrued Expenses – USAID did not properly calculate and report the accrued expenses and accounts payable to permit the preparation of reliable financial statements. USAID's methodology for calculating accrued expenses and reporting accounts payable for USAID/Washington does meet FASAB standards. The accounts payable line item reported on the balance sheet may not be reliable.

The current methodology for calculating USAID/Washington's accrued expenses and related accounts payable did not consistently follow the FASAB accounting standard. Currently, USAID's methodology is based on using unliquidated obligations and scheduled completion dates to compute the amount to be recorded in the financial statements at the fiscal year-end. In the Fiscal Year 1999 financial statements, $2.3 billion of the $3.2 billion in accrued expenses and related accounts payable reported for fiscal year 1999 were calculated using this methodology. The remaining $900 million accrued expenses and accounts payable were related to overseas mission activities. Of the $2.3 billion recorded at September 30, 1999, $1.7 billion did not meet the FASAB standard for calculating and reporting accrued expenses and accounts payable at fiscal year-end.

We noted significant deficiencies with USAID's calculations of accrued expenses and accounts payable for the following:

1. Obligations used to fund advances for grantees with letter-of-credit agreements.

2. Obligations with: 1) minimal or no recent activity since being migrated from the old financial accounting systems in fiscal year 1997, and 2) a scheduled completion date before September 30, 1998.

To assist USAID in preparing the Fiscal Year 1999 financial statements, the OIG proposed adjustments to more accurately report accrued expenses and accounts payable calculated using the NMS. (See Appendix V for the OIG's Schedule of Proposed Audit Adjustments) To assist USAID in preparing the financial statements in the future, the OIG provided detail information regarding the questionable accrued expenses and accounts payable calculated using the NMS.

The OIG made a recommendation to strengthen the internal controls used to calculate and record accrued expenses and accounts payable for USAID/Washington.[23]

Accounting for Advances Grantees – In reviewing the controls over advances, the OIG has identified the following deficiencies that impaired USAID's ability to produce advance account balances that are auditable.

[23] Audit of USAID's Accounts Payable and Accrued Expenses for Fiscal Year 1999, (Audit No. 0-000-00-004-F), issued February 9, 2000.

- The adoption of the cash pooling method of accounting for advances hinders USAID's ability to report the accurate status of financial and budgetary resources at the obligation and appropriation level.

- The Office of Financial Management had a significant backlog of unprocessed liquidation vouchers.

- Record changes to grant agreements are not promptly updated in the financial systems.

- The Office of Financial Management transferred unliquidated obligations to DHHS' Payment Management System without verifying the accuracy of the transferred balances.

- The subsidiary ledger did not reconcile to the advance balances reported in the general ledger for fiscal year 1999.

We provided four recommendations to improve accounting for advances, strengthen related internal controls, and to comply with applicable laws and regulations.[24]

Computer Security
Deficiencies Continue to Exist

Computer security deficiencies continue to expose USAID to unacceptable risks that resources and data will not be adequately protected from loss, theft, alterations, or destruction. USAID has not completed actions on prior recommendations intended to resolve general control weaknesses identified during three audits conducted at USAID/Washington during fiscal year 1999[25]. USAID has taken measures to correct the deficiencies identified in these reports but the weaknesses have not been corrected. Therefore, Washington's financial systems were still operating in an environment without effective general controls.

General controls are the structure, policies, and procedures that apply to an entity's overall computer operations. They 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.

---

[24] Audit of USAID's Advances and Prepayments for Fiscal Year 1999, (Audit No. 0-000-00-003-F), issued February 1, 2000.

[25] The three Washington audits were: 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), Audit of General Controls Over USAID's Mainframe Computer Environment (Audit Report No. A-000-99-004-P) and Audit of General Controls Over USAID's Client-Server Computer Environment (Audit Report No. A-000-99-005-P), issued on March 1, 1999.

Our audit of USAID's Financial Management System's compliance with the Federal Financial Management Improvement Act requirements disclosed that USAID has made limited progress during the past year in improving the system deficiencies found in previous audits. USAID still does not have the assurance that its new systems will operate effectively together, support business needs, and provide adequate security.

USAID needs an effective computer security program to prevent unauthorized access to financial data and resources. Our audits of the general controls of USAID's mainframe and client/server platforms disclosed ineffective agency-wide security program, access controls, application software development and change controls, and segregation of duties. These security weaknesses exposed USAID to unacceptable risks that resources will not be adequately protected from fraud or misuse and that sensitive data and systems will not be adequately protected from loss or destruction. An effective entity-wide security program is the underpinning of general controls and is essential for other management controls to operate effectively.

Based on our determination that the Agency's general controls were not likely to be effective, we assessed the control risk as high for all information system related controls.

Detailed information concerning the financial statements and other issues developed during this audit can be found in the individual reports to USAID managers.

Office of Inspector General
February 18, 2000

This page left intentionally blank.

REPORT ON USAID COMPLIANCE

We attempted to review USAID balance sheet for the years ended September 30, 1999. Our report does not provide an opinion on this statement. Our objective was to determine whether the account balances reported on USAID Fiscal Year 1999 balance sheet was accurately stated in all respects. USAID management is responsible for compliance with applicable laws and regulations related to its financial statements and balance sheet specifically.

Although we were unable to fully audit and report on USAID 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
- Federal Managers' Financial Integrity Act of 1982
- Computer Security Act of 1987
- Government Performance and Results Act

The following sections discuss instances of potential noncompliance with the above laws and related regulations.

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.[26] 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.[27]

The FFMIA also requires that our audit of USAID's financial statements report 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 1999, 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

[26] In this section, we report on USAID's compliance with Federal requirements for financial management systems rather than its compliance with the Act itself.

[27] Office of Management and Budget's Circulares 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.

existing systems are replaced or modernized. As a result, during fiscal year 1999, USAID's financial management systems did not yet 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.

As a result, financial management systems' deficiencies that we first reported during fiscal year 1997 continue to exist.[28] In large part because USAID's New Management System (NMS) has not operated effectively, 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.

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 citizenship responsibilities. 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 1999, our audits as well as USAID management assessments confirmed the continuing existence of financial management system deficiencies that we reported during fiscal year 1997.[29] As a result, during fiscal year 1999, 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.

---

[28] 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.

[29] 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 an effective computer security program.

- 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.

Federal Accounting Standards – USAID's financial management systems did not comply with applicable Federal accounting standards. Specifically, USAID financial management systems did not comply with the (a) Statements of Federal Financial Accounting Standards No. 1, <u>Accounting For Selected Assets and Liabilities</u> and (b) Statements of Federal Financial Accounting Standards No. 4, <u>Managerial Cost Accounting Concepts and Standards for the Federal Government</u>.

a. <u>Accounting For Selected Assets and Liabilities</u>

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. Contrary to this FASAB standard, USAID included 100 percent of the Agency's advances to grantees in an accrued expense account—regardless of the actual status of any advance liquidation. Further, USAID relied on outstanding unliquidated obligation balances and scheduled completion dates to estimate accrued expenses even though USAID financial managers have conceded that system-generated information based on the scheduled completion date is not reliable. Consequently, USAID has not implemented an effective accrual methodology to recognize its current liabilities and establish accounts payable at fiscal year-end. Because USAID did not adhere to the Statement of Federal Financial Accounting Standard No. 1, USAID's financial statements may not provide management with complete, reliable and consistent information for making well-informed business decisions.

b. <u>Managerial Cost Accounting Concepts and Standards for the Federal Government</u>

USAID has not implemented Statement of Federal Financial Accounting Standards No. 4. USAID did not comply with five fundamental elements of managerial cost accounting:

- <u>Requirement for cost accounting</u> - 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 in accordance with the United States Standard General Ledger at the transaction level. USAID did not have an integrated accounting and financial management system, which included Accounts Receivable.

USAID relied on data calls[30] to obtain the total amount of outstanding Accounts Receivable because it did not have integrated financial management systems. These data calls were posted to the general ledger at the summary level as opposed to the transaction level as required. By using data calls to determine outstanding Accounts Receivable, USAID is at risk that the information obtained is not accurate or complete.

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, and planned 1999 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

[30] "Data calls" is a term used to describe the process of requesting various offices to provide outstanding balances as of yearend. The resulting reports are prepared from data contained outside the formal accounting system.

current core accounting system, significant improvements are not achievable until (i) the new system is installed and made operational and (ii) other financially-related systems are replaced or modernized.

Organization Responsible for Noncompliance

The Clinger-Cohen Act 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, as well as, 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 meet 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, Reports on USAID’s Financial Statements, Internal Controls, and Compliance for Fiscal Year 1998,[31] we reported that USAID’s progress in improving its financial management systems was limited by planning and organizational challenges and recommended that the Chief Financial Officer collaborate with the Assistant Administrator for Management, Chief Information Officer, and the Office of Policy Planning and Coordination to 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, and (2) approve and manage financial management system design and enhancement projects. In addition, we recommended that the Administrator specifically delegate adequate responsibility, authority, and resources to the Chief Financial Officer to carry out the responsibilities of the Chief Financial Officers Act. As of January 31, 2000 the Agency had made a management decision to address the recommendations, but final action was still pending.

Additional recommendations, which addressed weaknesses in USAID's FFMIA remediation plans, were included in a companion March 1999 audit report on USAID's compliance with FFMIA requirements[32]. That report recommended that before acquiring

---

[31] Reports on USAID’s Financial Statements, Internal Controls, and Compliance for Fiscal Year 1998, (Audit Report No. 0-000-99-001-F), issued March 1, 1999.

[32] 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.

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. 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. We are now in the process of following up on the Agency’s remediation efforts and its actions to address the above recommendations. 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, 2000.

Federal Managers' Financial Integrity Act of 1982

USAID has not: (1) promptly resolved all audit recommendations within the prescribed time frames, (2) established adequate internal controls for measuring and reporting on program performance, and (3) taken timely action to correct findings and recommendations from prior audits related to problems in measuring and reporting on program performance. Further, USAID has not acted to correct the material weaknesses that the OIG identified previously. These deficiencies prevented USAID from providing complete, reliable, timely, and consistent information on USAID activities.

OMB Circular No. A-123, which provides standards for implementing the FMFIA of 1982 requires agencies to develop and implement management controls to ensure that: (1) programs achieve their intended results; (2) resources are used consistently with agency mission; (3) laws and regulations are followed; and (4) reliable and timely information is obtained, maintained, reported, and used for decision making. The Circular also requires that the head of each agency submit annually to the President and the Congress: (1) a statement of whether the agency's controls provide reasonable assurance that they are achieving their intended objectives and (2) a report on material weaknesses in the agency's controls.

The OMB Circular No. A-50 contains another implementing policy of the executive branch. This policy requires prompt resolution and corrective actions on audit recommendations. The Circular says that resolution shall be made within a maximum of six months after issuance of a final report and corrective action should proceed as rapidly as possible.

Pursuant to the FMFIA and the implementing policies of the executive branch, USAID has decided to report seven material internal control weaknesses in its fiscal year 1999 Accountability Report scheduled to be issued on March 1, 2000. USAID has taken sufficient corrective action to reduce the materiality of weaknesses in "Program Performance Reporting" and the "Direct Loan Program." No new material weaknesses were reported during the fiscal year 1999 management control assessment. (See USAID's Fiscal Year 1999 Accountability Report, dated March 1, 2000)

During the course of our review, we identified an internal control weakness that, in our opinion, should have been considered as a material internal control weakness and reported in its fiscal year 1999 Accountability Report. Specifically, USAID does not properly identify, record, and report advances processed through the Letter of Credit system. Approximately $1.7 billion are annually advanced to grantees through this system. Because of Office of Financial Management's policy, these advances are not recorded against the obligation document at the time of the disbursement. Instead, the advances are recorded at the grantee level, without regard to the corresponding grant obligation. As a result, USAID cannot properly report the status of its appropriations at year-end. USAID management has accepted our audit recommendations and will, beginning in Fiscal Year 2001, change its method of accounting for advances, we believe that such changes would strengthen USAID's controls in accounting for advances and prepayments. Additional details regarding this issue will be reported in the audit report to USAID Managers on its internal controls.[33]

Computer Security Act of 1987

USAID has not implemented an effective computer security program as required by the Computer Security Act. The Computer Security Act of 1987 (Public Law No. 100-235) requires Federal agencies to protect information by: (1) identifying sensitive systems, (2) developing and implementing security plans for sensitive systems, and (3) establishing a training program to increase security awareness and knowledge of accepted security practices. OMB Circular No. A-130 contains executive branch policy for implementing this law.

In September 1997, we reported[34] 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

[33] Audit Report on USAID Advances and Related Internal Controls for Fiscal Year 1999 (Audit Report Number 0-000-00-003-F), issued February 1, 2000.

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

policies needed to provide a foundation for an effective security program, and (3) implemented key management processes to ensure that security requirements were met.

During fiscal year 1998, we conducted a series of audits of USAID's general computer security controls[35]. The OIG found that USAID had not implement 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.

As part of our audit of USAID's Fiscal Year 1999 financial statements, we reviewed the open recommendations intended to resolve the general control weaknesses. Based on our preliminary review, we found that many of the recommendations were pending final actions by USAID. Therefore, we concluded, as previously reported, that the general controls are not likely to be effective.

We also found that USAID has made significant progress in developing a program to improve its ability to protect computerized information. For example, 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, GSA, and others as an innovative and comprehensive approach that could benefit the entire Federal government.

USAID has conducted computer security risk assessment at two overseas Missions. These assessments found that computer security vulnerabilities at overseas Missions remain high because local officials often have implemented security practices without consulting with USAID/Washington officials. USAID established a team to focus on improved computer security practices to deal with these vulnerabilities. The team identified 12 possible security improvements, five of which were considered to have the greatest cost-benefit and probability of success. As of September 1999, three of the five improvements were completed and two were nearing completion.

---

[35] 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 General Controls Over USAID Mainframe Computer Environment (A-000-99-004-P), issued March 1, 1999; Audit of General Controls Over USAID Client Server Environment (A-000-99-0055-P), issued March 1, 1999, Memorandum Report on Access Controls Over NMS Data and Software (A-000-98-004-S), issued May 18, 1998.

Although significant improvements in USAID Information Systems Security have occurred much work remains to be done. USAID estimates that computer security vulnerabilities will not be fully corrected until 2003.

Government Performance and Results Act

The Government Performance and Results Act of 1993 (Results Act) was enacted to:

- Improve the confidence of the American people in the capacity of the Federal Government by holding agencies accountable for the achievement of program results.

- Initiate program performance reform and improve the management of the Federal Government.

- Provide Congress with more information that is objective for decision-making purposes.

The Results Act requires Federal agencies to: (1) develop strategic plans every three years covering a period of at least five years, beginning September 30, 1997; (2) prepare annual performance plans, beginning with fiscal year 1999; and (3) report annually on actual performance compared to planned performance, beginning no later that March 31, 2000.

USAID does not have adequate internal controls to measure and report its program performance as required under the Results Act. Specifically, USAID does not have an effective system to measure and report achievements that are attributable to USAID-funded activities. This occurred because USAID reports country-level results for program performance with little or no assurance that USAID activities had a clear and measurable impact toward achieving the reported results. As a result, USAID's management, Congress, and the American people do not have useful information on which to base their decisions regarding USAID's program performance.

Office of Inspector General
February 18, 2000

USAID'S MANAGEMENT COMMENTS

USAID

U.S. Agency for International Development

February 17, 2000

MEMORANDUM FOR IG/A/FA, Bruce N. Crandlemire

FROM: M/CFO, Michael T. Smokovich E.S. Owens

SUBJECT: Draft Report on Audit of USAID's Consolidated Financial Statements, Internal Controls, and Compliance for Fiscal Years 1999 and 1998

This memorandum provides the USAID formal response to the subject audit report.

On behalf of the CFO organization and other components of USAID, I want to express my high regard for the positive approach taken by you and your staff on this important work. Because several of the deficiencies you previously identified have improvements underway, it was very beneficial to focus this year's audit work on those major accounts that constitute the major parts of the financial position of the Agency.

Many of the deficiencies referenced in the draft report represent our highest priorities. These include the accounting system weaknesses, the inability to produce financial reports for management and regulatory needs, and the security needed to operate the systems effectively. Timetables for curing these problems have been established and implementation efforts are underway. However, the deficiencies will not be fully resolved until the system improvements are operational in Washington and in our Missions.

I am pleased that your audit of the credit program receivable balance and the management of the underlying assets caused you to express optimism regarding the audibility of the system and records. While we have made progress in improving the reliability and audibility of our Fund Balance with Treasury, I appreciate that you are not yet to the point where the reconciliation process is sufficient for the auditors to be able to conclude that the cash balances are accurately reported. It is obviously critical that we both continue to work jointly to get the reconciling differences below the materiality thresholds for financial statements and to get the reconciliation process, including researching and resolving differences, functioning properly.

1300 Pennsylvania Avenue, N.W.
Washington, D.C. 20523

This years audit also pointed out potential funds control deficiencies. As you know, these deficiencies are not new and are a function of the obsolete and inadequate systems we presently operate but plan to replace at the start of FY 2000. Improvements we have already put in place related to the letter of credit processing and the planned conversion from pooled to obligation based advances, which will be augmented with the new accounting system, will ensure that movements of funds are under strict control at all times. We will continue to work with you on these issues to assure that our funds control systems and procedures are adequate.

Your audit report recommends that the CFO and the Bureau for Policy and Program Coordination reach agreement on a comprehensive plan to prepare the overview section of the financial statements. I agree that a plan is needed. To be effective, we have concluded that it must be an Agency-wide plan for preparing the financial statement. We will establish a public plan in consultation with all parties involved in the process, including OIG. The plan will include preparing an overview section that complies with the new Statement of Federal Financial Accounting Standard Number 15, Management's Discussion and Analysis, in effect for FY 2000. It is important that all parties in the Agency understand that it requires a comprehensive joint effort to produce the statements in a timely manner. It is also particularly critical for FY 2000 that our systems conversion and data migration be synchronized with the statement preparation and audit, because it is our stated intent to be in a position where you would no longer have to disclaim from expressing an opinion. I believe that if we continue to work together we can remove the remaining barriers to expressing an opinion on the statements.

Please express my appreciation to the OIG staff for the cooperative and helpful manner in which the audit was conducted.

Cc: AA/M, T. Brown
AA/PPC, T. Fox
DAA/PPC, D. Dijkerman
PPC/CDIE, S. Merrilll
PPC/PL, L. Laird
PPC/CDIE, D. Blumhagen
M/CFO, S. Owens
M/FM, T. Cully
M/FM/CAR, D. Ostermeyer
M/FM/CAR, T. Vapniarek
M/FM/CAR, E. White

OIG EVALUATION OF USAID MANAGEMENT COMMENTS

USAID's management agreed with our recommendation provided in this report. In agreeing with the recommendation, USAID management officials said that improvements are underway to correct deficiencies previously reported and additional actions are planned for fiscal year 2000. Refer to Appendix I for USAID Management Comments. For our recommendation, USAID's management officials said that an Agency-wide plan for preparing the financial statement is needed. USAID management officials also said that a public plan would be established in consultation with all parties involved in the process, including the OIG. The plan will include preparing an overview section that complies with the new Statement of Federal Financial Accounting Standard Number 15, Management's Discussion, and Analysis, in effect for fiscal year 2000.

We agree with management's decision on the recommendation.

STATUS OF UNCORRECTED FINDINGS AND RECOMMENDATIONS FROM PRIOR AUDITS THAT AFFECT THE CURRENT AUDIT OBJECTIVES

Office of Management and Budget 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 final actions have not been completed as of September 30 1999. We have also noted where final action was taken subsequent to fiscal yearend but prior to the date of this report.

Audit of USAID's Miscellaneous U. S. Dollar Trust Funds Financial Statements for the Years Ending September 30, 1995 and 1994
Audit Report No. 0-000-96-013 April 1, 1996

Recommendation No. 1: We recommend that USAID's Chief Financial Officer establish procedures to assure that receipts, expenditures and balances of the U.S. Dollar Advances from Foreign Governments Trust Fund are periodically verified with the participating host governments.

Recommendation is pending final action by USAID.

Audit of USAID's Direct Loan Program Financial Statements for the Year Ending September 30, 1995,
Audit Report No. 0-000-96-017 July 1, 1996

Recommendation No. 1: We recommend that Direct Loan Program Division Chief:

1.1 Establish detailed policies and procedures which provide adequate guidance to Direct Loan Program employees to properly execute day-to-day transactions;

1.2 Train Direct Loan Program Personnel to properly execute day-to-day transactions;

1.3 Reconcile applicable subsidiary ledger balances to the general ledger; and

1.4 Establish internal controls, with the proper segregation of duties and checks and balances that will ensure, to a higher level, that transactions are properly recorded.

Final action was taken on February 16, 2000.

Audit of USAID/Washington's Review and Certification Of Funds Obligated for Operating Expenses Audit Report No. A-000-97-001-P February 7, 1997

Recommendation No. 1: We recommend that M/FM/CONT:

1.1 M/FM/CONT redesign the process for Section 1311 reviews to be performed by accounting stations in USAID/Washington and issue appropriately revised guidance;

1.2 Ensure adequate staffing and supervision for the Section 1311 review process in Bureau for Management Operating Branch and Loan Management Division; and

1.3 Ensure that Bureau for Management Accounting Division completes its management control and risk assessment of the Operating Expense Branch and takes action to correct any deficiencies noted.

Recommendation is pending final action by USAID.

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.

<u>Recommendation No. 2</u>: We recommend that USAID's Chief Financial Officer:

2.1 Identify and reconcile all suspended and unapplied balances;

2.2 Develop and implement detailed written procedures, which provide adequate guidance to the financial management staff for properly recording transactions as they occur;

2.3 Develop and implement detailed written procedures to ensure that personnel perform timely reconciliation's and the identified differences are resolved;

2.4 Provide qualified and continuous supervision to ensure that personnel properly perform reconciliation; and

2.5 Require documentation of the second party reviews to ensure that personnel properly perform reconciliation and resolve the differences.

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:

2.1 Ensuring that adequate resources and skills are available to implement the program.

2.2 Revising policies to incorporate a planning process that will provide a sound foundation for an effective computer security program.

2.3 Implementing disciplined processes to ensure compliance with the Computer Security Act of 1987 and OMB Circular A-130.

2.4 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. 1: Until USAID implements a compliant accounting and financial management system, we recommend that the Chief Financial Officer ensure that the account balances for appropriations are reviewed for validity at least annually to properly certify obligated and unobligated balances pursuant to Title 31 of the United States Code, Section 1108(c).

Recommendation is pending final action by USAID.

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 USIAD.

Recommendation No. 4: We recommend that the Chief Financial Officer require that figures be adequately supported by the general ledger before transmission to the regulatory agencies.

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. 6: We recommend that the Chief Financial Officer develop plans and time frames for USAID's accounting and financial management system to permit tracking of obligations and expenditures according to USAID's overall strategic goals and objectives and in support of each operating unit's strategic objective and intermediate results.

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 overview section of USAID's financial statements and Annual Performance Report be clearly shown as achievements for that year; and

Recommendation is pending final action by USAID.

Recommendation No. 8: We recommend that the Chief Financial Officer:

8.1 Implement a comprehensive policy that will incorporate an automatic assessment of interest charges against all delinquent receivables, and that these assessments be 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;

9.2 All delinquencies in excess of 180 days are identified in a timely manner, and referred to the United States Treasury; and

9.3 The issuance or guarantee of consumer credit is reported to consumer credit reporting agencies.

Recommendation is pending final action by USAID.

Interim Audit Report of Acordia Healthcare Solutions, Inc.,
Excess Federal Cash Being Held Contract No. FAO-C-00-93-00012-00;
Audit Report No. 0-000-98-002-F March 26, 1998

Recommendation No. 3: We recommended that USAID's Office of Financial Management return all the funds recovered from the Acordia Healthcare Solutions, Inc. contract to the U.S. Treasury when it has determined that these funds are no longer needed for claim payments.

Recommendation is pending a management decision by USAID.

Review and Certification of Unliquidated Obligations
for Project and Non-Project Assistance,
Audit Report No. 9-000-98-003-F March 27, 1998

Recommendation No. 3: We recommend that the Bureau for Management develop a training course and/or training video, to be provided to appropriate staff, describing roles and responsibilities for reviewing unliquidated obligations.

Recommendation is pending a 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 Post Transaction Review Activities Under the Commodity Import Program
Audit Report No. A-000-98-007-P September 30, 1998

Recommendation No. 1: We recommend that the Assistant Administrator, Bureau for Management, develop a cost-effective approach to perform post transaction reviews through a systematic selection of transactions to be reviewed.

Recommendation is pending final action by USAID.

Recommendation No. 2: In order to ensure that no one individual controls or appears to control all key aspects of a single transaction, we recommend that the Assistant Administrator, Bureau for Management increase management supervision regarding the separation of duties.

Recommendation is pending final action by USAID.

Recommendation No. 3: We recommend that the Assistant Administrator, Bureau for Management establish documentation requirements that provide sufficient information about transactions including such things as the overpayment discovery date, a detailed computation of the overpayment, supplier contact date and disposition, check copies, and supporting financial documentation for funds owed to USAID.

Recommendation is pending final action by USAID.

Recommendation No. 4: We recommend that the Assistant Administrator, Bureau for Management:

4.1 Strengthen internal controls by specifying procedures and responsibilities for recording identified overpayments and the receipt of voluntary refunds.

4.2 Establish procedures to account for negotiated voluntary refunds.

Recommendation is pending final action by USAID.

**Audit of USAID/Peru's General Controls Over
The Mission Accounting and Control System (MACS)
Audit Report No. A-527-99-001-P December 30, 1998**

<u>Recommendation No. 1</u>: We recommend that the Director, USAID/Peru direct the Executive Officer to strengthen USAID/Peru's general controls by developing a computer security program that includes:

- Conducting risk assessments of computer operations
- Maintaining current security plans for sensitive systems
- Preparing and testing an adequate contingency plan
- Monitoring and evaluating the effectiveness of its security program

Recommendation was still open at the end of Fiscal Year 1999. However, final action was taken on November 29, 1999.

**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**

<u>Recommendation No. 1</u>: 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, provide 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**

<u>Recommendation No. 1:</u> 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;

1.2 Request by June 30, 1999, that the Administrator approves specific delegations of authority and resources to the Chief Financial Officer to carry out those Chief Financial Officers Act responsibilities identified in Recommendation 1.1 above; and

1.3 Implement policies and procedures to carry out the specific delegations assigned by the Administrator in Recommendation 1.2, above.

Recommendation is pending final actions by USAID.

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

Recommendation No. 1: Before approving proposals to acquire any financial system component, the Chief Information Officer:

1.1 Complete an agency-wide information technology target architecture that contains all elements identified in OMB's guidance at a sufficient level of detail to provide a high degree of assurance that USAID's financial management system enhancement projects are consistent with the target architecture; integrate redesigned work processes and technology to achieve the Agency's strategic goals; and conform to standards for information exchange, security, and resource sharing;

1.2 Use the target architecture to define USAID's financial management system portfolio in accordance with OMB's guidelines for selection information technology investments;

1.3 Complete a modular acquisition strategy that (a) reduces integration risk and (b) leads to an integrated financial management system as defined by OMB Circular A-127; and

1.4 Revise and update the remediation plan and develop sufficiently detailed supporting plans.

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. 1: We recommend that M/IRM, in conjunction with system owners, correct the access control problems identified in this report by implementing access controls to protect client-server resources and data from unauthorized access.

Recommendation is pending final action by USAID.

Recommendation No. 2: We recommend that the Director of IRM correct the software development and change problems identified in this report by implementing an adequate design, development, and change process for software maintenance functions on the mainframe system. The process should include effective system acceptance testing, effective computer program change control procedures as well as adequate documentation.

Recommendation is pending final action by USAID.

Recommendation No. 3: We recommend that the Director of IRM implement policies and procedures to correct the problems identified in this report by ensuring adequate segregation of duties related to the mainframe environment.

Recommendation is pending final action by USAID.

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.

Recommendation No. 5: To better assure that the modernized system will meet security requirements, we recommend that the CIO and CFO work together to complete an analysis to determine whether funding has been properly allocated between (1) modernizing the financial management, and (2) correcting security deficiencies.

Recommendation is pending final action by USAID.

Audit of General Controls Over USAID's Client-Server Computer Environment Audit Report No. A-000-99-005-P March 1, 1999

Recommendation No. 1: M/IRM, in conjunction with system owners, correct the access control problems identified in this report by implementing access controls to protect client-server resources and data from unauthorized access.

Recommendation is pending final action by USAID.

Recommendation No. 2: We recommend that the Director of IRM correct the software development and change problems identified in this report by implementing an adequate design, development, and change process for software maintenance functions on the mainframe system. The process should include effective system acceptance testing, effective computer program change control procedures as well as adequate documentation.

Recommendation is pending final action by USAID.

Recommendation No. 3: We recommend that the Director of IRM implement policies and procedures to correct the problems identified in this report by ensuring adequate segregation of duties related to the mainframe environment.

Recommendation is pending final action by USAID.

Recommendation No. 4: We recommend that the Director of IRM conduct a feasibility study to determine if it is cost-effective to obtain system software control access to client-servers and the tape library.

Recommendation is pending final action by USAID.

Recommendation No. 5: We recommend that the Director of IRM , system owners, and Office of Administrative Services develop a comprehensive contingency plan and COOP that include NMS and the client-server platform. The process should ensure that the plans are periodically updated and tested at the back-up sites.

Recommendation is pending final action by USAID.

Report to USAID Managers on Selected USAID Internal Controls for Fiscal Year 1998 Audit Report No. 0-000-99-002-F March 31, 1999

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

1.1 Identify and resolve deficiencies in its general ledger to ensure that accurate information can be produced and consolidated at the appropriation level to enable reporting accurate data to federal oversight agencies; and

1.2 Develop and implement procedures requiring second party reviews be preformed on key external reports to ensure that financial data is accurately reported, properly supported by the general ledger, and filed within the prescribed timeframes.

Recommendation is pending final actions by USAID.

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 processes;

2.2 Identify fiscal year 1997 manual payment schedules and supporting documentation to facilitate the recording of proper accounting entries into USAID's accounting records;

2.3 Provide training to Mission comptroller and chief accountants on the reconciliation process to emphasize the importance of this practice and its impact on the financial statements; and

2.4 Provide closer monitoring over the Missions' reconciliation process to ensure reconciling items is being resolved.

Recommendation is pending final action by USAID.

Recommendation No. 3: We recommend that Director, Loan Management Division:

3.1 Eliminate the backlog of loan rescheduling and recognize, where necessary, increases or decreases to the related asset values; and

1.1 Update the current rescheduling policy procedure manual dated May 11, 1994 to include procedures that would prevent the recurrence of a backlog.

Recommendation is pending final action by USAID.

Recommendation No. 4: We recommend that the Director, Loan Management Division:

4.1 Perform an annual risk analysis on delinquent countries to determine the collectibility of their direct loans. Where necessary, USAID Loan Management Division should footnote their financial statements to show the impact of the additional allowance for the doubtful direct loans.

4.2 Develop and implement written allowance procedures to include full disclosure for 100 percent of the principal and interest amount for delinquent loans when countries/borrowers are in violation of the 620Q, Brooke Amendment. Additionally, the procedure should require a disclosure of the maximum allowance for direct loans covered by waivers when necessary.

Final action was taken on February 16, 2000.

Recommendation No. 6: Because USAID does not properly identify and record the letter of credit disbursements, we recommend the Office of Financial Management:

6.1 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

6.4 Establish a methodology for estimating the amount of incurred expenses that should be reported against the outstanding advances disbursed through the letter-of-credit system.

Recommendation is pending final action by USAID.

Recommendation No. 7: We recommend that USAID's Office of Financial Management develop and implement a methodology for calculating their accrued expenses at year end in accordance with the Federal Financial Accounting Standards established by the Federal Accounting Standards Advisory Board.

Recommendation is pending final action by USAID.

Recommendation No. 8: We recommend that USAID's Bureau for Policy and Program Coordination develops and implements internal controls to:

8.1 Ensure that funding from other donors and host countries are identified to the extent possible and considered in developing country-wide indicators at both the operating unit and USAID-wide levels;

8.2 Ensure that USAID/Washington's review of operating units' R4s and USAID's Annual Performance Report provide reasonable assurance that the country-level indicators and related reported results are clearly and significantly attributed to USAID-funded activities or clearly identify the extent that USAID's activities and other donors' or host countries' activities contributed to achieving the reported results; and

8.3 Ensure that accurate and complete information on USAID partners' funding in support of operating units' strategic objectives and indicators are identified in the R4s.

Recommendation is pending final action by USAID.

<u>Recommendation No. 9</u>: We recommend that USAID's Bureau for Policy and Program Coordination in working with the Bureau for Legislative and Public Affairs and the Bureau for Management develop internal controls to ensure accurate and complete information on USAID partners' funding in support of USAID strategic objectives are identified in Congressional Presentations.

Recommendation is pending final action by USAID.

<u>Recommendation No. 10</u>: We recommend that USAID's Bureau for Policy and Program Coordination:

10.1 Develop definitions of what is meant by "programs," "activities," and "outputs" as discussed in the Statement of Federal Financial Accounting Standards No. 4; and

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.

<u>Recommendation No. 11</u>: We recommend that the Office of Financial Management:

11.1 Resolve the inconsistent information reported in its final financial statements for fiscal year 1998.

11.2 Prepare a checklist to ensure that future financial statements are prepared in accordance with the requirements of OMB Bulletin No. 97-01.

Final action was taken on February 16, 2000.

Audit of USAID's Assessment of Year 2000 Problem
Audit Report No. A-000-98-006-P September 21, 1998

<u>Recommendation No. 1</u>: We recommend that the Administrator clarify the assignment of responsibility to implement an effective Year 2000 compliance program and provide the responsible official with adequate authority and resources to complete the program.

Final action was taken on February 4, 2000.

Recommendation No. 2: We recommend that the responsible official for the Year 2000 compliance program direct USAID Bureaus and Missions to develop and test contingency plans to ensure continuity of operations in the event of disruptions to systems from Year 2000 problems.

Final action was taken on February 4, 2000.

This page left intentionally blank.

SCHEDULE OF PROPOSED AUDIT ADJUSTMENTS

Financial Statement Adjustments Proposed by Auditors

The following table shows the proposed financial statement adjustments, which resulted from our analysis of USAID's advances and prepayments and accounts payable line items. USAID's Management concurred and recorded the proposed adjustments.

Summary of Proposed Adjustments

Account	Debit Amount	Credit Amount	Likely Misstatements	Corrected By USAID
1. Program Expense	$190,746,784		N/A	Known – Yes
Advance – HHS Managed		$190,746,784		

Purpose: To reduce advances by the amount of "no-pay" voucher received by HHS but not processed for services rendered as of September 30,1999.

Account	Debit Amount	Credit Amount	Likely Misstatements	Corrected By USAID
2. Program Expense	$80,903,806		N/A	Known – Yes
Advance – LOC		$80,903,806		

Purpose: To reduce advances by the amount of "no-pay" voucher received by USAID but not processed for services rendered as of September 30,1998.

Account	Debit Amount	Credit Amount	Likely Misstatements	Corrected By USAID
3. Accounts Payable	$1,552,251,452		N/A	Known – Yes
Program Expenses		$1,552,251,452		

Purpose: To reverse original accounts payable entry for September 30, 1999.

Account	Debit Amount	Credit Amount	Likely Misstatements	Corrected By USAID
4. Accounts Payable	$152,908,384		N/A	Known – Yes
Program Expenses		$152,908,384		

Purpose: To reverse original entry for accounts payable as of September 30,1999 for USAID Washington.

This page left intentionally blank.

INTERNAL CONTROL REPORTS ISSUED FOR FISCAL YEAR 1999

Audit on USAID's Credit Programs and Related Internal Controls for Fiscal Year 1999, Report No. 0-000-00-002-F, February 2, 2000.

Audit on USAID's Advances and Related Internal Controls for Fiscal Year 1999, Report No. 0-000-00-003-F, February 1, 2000.

Audit of USAID's Accrued Expenses, Accounts Payable, and Related Internal Controls for Fiscal Year 1999, Report No. 0-000-00-004-F, February 9, 2000.

Audit on USAID's Fund Balance with the U.S Treasury and Related Internal Controls for Fiscal Year 1999, Report No. 0-000-00-005, February XX, 2000.

This page left intentionally blank.

Appendix B

Sources of Detailed Performance Information

Agency Performance Plan		A detailed discussion of all performance indicators and the challenges in collecting and analyzing them. The 2001 Annual Performance Plan will be available in hard copy and on the web March 2000. Previous years are also available.
Agency Performance Report		An analysis of all development indicators used at the Agency level, with examples of how Agency activities contribute to the achievement of Agency goals. The 1999 Annual Performance Report will be available in hard copy and on the Web in April 2000.
Country-specific Results Reporting and Resource Request (R4) Annual Reports		Country-specific descriptions of programs and results from 1998 are available on the Web. These results have been assembled into a Performance Measurement Analysis database that is expected to be posted on the external Web page soon.
Web Page Addresses		
www.dec.org/partners		All country R4s and many other related documents.
www.info.usaid.gov/pubs		All USAID publications, including current and past copies of the APP and APR

Appendix C

Glossary of Abbreviations

ANE	Asia and Near East
AFR	Africa
CIRB	Capital Investment Review Board
DAC	Development Assistance Committee
D/G	Democracy and governance
E&E	Europe and Eurasia
EGAD	Economic growth and agricultural development
ENV	Environment
FMFIA	Federal Managers' Financial Integrity Act
HA	Humanitarian assistance
IMF	International Monetary Fund
LAC	Latin America and the Caribbean
MSED	Micro and small enterprise development
NGO	Nongovernmental organization
NMS	New Management System
OFDA	Office of Foreign Disaster Assistance
OECD	Organization for Economic Cooperation and Development
PAEF	Polish–American Enterprise Fund
PHN	Population, health, and nutrition
PVO	Private voluntary organization
R4	Results Reporting and Resource Request
SA–CMM	Software acquisition capability maturity model
UE	Urban and environmental
WFP	World Food Program

U.S. Agency for International Development
1300 Pennsylvania Avenue, N.W.
Washington, D.C. 20523

March 2000

If you want to know more about USAID, please contact us:
USAID Information Center (202) 712-4810
Internet Home Page: www.info.usaid.gov
Internet E-Mail: pinquiries@usaid.gov