FISCAL YEAR 2008

AGENCY FINANCIAL REPORT

Managing for Development Results

ABOUT THIS REPORT

The Reports Consolidation Act of 2000 authorizes Federal agencies to consolidate various reports in order to provide performance, financial, and related information in a more meaningful, useful format. Since 2003, the U.S. Agency for International Development (USAID) has produced a Performance and Accountability Report (PAR) which satisfies the reporting requirements of the following legislation:

- Inspector General (IG) Act of 1978 [Amended] – requires information on management actions in response to IG audits
- Federal Managers' Financial Integrity Act (FMFIA) of 1982 – requires a report on the status of internal controls and the most serious problems
- Chief Financial Officer's (CFO) Act of 1990 – requires better financial accounting and reporting
- Government Performance and Results Act (GPRA) of 1993 – requires federal agencies to develop strategic plans describing their overall goals and objectives, annual performance plans containing quantifiable measures of their progress, and performance reports describing their success
- Government Management Reform Act (GMRA) of 1994 – requires agency audited financial statements
- Federal Financial Management Improvement Act (FFMIA) of 1996 – requires an assessment of the agency's financial management systems for adherence to Government-wide requirements
- Improper Payments Information Act (IPIA) of 2002 – requires reporting on agency efforts to identify and reduce erroneous payments

USAID has chosen to participate again in the Office ofManagement and Budget (OMB) pilot PAR alternative that requires three reports:

- Agency Financial Report (AFR) – provides complete details on relevant financial results
- Annual Performance Report (APR) – provides complete details on performance results [available January 15, 2009]
- Citizens' Report (formerly called "Highlights") – provides a comprehensive view of agency mission, key goals, how funds are spent, performance relative to goals, and actions the Agency plans to take to build on successes or address shortcomings [available January 15, 2009]

The Agency believes that the PAR pilot component documents will:

- Provide an enhanced presentation of the financial and performance information in a more transparent way
- Report more meaningful financial and performance information that is tailored to meet stakeholder needs

All pilot reporting components will be available at *http://www.usaid.gov/policy*.

There are three major sections to this report. The first section, Management's Discussion and Analysis (MD&A), provides an overview of USAID's organization, program, and financial performance centered around the Mission, Strategic Goals, and Program Areas. The Financial Section provides the financial details, including the independent auditor's report and audited financial statements. The Other Accompanying Information Section provides the management and performance challenges identified by the IG and the IPIA reporting details.

COVER PHOTO: THOMAS HARTWELL

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THIS REPORT IS AVAILABLE AT: *WWW.USAID.GOV/POLICY/AFR08/*

A MESSAGE FROM THE ADMINISTRATOR

The origins of the U.S. Agency for International Development (USAID) date back to the Marshall Plan and the reconstruction of Europe following World War II. Since that time, it has evolved into the principal U.S. agency involved in international development. USAID is the independent Federal Government agency leading implementation of development and humanitarian assistance in concert with overall foreign policy guidance from the Secretary of State.

It is our vision that USAID will accelerate the advance of democracy, prosperity and human well-being in developing countries. In order to achieve this vision, we have adopted a mission which recognizes that human progress and quality of life can advance by reducing poverty, advancing democracy and market economies, promoting security, and providing timely response to crises. We do this by mobilizing the full range of America's public and private resources, and linking those resources effectively with the governments and people that we serve, through USAID's expert presence overseas. Our efforts are aligned with the activities carried out by the Department of State, as presented in the joint *State-USAID Strategic Plan for Fiscal Years (FY) 2007-2012.*

We accomplish our mission through a series of five focused and results-oriented foreign assistance goals. Our work is performed by a dedicated staff of U.S. and foreign service national employees and contractors in some of the most dangerous and challenging places on earth. Here are some of the things we have done:

Peace and Security. In Lebanon, USAID is working directly with a local non-governmental organization (NGO) to develop youth-oriented programs in marginalized parts of the country, including conflict resolution training, cultural and artistic activities, and seminars on peace-related concepts. Through one of its partners in Africa, USAID supports an effort that uses live youth radio to cross borders and combat the negative stereotypes and prejudices among the youth in the region. We have made historic advances for inter-governmental effectiveness through our new policy on civil-military cooperation and our close working relationship with Defense Secretary Robert Gates, U.S. Africa Command (AFRICOM) leaders, and other defense officials. Our leadership in the Palestinian Public-Private Partnership has advanced the hopes for Middle East peace by promoting private sector development in the West Bank and providing educational and professional opportunities for Palestinian youth, including the development of four Youth Development and Resource Centers across the West Bank.

Henrietta H. Fore

Governing Justly and Democratically. USAID continues to be a major force in strengthening democratic political parties, supporting free and fair elections, and most importantly, helping give voice to citizens through support for advocacy NGOs and independent media. For example, funding from USAID and other donors built 10 towers in Kosovo that now broadcast signals reaching more than 70% of the population with television and 90% of the population with radio. The fight against corruption is one of the most important expressions of our work. Indeed, corruption is really a symptom of weak governance. Together with the Department of State, USAID dedicated over $214 million over the past two years for core anticorruption programs in more than 70 countries, as well as hundreds of millions more for broader good governance initiatives. USAID also is the principle implementer of the Millennium Challenge Corporation (MCC) Threshold Country Programs that focus on anticorruption reform. Working with the Office of the Ombudsman in the Philippines, together with revenue and customs authorities, USAID's program to combat corruption contributed to a sharp reduction in bribery of tax officials and a steady increase in tax collections. During the project, reports of bribery declined, tax revenue increased over previous years, and corruption convictions against high-ranking officials more than doubled. In Tanzania, USAID-funded program trained 250 journalists on a recently formed public expenditure tracking process, resulting in over 600 stories in the media on corruption, good governance, and accountability. Pressure from the media, parliamentarians and the public led to the resignation of Tanzania's Prime Minister and four cabinet ministers under a cloud of corruption. Tanzania now has a powerful combination of professional journalists and citizen watchdog committees who are willing and able to expose corruption in municipal budgeting.

Investing in People. Globally, the President's Emergency Plan for AIDS Relief (PEPFAR) supported life-saving antiretroviral treatment for approximately 1.73 million men, women and children as of March 31, 2008. The Agency's malaria prevention programs in Africa have helped millions to avoid this deadly disease. Additionally, USAID deployed an innovative distance learning program involving radio broadcast that is now used in over 20 countries around the world. Interactive radio instruction (IRI) has been used to train teachers in Mali, Zambia and elsewhere to provide basic education to children, youth and adults in fragile states such as Somalia and the Sudan; and has been found to be so successful that Ministries of Education have included IRI as a major component of the sector strategies in countries such as Ethiopia and Kenya. Last April, we co-hosted with the State Department a highly productive Higher Education Summit for Global Development, involving hundreds of university presidents, foundations, and private sector leaders from around the world. Since then we have organized similar regional higher education summits, beginning with the Asia Higher Education Summit in Dhaka, Bangladesh (October 6-8), and the African Higher Education Summit in Kigali, Rwanda (October 21-24). At the White House Symposium on Advancing Global Literacy (September 22), we supported the initiatives for global literacy of First Lady Laura Bush, Honorary Ambassador to the United Nations Decade of Literacy, by providing $2 million to the UNESCO Trust Fund for support of effective adult literacy programs.

Promoting Economic Growth and Prosperity. In Colombia, USAID supported a program to provide social and economic assistance to individuals displaced by drug-fueled violence. A group of these individuals received business skills training and small loans to form a cooperative in their community. The loans proved successful and the business now generates more than 100 jobs. At the United Nations General Assembly and other forums, we lead in promoting sustainable solutions to the world food challenge.

Providing Humanitarian Assistance. USAID responded to more than 81 disasters in 63 countries, providing over $1.8 billion in emergency assistance. This includes providing more than 700,000 metric tons of emergency food aid (the equivalent of 280 trucks carrying five hundred 110-pound bags of wheat, corn soya blend, or sorghum) and other life-saving assistance to the more than 18 million people in need in the Horn of Africa; more than $28 million for emergency relief commodities and mitigation programs in the aftermath of Cyclone Nargis in Burma; $29 million worth of humanitarian assistance in response to the recent hurricanes in Haiti; and $21 million of humanitarian aid to 128,000 internally displaced persons in the Republic of Georgia. Following the May 2008 earthquake in Chengdu, China, I was privileged to lead an unprecedented delegation of U.S. Government and business leaders to mobilize near and long-term assistance.

In addition to our foreign assistance goals, we have a strategic goal of strengthening management capabilities. As both USAID Administrator and Director of Foreign Assistance, we have continued to implement Secretary of State Condoleezza Rice's reforms for government-wide foreign assistance programs. To further these reforms, we at USAID will lead new ways of doing business in the international community. Some of this year's major management accomplishments are outlined below:

- The Manage to Budget initiative and several new automated tools, the Budget Formulation and Execution Manager and the Compensation Tracking System, further strengthened USAID's overseas and Washington operations. These new systems have improved budgetary transparency and accountability and have enabled managers to exercise greater flexibility in responding to current year budget requirements.

- The Development Leadership Initiative (DLI) has been launched, with much external support, to revitalize USAID as the leader in foreign assistance. One hundred twenty new DLI staff are on board to date.

- USAID provided more than 2.7 million metric tons of food aid commodities, such as wheat and vegetable oil, worth $2.6 billion that reached millions of beneficiaries in 49 countries around the world.

- This Administration has made a commitment to strengthen the three arms of national security: defense, diplomacy, and development. USAID is not only expanding its workforce to better address its development role but working closely with our defense and diplomacy colleagues to coordinate policies, planning, and implementation.

- USAID chaired the coordination of policy among 20 federal agencies contributing to development and humanitarian assistance. As a result, we as a government were better able to focus on aid effectiveness, financing for development, and key issues such as trade and food security.

- We expanded diversity recruitment and awareness training for new employees, managers, and supervisors. A new internship program was created, resulting in the recruitment of 13 diversity interns.

- USAID expanded its outreach by building public-private partnerships with numerous corporations and foundations. The Agency entered into 225 new partnerships—more than twice the number we initiated in FY 2007.

- USAID improved collaboration with the international development community via the Global Development Commons so that, by connecting through the use of innovative technologies, more people can create and benefit from prosperity.

- USAID improved and integrated the information technology solutions, consistent with a single strategy and focus on worldwide deployment of an assistance/acquisition solution, GLAAS (GLobal Acquisition and Assistance System).

- The Agency's status score for the Human Capital initiative on the President's Management Agenda (PMA) scorecard was elevated to "green," and we are green in all areas for progress.

- One of our own, Richard Greene, was named Federal Employee of the Year by the Partnership for Public Service and recognized for his work on the President's Malaria Initiative with a Service to America Medal.

For the sixth consecutive year, USAID has earned unqualified opinions on its financial statements, a representation that these statements fairly present the financial condition of the Agency. However, as indicated in the Independent Auditor's Report, we incurred a single material weakness related to reconciliations of the Fund Balance with the U.S. Treasury. USAID has prepared a plan to address this continuing deficiency and will invest resources to assure better oversight over our funds. Accordingly, I hereby certify that the financial data in the *FY 2008 Agency Financial Report* (AFR) are reliable and complete. A discussion of the completeness of the performance information will be in the FY 2008 Annual Performance Report.

This Administration, with the support of Congress, has made an enormous commitment to development through appropriated funding that has more than doubled since 2001. These increased resources have come with new responsibilities: fighting transnational crime and countering terrorism; promoting democratic practices, free elections, and a strong and independent judicial system; improving food security; intensifying efforts to combat HIV/AIDS and malaria; introducing education initiatives; strengthening development efforts through private sector participation; and rebuilding following conflict in Afghanistan, Iraq, Lebanon, and parts of Africa. USAID also continues to be the world's lead agency in responding to natural disasters. In doing so, it carries out a humanitarian mission that reflects the generosity of the American people and improves the lives of millions worldwide.

Henrietta H. Fore
USAID Administrator and
Director of U.S. Foreign Assistance
November 17, 2008

Management's Discussion and Analysis

(Above) **Farmers in Mozambique learn how to grow high protein corn. Biotechnology is just one way that USAID is working to combat the global food crisis and increase food security.**

PHOTO: USAID

(Preceding page) **Children receive polio vaccine during a door-to-door polio eradication campaign in Kabul. More than 90% of all Afghan children are now immunized against polio. This concerted multi-donor effort is eliminating polio from Afghanistan—one of the final stages of global polio eradication.**

PHOTO: TOMAS MUNITA / AP / WIDE WORLD PHOTOS

MISSION AND ORGANIZATIONAL STRUCTURE

USAID has chosen to produce an alternative to the consolidated Performance and Accountability Report (PAR) called the Agency Financial Report (AFR). For more information on the AFR and related PAR pilot component documents, please see "About this Report" on the inside cover.

MISSION

The Foreign Assistance Act of 1961 effectively reorganized U.S. Government foreign assistance programs, including the separation of military and non-military aid. The act placed primary emphasis on long-range economic and social development assistance efforts and mandated the creation of an agency to administer programs in support of these efforts. Two months after passage of the act, President John F. Kennedy established USAID.

USAID unified pre-existing U.S. Government assistance programs, combining the economic and technical assistance operations of the International Cooperation Agency, the loan activities of the Development Loan Fund, the local currency functions of the Export-Import Bank, and the U.S. Department of Agriculture (USDA) Food for Peace Program agricultural surplus distribution activities.

USAID has undergone a number of restructurings over the years to improve its performance, but the foreign assistance reforms announced by Secretary of State Condoleezza Rice in January 2006 reflect major changes in the way that the Agency will plan and execute its programs. The reforms that began in FY 2007 have more fully aligned the foreign assistance activities carried out by USAID and the Department of State. They will bring USAID into the 21st Century and increase its capacity to be the leader in the development field.

VISION STATEMENT

To accelerate the advance of democracy, prosperity and human well-being in developing countries.*

MISSION STATEMENT

USAID accelerates human progress in developing countries by reducing poverty, advancing democracy, building market economies, promoting security, responding to crises, and improving quality of life. Working with governments, institutions, and civil society, we assist individuals to build their own futures by mobilizing the full range of America's public and private resources through our expert presence overseas.*

* These statements were formulated at the USAID Senior Leadership Retreat in March 2008 in support of the Mission Statement included in the joint State-USAID Strategic Plan for FY 2007-2012 (*http://www.usaid.gov/policy/coordination/stratplan_fy07-12.html*).

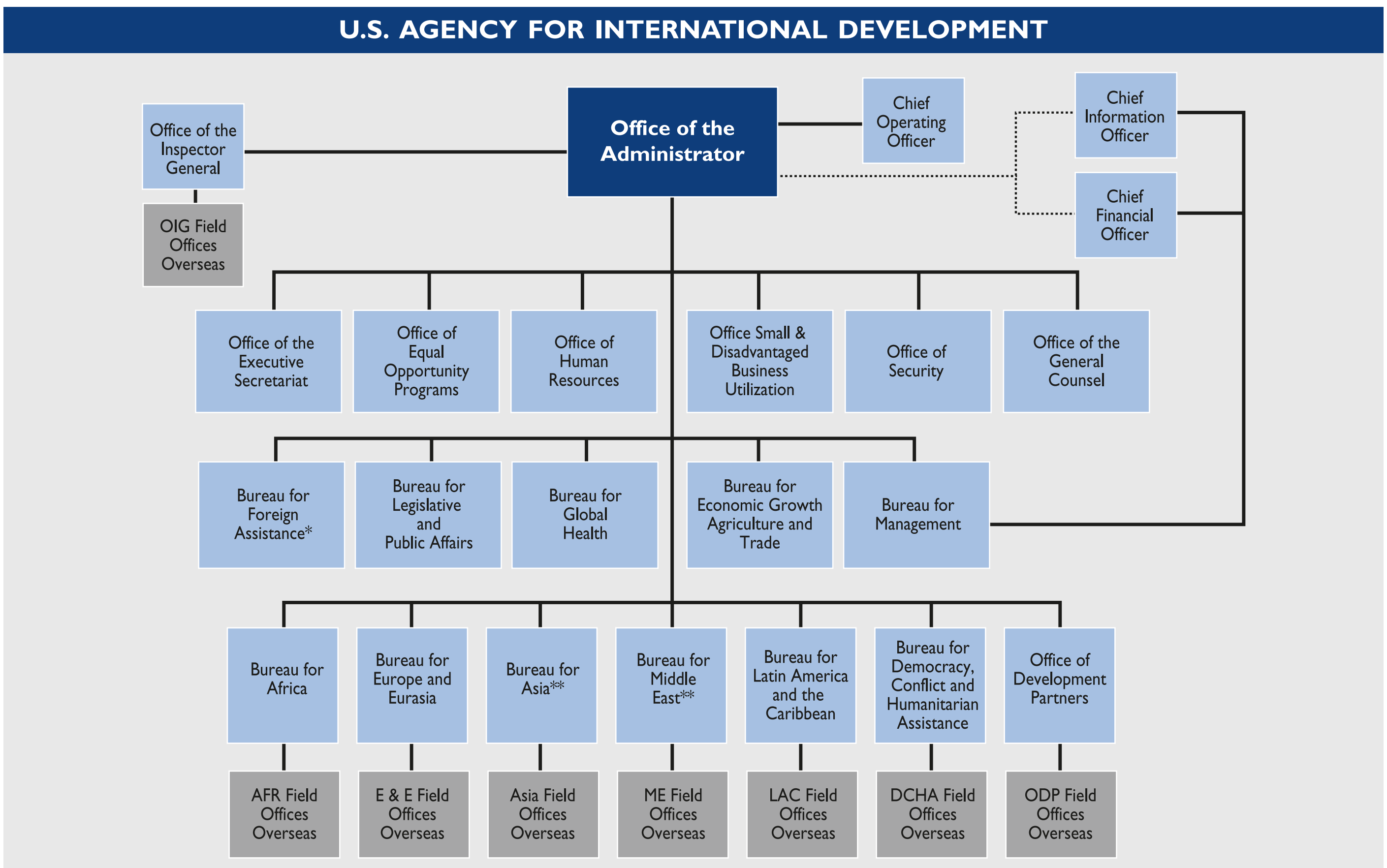
ORGANIZATIONAL STRUCTURE

WASHINGTON, D.C.

As part of the foreign assistance reforms announced in January 2006, Secretary Rice created the Office of the Director of U.S. Foreign Assistance within the Department of State (State/F). The Director of this Office, Henrietta Fore, serves concurrently as the USAID Administrator. The Director of U.S. Foreign Assistance (DFA) has authority over USAID and Department of State foreign assistance funding and programs, bringing together various bureaus and offices within the two agencies to participate in joint program planning, implementation, and oversight.

USAID's mission is carried out through five regional bureaus in Washington: Africa (AFR), Asia, Middle East (ME), Latin America and the Caribbean (LAC), and Europe and Eurasia (E&E). USAID recently divided the Asia and Near East (ANE) Bureau into the Asia and ME Bureaus to enhance oversight and strengthen interagency coordination for programs in these regions. The regional bureaus are supported by three functional or pillar bureaus: the Bureau for Democracy, Conflict and Humanitarian Assistance (DCHA), which provides expertise in democracy and governance, conflict management and mitigation, and humanitarian assistance; the Bureau for Economic Growth, Agriculture, and Trade (EGAT), which provides expertise in economic growth, trade opportunities, agricultural productivity and technology, and education; and the Bureau for Global Health (GH), which provides expertise in global health challenges, such as maternal and child health, malaria and HIV/AIDS.

USAID's Bureau for Management administers a centralized support services program for the Agency's worldwide operations. The Bureau for Legislative and Public Affairs develops and implements outreach programs to promote understanding of USAID's missions and programs. USAID also includes seven



** Staff in the Bureau for Foreign Assistance work under the auspices of the Office of the Director of U.S. Foreign Assistance at the State Department.*
*** Reorganization of Field Missions for Asia and Middle East Bureaus is still in progress.*

other independent offices that support the Administrator's Office and the Agency's security, small and disadvantaged business, compliance, regulatory, and diversity programs.

OVERSEAS

USAID implements programs in 88 countries overseas and its organizational units are known as "field missions." The U.S. Ambassador serves as the Chief of Mission for all U.S. Government agencies in a given country and the USAID Director reports to the Ambassador. The USAID Director or Representative is responsible for USAID's operations in a given country or region and also serves as a key member of the U.S. Government's "country team." The Director or Country Representative is often called upon to stand in for the Ambassador or the Deputy Chief of Mission during their absences. USAID missions operate under decentralized program authorities, allowing them to design and implement programs and negotiate and execute agreements.

Full USAID missions usually consist of 9 to 15 U.S. direct-hire (USDH) employees (with a few full missions having more than 15). These missions conduct USAID's major programs worldwide, managing a program of four or more strategic goals on average.

Medium-sized missions (5 to 8 USDH) manage programs of two to three goals, and small missions (3 to 4 USDH) manage one or two strategic goals. These missions provide assistance based on an integrated strategy that includes clearly defined program objectives and performance targets.

Full-support missions (typically 16 to 22 USDH), also known as regional hubs, provide a variety of services. The hubs retain a team of legal advisors, contracting and project design officers, financial services managers, and sometimes technical officers to support small and medium-sized missions and non-presence countries which receive USAID funding. In countries without integrated strategies but where aid is necessary, full-support missions work with non-governmental organizations (NGO) or other partner organizations to facilitate the emergence of civil society, help alleviate repression, meet basic human needs, mitigate conflict, and/or enhance food security. These missions may also have their own bilateral programs to manage.

USAID also has two "mega" missions which are necessary for the exceptional programs in Iraq and Afghanistan. These missions have upwards of 30 USDH, some of whom staff the very special Provincial Reconstruction Teams which combine USAID, State Department, and Department of Defense (DOD) personnel to promote local development and conflict resolution throughout these two countries.

The field mission workforce is typically composed of three major categories of personnel: USDH employees (including program-funded foreign service limited [FSL] appointments), U.S. personal services contractors (USPSC), and foreign service nationals (FSN). USDHs are career foreign service employees assigned to missions for two to four-year tours. Program-funded FSLs are hired under a special authority granted by Congress to replace contracted personnel, such as USPSCs. USPSCs are contractors hired for up to five years to carry out a scope of work specified by USAID. FSNs, professionals recruited in their host countries by USAID, make up the core of the USAID workforce. Many FSNs are recognized leaders and experts in their fields and devote their careers to USAID. FSNs are the bridge to effective contacts with key host country officials and decision-makers, and they provide the institutional memory for and continuity of USAID's country programs. They are the backbone of USAID's overseas workforce.

USAID also stations officers where opportunities exist to leverage policy and resources in support of high priority strategic issues; the Agency currently has officers stationed in Paris, Tokyo, Brussels, Geneva, and Rome.

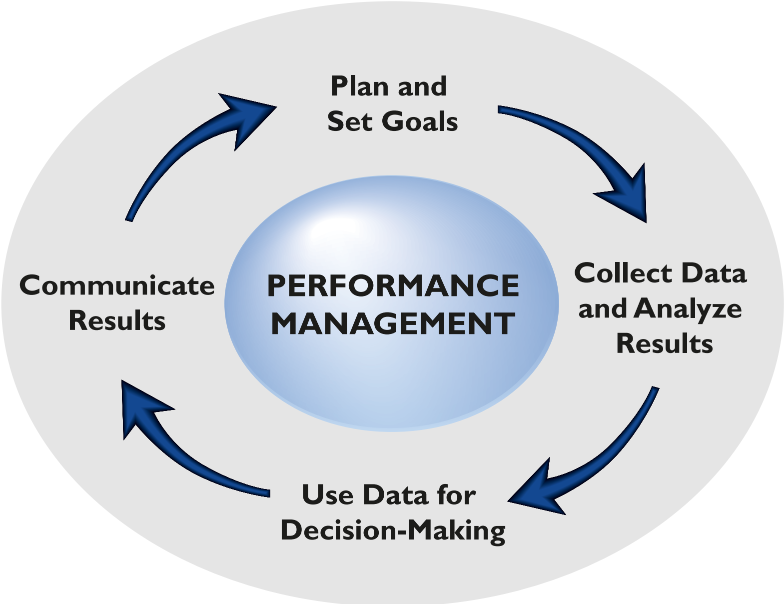
PROGRAM PERFORMANCE

STRATEGIC PLAN

USAID shares a joint strategic plan with the Department of State entitled *State-USAID Strategic Plan for FY 2007-2012*, which outlines seven strategic goals on diplomacy, development, and humanitarian assistance. These goals range from Achieving Peace and Security, Governing Justly and Democratically, Investing in People, Promoting Economic Growth and Prosperity, Providing Humanitarian Assistance, to Promoting International Understanding, and Strengthening Consular and Management Capabilities. They define the priorities of U.S. foreign policy and identify key U.S. Government partners and external factors that support or hinder their achievement. USAID programs contribute directly to the first five goals. See page 12 for a list of priority program areas for each strategic goal. The Strategic Plan can be found at *http://www.usaid.gov/policy/coordination/stratplan_fy07-12.html.*

PERFORMANCE MANAGEMENT

Performance management represents the commitment of USAID to increase its accountability by striving to improve development outcomes. The Agency follows a four-part performance management process: (1) planning and setting goals, (2) collecting and analyzing performance information, (3) using performance information to influence program decision-making and resource allocation, and (4) communicating results achieved.



USAID Missions and Offices are responsible for establishing performance management plans to measure progress toward intended objectives, as well as reporting on key indicators in their annual performance reports (APR). In USAID, the tools of assessing, learning, and sharing are interrelated through the concept of performance management. Performance management is crucial for informing decisions on funding, program development, and implementation.

PRESIDENT'S MANAGEMENT AGENDA (PMA)

The PMA is the President's strategy for improving the management and performance of the Federal Government, with a focus on results. Overall, the Agency is seeing improvements in its PMA initiatives scorecards (*http://www.results.gov*), reflecting the Agency's commitment to improving performance and management of its operations. As of September 30, 2008, Human Capital, Financial Performance, Performance Improvement, and Faith-based and Community initiatives scored "green" for current status while Commercial Services, E-Government, and Real Property Asset Management initiatives scored "yellow." USAID has earned "green" on all aspects of progress against the PMA initiatives.

PROGRAM ASSESSMENT RATING TOOL (PART)

OMB's PART is used by agencies across the Federal Government to assess program performance and to drive a sustained focus on program results. PART assessments review overall program effectiveness, from how well a program is designed to how well it is implemented and what results are achieved. Programs are rated in five categories: Effective, Moderately Effective, Adequate, Ineffective, and Results Not Demonstrated. Eleven USAID programs have been reviewed under the PART. Six of these programs were rated Moderately Effective in their last assessment and five Adequate. USAID is proud that none of its programs are rated Ineffective or Results Not Demonstrated. Complete information on individual PART scores can be reviewed at *http://www.whitehouse.gov/omb/expectmore/agency/184.html.*

STRENGTHENING EVALUATION AT USAID

In FY 2008, USAID initiated several key efforts to strengthen the evaluation capacity in the Agency. These efforts include: (1) organizing an Agency evaluation working group, (2) collaborating with the Department of State's Office of the Director of U.S. Foreign Assistance (State/F) and Bureau for Resource Management (RM) to create a Foreign Affairs Evaluation Working Group, (3) collaborating with State/F to develop and implement a new distance learning course as well as instructor-led classes in evaluation, (4) initiating the process of competing a new set of indefinite quantity contracts to provide technical support for operational-level evaluations, and (5) developing (jointly with State/F and RM) new Standards and Guidelines for Evaluating Foreign Assistance and a new Evaluation Glossary.

USAID is also moving rapidly to re-energize its central evaluation function with the establishment of an evaluation unit in the Bureau for Management. The unit will be launched in early FY 2009 with the development of an initial agenda of central evaluation studies as one of its first tasks.

PERFORMANCE INDICATORS AND DATA QUALITY

A representative set of approximately 40 indicators will illustrate the FY 2008 performance of the Agency's contributions to U.S. foreign assistance. These indicators come from a variety of third party and primary data sources and reflect major areas of U.S. Government funding, earmarks, initiatives, and foreign policy priorities. Since the data for these indicators will not be available until early December 2008, USAID will first report on them in the Citizens' Report and APR in January 2009.

Data are only useful if the information collected is of high quality. As indicated in USAID's recently updated Automated Directives System (ADS) Chapter 203.3.5, (*http://www.usaid.gov/policy/ads/200/203.pdf*), all USAID Missions and Offices are required to conduct data quality assessments for any performance data reported to Washington, and also to verify the quality of data against the five standards of validity, integrity, precision, reliability, and timeliness. USAID has three data source categories: (1) *primary data* (data collected by USAID or where collection is funded by USAID), (2) *partner data* (data compiled by USAID implementing partners but collected from other sources), and (3) data from *other secondary sources* (data from other government agencies or development organizations). Generally, the data that USAID has the most control over goes through the most rigorous USAID assessments and tests to ensure that the data meets data quality requirements. While the data for the secondary sources do not go through the same USAID quality assessments, the sources utilized were carefully chosen based on the organization's experience, expertise, credibility, and use of similar assessments.

ILLUSTRATIVE ACCOMPLISHMENTS

Below are illustrative accomplishments achieved in FY 2008 in each of the five strategic goal areas that apply to USAID programs and the indicators that represent these results.

Journalist interviews a Burundi woman for a radio program on conflict resolution.

PHOTO: SEARCH FOR COMMON GROUND

STRATEGIC GOAL ON PEACE AND SECURITY

U.S. security is best guaranteed when the Nation's friends and neighbors are secure, free, prosperous, and at peace. USAID and its partners seek to achieve peace and security through diplomatic engagement and by providing development assistance to international partners. U.S. objectives regarding Peace and Security are to prevent or mitigate conflict, stabilize countries in crisis, promote regional stability, protect civilians, and promote the just application of government and law. USAID achieves these objectives by providing assistance in the following areas: fighting transnational crime, countering terrorism, supporting security sector reforms, supporting counternarcotics activities, and sponsoring conflict mitigation and reconciliation.

Catalyzing Youth as Agents of Change. In Lebanon, the Jaber Cultural and Social Center trained more than 180 youths on citizenship values, democratic concepts, and conflict resolution, contributing to the indicator on the number of people trained in conflict mitigation/resolution skills with U.S. Government assistance. As a result of the training, the youths planned and implemented small community projects reflecting these values and concepts. Jaber's trainers observed changes in attitudes and behaviors among the youths. For example, a 20-year-old participant, Saadeddin Al Kurdi, said the training and youth-led activities "empowered us with the ideas and skills to pass the message of tolerance on to others."

Rwanda, Burundi, and the Democratic Republic of Congo suffered from violent conflict on a massive scale in recent decades. The impact of cross-border wars, the presence of rebel and insurgent groups, and the rhetoric of politicians contributed to reinforcing notions that "the other" is at fault, whether that other is a country, tribe, or ethnicity. To support a transition to lasting peace, USAID and its partners are using the radio to cross borders and combat negative stereotypes and prejudices among youths, contributing to the indicator on the number of public information campaigns completed by U.S. Government programs. In a recent survey, between 63% and 80% of university students listened to the USAID-supported Génération Grands Lacs (GGL) radio program in Kigali, Bujumbura, and Bukavu. Research has shown that regular listeners are developing more constructive attitudes toward dealing with conflict, managing misinformation, and they are letting go of prejudices in favor of a spirit of regional collaboration. For example, listeners were even more open to the possibility of marriage with someone from another group, a key sign of tolerance. In the past, radio in the African Great Lakes region was often used to ignite hatred and violence; GGL radio now inspires cooperation and peace-building, targeting youths as agents of change.

STRATEGIC GOAL ON GOVERNING JUSTLY AND DEMOCRATICALLY

The U.S. Government supports just, democratic governance for three related reasons: as a matter of principle, as a contribution to U.S. national security, and as a cornerstone of the Government's broader development agenda. Governments that respond to the needs of their people, govern by rule of law, accept majority rule, and respect individual rights are more likely to be U.S. allies and partners in the international community. Therefore, protecting human rights and building democracy are cornerstones of U.S. foreign policy. However, in order for democratization to truly be successful and sustainable, it must be a process driven by the people. With this in mind, USAID and its partners work with the local people to promote democratic practices,

Kosovar journalists receive USAID-funded training in interview and camera techniques.

free elections, a strong and independent judicial system, media freedom, and enhanced transparency and accountability of elected officials. These activities and other programs fall within one of the following four strategic priority areas: rule of law and human rights, good governance, political competition and consensus-building, and civil society.

Promoting Free Media. After a long and often troubled century under Belgrade's control, Kosovo became the world's 193rd country in February 2008 with its media sector reborn. Contributing to the indicator on the number of countries showing progress in freedom of media, USAID continues to be a major force in developing independent media in Kosovo and around the world. Funding from USAID and other donors built 10 towers in Kosovo that now broadcast signals reaching more than 70% of the population with television and 90% of the population with radio. Due to these initiatives, a major milestone was achieved in May 2008 when the Kosovo Terrestrial Transmission Network transitioned from a donor-dependent non-governmental organization (NGO) to a shareholder-owned company.

Contributing to the same indicator, a USAID-funded program in Tanzania trained 250 journalists on a recently formed public expenditure tracking process and resulted in over 600 stories in the media on corruption, good governance, and accountability. The most profound impact of the project occurred between January and June 2008, when several corruption scandals were exposed by the media. As a result, four cabinet ministers, including Tanzania's powerful Prime Minster, were forced to resign.

Trained insecticide sprayers prepare to deploy in the village of Keur Moussa, Senegal, near the border with The Gambia.

PHOTO: RICHARD NYBERG / USAID

STRATEGIC GOAL ON INVESTING IN PEOPLE

Disease, poverty, and lack of education destroy lives, ravage societies, destabilize regions, and cheat future generations of prosperity and participation in democracy. The strategic priorities of the goal on Investing in People focus on improving the lives of individuals by extending to them the basic values U.S. citizens hold dear: good health, access to quality education, and protection for vulnerable populations. To ensure the future development of countries, U.S. investments have stimulated a rapid expansion of health treatment, prevention, and care programs in high-priority countries. Also, USAID is creating and maintaining strong educational programs, from primary education and literacy to strengthening institutional capacities of higher educational institutions. By managing risks and developing and reforming country safety nets, USAID helps establish frameworks to track and provide assistance for those who are especially vulnerable.

A Story of Hope. Bridget Chisenga is an AIDSRelief Adherence Officer in Zambia with Catholic Relief Services and is HIV positive. Her story below in her own words contributes to the indicators on the number of people receiving HIV/AIDS treatment and the number of people receiving HIV/AIDS care and support services in the 15 President's Emergency Plan for AIDS Relief (PEPFAR) focus countries.

"Last December on World AIDS Day, I gave President Bush a hug. I wanted to thank him and the American people, who are making an incredible difference in the lives of millions living with HIV, including me. Years ago … I had lost my husband to AIDS and expected to meet the same fate … Fortunately, I was able to start taking antiretroviral medications, thanks to an AIDSRelief program in Zambia funded by the U.S. President's Emergency Plan for AIDS Relief. This program is literally saving my life. And, with this new lease on life … I am taking care of my siblings as well as a house full of orphans. My improved health also lets me continue my work as an AIDSRelief Adherence Officer in Zambia with CRS. … I want Americans to realize just how significantly their generous contribution is improving people's lives across the globe. You are enabling miracles to happen each day." (Adapted from a story provided by Catholic Relief Services)

Fighting Assailants. In Senegal, masked assailants swept through entire villages spraying lethal doses in a search-and-destroy mission. Fortunately, the spray was a life-saving insecticide for walls and ceilings to terminate the real killers in Senegal: mosquitoes. Contributing to the indicator on the number of people protected against malaria with a prevention measure, 275 men and women were trained by USAID as part of the U.S. President's Malaria Initiative. Senegalese communities welcomed these workers, who surpassed the target of treating 75,000 houses to protect 500,000 people. Launched in FY 2007, the campaign to spray the indoor walls of homes in entire communities—the first widespread malaria prevention activity of its kind in Senegal for over half a century—resulted to date in nearly 700,000 Senegalese being less likely to contract malaria during the rainy season.

Radio Waves Improve Access to Education. To improve access to elementary-level education programs worldwide, USAID developed a distance-learning, interactive radio instruction (IRI) system, contributing to the indictor on the number of learners enrolled in U.S. Government-supported primary schools or equivalent non-school-based settings. The cost-effective system reaches a large number of students in rural and hard-to-reach communities. The program, now in use in over 20 countries, involves combining radio broadcasts with active learning to improve educational quality and practices. In Zambia, students receiving math instruction via IRI achieved a higher score than 71% of students who did not receive radio instruction. In Nigeria, IRI instruction on literacy caused a 4 percentile point boost in learning gains achieved in one year. IRI learners in Pakistan and India demonstrated gains in speaking and understanding English. Governments in Guinea, Mali, India, and Zambia are now continuing IRI broadcasting and programming on their own, building on the initial work of USAID-funded project activities.

STRATEGIC GOAL ON PROMOTING ECONOMIC GROWTH AND PROSPERITY

Countries that offer their citizens hope for increasing prosperity are less prone to extremism and more likely to be constructive partners with the United States in the international community. In more ways than one, continued economic prosperity for the United States depends on the expansion of worldwide economic opportunity. However, regardless of U.S. financial interests, global growth is also essential for the reduction and eventual elimination of extreme poverty, poor health, and inadequate education among developing countries. Therefore, the United States seeks to promote prosperity at home and abroad by opening markets through ambitious trade and investment agendas, strengthening development efforts through private sector participation and recipient country accountability, and supporting U.S. businesses through outreach and advocacy. To achieve these outcomes, USAID administers programs in the following nine strategic priority areas: private markets and competitiveness, trade and investment, financial sector, infrastructure, energy security, agriculture, macroeconomic foundation and growth, economic opportunity, and the environment.

Economic Options for Displaced Families. Julio Contreras is the General Manager of *Alimentos Aliprocar,* a successful sausage processing plant in Cartagena, Colombia. He used to be a farmer, but illegally armed drug groups forced him to leave his homeland. Life was bleak until Julio heard about a USAID-funded program that provides social and economic assistance to individuals displaced by the drug-fueled violence. After enrolling in the program,

With counseling and small loans provided with USAID funding, Julio Contreras became a cooperative entrepreneur.

PHOTO: KARL GROBL / FUPAD

U.S. military airlifts USAID relief supplies to Burma in the aftermath of Cyclone Nargis.

PHOTO: SGT ANDRES ALCARAZ / U.S. MARINE CORPS

Julio received psychological counseling and met other displaced individuals who were confronting similar challenges—both of which helped him come to terms with the changes in his life. Through the program, Julio developed a "*plan de vida*" or roadmap for his new life. To implement the plan, he and his fellow displaced friends received business skills training and small loans to form a cooperative to make sausages in their community. Contributing to the indicator on the percent of U.S. Government microfinance institutions that have reached operational sustainability, these loans proved successful, and the sausage business now generates more than 100 direct and indirect jobs. "In the cooperative everybody earns a basic wage and we are paying social security for all the employees," said Julio. He is optimistic that he can help other people who find themselves in the same situation he was in just a few years ago.

STRATEGIC GOAL ON PROVIDING HUMANITARIAN ASSISTANCE

The U.S. commitment to humanitarian response demonstrates America's compassion for victims of natural disasters, armed conflict, forced migration, human rights violations, prosecution, widespread health and food insecurity, and other threats. The strength of this commitment derives from the common humanity shared by the American people and the U.S. Government's responsibility as a global leader. It requires urgent responses to emergencies, concerted efforts to address hunger, continued high-quality assistance in protracted crisis situations, and the ability to build capacity to prevent and mitigate the effects of conflict and disasters. U.S. emergency responses to population displacement and human-made disasters complement efforts to promote democracy and human rights. USAID's strategic priorities include: providing protection, assistance, and solutions; and preventing and mitigating disasters.

Storm Relief. In FY 2008, USAID responded to more than 80 disasters in 63 countries, providing over $500 million to help those in need, thus contributing to the indicator on the percent of targeted disaster-affected households provided with basic inputs for survival, recovery, or restoration of productive capacity. In addition, USAID built local capacity and expertise to prepare for disasters, and to mitigate and respond to the impact of disasters.

To date, USAID provided more than $28 million for emergency relief commodities and programs toward mitigating the impact of Cyclone Nargis in Burma. The USAID commodities such as hygiene kits, plastic sheeting, mosquito nets, water containers, water treatment units, zodiac boats, and water storage bladders benefited at least 445,000 individuals. Also to date, USAID provided $29 million worth of humanitarian assistance in response to the recent hurricanes in Haiti. In September 2008 alone, USAID air-lift deliveries of emergency relief supplies to Port-au-Prince benefited more than 200,000 people.

STRATEGIC GOALS AND PRIORITY PROGRAM AREAS		
	STRATEGIC GOAL	**PROGRAM AREAS**
1	**Peace and Security**	Counterterrorism Combating Weapons of Mass Destruction (WMD) Stabilization Operations and Security Sector Reform Counternarcotics Transnational Crime Conflict Mitigation and Reconciliation
2	**Governing Justly and Democratically**	Rule of Law and Human Rights Good Governance Political Competition and Consensus Building Civil Society
3	**Investing in People**	Health Education Social Services and Protection for Especially Vulnerable Populations
4	**Economic Growth**	Macroeconomic Foundation for Growth Trade and Investment Financial Sector Infrastructure Agriculture Private Sector Competitiveness Economic Opportunity Environment
5	**Humanitarian Assistance**	Protection, Assistance, and Solutions Disaster Readiness Migration Management

ANALYSIS OF USAID'S FINANCIAL STATEMENTS

This section presents a summary analysis of key financial statement core business activities. The principal statements include a Consolidated Balance Sheet, a Consolidated Statement of Net Cost, a Consolidated Statement of Changes in Net Position, and a Combined Statement of Budgetary Resources. This section also summarizes the financial activity and net position of the Agency. The complete financial statements are included in the financial section of this report.

Preparing the Agency's financial statements is part of the goal to improve financial management and provide accurate and reliable information that is useful for assessing performance and allocating resources. The Agency's management is responsible for the integrity and objectivity of the financial information presented in the statements. For six consecutive years the financial statements have received an unqualified audit opinion from the USAID Office of the Inspector General (OIG). The Agency's internal controls are in place to ensure that all assets are safeguarded against loss from unauthorized acquisition, use, or disposition.

The principal 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 USAID, in accordance with generally accepted accounting principles (GAAP) for Federal entities and the formats prescribed by OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records.

OVERVIEW OF FINANCIAL POSITION

A summary of USAID's major financial activities in FY 2008 and FY 2007 is presented in the table below. This table represents the resources available to use (assets) against the amounts owed (liabilities) and the amounts that comprise the difference (net position). The net cost represents the gross cost of operating USAID's lines of business less earned revenue. Budgetary resources represent funds made available to the Agency.

CHANGES IN FINANCIAL POSITION IN FY 2008
(In Thousands)

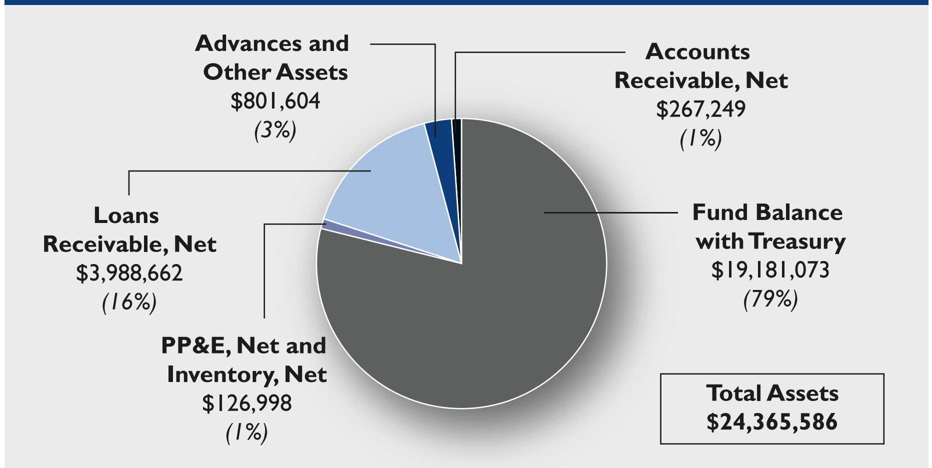
Net Financial Condition	2008	2007	% Change in Financial Position
Fund Balance with Treasury	$ 19,181,073	$ 19,131,357	0%
Loans Receivable, Net	3,988,662	4,410,638	-10%
Accounts Receivable, Net	267,249	179,567	49%
Cash, Advances, and Other Assets	801,604	794,142	1%
Property, Plant and Equipment and Inventory, Net	126,998	124,251	2%
Total Assets	**$24,365,586**	**$24,639,955**	-1%
Debt and Due to U.S. Treasury	4,215,289	$ 4,543,881	-7%
Accounts Payable	1,918,263	2,430,058	-21%
Loan Guarantee Liability	1,606,876	1,823,332	-12%
Other Liabilities	640,683	636,909	1%
Total Liabilities	**$ 8,381,111**	**$ 9,434,180**	-11%
Unexpended Appropriations	14,982,084	14,787,230	1%
Cumulative Results of Operations	1,002,391	415,605	141%
Net Position	$ 15,984,475	$ 15,202,835	5%
Net Cost	**$ 8,921,307**	**$ 9,295,894**	-8%
Budgetary Resources	**$15,316,659**	**$16,806,779**	-9%

BALANCE SHEET SUMMARY

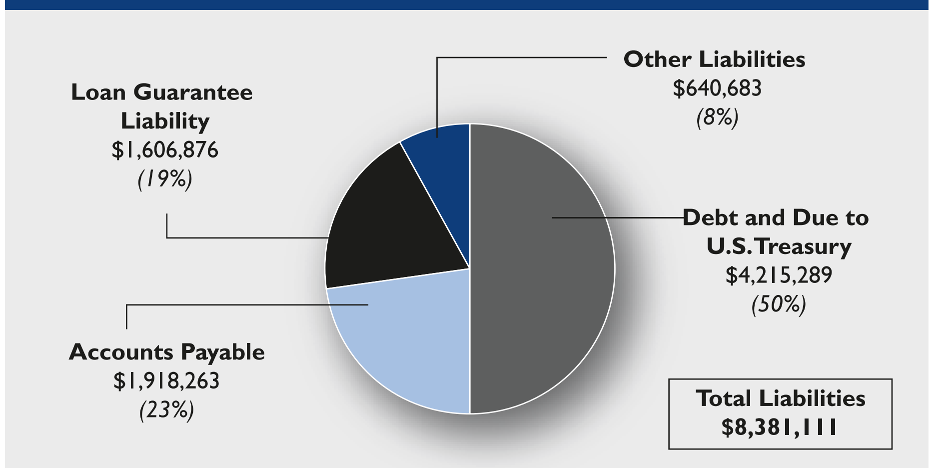
Assets. The total assets were $24.3 billion as of September 30, 2008. The pie charts to the right present a comparison of the major asset and liability categories as a percentage of total assets and liabilities. The most significant assets are the Fund Balance with Treasury and Loans Receivable which represents 79% and 16% of USAID's current period assets, respectively. The Fund Balance with Treasury consists of funding available through the Department of Treasury's accounts that are accessible by the Agency to pay for both current and future obligations. The loans receivable are authorized under the Foreign Assistance Act, to assist countries in their community development. These loans decreased by 10% or $421.9 million, from the previous year, due to normal loan collection operations and allowance write-offs.

In addition, USAID receives budget authority from the following three parent agencies: Millennium Challenge Corporation, USDA Commodity Credit Corporation, and the Department of State. USAID is only required to submit financial data to these parents to enable them to include the Agency's allocations in its financial statements.

FY 2008 TOTAL ASSETS *(In Thousands)*



FY 2008 TOTAL LIABILITIES *(In Thousands)*



Liabilities. The Consolidated Balance Sheet reflects total liabilities of $8.4 billion, of which 50% or $4.2 billion, is the Debt and Due to U.S. Treasury. These liabilities represent funds borrowed from Treasury to carry out the Agency's Federal Credit Reform program activities and net liquidating account equity. The Agency's accounts payable makes up 23% or $1.9 billion, of the total liabilities. This balance decreased 21% primarily due to a change in the accrued expense methodology.

Ending Net Position. The Statement of Changes in Net Position represents the Agency's equity which includes the cumulative net earnings and unexpended authority granted by Congress. USAID's Net Position as shown on the Consolidated Balance Sheet and the Consolidated Statement of Changes in Net Position increased $781.6 million or 5%. The variance is due to a reduction of the Agency's Operating Expense.

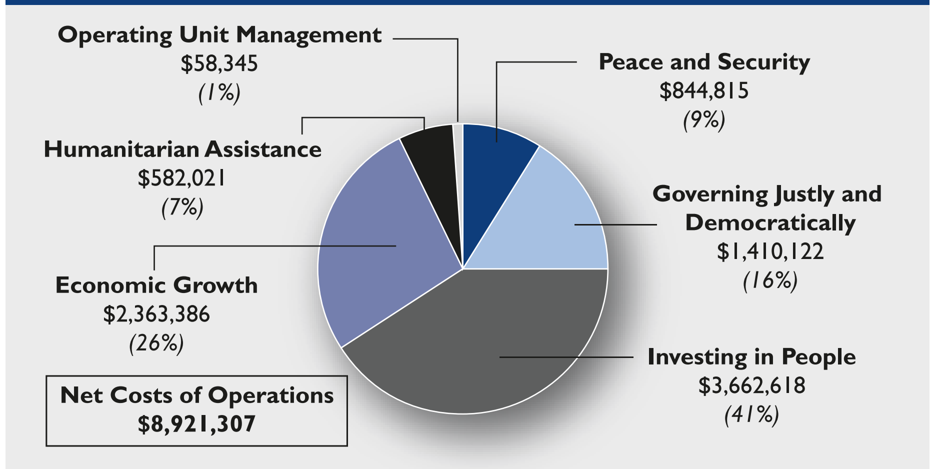
RESULTS (NET COST) OF OPERATIONS

The results of operations are reported in the Consolidated Statement of Net Cost and the Consolidated Statement of Changes in Net Position. The Consolidated Statement of Net Cost represents the cost (net of earned revenues) of operating the Agency's six objectives. These objectives are consistent with the new State-USAID Strategic Planning Framework. The two objectives; Investing in People and Economic Growth, represent the largest investments at 41% and 26% of net cost of operations, respectively. For FY 2008 and FY 2007, USAID's net cost of operations totaled $8.9 billion and $9.3 billion, respectively.

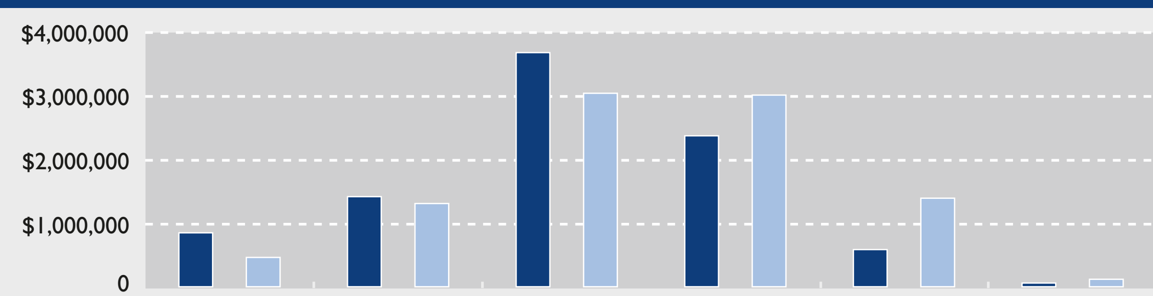
The chart to the right shows the total net cost incurred to carry out each of the Agency's objectives. Major elements of net cost are broken out below. The spending levels for the individual goals are showing significant differences due to changes in program direction to align with normal course of operations. A key change at the program area level was the formation of a new Asia bureau which resulted from the split between Asia and Middle East. However, this did not affect the Agency's overall cost of operations.

The table on the following page captures the cost at the program area level within each objective. These lower levels provide the necessary information to better manage USAID programs.

FY 2008 NET COST OF OPERATIONS *(In Thousands)*



MAJOR ELEMENTS OF NET COST *(In Thousands)*



OBJECTIVES	Peace and Security	Governing Justly and Democratically	Investing in People	Economic Growth	Humanitarian Assistance	Operating Unit Management
FY 2008	$844,815	$1,410,122	$3,662,618	$2,363,386	$582,021	$58,345
FY 2007	$459,065	$1,303,047	$3,029,681	$3,000,895	$1,386,054	$117,152
% Change	84%	8%	21%	-21%	-58%	-50%

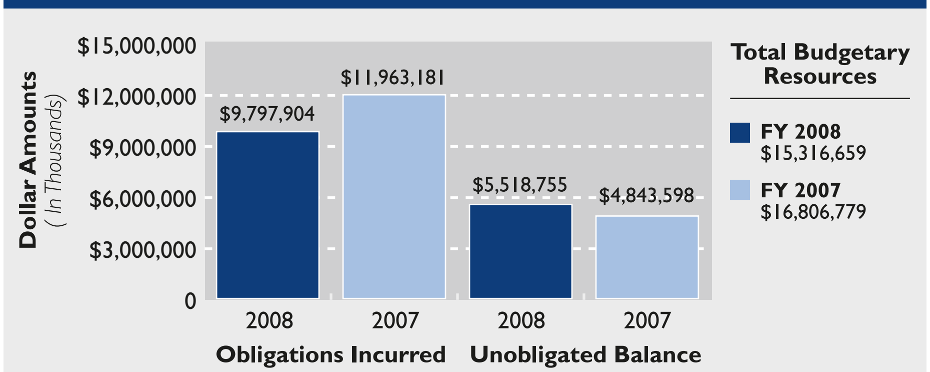
FY 2008 NET COST PROGRAM AREAS (In Thousands)		
OBJECTIVE	**PROGRAM AREA**	**TOTAL**
Peace & Security	Counterterrorism	$ 8,634
	Combating Weapons of Mass Destruction (WMD)	996
	Stabilization Operations and Security Sector Reform	286,026
	Counternarcotics	240,404
	Transnational Crime	23,367
	Conflict Mitigation and Reconciliation	285,388
Peace & Security Total		844,815
Governing Justly & Democratically	Rule of Law and Human Rights	143,000
	Good Governance	754,644
	Political Competition and Consensus-Building	167,477
	Civil Society	345,001
Governing Justly & Democratically Total		1,410,122
Investing in People	Health	2,798,540
	Education	606,141
	Social and Economic Services and Protection for Especially Vulnerable Populations	257,937
Investing in People Total		3,662,618
Economic Growth	Macroeconomic Foundation for Growth	444,229
	Trade and Investment	214,176
	Financial Sector	22,715
	Infrastructure	462,695
	Agriculture	448,540
	Private Sector Competitiveness	418,215
	Economic Opportunity	214,322
	Environment	138,494
Economic Growth Total		2,363,386
Humanitarian Assistance	Protection, Assistance and Solutions	697,759
	Disaster Readiness	(115,942)
	Migration Management	204
Humanitarian Assistance Total		582,021
Operating Unit Management	Crosscutting Management and Staffing	58,345
Operating Unit Management Total		58,345
Grand Total		$ 8,921,307

BUDGETARY RESOURCES

The Combined Statement of Budgetary Resources provides information on the budgetary resources that were made available to USAID during the fiscal year and the status of those resources at the end of the fiscal year. The Agency receives most of its funding from general government funds administered by the Department of Treasury and appropriated for USAID's use by Congress. Budgetary Resources consist of the resources available to USAID at the beginning of the year, plus the appropriation, spending authority from offsetting collections, and other budgetary resources received during the year. The Agency had $15.3 billion in budgetary resources of which $5.5 billion remained unobligated and $9.8 billion are obligations incurred at year-end. For FY 2008 and FY 2007, USAID's Net Congressional Authority received totaled $9.8 billion and $10.9 billion, respectively. The Budget Authority decreased, by 10.6% or $1.2 billion and is primarily attributed to a reduction in the appropriations received by the Child Survivor and Disease Program Fund.

Obligations and Outlays. USAID recorded total net outlays of $8.6 billion by the end of the year, and these outlays were disbursed on time according to contracted terms. Budgetary resources decreased 9% or $1.5 billion, from FY 2007, while net outlays increased 11% or $862.6 million. Net outlays reflect disbursements net of offsetting collections and distributed offsetting receipts. The chart below presents the status of budgetary resources comparatively between FY 2008 and FY 2007.

STATUS OF BUDGETARY RESOURCES FY 2008 AND FY 2007



ANALYSIS OF USAID'S SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

MANAGEMENT ASSURANCES

FISCAL YEAR 2008 – ANNUAL FMFIA ASSURANCE STATEMENT

USAID's management is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the Federal Managers' Financial Integrity Act (FMFIA) of 1982. USAID conducted its assessment of the effectiveness of internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations in accordance with OMB Circular A-123, Management's *Responsibility for Internal Control.* Based on the results of this evaluation, USAID can provide reasonable assurance that its internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations as of September 30, 2008 was operating effectively and no material weaknesses were found in the design or operation of the internal controls.

In addition, USAID conducted its assessment of the effectiveness of internal control over financial reporting, which includes safeguarding of assets and compliance with applicable laws and regulations, in accordance with the requirements of Appendix A of OMB Circular A-123. Based on the results of this evaluation, USAID can provide reasonable assurance that its internal control over financial reporting as of June 30, 2008 was operating effectively and no material weaknesses were found in the design or operation of the internal control over financial reporting.

USAID also conducted reviews of its financial management systems in accordance with OMB Circular A-127, *Financial Management Systems.* Based on the results of these reviews, USAID can provide reasonable assurance that its financial management systems generally conform to government financial system requirements and substantially comply with the requirements of the Federal Financial Management Improvement Act (FFMIA) as of September 30, 2008.

Henrietta H. Fore
Administrator
U.S. Agency for International Development
November 17, 2008

FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT (FMFIA)

FMFIA requires agencies to establish internal controls and financial systems which provide reasonable assurance that the integrity of federal programs and operations are protected. It also requires that the Agency head, based on an evaluation, provides an annual FMFIA assurance statement on whether USAID has met this requirement.

USAID's Internal Control Program is comprehensive and requires Agency managers to establish cost effective controls and consistently evaluate effectiveness on a continuous basis. The Management Control Review Committee (MCRC) oversees the Agency's internal control program over management operations. It is chaired by the Deputy Administrator and is composed of USAID senior managers. Individual annual certification statements from Mission Directors located overseas and Assistant Administrators (AA) and Independent Office Directors in Washington, D.C. serve as the primary basis for the Agency's certification that internal controls are either adequate or that control deficiencies exist. The certification statements are based on information gathered from various sources, including the managers' personal knowledge of day-to-day operations and existing controls, program reviews, and other management-initiated evaluations. In addition, the OIG and the Government Accountability Office (GAO) conduct reviews, audits, inspections, and investigations.

USAID managers successfully completed internal control reviews of the Agency's programs and operations; as well as its administrative, financial and accounting activities. No material weaknesses were identified. As a result of corrective actions taken to address the FY 2007 material weakness related to the limited ability to implement and monitor activities in high threat environments (HTE); this material weakness was reduced to a significant deficiency. USAID management will continue to monitor the progress of remaining corrective actions to remedy this significant deficiency.

The result of this evaluation forms the basis for USAID's unqualified statement of assurance.

Internal Control Over Financial Reporting

Appendix A, *Internal Control Over Financial Reporting* of OMB Circular A-123, *Management's Responsibility for Internal Control* requires agencies to assess, document, and report on internal control over financial reporting. USAID is committed to sound internal control over financial reporting and employs a program to continuously assess, document, and report on these controls. Internal control over financial reporting should assure the safeguarding of assets from waste, loss, unauthorized use, or misappropriation, as well as assure compliance with laws and regulations pertaining to financial reporting. Financial reporting includes the annual financial statements as well as other significant internal or external financial reports. Other significant financial reports are defined as any financial reports that could have a material effect on a significant spending, budgetary, or other financial decision of the Agency or that are used to determine compliance with laws and regulations on the part of the Agency. In addition to the annual financial statements, significant reports include quarterly financial statements, financial statements at the operating division or program level, budget execution reports, reports used to monitor specific activities, and reports used to monitor compliance with laws and regulations.

In FY 2006, USAID adopted, with the approval of OMB, a three-year, multi-phase approach to implement baseline requirements of Appendix A. In accordance with this plan, USAID completed implementation requirements that included the assessment of all key business processes. During FY 2008, USAID assessed four remaining key business processes in Washington and all field related processes in eight overseas missions. In addition, USAID assessed general computer controls. Several control deficiencies were identified as part of this assessment and results have been communicated to responsible and affected process owners for remediation. However, no Agency-level material weaknesses or significant deficiencies were identified.

The OIG, in its financial statements audit, identified a material weakness related to USAID's reconciliation of Fund Balance with the U.S. Treasury. However, this condition was not identified by management during its assessment of the effectiveness of internal control over financial reporting since it was not part of the scope for the FY 2008 assessment. However, management, in its assessment of the effectiveness of internal control over operations, did recognize and acknowledge internal control weaknesses in the cash reconciliation procedures and reported that they were primarily attributed to staffing shortages within the Office of the Chief Financial Officer (OCFO). This deficiency was considered to be part of a broader staffing issue and FMFIA significant deficiency related to the risk of inability to meet statutory and accountability requirements.

The FMFIA assurance statement includes a separate assessment of the effectiveness of the Agency's internal controls over financial reporting as a subset of the overall FMFIA assurance statement.

FMFIA Significant Deficiencies and Corrective Action Plans (CAP)

In keeping with the Agency's core concept of increasing transparency, USAID is voluntarily disclosing its significant deficiencies in the AFR. See the table on the following page.

FMFIA SIGNIFICANT DEFICIENCIES AND CORRECTIVE ACTION PLANS		
Significant Deficiency	**Actions Taken in FY 2008**	**Actions Remaining and Expected Completion Date**
Limited Ability to Implement and Monitor Activities in High Threat Environments (HTE) HTEs, such as Afghanistan, Pakistan, West Bank/Gaza, and USAID's adherence to the U.S. Government's "No Contact" policy, which continues to have a selected impact in the West Bank/Gaza, continues to restrain travel to project sites to monitor implementation and to meet with USAID partners. Meanwhile, there is a continuing challenge of attracting appropriately qualified staff to Missions in high threat countries. Together, these weaknesses continue to limit, to some extent, USAID's ability to implement and monitor programs. USAID needs to do a better job of sharing information and best practices on implementation and monitoring among country programs and to update its guidance to managers responsible for such programs.	Since first reported in FY 2006, specific steps have been taken to strengthen recruiting, assignments, and training for Critical Priority Countries (CPC) service. During FY 2008, Missions in these countries continued to take steps within their management control to implement and monitor activities as well as possible. Similarly, USAID in Washington continued procedures and incentives, introduced in previous years, to strengthen recruitment of appropriately skilled staff for CPCs in Asia and the Middle East. In addition, Agency guidance on alternative approaches to monitoring in HTEs was drafted by an Agency-wide working group, and was approved as Agency policy. The Asia and Middle East Bureaus addressed the State Department's Regional Security Officers' (RSO) Conference for RSOs in the East Asia and Western Hemisphere regions, initiating a dialogue on steps toward greater collaboration to get USAID officers out to the field more often. Further, the Asia and Middle East Bureaus awarded a contract to augment the newly launched HTE web portal with training and best practices on monitoring in HTEs, gleaned from USAID officers who have worked in HTEs and from other organizations that have done so. The inherent security risks posed by war zones and HTEs remain beyond USAID's management control. However, since first identified as a material weakness in FY 2006, USAID has taken key steps within its management control to resolve the weakness, and USAID is adapting its management and administration to work effectively in HTEs. In light of this, the Agency's Management Control Review Committee (MCRC) voted in FY 2008 to reduce this issue to a Significant Deficiency.	USAID can implement programs effectively and efficiently in HTEs provided there is ongoing investment in security, collaboration with RSOs, full staffing, effective training for field staff in HTEs, and alternative approaches to monitoring allowed. USAID's work in HTEs will only grow in the foreseeable future. Continued vigilance and investment are essential. The administrative risks associated with this significant deficiency are being addressed by corrective actions within USAID's management control. In FY 2009, the new guidance for Program Managers, Contract/Agreement Officers, and others working in HTEs will be rolled out to the field, describing alternative means of monitoring that may be used under certain conditions. The Agency will launch an outreach effort to inform field officers of the new guidance and to ensure that it is well understood and applied. USAID has begun to develop new training materials and information resources for field officers on best practices in HTEs, expected to be available during the third quarter of FY 2009. Furthermore, outreach to and dialogue with State Department RSOs will continue, particularly through the RSO Conference for RSOs in the Middle East and South and Central Asia, with the goal of increasing access of USAID program managers to field sites. **Target Completion Date: September 30, 2009**

(continued on next page)

FMFIA SIGNIFICANT DEFICIENCIES AND CORRECTIVE ACTION PLANS		
Significant Deficiency	**Actions Taken in FY 2008**	**Actions Remaining and Expected Completion Date**
Information Technology (IT): Governance and Enterprise Architecture (EA) Issues Persist Based on internal discussions with staff and other stakeholders, several deficiencies have been noted that pertain to lowering risk and increasing efficiency in the following key IT practice areas: IT strategic planning, EA, IT policy and practice standardization, and the full establishment of IT governance and best practices. There is general agreement that funding the correction of these process control areas is in the best interest of the Agency. The Office of the Chief Information Officer (OCIO) is responsible for the USAID IT program. The program includes 23 functions and 151 services subject to over 100 statutes, regulations, policies, and procedures. Recent assessments have pointed out that OCIO lacks sufficient resources to ensure the ongoing performance and compliance of the program.	**EA.** Over the last year, progress has been made in several areas. Although initial artifacts are being developed in the course of ongoing operations, progress hinges on the funding/staffing necessary to deploy an EA team to develop and operate an EA program. **Governance.** The OCIO (1) completed an IT Strategic Plan, (2) completed development of an IT project life cycle methodology and provided initial training, (3) completed a standardized Work Breakdown Structure (WBS) for IT projects, (4) completed the transition/integration of the former Capital Planning and Investment Control (CPIC) committee under the Business Systems Modernization (BSM) committee into the new IT Steering Subcommittee under the Business Transformation Executive Committee (BTEC), and (5) started development of an IT Operational Plan.	**EA.** Creating and staffing a new EA Division remains a primary goal for satisfying this significant deficiency. **Target Completion Dates:** (1) hire a USDH to be the EA Manager (**March 2010**); (2) hire contractor staff to support a "core" EA office (**March 2010**); (3) prepare EA program plan (three months after staffing is provided); and (4) complete initial program policies, procedures, and processes (nine months after staffing is completed). **Governance.** OCIO expects to close all significant deficiencies within 18 months. **Target Completion Date:** **March 31, 2010**
Risk of Inability to Meet Statutory and Accountability Requirements Administrative resources in the Office of Acquisition and Assistance (OAA) and the Office of the Chief Financial Officer (OCFO) have not kept pace with increased work volume. This situation has resulted in increased operational risk. The potential for significant operational failures had reached unreasonable levels of risk. By identifying this issue as a reportable condition in FY 2007, the Agency moved to assess operations in these offices and others, to determine appropriate levels of staffing.	The Management Bureau has identified resource constraints as an area of significant concern to USAID. Since 2001 the overall budget resources of the Agency have nearly doubled to approximately $13 billion while statutory and regulatory requirements have increased on both the OAA and the OCFO, thereby increasing workload and activity. Despite these increased demands, resources (particularly human) have decreased and staff turnover is impinging on effective operations. As a result, the staffing ceiling for OAA was raised significantly. In FY 2008, OAA worked closely with the Office of Human Resources (OHR) to set up a Task Force to address human resources issues in OAA. The above assessment also identified staffing shortages in the OCFO.	Efforts at recruitment and retention have been robust and administrative resources are beginning to increase which will result in reduced operational risks. **Target Completion Date:** **March 31, 2009** In order to meet increased staffing needs, while constrained by the current Continuing Resolution, the Management Bureau will continue working with the OCFO to identify resources within the Management Bureau budget to meet staffing needs. OCFO will also work with OHR to identify and rectify issues leading to staff turnover. **Target Completion Date:** **July 31, 2009**

FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT (FFMIA) COMPLIANCE ASSESSMENT

FFMIA of 1996 was designed to improved Federal financial management and reporting by requiring that financial management systems comply substantially with three requirements: (1) Federal financial management systems requirements, (2) applicable Federal accounting standards; and (3) the U.S. Standard General Ledger (USSGL) at the transaction level. Further, the act requires independent auditors to report on agency compliance with the three requirements as part of the financial statement audit.

USAID has evaluated its financial management systems and determined that they substantially comply with Federal financial management systems requirements, applicable Federal accounting standards and the USSGL at the transaction level.

FINANCIAL MANAGEMENT SYSTEMS

Goals and Strategies

The Agency's core financial system directly supports four of the seven government-wide initiatives of the President's Management Agenda (PMA). These initiatives are:

Financial Performance. USAID's financial management system, Phoenix, is a compliant financial system that meets Federal accounting standards. Phoenix supports the Agency in providing accurate, timely financial information; supporting management operations; meeting reporting requirements; and issuing controls to prevent Anti-Deficiency Act violations. Additionally, Phoenix contains a USSGL chart of accounts, allowing financial transactions in Phoenix to be posted immediately to the general ledger.

USAID is focused on maintaining its "green" status for Improved Financial Performance, which was first achieved in April 2006, by making improvements to existing financial and management reports, continuing to enhance Phoenix with new functionality, implementing new interfaces and systems, expanding the Manage to Budget (MTB) initiative, and completing the deployment of the GLobal Acquisition and Assistance System (GLAAS). USAID remains substantially compliant with FFMIA.

E-Government. As a web-based system that is accessible by USAID's overseas missions, Phoenix supports the E-Government initiative. Phoenix interfaces with other web-based initiatives, such as credit card, letter of credit, and the Central Contractor Registration (CCR). The Agency is planning to develop automated interfaces between Phoenix and other web-based Agency and government initiatives, such as vendor self-service, time and attendance, E-Travel, E-grants, and worldwide funds reconciliation.

Performance Improvement. The Agency implemented Phoenix's cost allocation module worldwide at the same time as the rollout of the core accounting system. This allows for the assignment of direct and indirect operating expense costs to the offices that benefit from them and provides management a tool for determining full costs at the operating unit and the program area level.

Commercial Services Management. USAID and the Department of State cooperate on the Joint Financial Management System (JFMS), which serves as the technical platform for both agencies' financial systems. Hosted at a Center of Excellence site in Charleston, SC, JFMS supports the Financial Management Line of Business (FMLoB) by using a shared server infrastructure and standardized databases. In addition, JFMS is staffed through an open procurement process that encourages small business participation.

Financial Management Systems Framework

Since the completion of the Phoenix overseas deployment in June 2006, USAID has maintained a common, integrated Agency-wide system for budget execution, accounting, and financial management. The major USAID financial systems and their relationships are discussed below.

Phoenix. Phoenix is the Agency's core financial system through which all USAID financial transactions are processed. Phoenix application modules include accounts payable, accounts receivable, automated disbursements, budget execution, cost allocation, general ledger, and purchasing. In addition to Phoenix-generated reports, the Agency maintains three other financial reporting tools: Business Objects Enterprise, which provides business information from many Agency sources; PhoenixViewer, which is an ad hoc, user-generated financial reporting tool; and, Exec-Info, which is a reporting tool designed to provide key financial and management information to USAID executives and senior managers.

GLAAS. GLAAS is a web-based end-to-end procurement system that is configured to meet the requirements of USAID's business processes. The GLAAS system is fully integrated with Phoenix and reduces procurement transaction cycle time, accelerates delivery of foreign assistance, and produces more timely, accurate business information. Currently, GLAAS is operating as a production pilot in select offices in USAID/Washington and in missions in the Latin America and Caribbean region and missions in Caucasus/Armenia.

Budget Formulation System. USAID has implemented a set of tools and standard business processes to improve Agency-wide budget planning, formulation, execution, and integration with the Agency's financial management system. As part of the MTB initiative, USDH compensation has been decentralized and a planning system was implemented to help managers improve both budget planning and execution. The budget execution and formulation module was also implemented to facilitate the administration of the Agency's annual budget process. A system developed by the Peru Mission that integrates program budget planning data with financial management information is also under consideration for Agency-wide application.

FACTS. The unified Foreign Assistance Coordination and Tracking System (FACTS) provides a single data repository and common planning and reporting tool for foreign assistance resources across U.S. Government agencies. FACTS combines all agency planning and reporting on foreign assistance activities into one central data system to facilitate country level planning, monitoring, and data management. This central U.S. Government data system provides the means to collect and analyze data related to foreign assistance planning and reporting requirements. The Agency uses the system to enter and review Operational Plan submissions, submit information required for Performance Plans, to retrieve data for annual Performance Reports, and respond to information requests.

Business Support Services. Business support applications in the Agency's financial management systems inventory relate to travel management, property management, time and attendance, and training. These applications include:

- ***E2 Solutions.*** E2 is a web-based, end-to-end travel management tool that coordinates approval, management and payment of travel expenses. E2 reduces paperwork and administrative management costs associated with government business travel. E2 became operational in USAID/Washington and in missions in Asia and the Middle East in 2008. Worldwide deployment will conclude in mid-FY 2009 following training and deployment for missions in Europe and Eurasia, Latin American and the Caribbean, and Africa.
- ***Nonexpendable Property (NXP).*** The NXP program is USAID's custom-developed property management system that is being replaced with the WEB-NEPA asset inventory system which is part of a joint administrative platform with the Department of State.
- ***BAR/SCAN.*** A commercial software product used for property management of NXP in Washington D.C..
- ***Learning Management System (LMS).*** The LMS program is USAID's system for managing staff training and allows users to register for classes and take online courses.
- ***Training Results and Information Network (TraiNet).*** TraiNet is the Agencywide database training management system.
- ***webTA.*** The new Agency time and attendance system, webTA, facilitates cost accounting by capturing hours worked by project and activity. WebTA became the system of record for all USDH employees in May 2008. Future implementation phases will extend webTA timekeeping to foreign service national (FSN) and U.S. personal services contractor (USPSC) employees. Planning for a Phoenix interface is underway.

Third-Party Service Providers. As part of its long-term information management strategy, USAID has cross-serviced with other government agencies or outsourced to commercial organizations some of its financial transaction processing requirements. The chief third-party service providers include:

- ***Department of Agriculture (USDA) National Finance Center (NFC).*** USAID has a cross-serving agreement with NFC for personnel and payroll processes for USDH employees.
- ***Midland Loan Services (Midland).*** USAID outsources standard credit reform transactions to Midland (formerly Riggs National Bank).
- ***Department of Health and Human Services (HHS).*** USAID cross-services its letter of credit processing of grantee advances and liquidations to the HHS Payment Management System.

Target Financial Management Systems Structure

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

The target financial management system will:

- Provide complete, reliable, timely, and consistent information.
- Apply consistent internal controls to promote the integrity and security of information and resources.
- Use a common data classification structure to support collection, storage, retrieval, and reporting of information.
- Use an open framework and industry standards for data interchange and interoperability.
- Remain flexible and modifiable to business changes.
- Support timely, accurate, and cost-effective electronic exchange of information with customers and external partners.

Planned Major Systems Investments

Implementing the target financial management system structure will take several more years. Required major system investments will be identified, planned, and sequenced as part of a business transformation initiative, and tied to the Agency's enterprise architecture, which began in 2002 and will extend through 2011. The broad categories of system investment will include:

- ***Core Financial System.*** Phoenix's underlying Momentum Financial product line will be upgraded through successive product releases in order to remain compliant with changing Federal requirements from OMB and the Financial Systems Integration Office (FSIO), as well as the Department of Treasury's new government-wide accounting initiative. The upgrade will also enhance Phoenix functionality and overall performance, address security vulnerabilities, and allow Phoenix to interface effectively with other agency systems.
- ***GLAAS.*** USAID is currently implementing a new system for acquisitions and assistance, named GLAAS, which has already been designed to support USAID acquisitions. This project is now adding assistance/grants functionality. Deployments for both acquisitions and assistance functionality are scheduled for FY 2009 through FY 2011 in USAID/Washington and the existing production pilot missions, as well as missions in Latin America and the Caribbean, Europe and Eurasia, Middle East, Asia, and Africa.
- ***Data Repositories and Reporting Systems.*** USAID will implement an enterprise-wide "data-mart" strategy to link multiple data repositories using common data elements. Web-based reporting tools will be used to extract, consolidate, and generate reports tailored to managers' needs across systems and data repositories.
- ***Business Support Systems.*** The major initiatives in the administrative service areas will be the continued Agency-wide deployment of the travel system (E2), property management system, and time and attendance system (webTA). In addition, the Agency is working to develop interfaces between Phoenix and both E2 and webTA.
- ***Third-party service providers.*** The Agency expects to continue using third-party service providers NFC, Midland, and HHS, for the foreseeable future. The Agency is currently making further improvements to the automated interfaces between these providers and Phoenix in order to achieve greater integration.

OTHER MANAGEMENT INFORMATION, INITIATIVES, AND ISSUES

FINANCIAL STATEMENTS AUDIT FINDINGS

One material weakness and four significant deficiencies were identified in the FY 2008 Independent Auditor's Report. The following table lists the material weakness and significant deficiences as well as planned actions to resolve them.

SUMMARY OF INDEPENDENT AUDITOR'S REPORT FINDINGS FY 2008		
Material Weakness	**Planned Corrective Actions**	**Target Completion Date**
USAID Does Not Reconcile its Fund Balance with the U.S. Treasury and Resolve Reconciling Items (Repeat Finding)	The OCFO will need additional resources to implement this recommendation. The OCFO will implement a process that will document the reconciliations, and identify and track all differences for the headquarters paying location until they are resolved, and make significant progress in resolving differences. At the same time, the CFO notes that this will be a project that will require collaboration among several OCFO functions, for which information resources may be limited and several changes in current procedures may be required. After completing the headquarters tracking system, the OCFO will adapt it to, and implement it in, the Missions.	September 30, 2009
Significant Deficiency	**Planned Corrective Actions**	**Target Completion Date**
Accounting for Loan Receivables	The OCFO will make significant progress in investigating and resolving differences.	September 30, 2009
Accounting for Accounts Payable and Accrued Expenses	Formal and detailed procedures will be developed and disseminated throughout the Agency to provide clear guidance, particularly to Cognizant Technical Officers, on the correct preparation and recording of quarterly accrued expenditures.	September 30, 2009
General Ledger Posting Models Weaknesses	The OCFO has resolved some of the errors identified during the audit and has implemented an ongoing "tie point" review process to identify and correct errors in the posting models. The OCFO will expand these efforts.	June 30, 2009
Reconciliation of Intragovernmental Transactions (Repeat Finding)	The OCFO implemented corrective actions related to two audit recommendations issued in the Fiscal Years 2007, 2006 and 2005 GMRA audit reports. USAID requires more cooperation from its trading partners to eliminate differences altogether but the OCFO will keep trying to improve, consistent with other demands on resources.	September 30, 2009

PROGRESS MADE ON ISSUES FROM THE FY 2007 FINANCIAL STATEMENTS AUDIT

USAID has taken extensive and aggressive actions during FY 2008 to address the significant deficiencies identified in the FY 2007 audit as indicated in the table below.

SUMMARY OF INDEPENDENT AUDITOR'S REPORT FINDINGS FY 2007		
Significant Deficiency	**Corrective Actions**	**Date Closed or Target Completion Date**
Controls Over the Interagency Reporting Process	USAID has entered into two Memoranda of Understanding (MOU) with the Department of State. The State Department will receive each allocation from USAID as a U.S. Treasury Non-expenditure Transfer Authorization. In addition, the State Department will provide USAID with correct and timely financial information.	Closed: September 26, 2008
Accounting for Loans Receivable	The clean-up of the transaction codes in the transaction translation table has been completed and all missing crosswalk entries have been corrected. The changes were tested and found to be successful. USAID has outlined the Midland bank process and configured a workflow to synchronize with Phoenix. Moving forward, Midland and USAID will jointly update and validate the transaction translation table on an annual basis. In addition, USAID prepared a flow chart of the action and procedures related to loan subsidies and write-offs. The updated procedures include a control to ensure that the loan service provider makes entries in their system for transactions that are recorded in Phoenix in the same period, where possible. These procedures will apply proper timing to loan accounting transactions for subsidies. USAID has communicated these updated internal control procedures to Midland.	Closed: August 31, 2008
Reporting on Foreign Currency Information (Repeat Finding)	USAID has confirmed that data received from another data call are consistent with the Foreign Currency Trust Fund recorded in Phoenix. Moving forward, the Agency will rely on Phoenix for foreign currency information.	Closed: May 30, 2008
Reconciliations of Fund Balance with the U.S. Treasury (Repeat Finding)	USAID improved its performance on the process for reconciling its Fund Balance with Treasury. However, USAID has investigated and resolved many differences between transactions recorded at Treasury and transactions recorded in Phoenix. Unfortunately, USAID has not been able to resolve all of them. Additional time, people, and systems improvements are required before USAID can address the challenges of this reconciliation process. Correction of prior year HHS differences are well underway: (1) Warrant and Transfer differences eliminated, (2) 2008 Payroll differences reduced to one payroll vs. four payrolls, (3) Number of unposted 1221-reported payments by headquarters reduced, and (4) overall, USAID's Fund Balance with Treasury difference has decreased. Challenges include: • The number of unresolved differences for the Washington Agency Location Code is unacceptably high. • Difference between Mission disbursements in Phoenix and at Treasury seems to be growing.	Target: September 30, 2009
Intragovernmental Reconciliations (Repeat Finding)	USAID reviews all of its intragovernmental activity differences every quarter. Where the differences are caused by factors within USAID's control, the Agency tries to eliminate them. Between the third quarter of FY 2007 and the third quarter of FY 2008, USAID reduced the amount of such differences by more than 70% from $1.9 billion to $527 million.	Target: September 30, 2009

AUDIT MANAGEMENT

The OIG uses the audit process to help USAID managers improve the efficiency and effectiveness of operations and programs. USAID management and OIG staff work in partnership to ensure timely, appropriate responses to audit recommendations. The OIG contracts with the Defense Contract Audit Agency (DCAA) to audit U.S.-based contractors and relies on non-Federal auditors to audit U.S.-based grant recipients. Overseas, local auditing firms or the supreme audit institutions of host countries audit foreign-based organizations. OIG staff 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.

During FY 2008, USAID received 439 audit reports; 382 of these reports covered financial audits of contractors and recipients and 57 covered Agency programs or operations. The Agency closed 706 audit recommendations. Of these, 316 were from audits performed by OIG staff and 390 were from financial audits of contractors or grant recipients. USAID took final action on recommendations with $14.5 million in disallowed costs, and $13.5 million was put to better use during the fiscal year.

At the end of FY 2008, there were three audit recommendations over six months old without a management decision. Two recommendations were related to the follow-up audit of USAID/Peru's Alternative Development Program and required management decisions on ineligible questioned costs totaling $4.3 million. The third recommendation was related to the audit of adequacy of USAID's antiterrorism vetting procedures.

In addition, there were 514 open audit recommendations at the end of FY 2008. Of these, 40 recommendations were over one year old. Fourteen of the year old recommendations were in negotiation, being appealed, or in litigation. The remaining 26 represent 5.1% of the total open audit recommendations and continue to be in the resolution process.

The 26 audit recommendations that are over a year old include eight recommendations requiring collection of funds from contractors and recipients as well as 18 recommendations requiring improvements in Agency programs and operations. The latter are tied to audits of USAID Kenya's and USAID/Mozambique's compliance with financial audit requirements regarding foreign recipients; a close-out audit of USAID/Kenya's resources managed by Egerton University under the Tegemeo Agricultural Monitoring and Policy Analysis (TAMPA I & II) and Seed Trade Association of Kenya (STAK) programs; an audit of USAID/Colombia's Alternative Development Program; an audit of USAID's IT governance over its Phoenix overseas deployment (POD) and procurement system improvement program (PSIP) projects; an Independent Auditor's report on applying agreed-upon procedures for assessing USAID's implementation of Section 22 of the Consolidated Appropriations Act of 2005; an audit of USAID's Cuba program; an audit of USAID's pre-deployment activities for its GLAAS; and an audit of USAID's reasonable accommodations policies and procedures related to the Office of Equal Opportunity programs.

MANAGEMENT ACTION ON RECOMMENDATION THAT FUNDS BE PUT TO BETTER USE

	Recommendations	Dollar Value ($000)
Beginning balance 10/1/2007	7	$ 6
Management decisions during the fiscal year	13	30,349
Final action	3	13,510
Recommendations implemented	3	13,510
Recommendations not implemented	0	-
Ending Balance 9/30/2008	17	$ 16,845

MANAGEMENT ACTION ON AUDITS WITH DISALLOWED COSTS

	Recommendations	Dollar Value ($000)
Beginning balance 10/1/2007	145	$ 131,943
Management decisions during the fiscal year	240	35,225
Final action	232	14,522
Collections/Offsets/Other	231	14,459
Write-offs	1	63
Ending Balance 9/30/2008	153	$ 152,646

ELIMINATING IMPROPER PAYMENTS

The Improper Payments Information Act (IPIA) of 2002, Public Law (P.L.) No. 107-300, requires agencies to annually review their programs and activities to identify those susceptible to significant improper payments. In addition, the Defense Authorization Act (P.L. No. 107-107) established the requirement for government agencies to carry out cost effective programs for identifying and recovering overpayments made to contractors, also known as "Recovery Auditing." OMB has established specific reporting requirements for agencies with programs that possess a significant risk of erroneous payments and for reporting on the results of recovery auditing activities.

In FY 2008, the Agency did not have any programs and activities that met the OMB criteria for significant risk; however, the Agency's payment transactions were monitored for improper payments cyclically throughout the year. An annual risk assessment was performed along with a comprehensive review and sampling of all programs and activities to ensure that Agency error rates remain at minimal levels. The Agency's information on improper payments is located in the Other Accompanying Information section.

Financial Section

(Above) **Senegalese students join an HIV/AIDS awareness event. USAID supports Senegal's fight against HIV/AIDS with prevention activities, voluntary counseling and testing, care and support for people living with HIV/AIDS, and epidemic tracking. Currently, HIV prevalence in Senegal's general population is around 0.7%, low in comparison with other West African countries.**

PHOTO: RICHARD NYBERG / USAID

(Preceding page) **Members of USAID's disaster assistance team—deployed three days after Cyclone Nargis struck Burma on May 2, 2008—working at U-Tapao Airfield in Thailand. USAID flew relief commodities from regional warehouses to Thailand for transportation to Burma on the U.S. Government air bridge, and provided critical technical assistance, food aid, and funding for relief and recovery programs.**

PHOTO: PATRICK ANDRADE / ATLAS PRESS

A MESSAGE FROM THE CHIEF FINANCIAL OFFICER

For the sixth consecutive year, the U.S. Agency for International Development (USAID) sustained an unqualified audit opinion on the financial statements. The USAID Inspector General's (IG) opinion reports that the statements presented fairly, in all material respects, the financial position of the Agency as of September 30, 2008 and 2007; and its net cost, net position, and budgetary resources are in conformity with generally accepted accounting principles (GAAP).

The *Agency Financial Report for Fiscal Year 2008* (AFR) is the Agency's principal publication and report to the President and the American people on stewardship and management of the public funds to which we have been entrusted. In addition to financial information, this report also includes a high level discussion of performance information.

USAID has acknowledged one auditor-reported material weakness related to unreconciled differences between the Agency's Fund Balance and its cash balance reported by the U.S. Treasury. (Note: This was reported as a significant deficiency in the FY 2007 audit and includes an unresolved audit recommendation issued in the FY 2005 audit.) In addition to one material weakness, the Independent Auditor's Report includes four significant deficiencies and several related audit recommendations. Corrective action plans have been prepared with target completion dates of September 30, 2009 for the findings related to the Fund Balance with the U.S. Treasury; accounting for loan receivables; accounting for accounts payable and accrued expenses; and reconciliation of intragovernmental transactions. The finding related to the general ledger posting models weaknesses is expected to be completed by June 30, 2009. Over the upcoming weeks, I will assure that adequate resources are available to ensure effective reconciliation of U.S. taxpayer resources.

I am pleased to report that the remaining significant deficiencies identified in the FY 2007 audit were addressed during FY 2008 and that all related audit recommendations were closed. Corrective actions taken for these significant deficiencies can be found in the Management's Discussion and Analysis (MD&A) Section of the AFR.

FY 2008 has been a landmark year for the Agency's internal control program. After three consecutive years of conducting management assessments of 12 key business processes, USAID successfully achieved full implementation of Office of Management and Budget (OMB) Circular No. A-123, Appendix A, which requires agencies to assess, document, and report on internal control over financial reporting. This year, our third and final

David D. Ostermeyer

year, was especially rigorous because it involved testing all 12 key business processes in the field missions as well as the remaining four key business processes in Washington. As discussed in the Management Assurances section in the MD&A, no internal control material weaknesses or significant deficiencies were reported under Section 2 (financial reporting) of the Federal Managers' Financial Integrity Act (FMFIA). Also, I am pleased to confirm that both the Agency and auditors noted no issues affecting overall substantial compliance with the Federal Financial Management Improvement Act (FFMIA).

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

While we are pleased with our accomplishments in FY 2008, we will strive to improve all aspects of financial performance and to maintain higher financial management standards in FY 2009. We will continue to promote effective internal controls and focus on implementation of the Financial Performance initiative under the President's Management Agenda (PMA). USAID will resolve any impediments that could affect the IG's ability to issue an unqualified audit opinion next year and we will continue to meet the accelerated reporting deadline.

David D. Ostermeyer
Chief Financial Officer
November 17, 2008

Financial Section

INDEPENDENT AUDITOR'S REPORT

(Above) **These Ugandan children will be protected from malaria-transmitting mosquitoes while they sleep under an insecticide-treated bed net. The nets save lives by repelling and blocking mosquitoes which primarily feed at night, spreading malaria parasites. USAID leads the President's Malaria Initiative to halve malaria deaths in 15 African countries over five years.**

PHOTO: © 2007 GILBERT AWEKOFUA, COURTESY OF PHOTOSHARE

(Preceding page) **K'iche' women proudly display their ink-stained fingers after voting in Guatemala's rural highlands. USAID assistance increased inclusion of rural indigenous and women voters, improved election logistics, implemented public information campaigns, and supported a national election observation effort in Guatemala.**

PHOTO: MAUREEN TAFT-MORALES / USAID

USAID
FROM THE AMERICAN PEOPLE

Office of Inspector General

November 14, 2008

MEMORANDUM

TO: David D. Ostermeyer, Chief Financial Officer

FROM: Joseph Farinella, AIG/A /s/

SUBJECT: Audit of USAID's Financial Statements for Fiscal Years 2008 and 2007

The Office of Inspector General (OIG) is transmitting its report on the *Audit of USAID's Financial Statements for Fiscal Years 2008 and 2007*. Pursuant to the Government Management Reform Act of 1994, USAID is required to prepare consolidated financial statements as of the end of the fiscal year. USAID is also required to submit a Performance and Accountability Report, including audited financial statements, to the Office of Management and Budget (OMB) and the Department of Treasury by November 17, 2008. In accordance with fiscal year 2008 requirements of OMB Circular A-136, USAID has elected to prepare an alternative Agency Financial Report that includes an Agency Head Message, Management's Discussion and Analysis, and a Financial Section.

The OIG has issued unqualified opinions on each of USAID's principal financial statements for fiscal years 2008 and 2007.

With respect to internal control, we identified one deficiency that we consider to be a material weakness. The material weakness pertains to USAID's reconciliation of its Fund Balance with the U.S. Treasury. Additionally, we identified certain deficiencies in internal control that we consider to be significant deficiencies. The significant deficiencies pertain to USAID's (1) accounting for loans receivable, (2) accounting for accounts payable and accrued expenses, (3) general ledger posting models, and (4) reconciliation of intragovernmental transactions.

We noted no instances of substantial noncompliance with Federal financial management systems requirements, Federal accounting standards, or U.S. Standard General Ledger at the transaction level as a result of our tests required by Section 803(a) of the Federal Financial Management Improvement Act of 1996.

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

We appreciate the cooperation and courtesies that your staff extended to us during the audit. The OIG is looking forward to working with you on our audit of the fiscal year 2009 financial statements.

U S Agency for n erna ional Developmen
1300 Pennsylvania Avenue NW
Washing on DC 20523
h p //www usaid gov

CONTENTS

SUMMARY OF RESULTS

In our opinion, USAID's consolidated balance sheets, consolidated statements of changes in net position, consolidated statements of net cost, and combined statements of budgetary resources present fairly, in all material respects, the financial position of USAID as of September 30, 2008, and 2007; and its net cost, net position, and budgetary resources for the years then ended, in conformity with generally accepted accounting principles.

We identified one deficiency in internal control that we consider to be a material weakness, related to USAID's reconciliation of Fund Balance with the U.S. Treasury. We also identified four deficiencies in internal control considered to be significant deficiencies, related to the following aspects of USAID's management:

- Accounting for loans receivables
- Accounting for accounts payable and accrued expenses
- General ledger posting models weaknesses
- Reconciliation of intragovernmental transactions

We noted no instances of substantial noncompliance with Federal financial management systems requirements, Federal accounting standards, or U.S. Standard General Ledger at the transaction level as a result of our tests required by Section 803(a) of the Federal Financial Management Improvement Act.

BACKGROUND

USAID was created in 1961 to advance U.S. foreign policy interests by promoting broad-based sustainable development and providing humanitarian assistance. USAID has missions in more than 88 countries, 46 of which have full accounting operations with USAID controllers. For the fiscal year ended September 30, 2008, USAID reported total budgetary resources of approximately $15 billion.

Pursuant to the Government Management Reform Act of 1994, USAID is required to submit audited financial statements to the Office of Management and Budget (OMB) annually. Pursuant to this Act, for fiscal year (FY) 2008, USAID has prepared the following:

- Consolidated Balance Sheet
- Consolidated Statement of Changes in Net Position
- Consolidated Statement of Net Cost
- Combined Statement of Budgetary Resources
- Notes to the Principal Financial Statements
- Other Required Supplementary Information

AUDIT OBJECTIVE

> Did USAID's principal financial statements present fairly the assets, liabilities, net position, net costs, changes in net position, and budgetary resources for fiscal years 2008 and 2007?

In our opinion, the financial statements referred to above present fairly, in all material respects and in conformity with generally accepted accounting principles, USAID's assets, liabilities, and net position; net costs; changes in net position; and budgetary resources as of September 30, 2008, and 2007, and for the years then ended.

In accordance with *Government Auditing Standards*, the OIG has also issued reports (dated November 14, 2008) on our consideration of USAID's internal control over financial reporting and on our tests of USAID's compliance with certain provisions of laws and regulations. These reports are an integral part of an overall audit conducted in accordance with *Government Auditing Standards* and should be read in conjunction with this report.

INDEPENDENT AUDITOR'S REPORT ON USAID'S FINANCIAL STATEMENTS

We have audited the accompanying consolidated balance sheets of USAID as of September 30, 2008, and 2007, and the consolidated statements of changes in net position, consolidated statements of net cost, and combined statements of budgetary resources of USAID for the years ended September 30, 2008, and 2007.

We conducted our audits in accordance with auditing standards generally accepted in the United States; Generally Accepted *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, and in conformity with U.S. generally accepted accounting principles, USAID's assets, liabilities, and net position; net costs; changes in net position; and budgetary resources as of September 30, 2008, and 2007, and for the years then ended.

Management's Decision and Analysis and Required Supplementary Information sections are not a required part of the consolidated financial statements but represent supplementary information required by OMB Circular A-136, *Financial Reporting Requirements.* We have applied certain limited procedures to this information, primarily consisting of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information and accordingly, we do not express an opinion on it.

In accordance with Generally Accepted *Government* Auditing Standards, we have also issued reports, dated November 14, 2008, on our consideration of USAID's internal control over financial reporting and on our tests of USAID's compliance with certain provisions of laws and regulations. These reports are an integral part of an overall audit conducted in accordance with *Government Auditing Standards* and should be read in conjunction with this report.

Office of Inspector General

USAID, Office of Inspector General
November 14, 2008

REPORT ON INTERNAL CONTROL

We have audited the consolidated balance sheets of USAID as of September 30, 2008, and 2007. We have also audited the consolidated statements of changes in net position, consolidated statements of net cost, and combined statements of budgetary resources for the fiscal years ended September 30, 2008, and 2007, and have issued our report thereon dated November 14, 2008. We conducted the audits in accordance with auditing standards generally accepted in the United States; Generally Accepted *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements.*

In planning and performing our audits of USAID's financial statements for the fiscal years ended September 30, 2008, and 2007, we considered USAID's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of USAID's internal control. We limited our system of internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin 07-04. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers Financial Integrity Act of 1982 (FMFIA), such as those controls relevant to ensuring efficient operations. Accordingly, we do not express an opinion on USAID's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses or significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We identified one deficiency in internal control that we consider to be a material weakness, as defined above, relating to reconciliation of Fund Balance with the U.S. Treasury.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency or combination of control deficiencies that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies to be significant deficiencies in internal control:

- Accounting for loans receivables
- Accounting for accounts payable and accrued expenses

- General ledger posting models weaknesses
- Reconciliation of intragovernmental transactions

Management's Decision and Analysis and Required Supplementary Information sections are not a required part of the consolidated financial statements but represent supplementary information required by OMB Circular A-136, *Financial Reporting Requirements.* We have applied certain limited procedures to this information, primarily consisting of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information and accordingly, we do not express an opinion on it.

We also noted other matters involving the internal control over financial reporting, which we reported to USAID management in a separate letter dated November 14, 2008.

Material Weakness

USAID Does Not Reconcile Its Fund Balance with the U.S. Treasury and Resolve Reconciling Items

(Repeat Finding)

USAID continues to have large unreconciled differences between the Fund Balance recorded in its financial accounting system and the Fund Balance reported by the U.S. Department of Treasury throughout FY 2008. As of September 30, 2008, these differences totaled $38 million ($371 million absolute value) and remained unreconciled because USAID was not investigating and resolving all the differences and was not performing reconciliations of its Fund Balance account in accordance with Treasury Financial Manual (TFM) Volume 1, Part 2-5100. In addition, USAID did not report all monthly cash disbursements and cash receipts on its Statement of Transactions (SF-224) that were recorded on its general ledger. Instead, USAID reported only cash disbursements and cash receipts that were in agreement with those recorded in Treasury's system, and thus avoided Treasury's scrutiny because no differences were reported by Treasury on the Statement of Differences (SF-6652). Many of the differences are composed of items that date back several years, and USAID does not have a system to resolve such differences on a current or retroactive basis. As a result, USAID recorded adjustments of $38 million at the end of FY 2008 to ensure that its Fund Balance agreed with what was reported by the U.S. Treasury on its Form 2108, *Year End Closing Statement*, without fully documenting and investigating the reasons for the differences.

U.S. Treasury reconciliation procedures state that an agency may not arbitrarily adjust its Fund Balance with the U.S. Treasury account, and may only do so after clearly establishing the causes for any errors and properly correcting those errors. USAID CFO Bulletin 06-1001, *Reconciliations with U.S. Treasury*, requires USAID to perform timely monthly reconciliations with the U.S. Treasury and requires a certification that reconciliations have been performed in accordance with TFM Volume 1, Part 2-5100. Bulletin 06-1001 has not been fully implemented by USAID.

Before adjustments, USAID's reported Fund Balance was $38 million more than the balance reported by the U.S. Treasury on its September 30, 2008, account statement. This occurred because USAID does not have a system in place to identify and track differences between its accounting system and the U.S Department of Treasury until those differences are resolved. As of September 30, 2008, approximately $20.9 million of cash transactions remained in a suspense status at USAID pending additional information. The transactions in the suspense account were fully processed at the Department of Treasury as of the end of FY 2008. USAID could not identify the reasons for many other differences, including some that have been outstanding for many years.

USAID made some attempts to resolve unreconciled Fund Balance differences, but did not consistently document its efforts in investigating and resolving the differences. This issue was reported in a previous audit report.[1] Fund Balance reconciliations with Treasury are ongoing efforts and we will continue to monitor USAID's progress with these reconciliations in future audits.

Recommendation No. 1: We recommend that USAID's Chief Financial Officer implement a process in accordance with the Supplement to Treasury Financial Manual Volume 1, Part 2-5100, section V (A), Periodic Review and Evaluation, to perform and document monthly reconciliation of its Fund Balance with Treasury account with the U.S. Treasury and to identify, track, and resolve all differences in a timely manner.

Significant Deficiencies

USAID's Process to Reconcile Loans Receivable Is Not Adequate and Does Not Resolve Differences Between USAID and Its Loan Services Provider

USAID's process for reconciling its loans receivable differences generated from the interface between its general ledger (Phoenix) and the subsidiary ledger maintained by the Midland Loan Services Division of PNC Bank (Midland) Enterprise Loan System (ELS) needs improvement. At the end of each month, Midland activates the interface with the Phoenix system to record USAID loan activity for the preceding month. This interface is necessary because the Phoenix accounting system does not use the same accounting identification information for the loans that are recorded in and maintained by Midland's ELS. During our review of the loans receivable balances, we identified several differences between the two systems that were not reconciled. These differences occurred for the following reasons:

1. Some differences were due to errors in the General Ledger Transaction Interface Table (translation table) in the Phoenix accounting system that was not updated to capture all relevant loans receivable transactions recorded in the ELS.

2. Other differences were caused by a valid business process rule used by Midland to record restructured loans in accordance with the bilateral agreement. When loans are restructured or written off, Midland modifies the corresponding loan information in its ELS. However, USAID does not modify the loan information in

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[1] *Report on the Audit of USAID's Financial Statements for Fiscal Years 2007 and 2006*, p. 6, November 14, 2007, http://www.usa d.gov/o g/pub c/fy08rpts/0-000-08-001-c.pdf.

its Phoenix accounting system until updated information and approvals relating to the restructured loan are received from the U.S. Treasury and OMB.

As a result, we identified certain credit program activities that were recorded by Midland in accordance with the bilateral agreement but were not recorded in USAID's Phoenix accounting system. Because USAID did not reconcile the loans receivable balances in its Phoenix accounting system with the balances maintained by Midland's ELS, we identified differences of approximately $241 million between USAID's Phoenix accounting system and Midland's ELS that required adjustments to present more reliable loans receivable balances at fiscal year end.

Generally Accepted Accounting Principles require that the sum of the account balances in the subsidiary ledger equal the total of each line item in the general ledger at the end of each accounting period. Also, Federal Accounting Standards Advisory Board, Technical Release No. 6, states that the Agency should have an audit trail from individual transactions in the subsidiary ledger to the general ledger. This will ensure that cash transactions can be identified by type so that they may be further identified by subsidy expense component.

USAID has contracted with Midland to service its loan portfolio and to maintain accurate loan balances. Midland processes USAID's loans receivable transactions in ELS and runs a monthly interface between ELS and Phoenix to ensure that the information in ELS agrees with the information in Phoenix. For each transaction, Midland converts ELS transaction codes into Phoenix transaction codes. The converted codes are used to upload loans receivable data into Phoenix based on a general ledger translation table created by USAID. If the translation table is not updated and maintained, USAID cannot correctly upload all of the Midland loan transactions to the Phoenix accounting system.

We noted that USAID has conducted some reconciliation of its loans receivable with Midland's balances and identified several differences between rescheduled loan balances reported by Midland and those recorded in the Phoenix accounting system. Although USAID has taken steps to update the Phoenix translation table, it cannot correct all the discrepancies identified above until USAID receives the subsidies for the related restructured loans from the U.S. Treasury.

We also observed that Midland Loan Services followed the procedures outlined in the bilateral agreement and wrote off several loans when the bilateral agreement was entered into force by Congress's action or inaction 30 days after the agreement was made between the U.S. Government and the borrower. USAID could not write off those loans in its Phoenix accounting system because it did not receive the corresponding approval from OMB and the subsidy from the Department of Treasury. Therefore, reconciliation between Phoenix and Midland's ELS is necessary to identify the differences and resolve them when appropriate information becomes available. If the interface process does not properly update the Phoenix general ledger for the ELS transactions, the financial statement balances may be misstated. Additionally, USAID's Office of the Chief Financial Officer should ensure that its Washington Financial Services Division and its Central Accounting and Reporting Division coordinate the process of authorizing and recording loan subsidy activity. Because USAID's reconciliation process does not resolve all differences between USAID and its loan services provider, we are including the following recommendation:

Recommendation No. 2: We recommend that USAID's Office of the Chief Financial Officer implement procedures to reconcile loans receivable balances in Phoenix with the loans receivable balances in Midland's Enterprise Loan System and to investigate and resolve differences in a timely manner.

Controls to Estimate and Record Accrued Expenses and Accounts Payable Are Not Operating Effectively

USAID's methodology for estimating and recording accounts payable and accrued expenses using cognizant technical officer (CTO) reviews of the information contained in the Accrual Reporting System[2] is not operating effectively. Specifically, we found that CTOs were not reviewing and accurately recording the estimated amounts for quarterly accounts payable and accrued expenses in the general ledger. USAID estimates its accounts payable and accrued expenses using its Accrual Reporting System, which generates estimated accrual amounts that the CTOs must modify or approve and then record in the general ledger. However, the estimated pipeline amounts (which are significantly higher) were recorded as amounts accrued, instead of the estimated accrual amounts calculated by the Accrual Reporting System. From a randomly selected sample of 53 estimated accruals reviewed, we noted that 14 of the 53 items (26 percent) were incorrectly recorded in the general ledger, resulting in an overstatement of approximately $92 million that was not discovered by the responsible CTOs. This occurred because CTOs did not consistently monitor the recording of the amounts accrued in the general ledger. As a result, we proposed an adjustment of $563 million to reflect more accurately USAID's accounts payable and accrued expenses recorded in the general ledger.

Automated Directive System 631.3.4, *Accrued Expenditures*, states that the obligation manager or CTO must (a) review system-generated accrual amounts and/or allocations to determine if the amount can be validated or if it needs to be modified; (b) compare the amount developed based on known actual conditions and based on first-hand knowledge of the project activity to system-generated accrual amounts; and (c) complete the accrual process in accordance with the established time schedule and deadlines, and if the amounts are approximately the same value, validate the accrual amount as indicated in the Accruals Query, and if there is a significant difference, modify the accrual amount in the Accruals Query as appropriate. Because CTOs do not consistently review accounts payable and accrued expenses amounts generated by the Accrual Reporting System before those amounts are recorded in the general ledger and reported in the financial statements, we are making the following recommendation:

Recommendation No. 3: We recommend that the Chief Financial Officer develop and implement procedures to ensure that cognizant technical officers review and validate the quarterly accounts payable and accrued expenses amounts generated by the Accrual Reporting System before that information is recorded in the general ledger.

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[2] The Accrua Report ng System gathers ob gat on and contract nformat on from USAID's F nanc a Management and Procurement systems and uses these data to ca cu ate est mated quarter y accrued expenses aga nst nd v dua USAID contracts, grants, or ob gat on tems.

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The Posting Models That USAID Uses to Record Financial Transactions and Populate the General Ledger Contain Errors

During our testing of the posting models that are used to record financial transactions in the general ledger, we observed that the models were not populating general ledger accounts in accordance with the guidance from the U.S. Treasury. Specifically, we determined that the models, known as the General Ledger Account Code Entry in the Phoenix accounting system, do not record financial transactions in the correct accounts and sequence. For example, when a receipt of a warrant transaction is initiated, the posting model is supposed to record an entry in the proprietary accounts as well as the budgetary accounts, but it only records the transactions in the budgetary accounts. In addition, we observed that in some instances, the models recorded transactions in erroneous accounts. This occurred because of errors in the posting models. As a result, we identified transactions totaling approximately $9 billion that were erroneously posted to the general ledger. These transactions were subsequently corrected through manual intervention.

Financial transactions are required to be recorded in the financial accounting system according to the posting logic and sequence established in the U.S. Department of Treasury Letter Supplement S2 08-01, United States Standard General Ledger (USSGL) Account Transaction, Part 2, which states, "transactions affecting budgetary status may contain debit or credit entries to multiple USSGL status accounts that may be valid for a particular transaction." Additionally, OMB Circular No. A -127, section 7(c), states that financial events shall be recorded by agencies throughout the financial management system applying the requirements of the USSGL. The application of the USSGL at the transaction level means that the financial management systems will process transactions following the definitions of the general ledger accounts described in the USSGL.

USAID missions are required to enter accounting information for activities conducted at overseas locations, and they rely on the posting models to record their financial information in the correct accounts and sequence. As of May 2008, we identified several USAID transactions that should be recorded in multiple types of accounts but were only being recorded in one type of account. This occurred because the USAID's Office of Financial Management had not developed and implemented an overall process to identify and correct errors in the posting models to ensure that all accounting information is correctly recorded in appropriate general ledger accounts. Many posting models have been inaccurate for several years and USAID has not been able to readily address the deficiencies. It is imperative that USAID Washington correct the posting model errors so that financial activities can be correctly recorded and the general ledger and financial statements accurately populated.

USAID Office of Financial Management has increased its efforts to correct and resolve errors in the posting models when they are identified. However, the inaccurate posting and use of the correct accounting codes remain an issue at USAID. Use of the posting models is critical to USAID's financial statements because of the number of personnel around the world who input transactions into the Phoenix accounting system. Furthermore, the financial statements may be misstated depending on the total absolute value of all transactions that were incorrectly posted to the general ledger because of errors in the posting models. Therefore, we are making the following recommendation:

Recommendation No. 4: We recommend that the Chief Financial Officer develop and implement an overall plan to identify and correct the errors in the posting models and to maintain, update, and test posting models on a periodic basis.

Intragovernmental Transactions Remain Unreconciled

(Repeat Finding)

The U.S. Treasury reported a net difference of $3.3 billion in intragovernmental transactions between USAID and other Federal agencies at the end of FY 2008. Of this amount, $292 million represents differences requiring reconciliation in accordance with OMB Circular A-136 and the Department of Treasury's *Federal Intragovernmental Transactions Accounting Policies Guide, section 17.1*. The differences between USAID's records and those of its trading partners occurred because USAID was not able to consistently resolve material differences identified by the Department of Treasury in its quarterly Material Differences Report and other differences equal to or greater than $50 million identified in the Status of Disposition Certification Report. Additionally, USAID did not consistently reconcile other significant differences by reciprocal category with its Federal trading partners throughout FY 2008. Until intragovernmental transactions are reconciled, USAID's financial statements are subject to error.

USAID has increased its efforts to resolve unreconciled amounts, but significant differences still exist, including $292 million that should have been reconciled with two different Federal agencies. While some timing differences may ultimately be resolved, differences caused by accounting errors or different accounting methodologies require a special effort by USAID and its trading partners for timely resolution. The *Federal Intragovernmental Transactions Accounting Policies Guide* suggests that agencies work together to estimate accruals and to record corresponding entries in each set of records to ensure that they are in agreement and that long-term accounting policy differences can be identified. Until these differences are eliminated, USAID's financial statements are subject to error, to the extent of unreconciled intragovernmental activity.

Although $3.05 billion of the $3.3 billion of net differences reported between USAID and the U.S. Treasury general fund are not required to be reconciled, Treasury does suggest that Federal agencies confirm that these differences represent general fund activities. USAID did not consistently document these confirmations.

We identified similar conditions related to USAID's intragovernmental reconciliation process in a previous audit report[3] and recognize that this process requires continuing coordination with other Federal agencies. Therefore, we are not making a new recommendation, but we will continue to monitor USAID's progress in reducing intragovernmental balances in future audits.

[3] *Report on the Audit of USAID's Financial Statements for Fiscal Years 2007 and 2006*, p. 9, November 14, 2007, http://www.usa d.gov/o g/pub c/fy07rpts/0-000-08-001-c.pdf.

Other Matters

GAO/PCIE Financial Audit Manual requires the auditor to disclose whether material weaknesses identified during the audit were identified in management's FMFIA report. In performing our tests of internal controls as part of our financial statement audit, we noted and reported a material weakness pertaining to USAID's reconciliation of its Fund Balance with Treasury that is included in our Report on Internal Control. This condition was not identified by USAID in its FMFIA report.

USAID management's written response to the material weakness and significant deficiencies identified in our audit has not been subjected to the audit procedures applied in the audit of the financial statements and accordingly, we express no opinion on it.

This report is intended solely for the information and use of those charged with governance at USAID (the USAID Administrator, Deputy Administrator, Assistant Administrator for Management, and Chief Financial Officer) and others within USAID, as well as OMB and Congress, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.

Office of Inspector General

USAID, Office of Inspector General
November 14, 2008

REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS

We have audited the consolidated balance sheets of USAID as of September 30, 2008, and 2007. We have also audited the consolidated statements of changes in net position, consolidated statements of net cost, and combined statements of budgetary resources for the fiscal years ended September 30, 2008, and 2007, and have issued our report thereon. We conducted the audits in accordance with auditing standards generally accepted in the United States, Generally Accepted *Government Auditing Standards* issued by the Comptroller General of the United States, and OMB Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*.

The management of USAID is responsible for complying with laws and regulations applicable to USAID. As part of obtaining reasonable assurance about whether USAID's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts and with certain other laws and regulations specified in OMB Bulletin 07-04, including the requirements referred to in the Federal Financial Management Improvement Act of 1996 (FFMIA). We limited our tests of compliance to these provisions and did not test compliance with all laws and regulations applicable to USAID.

Our tests did not disclose instances of noncompliance, other than FFMIA, considered to be reportable under *Government Auditing Standards*. Our objective was not to provide an opinion on overall compliance with laws and regulations, and accordingly, we do not express such an opinion.

OMB Circular A-123

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

In 2006, USAID elected to complete its assessment in accordance with OMB Circular A-123, Appendix A, over the course of 3 years. In 2008, USAID accomplished this objective and key processes were substantially reviewed as reflected in USAID's fiscal year 2008 Statement of Assurance, in accordance with the approved plan. In 2009, USAID intends to monitor key processes as well as follow up on recommendations made in prior years.

Federal Financial Management Improvement Act of 1996

Under FFMIA, we are required to report on whether USAID's financial management systems substantially comply with Federal financial management systems requirements, applicable Federal accounting standards, and the United States Government Standard General Ledger (USSGL) at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA section 803(a) requirements. We noted no instances of substantial noncompliance with Federal financial management systems requirements, Federal accounting standards, or USSGL accounting at the transaction level. In our Report on Internal Control, we identified the following areas for improvement over several financial system processes, not affecting substantial compliance:

- Reconciliation of Fund Balance with the U.S. Treasury
- Accounting for loans receivable
- Accounting for accounts payable and accrued expenses
- General ledger posting models weaknesses
- Reconciliation of intragovernmental transactions

This report is intended solely for the information and use of those charged with governance at USAID (the USAID Administrator, Deputy Administrator, Assistant Administrator for Management, and Chief Financial Officer) and others within USAID, as well as OMB and Congress, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.

Office of Inspector General

USAID, Office of Inspector General
November 14, 2008

EVALUATION OF MANAGEMENT COMMENTS

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

USAID management agreed to implement recommendation no. 1 and commented that the Office of the Chief Financial Officer (CFO) will need additional resources to implement this recommendation. USAID management also commented that it will implement a process to identify and track all differences for USAID headquarters paying locations until the differences are resolved. USAID's CFO further commented that his office will implement the necessary collaboration and changes to its current procedures, where necessary, to resolve the differences. The tracking system used to resolve the differences at USAID headquarters paying locations will be implemented at overseas missions. The target completion date is September 30, 2009. We agree with the management decision to this recommendation and will review USAID's implementation of this recommendation during our FY 2009 GMRA audit.

USAID management agreed to implement recommendation no. 2 and intends to make significant progress in investigating and resolving loan receivable differences. The target completion date is September 30, 2009. We agree with the management decision to this recommendation and will review USAID's implementation of this recommendation during our FY 2009 GMRA audit.

USAID management agreed to implement recommendation no. 3 and commented that formal detailed procedures will be developed and disseminated throughout the Agency to provide clear guidance to cognizant technical officers showing the correct process to calculate and record accrued expenditures. The target completion date is September 30, 2009. We agree with the management decision to this recommendation and will review USAID's implementation of this recommendation during our FY 2009 GMRA audit.

USAID management agreed to implement recommendation no. 4. The CFO has resolved some of the errors identified during the audit and has implemented ongoing efforts to review its process to identify and correct errors in the posting model. USAID management also intends to expand its efforts to correct these errors. The target completion date is June 30, 2009. We agree with the management decision to this recommendation and will review USAID's implementation of this recommendation during our FY 2009 GMRA audit.

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SCOPE AND METHODOLOGY

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

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

To fulfill these responsibilities, the OIG:

- examined, on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- assessed the accounting principles used and significant estimates made by management;
- evaluated the overall presentation of the financial statements;
- obtained an understanding of internal control related to financial reporting (including safeguarding assets) and compliance with laws and regulations, (including execution of transactions in accordance with budget authority);
- tested relevant internal controls over financial reporting and compliance, and evaluated the design and operating effectiveness of internal controls;
- considered the process for evaluating and reporting on internal control and financial management systems under FMFIA; and
- tested USAID's compliance with FFMIA requirements.

We also tested USAID's compliance with selected provisions of the following laws and regulations:

- Anti-deficiency Act
- Improper Payments Information Act
- Prompt Payment Act
- Debt Collection Improvement Act
- Federal Credit Reform Act
- OMB Circular A-136
- OMB Circular A-123

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

We did not test compliance with all laws and regulations applicable to USAID. We limited our tests of compliance to those laws and regulations required by OMB audit guidance that we deemed applicable to the financial statements for the fiscal years ended September 30, 2008, and 2007. We caution that noncompliance may occur and not be detected by these tests, and that such testing may not be sufficient for other purposes.

In forming our opinion, the OIG considered potential aggregate errors exceeding $278 million for any individual statement to be material to the presentation of the overall financial statements.

Federal Financial Management Improvement Act

We assessed whether USAID complied with the Federal financial management systems requirement under section 803(a) of the Federal Financial Management Improvement Act of 1996 (FFMIA). To perform our review, we conducted assessments of USAID's Global Acquisition System (GLAAS) and Phoenix financial management system to determine whether the systems substantially complied with selected mandatory requirements contained in the Financial Systems Integration Office (FSIO), formerly known as the Joint Financial Management Improvement Program, A*cquisition/Financial Systems Interface Requirements* dated June 2002.

In conducting our review, we held discussions with GLAAS and Phoenix officials as well as contract and Agency systems personnel to obtain the necessary documentation to support our compliance assessment. The results of our review found that USAID met 46 of the 64 mandatory FSIO *Acquisition/Financial Systems Interface Requirements*. Even though we found that USAID was noncompliant with 18 of the 64 requirements, Agency officials indicated that 16 of the 18 noncompliant requirements do not relate to USAID's business processes. Therefore, a determination was made that those 16 noncompliant requirements (which included receipt and acceptance; general property, plant, and equipment; and performance-based payments) were not applicable to USAID's compliance with FFMIA. The remaining two noncompliant requirements were attributable to performance-based payments and fast pay within USAID.

Additionally, we requested and obtained a memorandum from the Office of the Chief Financial Officer certifying that no fiscal year 2008 upgrades or changes to the Phoenix accounting system result in USAID not being substantially compliant with FFMIA. Therefore, our review found no instances of substantial noncompliance with the Federal financial management systems requirement under section 803(a) of the FFMIA.

MANAGEMENT COMMENTS

USAID
FROM THE AMERICAN PEOPLE

November 10, 2008

MEMORANDUM

TO: AIG, Joseph Farinella

FROM: M/CFO, David D. Ostermeyer /s/

SUBJECT: Management's Comments to Draft Independent Auditor's Report on USAID's Financial Statements for Fiscal Years 2008 and 2007 (Report No. 0-000-09-001 -C)

Thank you for your draft audit report on the USAID FY 2008 and 2007 Financial Statements and for the professionalism and dedication exhibited by your staff throughout this entire process.

FY 2008 was another significant year for federal financial management at USAID. We are pleased that your draft report presents both our progress and our remaining challenges. We are gratified that the USAID Inspector General will issue unqualified opinions on all of USAID's four principal financial statements. The acknowledgments of the Agency's improvements in financial systems and processes throughout the report are greatly appreciated.

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

Material Weaknesses: USAID Does Not Reconcile its Fund Balance with the U.S. Treasury and Resolve Reconciling Items (Repeat Finding)

Recommendation No. I: We recommend that USAID's Chief Financial Officer implement a process in accordance with the Supplement to Treasury Financial Manual Volume 1, Part 2-5100, section V (A), Periodic Review and Evaluation, to perform and document monthly reconciliation of its Fund Balance with Treasury account with the U.S. Treasury and to identify, track and resolve all differences in a timely manner.

Management Decision: We accept the recommendation. The Chief Financial Officer (CFO) will need additional resources to implement this recommendation. We will implement a process that will document our reconciliations, and identify and track all differences for the headquarters paying location until they are resolved, and we will make significant progress in resolving differences. At the same time, we note that this will be a project that will require collaboration among several CFO functions, one for which our information resources may be limited, and one that may require several changes in our current procedures. After we complete the headquarters tracking system we will adapt it to the Missions and implement it there.

Target completion date: September 30, 2009

Significant Deficiency: USAID's Reconciliation of Loans Receivable was not Adequate and did not resolve Differences between USAID and its Loan Services Provider

Recommendation No. 2: We recommend that USAID's Office of the Chief Financial Officer implement procedures to reconcile loans receivable balances in Phoenix with the loans receivable balances in Midland's Enterprise Loan System and to investigate and resolve differences in a timely manner.

Management Decision: We agree to implement the recommendation. We will make significant progress in investigating and resolving differences.

Target completion date: September 30, 2009

Significant Deficiency: Controls to Estimate and Record Accrued Expenses and Accounts Payable are not Operating Effectively

Recommendation No. 3: We recommend that the Chief Financial Officer develop and implement procedures to ensure that Cognizant Technical Officers review and validate the quarterly accounts payable and accrued expenses amounts generated by the Accrual Reporting System before that information is recorded in the general ledger.
Management Decision: We agree to implement the recommendation. Formal and detailed procedures will be developed and disseminated throughout the Agency to provide clear guidance, particularly to Cognizant Technical Officers, on the correct preparation and recording of quarterly accrued expenditures.

Target completion date: September 30, 2009

Significant Deficiency: The Posting Models that USAID uses to Record Financial Transactions and Populate the General Ledger Contain Errors

Recommendation No. 4: We recommend that the Chief Financial Officer develop and implement an overall plan to identify and correct the errors in the posting models and to maintain, update, and test posting models on a periodic basis.

Management Decision: We agree to implement the recommendation. CFO has resolved some of the errors identified during the audit. CFO has implemented an ongoing "tie point" review process to identify and correct errors in the posting models, and we will expand these efforts.

Target completion date: June 30, 2009

Significant Deficiency: Intragovernmental Transactions Remain Unreconciled (Repeat Finding)

There are no recommendations associated with this significant deficiency. The CFO implemented corrective actions related to two audit recommendations issued in the Fiscal Years 2007, 2006 and 2005 GMRA audit reports. USAID requires more cooperation from its trading partners if we are to eliminate differences altogether but we will keep trying to improve, consistent with other demands on our resources.

In closing, I would like to confirm USAID's commitment to continual improvement in financial management. I intend to ensure that all necessary steps are taken to institutionalize strong financial management performance throughout the Agency. We will continue the improvements made in the last few years as we work further to develop and implement long-term solutions to address the issues cited in your report.

STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS

OMB Circular A-50 states that a management decision on audit recommendations shall be made within a maximum of 6 months after a final report is issued. Corrective action should proceed as rapidly as possible.

Status of 2007 Findings and Recommendations

Audit of USAID's Financial Statements for Fiscal Years 2007 and 2006, Audit Report No. 0-000-08-001-C, November 15, 2007

Recommendation No. 1: We recommend that USAID's Office of the Chief Financial Officer develop agreements with its material child Federal agencies that address consistency between budgetary and proprietary accounting information provided to USAID.

Status: The Department of State, being a material Federal child agency to USAID, will receive each allocation from the parent as a Treasury Department Non-expenditure Transfer Authorization. In addition, the Department of State will provide USAID with correct and timely financial information. Final action was completed on September 26, 2008.

Recommendation No. 2: We recommend that USAID's Office of the Chief Financial Officer annually update and validate transaction codes used by its loan servicing provider in USAID's transaction translation table.

Status: The clean-up of the transaction codes in the transaction translation table has been completed and all missing crosswalk entries have been corrected. The changes were tested and found to be successful. The Office of the Chief Financial Officer (CFO) has outlined the PNC-Midland process and configured a workflow to synchronize with Phoenix (see Status in the following recommendation no. 3). Moving forward, Midland and M/CFO/CAR will jointly update and validate the transaction translation table on an annual basis. Final action was completed on August 31, 2008.

Recommendation No. 3: We recommend that USAID's Office of the Chief Financial Officer develop and implement controls preventing the authorization of loan cancellations prior to its receipt of subsidy funds by the Department of Treasury and prior to the transfer of appropriations approved by the Office of Management and Budget.

Status: The Office of the CFO prepared a flow chart of the action and procedures related to loan subsidies and write-offs. The updated procedures include a control to ensure that the loan service provider makes entries in its system for transactions that are recorded in Phoenix in the same period, where possible. These procedures will apply proper timing to loan accounting transactions for subsidies. M/CFO/WFS has communicated these updated internal control procedures to PNC-MIDLAND. Final action was completed on May 30, 2008.

Status of 2006 Findings and Recommendations

Audit of USAID's Financial Statements for Fiscal Years 2006 and 2005, Audit Report No. 0-000-07-001-C, November 15, 2006

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

Status: The Office of the CFO has confirmed that data received from another data call are consistent with the Foreign Currency Trust Fund recorded in Phoenix. Moving forward, M/CFO/CAR will rely on Phoenix for foreign currency information. Final action was completed on May 30, 2008.

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

Status: During FY 2008, USAID has improved its performance on the process for reconciling its Fund Balance with Treasury (FBWT). We have investigated and resolved many differences between transactions recorded at the U.S. Treasury and transactions recorded in the Phoenix accounting system. Unfortunately, we have not been able to resolve all of them. Additional time, people, and systems improvements are required before USAID can address the challenges of the process for reconciling its FBWT.

Improvements include:

- Correction of prior year DHHS differences well under way
- Warrant and transfer differences eliminated
- 2008 payroll differences reduced to one payroll (vs. four payrolls)
- 2008 Advice of Charge differences reduced
- Overall, USAID's FBWT difference has decreased

Challenges include:

- The number of unresolved differences for the USAID/Washington Agency Location Code is unacceptably high.
- Differences between missions' disbursements in Phoenix and the U.S. Treasury appear to be growing.

The target date for completion is September 30, 2009.

Financial Section

Financial Statements and Notes

***(Above)* Palestinians in the West Bank unload bags of flour donated by USAID. The U.S. Government supports humanitarian aid for people in the West Bank and the Gaza Strip. USAID also funds programs for water and sanitation, infrastructure, education, health, economic growth, and democracy in the region.**

PHOTO: MOHAMMED BALLAS / AP / WIDE WORLD PHOTOS

***(Preceding page)* Women preparing vegetables at San Judas packing plant to sell to grocery stores in Guatemala. The San Judas company is participating in a USAID Global Development Alliance program with partners Wal-Mart, Mercy Corps, and Fundación AGIL.**

PHOTO: EDUARDO SMITH / PRENSA LIBRE

INTRODUCTION TO PRINCIPAL FINANCIAL STATEMENTS

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

USAID's principal financial statements and additional information for FY 2008 and FY 2007 consist of the following:

The **Consolidated Balance Sheet,** which presents as of September 30, 2008 and 2007 those resources owned or managed by USAID, that are available to provide future economic benefits (assets); amounts owed by USAID that will require payments from those resources or future resources (liabilities); and residual amounts retained by USAID, comprising the difference (net position). Comparative data for FY 2007 are included and intra-agency balances have been eliminated from the amounts presented.

The **Consolidated Statement of Net Cost,** which presents the net cost of USAID operations for the years ended September 30, 2008 and 2007. USAID's net cost of operations includes the gross costs incurred by USAID less any exchange revenue earned from USAID activities. Due to the complexity of USAID's operations, the classification of gross cost and exchange revenues by major program and suborganization is presented in Note 16, Schedule of Cost by Responsibility Segments, to the consolidated financial statements. Comparative data for FY 2008 are included and intra-agency balances have been eliminated from the amounts presented.

The **Consolidated Statement of Changes in Net Position,** which presents the change in USAID's net position resulting from the net cost of USAID operations, budgetary financing sources other than exchange revenues, and other financing sources for the years ended September 30, 2008 and 2007. The components of net position are separately displayed in two columns, Cumulative Results of Operations and Unexpended Appropriations, to clearly identify the components of and changes to net position. Comparative data for FY 2008 are included and intra-agency balances have been eliminated from the amounts presented.

The **Combined Statement of Budgetary Resources,** which presents the budgetary resources available to USAID during FY 2008 and FY 2007, what the status of these resources was at year-end, the change in obligated balance during FY 2008 and FY 2007, and outlays of budgetary resources for the years ended September 30, 2008 and 2007. Information in this statement is reported on the budgetary basis of accounting. Comparative data for FY 2007 are included and intra-agency balances have been eliminated from the amounts presented.

The **Notes to Principal Financial Statements** are an integral part of the financial statements. They provide explanatory information to help financial statement users to understand, interpret, and use the data presented. Comparative FY 2007 Note data may have been restated or recast to enable comparability with the FY 2008 presentation.

Required Supplementary Information provides details on USAID's budgetary resources at year-end.

HISTORY OF USAID'S FINANCIAL STATEMENTS

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

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

The **Consolidated Statement of Financing** which is presented in Note 18, Reconciliation of Obligations Incurred to Net Cost of Operations, is not considered a basic statement, due to a reporting change published in FY 2007 OMB Circular.

FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET

As of September 30, 2008 and 2007
(In Thousands)

	2008	2007
ASSETS:		
Intragovernmental:		
Fund Balance with Treasury (Note 2)	$ 19,181,073	$ 19,131,357
Accounts Receivable (Note 3)	220	220
Other Assets (Note 4)	1,753	4,532
Total Intragovernmental	19,183,046	19,136,109
Cash and Other Monetary Assets (Note 5)	302,628	288,079
Accounts Receivable, Net (Note 3)	267,029	179,347
Loans Receivable, Net (Note 6)	3,988,662	4,410,638
Inventory and Related Property, Net (Note 7)	32,729	35,753
General Property, Plant, and Equipment, Net (Notes 8 and 9)	94,269	88,498
Advances (Note 4)	497,223	501,531
Total Assets	**$ 24,365,586**	**$ 24,639,955**
LIABILITIES (Note 16):		
Intragovernmental:		
Accounts Payable (Note 10)	$ 48,389	$ 62,101
Debt (Note 11)	477,372	498,506
Due to U.S. Treasury (Note 11)	3,737,917	4,045,375
Other Liabilities (Note 12)	159,437	216,005
Total Intragovernmental	4,423,115	4,821,987
Accounts Payable (Note 10)	1,869,874	2,367,957
Loan Guarantee Liability (Note 6)	1,606,876	1,823,332
Federal Employee and Veteran's Benefits (Note 13)	21,269	22,282
Other Liabilities (Notes 10, 12, and 13)	459,977	398,622
Total Liabilities	**8,381,111**	**9,434,180**
Commitments and Contingencies (Note 14)	–	2,940
NET POSITION:		
Unexpended Appropriations	14,982,084	14,787,230
Cumulative Results of Operations	1,002,391	415,605
Total Net Position	**$ 15,984,475**	**$ 15,202,835**
Total Liabilities and Net Position	**$ 24,365,586**	**$ 24,639,955**

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENT OF NET COST

For the Years Ended September 30, 2008 and 2007
(In Thousands)

OBJECTIVES	2008	2007
Peace and Security:		
Gross Costs	$ 846,976	$ 460,211
Less: Earned Revenue	(2,161)	(1,146)
Net Program Costs	844,815	459,065
Governing Justly and Democratically:		
Gross Costs	1,413,922	1,306,545
Less: Earned Revenue	(3,800)	(3,498)
Net Program Costs	1,410,122	1,303,047
Investing in People:		
Gross Costs	3,941,083	3,513,749
Less: Earned Revenue	(278,465)	(484,068)
Net Program Costs	3,662,618	3,029,681
Economic Growth:		
Gross Costs	2,497,065	3,103,511
Less: Earned Revenue	(133,679)	(102,616)
Net Program Costs	2,363,386	3,000,895
Humanitarian Assistance:		
Gross Costs	594,418	1,389,641
Less: Earned Revenue	(12,397)	(3,587)
Net Program Costs	582,021	1,386,054
Operating Unit Management:		
Gross Costs	58,507	117,362
Less: Earned Revenue	(162)	(210)
Net Program Costs	58,345	117,152
Net Costs of Operations (Notes 15 and 16)	**$ 8,921,307**	**$ 9,295,894**

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

For the Years Ended September 30, 2008 and 2007
(In Thousands)

	2008 Consolidated Total	2007 Consolidated Total
Cumulative Results of Operations:		
Beginning Balances	$ 415,605	$ 1,362,566
Adjustments-Changes in Accounting Principles	–	(1,026,284)
Beginning Balances, as Adjusted	415,605	336,282
Budgetary Financing Sources:		
Appropriations Used	9,397,644	9,235,818
Donations and Forfeitures of Cash and Cash Equivalents	87,774	117,541
Transfers-in/out without Reimbursement	165	–
Other Financing Sources (Non-Exchange):		
Imputed Financing	22,509	21,858
Total Financing Sources	9,508,092	9,375,217
Net Cost of Operations	(8,921,307)	(9,295,894)
Net Change	586,785	79,323
Cumulative Results of Operations:	1,002,391	415,605
Unexpended Appropriations:		
Beginning Balance	14,787,230	14,334,819
Adjustments-Changes in Accounting Principles	–	(896,460)
Beginning Balance, as Adjusted	14,787,230	13,438,359
Budgetary Financing Sources:		
Appropriations Received	9,389,158	10,853,865
Appropriations Transferred in/out	370,567	(64,272)
Other Adjustments	(167,227)	(204,904)
Appropriations Used	(9,397,644)	(9,235,818)
Total Budgetary Financing Sources	194,854	1,348,871
Total Unexpended Appropriations	14,982,084	14,787,230
Net Position	**$ 15,984,475**	**$ 15,202,835**

The accompanying notes are an integral part of these statements.

COMBINED STATEMENT OF BUDGETARY RESOURCES

For the Years Ended September 30, 2008 and 2007
(In Thousands)

	2008		2007	
	Budgetary	**Non-Budgetary Credit Reform**	**Budgetary**	**Non-Budgetary Credit Reform**
Budgetary Resources:				
Unobligated Balance, Brought Forward, October 1	$ 3,271,812	$ 1,582,317	$ 3,904,527	$ 1,422,605
Recoveries of Prior Year Unpaid Obligations	211,228	2	199,240	23
Budget Authority:				
Appropriations	9,478,641	–	10,920,445	–
Borrowing Authority (Note 11)	–	3,313	–	–
Spending Authority from Offsetting Collections:				
Earned:				
Collected	1,163,545	197,609	978,655	227,843
Change in Receivables from Federal Sources	–	–	(3,435)	–
Change in Unfilled Customer Orders:				
Without Advance from Federal Sources	(52,966)	–	58,516	–
Subtotal	10,589,220	200,922	11,954,181	227,843
Nonexpenditure Transfers, Net, Anticipated and Actual	354,552	–	78,398	–
Permanently Not Available	(893,394)	–	(980,038)	–
Total Budgetary Resources	**$13,533,418**	**$ 1,783,241**	**$15,156,308**	**$ 1,650,471**
Status of Budgetary Resources:				
Obligations Incurred: (Note 17)				
Direct	$ 9,302,741	$ 166,533	$ 11,523,609	$ 68,154
Reimbursable	328,612	18	371,418	–
Subtotal	9,631,353	166,551	11,895,027	68,154
Unobligated Balance:				
Apportioned (Note 2)	2,400,824	7,599	2,703,044	3,663
Subtotal	2,400,824	7,599	2,703,044	3,663
Unobligated Balance Not Available (Note 2)	1,501,241	1,609,091	558,237	1,578,654
Total Status of Budgetary Resources (Note 17)	**$13,533,418**	**$ 1,783,241**	**$15,156,308**	**$ 1,650,471**

(continued on next page)

COMBINED STATEMENT OF BUDGETARY RESOURCES *(continued)*

For the Years Ended September 30, 2008 and 2007
(In Thousands)

	2008		2007	
	Budgetary	Non-Budgetary Credit Reform	Budgetary	Non-Budgetary Credit Reform
Change in Obligated Balance:				
Obligated Balance, Net				
Unpaid Obligations, Brought Forward, October 1	$ 14,292,483	$ 28,669	$ 11,666,588	$ 3,772
Less: Uncollected Customer Payments from Federal Sources, Brought Forward, October 1	(75,010)	–	(19,930)	–
Total Unpaid Obligated Balance, Net (Note 17)	14,217,473	28,669	11,646,658	3,772
Obligations Incurred Net (+/-)	9,631,353	166,551	11,895,027	68,155
Less: Gross Outlays	(9,987,029)	(195,914)	(8,969,011)	(43,235)
Less: Recoveries of Prior Year Unpaid Obligations, Actual	(211,228)	(2)	(199,239)	(23)
Change in Uncollected Customer Payments from Federal Sources (+/-)	52,966	–	(55,081)	–
Obligated Balance, Net, End of Period				
Unpaid Obligations	13,725,579	(695)	14,393,364	28,669
Less: Uncollected Customer Payments from Federal Sources	(22,044)	–	(75,010)	–
Total, Unpaid Obligated Balance, Net, End of Period	13,703,535	(695)	14,318,354	28,669
Net Outlays:				
Gross Outlays	9,987,028	195,914	8,969,011	43,235
Less: Offsetting Receipts (Note 17)	(1,163,545)	(197,609)	(978,655)	(227,843)
Less: Distributed Offsetting Receipts	(179,387)	–	(25,925)	–
Net Outlays	**$ 8,644,096**	**$ (1,695)**	**$ 7,964,431**	**$ (184,608)**

The accompanying notes are an integral part of these statements.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF PRESENTATION

The accompanying principal financial statements (statements) report USAID's financial position and results of operations. They have been prepared using USAID's books and records in accordance with Agency accounting policies, the most significant of which are summarized in this note. The statements are presented in accordance with the guidance and requirements of the Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements.*

In accordance with OMB Circular A-136, changes have been made to the 2008 accounting reporting procedures. The 2008 statement of financing is presented as a footnote instead of a principal financial statement to comply with new requirements. In addition, as specified by Note 1 Section U, child transfer activities are to be included and parent transfer activities are to be excluded in trial balances.

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

B. REPORTING ENTITY

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

Programs

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

Iraq Relief and Reconstruction Fund

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

Economic Support Fund

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

Development Assistance

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

Assistance for the New Independent States of the Former Soviet Union

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

Special Assistance Initiatives

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

International Disaster Assistance

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

Child Survival and Disease

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

Transition Initiatives

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

Direct and Guaranteed Loans

- ***Direct Loan Program***

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

- ***Urban and Environmental Program***

  The Urban and Environmental (UE) program, formerly the Housing Guarantee Program, extends 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 Program***

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

- ***Israeli Loan Guarantee Program***

  Congress enacted the Israeli Loan Guarantee Program in Section 226 of the Foreign Assistance Act of 1961 to support the costs for immigrants resettling to Israel from the former Soviet Union, Ethiopia, and other countries. Under this program, the U.S. Government guaranteed the repayment of up to $10 billion in loans from commercial sources, to be borrowed in $2 billion annual increments. Borrowing was completed under the program during Fiscal Year 1999, with approximately $9.2 billion being guaranteed. Guarantees are made by USAID on behalf of the U.S. Government, with funding responsibility and basic administrative functions guarantees for Israel, not to exceed $9 billion and $1.3 billion in guarantees were resting with USAID. In FY 2003, Congress authorized a second portfolio of loan issued under this portfolio during FY 2003.

- ***Ukraine Guarantee Program***

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

- ***Development Credit Authority***

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

- ***Loan Guarantees to Egypt Program***

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

Fund Types

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

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

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

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

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

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

C. BASIS OF ACCOUNTING

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

D. BUDGETS AND BUDGETARY ACCOUNTING

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

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

Division A, Title VII, Section 611 found on page 474 of H. R. 2764, known as the "Consolidated Appropriations Act, 2008" and signed into law as P.L.110-161, provides to USAID extended authority to obligate funds. USAID's appropriations acts for years have consistently provided essentially similar authority. It is commonly known as "511/517" authority, a name that is based on references to the sections of the previous appropriations acts. Under this authority funds shall remain available for obligation for an extended period if such funds are obligated within their initial period of availability.

E. REVENUES AND OTHER FINANCING SOURCES

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

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

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

F. FUND BALANCE WITH THE U.S. TREASURY

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

G. FOREIGN CURRENCY

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

H. ACCOUNTS RECEIVABLE

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

I. LOANS RECEIVABLE

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

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

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

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

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

J. ADVANCES

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

K. INVENTORY AND RELATED PROPERTY

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

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

L. PROPERTY, PLANT AND EQUIPMENT

USAID capitalizes all property, plant and equipment that have an acquisition cost of $25 thousand 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 three to five years, and capital leases are depreciated according to the terms of the lease. The Agency operates land, buildings, and equipment that are provided by the General Services Administration. Rent for this property is expensed. Internal use software that has development costs of $300,000 or greater is capitalized. Deferred maintenance amounts are immaterial with respect to the financial statements.

M. LIABILITIES

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

N. LIABILITIES FOR LOAN GUARANTEES

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

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

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

O. ANNUAL, SICK, AND OTHER LEAVE

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

P. RETIREMENT PLANS AND POST EMPLOYMENT BENEFITS

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

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

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

Q. COMMITMENTS AND CONTINGENCIES

A contingency is an existing condition, situation or set of circumstances involving uncertainty as to possible gain or loss to USAID. The uncertainty will ultimately be resolved when one or more future events occur or fail to occur. For pending, threatened or potential litigation, a liability is recognized when a past transaction or event has occurred, a future outflow or other sacrifice of resources is likely, and the related future outflow or sacrifice of resources is measurable. For other litigations, a contingent liability is recognized when similar events occur except that the future outflow or other sacrifice of resources is more likely than not. Footnote 14 identifies commitments and contingency liabilities.

R. NET POSITION

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

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

S. NON-ENTITY ASSETS

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

T. AGENCY COSTS

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

U. PARENT/CHILD REPORTING

USAID is a party to allocation transfers with other federal agencies as both a transferring (parent) entity and receiving (child) entity. Allocation transfers are legal delegations by one department of its ability to obligate budget authority and outlay funds to another department. A separate fund account (allocation account) is created in the U.S. Treasury as a subset of the parent fund account for tracking and reporting purposes. All allocation transfers of balances are credited to this account, and subsequent obligations and outlays incurred by the child entity are charged to this allocation account as they execute the delegated activity on behalf of the parent entity. Generally, all financial activity related to these allocation transfers (e.g. budget authority, obligations, outlays) is reported in the financial statements of the parent entity, from which the underlying legislative authority, appropriations, and budget apportionments are derived. Exceptions to this general rule affecting USAID include the Executive Office of the President, for whom USAID is the child in the allocation transfer but, per OMB guidance, will report all activity relative to these allocation transfers in USAID's financial statements. In addition to these funds, USAID allocates funds as the parent to:

- Department of Energy
- Department of Justice
- Department of Labor
- Department of State
- Department of the Treasury
- Nuclear Regulatory Commission.

USAID receives allocation transfers as the child from:

- Department of State
- Executive Office of the President
- Millennium Challenge Corporation
- United States Department of Agriculture, Commodity Credit Corporation.

NOTE 2. FUND BALANCE WITH TREASURY

Fund Balance with Treasury as of September 30, 2008 and 2007 consisted of the following:

FUND BALANCE WITH TREASURY
(In Thousands)

Fund Balance	2008	2007
Trust Funds	$ 49,614	$ 40,421
Revolving Funds	3,689,191	3,018,774
Appropriated Funds	15,458,588	16,024,157
Other Funds	(16,320)	48,005
Total	$ 19,181,073	$ 19,131,357
Status of Fund Balance with Treasury	**2008**	**2007**
Unobligated Balance		
Available	$ 2,408,423	$ 2,706,707
Unavailable	3,110,332	2,136,891
Obligated and Other Balances Not Yet Disbursed (Net)	13,662,318	14,287,759
Total	$ 19,181,073	$ 19,131,357

The Fund Balance with Treasury are available to pay accrued liabilities and finance authorized commitments relative to goods, services, and employee benefits. Other Funds balance includes $39.3 million in unapplied Suspense accounts disbursements at FY 2008 year end.

Unobligated balances become available when apportioned by the OMB for obligation in the current fiscal year. Obligated and other balances not yet disbursed (net) include balances for non-budgetary funds and unfilled customer orders without advances. The unobligated and obligated balances are reflected on the Statement of Budgetary Resources.

NOTE 3. ACCOUNTS RECEIVABLE, NET

The primary components of USAID's accounts receivable as of September 30, 2008 and 2007 are as follows:

ACCOUNTS RECEIVABLE, NET
(In Thousands)

	Receivable Gross	Allowance Accounts	Receivable Net 2008	Receivable Net 2007
Intragovernmental				
Appropriation Reimbursements from Federal Agencies	$ 761	$ N/A	$ 761	$ 761
Accounts Receivable from Federal Agencies	52,001	N/A	52,001	255,538
Less Intra-Agency Receivables	(52,542)	N/A	(52,542)	(256,079)
Total Intragovernmental	220	N/A	220	220
Accounts Receivable	275,242	(8,213)	267,029	179,347
Total Receivables	$ 275,462	$ (8,213)	$ 267,249	$ 179,567

Entity intragovernmental accounts receivable consist of amounts due from other U.S. Government agencies. No allowance accounts have been established for the intragovernmental accounts receivable, which are considered to be 100% collectible.

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

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

NOTE 4. OTHER ASSETS

Advances as of September 30, 2008 and 2007 consisted of the following:

ADVANCES
(In Thousands)

	2008	2007
Intragovernmental		
Advances to Federal Agencies	$ 1,753	$ 4,532
Total Intragovernmental	1,753	4,532
Advances to Contractors/Grantees	376,804	400,622
Advances to Host Country Governments and Institutions	114,122	94,898
Advances, Other	6,297	6,011
Total with the Public	497,223	501,531
Total Other Assets	$ 498,976	$ 506,063

FY 2008 advances to Host Country Governments and Institutions represent amounts advanced by USAID missions to host country governments and other in-country organizations, such as educational institutions and voluntary organizations. Advances, Other consist primarily of amounts advanced for living quarters, travel, and home service.

NOTE 5. CASH AND OTHER MONETARY ASSETS

Cash and Other Monetary Assets as of September 30, 2008 and 2007 are as follows:

CASH AND OTHER MONETARY ASSETS
(In Thousands)

Cash and Other Monetary Assets	2008	2007
Imprest Fund-Headquarters	$ 5	$ 4
UE and Micro and Small Enterprise Fund Cash w/Fiscal Agent	50	50
Foreign Currencies	302,573	288,025
Total Cash and Other Monetary Assets	$ 302,628	$ 288,079

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. The cumulative balance of imprest funds provided to USAID's by the Department of State was $1.5 million in FY 2008 and $1.6 million in FY 2007. These imprest funds are not included in USAID's Consolidated Balance Sheet.

Foreign Currencies are related to Foreign Currency Trust Funds and this totaled to $302.6 million in FY 2008 and $288.0 million in FY 2007. USAID does not have any non-entity cash or other monetary assets.

NOTE 6. DIRECT LOAN AND LOAN GUARANTEES, NON-FEDERAL BORROWERS

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

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

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

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

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

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

SUMMARY OF LOANS RECEIVABLES, NET *(In Thousands)*	2008	2007
Net Direct Loans Obligated Prior to 1992 (Allowance for Loss Method)	$ 3,489,183	$ 3,824,147
Net Direct Loans Obligated After 1991 (Present Value Method)	282,738	308,427
Defaulted Guaranteed Loans from Pre-1992 Guarantees (Allowance for Loss Method)	216,741	278,064
Total Loans Receivable, Net as reported on the Balance Sheet	$ 3,988,662	$ 4,410,638

DIRECT LOANS

DIRECT LOANS
(In Thousands)

Loan Programs	Loans Receivables Gross	Interest Receivable	Allowance for Loan Losses	Value of Assets Related to Direct Loans, Net
Direct Loans Obligated Prior to 1992 (Allowance for Loss Method) as of September 30, 2008:				
Direct Loans	$ 4,429,500	$ 346,969	$ 1,287,285	$ 3,489,183
MSED	29	32	61	—
Total	$ 4,429,529	$ 347,001	$ 1,287,346	$ 3,489,183
Direct Loans Obligated Prior to 1992 (Allowance for Loss Method) as of September 30, 2007:				
Direct Loans	$ 4,900,067	$ 329,209	$ 1,405,129	$ 3,824,147
MSED	29	32	61	–
Total	$ 4,900,096	$ 329,241	$ 1,405,190	$ 3,824,147
Direct Loans Obligated After 1991 as of September 30, 2008:				
Direct Loans	$ 1,165,515	$ 5,138	$ 887,732	$ 282,921
MSED	150	24	357	(183)
Total	$ 1,165,665	$ 5,162	$ 888,089	$ 282,738
Direct Loans Obligated After 1991 as of September 30, 2007:				
Direct Loans	$ 1,045,654	$ 4,330	$ 741,374	$ 308,610
MSED	150	24	357	(183)
Total	$ 1,045,804	$ 4,354	$ 741,731	$ 308,427

TOTAL AMOUNT OF DIRECT LOANS DISBURSED
(In Thousands)

Direct Loan Programs	2008	2007
Direct Loans	$ 5,595,015	$ 5,945,721
MSED	179	179
Total	$ 5,595,194	$ 5,945,900

SCHEDULE FOR RECONCILING SUBSIDY COST ALLOWANCE BALANCES (POST-1991 DIRECT LOANS)

(In Thousands)

	2008			2007		
	Direct Loan	MSED	Total	Direct Loan	MSED	Total
Beginning Balance, Changes, and Ending Balance						
Beginning Balance of the Subsidy Cost Allowance	$ 741,374	$ 357	$ 741,731	$ 745,777	$ (10)	$ 745,767
Add: Subsidy Expense for Direct Loans Disbursed During the Reporting Years by Component:						
(A) Interest Rate Differential Costs	—	—	—	–	–	–
(B) Default Costs (Net of Recoveries)	—	—	—	–	–	–
(C) Fees and Other Collections	—	—	—	–	–	–
(D) Other Subsidy Costs	—	—	—	–	–	–
Total of the Above Subsidy Expense Components	—	—	—	–	–	–
Adjustments:						
(A) Loan Modifications	26,648	—	26,648	16,133	–	16,133
(B) Fees Received	—	—	—	–	–	–
(C) Foreclosed Property Acquired	—	—	—	–	–	–
(D) Loans Written Off	—	—	—	(39,020)	–	(39,020)
(E) Subsidy Allowance Amortization	6,784	—	6,784	18,485	367	18,852
(F) Other	86,278	—	86,278	–	–	–
Ending Balance of the Subsidy Cost Allowance Before Reestimates	861,084	357	861,444	741,374	357	741,731
Add or Subtract Subsidy Reestimates by Component:						
(A) Interest Rate Reestimate	—	—	—	–	–	–
(B) Technical/Default Reestimate	—	—	—	–	–	–
Total of the Above Reestimate Components	—	—	—	–	–	–
Ending Balance of the Subsidy Cost Allowance	$ 861,084	$ 357	$ 861,444	$ 741,374	$ 357	$ 741,731

DEFAULTED GUARANTEED LOANS

(In Thousands)

Loan Guarantee Programs	Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Allowance For Loan Losses	Value of Assets Related to Defaulted Guaranteed Loans Receivable, Net
Defaulted Guaranteed Loans from Pre-1992 Guarantees (Allowance for Loss Method): 2008				
UE	$ 272,727	$ 66,632	$ 122,618	$ 216,741
Total	$ 272,727	$ 66,632	$ 122,618	$ 216,741
Defaulted Guaranteed Loans from Pre-1992 Guarantees (Allowance for Loss Method): 2007				
UE	$ 387,894	$ 59,143	$ 168,973	$ 278,064
Total	$ 387,894	$ 59,143	$ 168,973	$ 278,064

DEFAULTED GUARANTEED LOANS FROM POST-1991 GUARANTEES

In 2008, the UE Program had $3.6 million in defaults on payments.

In 2007, the UE Program had $3.6 million in defaults on payments.

GUARANTEED LOANS OUTSTANDING:

GUARANTEED LOANS OUTSTANDING
(In Thousands)

Loan Guarantee Programs	Outstanding Principal, Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
Guaranteed Loans Outstanding (2008):		
UE	$ 1,220,669	$ 1,220,669
MSED	17,010	8,505
Israel	12,493,872	12,493,872
DCA	264,480	104,625
Egypt	1,250,000	1,250,000
Total	$ 15,246,031	$ 15,077,671
Guaranteed Loans Outstanding (2007):		
UE	$ 1,330,189	$ 1,330,189
MSED	17,010	8,505
Israel	12,700,332	12,700,332
DCA	1,282,332	498,517
Egypt	1,250,000	1,250,000
Total	$ 16,579,863	$ 15,787,543
New Guaranteed Loans Disbursed (2008):		
DCA	$ 75,831	$ 30,333
Total	$ 75,831	$ 30,333
New Guaranteed Loans Disbursed (2007):		
DCA	$ 129,455	$ 51,782
Total	$ 129,455	$ 51,782

LIABILITY FOR LOAN GUARANTEES (In Thousands)			
Loan Guarantee Programs	Liabilities for Losses on Pre-1992 Guarantees, Estimated Future Default Claims	Liabilities for Loan Guarantees for Post-1991 Guarantees, Present Value	Total Liabilities for Loan Guarantees
Liability for Loan Guarantees (Estimated Future Default Claims for pre-1992 guarantees) as of September 30, 2008:			
UE	$ 97,745	$ 138,058	$ 235,803
MSED	—	412	412
Israel	—	1,160,452	1,160,452
DCA	—	25,972	25,972
Egypt	—	184,237	184,237
Total	$ 97,745	$ 1,509,131	$ 1,606,876
Liability for Loan Guarantees (Estimated Future Default Claims for pre-1992 guarantees) as of September 30, 2007:			
UE	$ 124,794	$ 138,203	$ 262,997
MSED	–	(3,884)	(3,884)
Israel	–	1,386,173	1,386,173
DCA	–	14,617	14,617
Egypt	–	163,429	163,429
Total	$ 124,794	$ 1,698,538	$ 1,823,332

SUBSIDY EXPENSE FOR LOAN GUARANTEES BY PROGRAM AND COMPONENT:

SUBSIDY EXPENSE FOR LOAN GUARANTEES BY PROGRAM AND COMPONENT (In Thousands)					
Loan Guarantee Programs	Interest Supplements	Defaults	Fees and Other Collections	Other	Total
Subsidy Expense for New Loan Guarantees (2008):					
DCA	$ –	$ 1,575	$ –	$ –	$ 1,575
Total	$ –	$ 1,575	$ –	$ –	$ 1,575
Subsidy Expense for New Loan Guarantees (2007):					
DCA	$ –	$ 6,935	$ –	$ –	$ 6,935
Total	$ –	$ 6,935	$ –	$ –	$ 6,935

(continued on next page)

SUBSIDY EXPENSE FOR LOAN GUARANTEES BY PROGRAM AND COMPONENT *(continued)* *(In Thousands)*				
Loan Guarantee Programs	**Total Modifications**	**Interest Rate Reestimates**	**Technical Reestimates**	**Total Reestimates**
Modifications and Reestimates (2008):				
UE	$ –	$ –	$ 8,351	$ 8,351
Israel	–	–	2,227	2,227
Egypt	–	–	11,663	11,663
Total	$ –	$ –	$ 22,241	$ 22,241
Modifications and Reestimates (2007):				
UE	$ –	$ –	$ –	$ –
MSED	–	–	1,408	1,408
DCA	–	–	–	–
Israel	–	–	9,035	9,035
Egypt	–	–	–	–
Total	$ –	$ –	$ 10,443	$ 10,443

TOTAL LOAN GUARANTEE SUBSIDY EXPENSE *(In Thousands)*		
Loan Guarantee Programs	**2008**	**2007**
DCA	$ 1,575	$ 6,935
UE	8,351	–
MSED	–	1,408
Israel	2,227	9,035
Egypt	11,663	–
Total	$ 23,816	$ 17,378

SUBSIDY RATES FOR LOAN GUARANTEES BY PROGRAM AND COMPONENT:

BUDGET SUBSIDY RATES FOR LOAN GUARANTEES FOR THE CURRENT YEAR'S COHORTS *(Percent)*					
Loan Guarantee Programs	**Interest Supplements (%)**	**Defaults (%)**	**Fees and Other Collections (%)**	**Other (%)**	**Total (%)**
DCA	–	3.30%	–	–	3.30%

SCHEDULE FOR RECONCILING LOAN GUARANTEE LIABILITY BALANCES

(In Thousands)

(Post-1991 Loan Guarantees)	DCA	MSED	UE	Israel	Egypt	Total
2008						
Beginning Balance, Changes, and Ending Balance						
Beginning Balance of the Loan Guarantee Liability	$ 14,617	$ (3,884)	$ 138,202	$1,386,173	$ 163,430	$1,698,538
Add: Subsidy Expense for Guaranteed Loans Disbursed During the Reporting Years by Component:						
(A) Interest Supplement Costs	—	—	—	—	—	—
(B) Default Costs (Net of Recoveries)	—	—	—	—	—	—
(C) Fees and Other Collections	—	—	—	—	—	—
(D) Other Subsidy Costs	1,575	—	—	—	—	1,575
Total of the Above Subsidy Expense Components	16,192	(3,884)	138,202	1,386,173	163,430	1,700,113
Adjustments:						
(A) Loan Guarantee Modifications	—	—	—	—	—	—
(B) Fees Received	962	14	1,911	—	—	2,887
(C) Interest Supplements Paid	—	—	—	—	—	—
(D) Foreclosed Property and Loans Acquired	—	—	—	—	—	—
(E) Claim Payments to Lenders	2,156	—	3,589	—	—	5,745
(F) Interest Accumulation on the Liability Balance	—	—	4,782	75,859	7,010	87,651
(G) Other	6,662	4,282	(29,015)	(178,206)	—	(196,277)
Ending Balance of the Loan Guarantee Liability Before Reestimates	25,972	412	119,469	1,283,826	170,440	1,600,119
Add or Subtract Subsidy Reestimates by Component:						
(A) Interest Rate Reestimate	—	—	—	—	—	—
(B) Technical/Default Reestimate	—	—	18,589	(123,374)	13,797	(90,988)
Total of the Above Reestimate Components	—	—	—	—	—	—
Ending Balance of the Loan Guarantee Liability	$ 25,972	$ 412	$ 138,058	$1,160,452	$ 184,237	$1,509,131
2007						
Beginning Balance, Changes, and Ending Balance						
Beginning Balance of the Loan Guarantee Liability	$ 10,812	$ (2,152)	$ 155,428	$1,169,364	$ 170,191	$1,503,643
Add: Subsidy Expense for Guaranteed Loans Disbursed During the Reporting Years by Component:						
(A) Interest Supplement Costs	–	–	–	–	–	–
(B) Default Costs (Net of Recoveries)	–	–	–	–	–	–
(C) Fees and Other Collections	–	–	–	–	–	–
(D) Other Subsidy Costs	6,935	–	–	–	–	6,935
Total of the Above Subsidy Expense Components	6,935	–	–	–	–	6,935
Adjustments:						
(A) Loan Guarantee Modifications	–	–	–	–	–	–
(B) Fees Received	1,043	45	2,069	–	–	3,157
(C) Interest Supplements Paid	–	–	–	–	–	–
(D) Foreclosed Property and Loans Acquired	–	–	–	–	–	–
(E) Claim Payments to Lenders	(1,442)	(420)	(3,590)	–	–	(5,452)
(F) Interest Accumulation on the Liability Balance	3,088	460	6,116	73,504	7,301	90,469
(G) Other	(5,819)	(3,740)	13,901	–	–	4,342
Ending Balance of the Loan Guarantee Liability Before Reestimates	14,617	(5,807)	173,924	1,242,868	177,492	1,603,094
Add or Subtract Subsidy Reestimates by Component:						
(A) Interest Rate Reestimate	–	–	–	–	–	–
(B) Technical/Default Reestimate	–	1,923	(35,722)	143,305	(14,062)	95,444
Total of the Above Reestimate Components	–	1,923	(35,722)	143,305	(14,062)	95,444
Ending Balance of the Loan Guarantee Liability	$ 14,617	$ (3,884)	$ 138,202	$1,386,173	$ 163,430	$1,698,538

ADMINISTRATIVE EXPENSE (In Thousands)		
Loan Programs	**2008**	**2007**
DCA	$ 9,774	$ 12,244
Total	$ 9,774	$ 12,244

OTHER INFORMATION

1. Allowance for Loss for Liquidating account (pre-Credit Reform Act) receivables have been calculated in accordance with OMB guidance using a present value method which assigns risk ratings to receivables based upon the country of debtor. Eight countries are in violation of Section 620q of the Foreign Assistance Act, owing $23.1 million that is more than six months delinquent. Eight countries are in violation of the Brooke-Alexander Amendment to the Foreign Operations Export Financing and Related Programs Appropriations Act, owing $372.6 million that is more than one year delinquent. Outstanding direct loans receivable for countries in violation of Section 620q totaled $16.8 million. Outstanding direct loans receivable for countries in violation of the Brooke Amendment totaled $320.7 million.

2. The MSED Liquidating Account general ledger has a loan receivable balance of $29 thousand. This includes a loan pending closure. This loan is being carried at 100% bad debt allowance.

NOTE 7. INVENTORY AND RELATED PROPERTY, NET

USAID's Inventory and Related Property is comprised of Operating Materials and Supplies. Operating Materials and Supplies as of September 30, 2008 and 2007 are as follows:

INVENTORY AND RELATED PROPERTY (In Thousands)		
	2008	**2007**
Items Held for Use		
Office Supplies	$ 9,858	$ 12,783
Items Held in Reserve for Future Use		
Disaster Assistance Materials and Supplies	5,591	7,599
Birth Control Supplies	17,280	15,371
Total	$ 32,729	$ 35,753

Operating Materials and Supplies are considered tangible properties that are consumed in the normal course of business and not held for sale. The valuation is based on historical acquisition costs that do not exceed capitalization criteria of $25 thousand. There are no items obsolete or unserviceable, and not restrictions on their use. Inventory costing less than $25 thousand is expensed as incurred.

NOTE 8. GENERAL PROPERTY, PLANT AND EQUIPMENT, NET

The components of Property, Plant & Equipment (PP&E) as of September 30, 2008 and 2007 are as follows:

GENERAL PROPERTY, PLANT AND EQUIPMENT, NET

(In Thousands)

	Useful Life	Cost	Accumulated Depreciation	Net Book Value 2008	Net Book Value 2007
The components of PP&E as of September 30, 2008 are as follows:					
Classes of Fixed Assets					
Equipment	3 to 5 years	$ 82,876	$ (62,243)	$ 20,633	$ 31,571
Buildings, Improvements, and Renovations	20 years	76,383	(39,782)	36,601	38,314
Land and Land Rights	N/A	2,456	N/A	2,456	2,456
Assets Under Capital Lease (Note 9)		6,002	(1,505)	4,497	5,537
Construction in Progress	N/A	–	–	–	570
Internal Use Software	3 to 5 years	67,676	(37,594)	30,082	10,050
Total		$ 235,393	$ (141,124)	$ 94,269	$ 88,498

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

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

Equipment consists primarily of electric generators, Automatic Data Processing (ADP) hardware, vehicles and copiers located at the overseas field missions. Note 9 discusses USAID leases.

Line items Buildings, Improvements, and Renovations in addition to Land and Land Rights 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. Land is generally procured with the intent of constructing of buildings.

NOTE 9. LEASES

As of September 30, 2008 and 2007 Leases consisted of the following:

LEASES
(In Thousands)

Entity as Lessee		
Capital Leases:	**2008**	**2007**
Summary of Assets Under Capital Lease:		
Buildings	$ 6,002	$ 8,190
Accumulated Depreciation	(1,505)	(2,653)
Net Assest under Capital Leases	$ 4,497	$ 5,537

Description of Lease(s) Arrangements. Capital leases consist of rental ageements entered into by missions for warehouses, parking lots, residential space, and office buildings. These leases are one year or more in duration.

Future Payments Due: **Fiscal Year**	**2008** **Future Costs**	**2007** **Future Costs**
2008	$ –	$ 297
2009	297	297
2010	297	297
2011	231	232
2011	52	52
2013	972	–
After 5 Years	768	77
Net Capital Lease Liability (Note 12)	2,617	1,252
Lease Liabilities Covered by Budgetary Resources	$ 2,617	$ 1,252

Operating Leases: **Future Payments Due:** **Fiscal Year**	**2008** **Future Costs**	**2007** **Future Costs**
2008	$ –	$ 33,668
2009	62,162	35,003
2010	58,012	36,391
2011	55,226	37,769
2012	52,630	39,090
2013	41,332	–
After 5 Years	19,642	40,677
Total Future Lease Payments	$ 289,004	$ 222,598

Operating lease payments total $289 million in future lease payment, $255 million is for the USAID headquarters in Washington, D.C. The current lease agreement is for approximately 550,000 sq. feet and will expire in FY 2010. The lessor, General Services Administration (GSA), charges commercial rates for USAID's occupancy. Lease payments for FY 2008 and FY 2007 amounted to $40.7 million and $40.6 million, respectively.

NOTE 10. LIABILITIES COVERED AND NOT COVERED BY BUDGETARY REOURCES

USAID records liabilities for amounts that are likely to be paid as the direct result of events that have already occurred. USAID considers the Intragovernmental accounts payable as the liabilities covered. These accounts payables are those payable to other federal agencies and consist mainly of unliquidated obligation balances related to interagency agreements between USAID and other federal agencies. The accounts payable with the public represent liabilities to other non-federal entities.

Liabilities not covered by budgetary resources include accrued unfunded annual leave and seperation pay. Although future appropriations to fund these liabilities are probable and anticipated, Congressional action is needed before budgetary resources can be provided. Accrued unfunded annual leave, workmen compensation benefits, and separation pay represent future liabilities not currently funded by budgetary resources, but will be funded as it becomes due with future resources. The Contingent Liabilities for Loan Guarantees is in the pre-Credit Reform Urban and Environmental (UE) Housing Loan Guarantee liquidating fund. As such, it represents the estimated liability to lenders for future loan guarantee defaults in that program.

As of September 30, 2008 and 2007, liabilities covered and not covered by budgetary resources were as follows:

LIABILITIES COVERED AND NOT COVERED BY BUDGETARY RESOURCES

(In Thousands)

	2008	2007
Intragovernmental		
Accounts Payable	$ 48,375	$ 62,099
Disbursements in Transit	14	2
Total Intragovernmental	48,389	62,101
Accounts Payable	1,856,887	2,341,025
Disbursements in Transit	12,987	26,932
Total with the Public	1,869,874	2,367,957
Total Other	6,265,740	6,817,577
Total Liabilities Covered by Budgetary Resources	$ 8,184,003	$ 9,247,635
Liabilities Not Covered by Budgetary Resources		
Accrued Annual Leave	$ 59,972	$ 24,563
FSN Separation Pay Liability	4,543	852
Total Accrued Unfunded Annual Leave and Separation Pay	64,515	25,415
Accrued Unfunded Workers Compensation Benefits (Note 13)	34,848	36,337
Debt - Contingent Liabilities for Loan Guarantees	97,745	124,793
Total Liabilities Not Covered by Budgetary Resources	197,108	186,545
Total Liabilities	$ 8,381,111	$ 9,434,180

NOTE 11. DEBT

USAID Intragovernmental Debt as of September 30, 2008 and 2007 consisted of the following borrowings from Treasury for post-1991 loan programs, which is classified as other debt:

INTRAGOVERNMENTAL DEBT
(In Thousands)

Debt Due to Treasury	2007 Beginning Balance	Net Borrowing	2007 Ending Balance	Net Borrowing	Accrued Interest Paid	2008 Ending Balance
Direct Loan	$ 474,055	$ 24,451	$ 498,506	$ 3,241	$ (24,447)	$ 477,300
DCA	–	–	–	72	–	72
Total Treasury Debt	$ 474,055	$ 24,451	$ 498,506	$ 3,313	$ (24,447)	$ 477,372

Pursuant to the Federal 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.

In FY 2007, $24.5 million in accrued interest was included in the Direct Loan balance, which was $24.5 million in accrued interest paid for FY 2008. The FY 2007 ending Direct Loan balance above has been adjusted to reflect the payment. The ending FY 2008 DCA loan balance has accrued $4 thousand in interest payable to Treasury. The above disclosed debt is principal payable to Treasury, which represents financing account borrowings from Treasury under the Federal Credit Reform Act and net liquidating account equity in the amount of $3.7 billion, which under the Act is required to be recorded as Due to Treasury. All debt shown is intragovernmental debt.

NOTE 12. OTHER LIABILITIES

As of September 30, 2008 and 2007 Other Liabilities consisted of the following:

OTHER LIABILITIES (In Thousands)	2008	2007
Intragovernmental		
IPAC Suspense	$ –	$ 51,481
Unfunded FECA Liability	5,648	6,469
Credit Program	126,228	149,431
Custodial Liability	14,451	–
Other	13,110	8,624
Total Intragovernmental	$ 159,437	$ 216,005
Accrued Funded Payroll and Leave (Note 13)	13,579	14,055
Unfunded Leave (Note 10)	64,515	25,415
Advances From Others	1,114	986
Deferred Credits	12,893	10,095
Foreign Currency Trust Fund	302,708	288,171
Capital Lease Liability (Note 9)	2,617	1,252
Custodial Liability	–	2,617
Other Liabilities	62,551	56,031
Total Liabilities With the Public	$ 459,977	$ 398,622
Total Other Liabilities	$ 619,414	$ 614,627

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

Unfunded leave components are shown in note 10.

For FY 2007, the Intergovernmental Payment and Collection (IPAC) balance was recorded as a net account receivable to USAID for a total of $5.5 million.

NOTE 13. FEDERAL EMPLOYEES AND VETERAN'S BENEFITS

The provision for workers' compensation benefits payable, as of September 30, 2008 and 2007 are indicated in the table below. These liabilities are included in the Intragovernmental Other Liabilities line item on the Consolidated Balance Sheet and are not covered by budgetary resources.

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

ACCRUED UNFUNDED WORKERS' COMPENSATION BENEFITS

(In Thousands)

	2008	2007
Liabilities Not Covered by Budgetary Resources		
Future Workers' Compensation Benefits	$ 21,269	$ 22,282
Accrued Funded Payroll and Leave (Note 12)	13,579	14,055
Total Accrued Unfunded Workers' Compensation Benefits	$ 34,848	$ 36,337

For FY 2008, USAID's total FECA liability was $34.8 million and comprised of unpaid FECA billings for $21.3 million and estimated future FECA costs of $13.5 million.

For FY 2007, USAID's total FECA liability was $36.3 million and comprised of unpaid FECA billings for $22.3 million and estimated future FECA costs of $14.0 million.

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

NOTE 14. COMMITMENTS AND CONTINGENCIES

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

As of September 30, 2008 a total of nine cases were pending.

Five cases have been designated as reasonably possible, a total of $11.2 million:

- The first case is a contract claim arising out of a contractor's contract to repair and operate an Iraqi port. The estimated loss is $4.4 million.
- The second case is a contract claim that USAID wrongfully withheld payment for invoices submitted under "Hurricane Mitch" host-country, contract in Honduras. The estimated loss is $2.2 million.
- The third case is a companion case. A contractor seeks compensation for efforts and expenses it claims to have incurred under a terminated host country contract with the Honduran government. The estimated loss is $1.8 million.
- The fourth case is an appeal of the Contracting Officer's disallowance of the costs of supplemental Accidental Death and Dismemberment and Business Travel Insurance for contractor employees related to initial deployment to Iraq. The estimated loss is over $1 million.
- The fifth case is a case where a contractor seeks costs that were incurred by one of its subcontractors; however USAID disputes those costs as unsubstantiated. The estimated loss is $1.8 million.

Four of the remaining cases have a remote likelihood of unfavorable outcome. During the fourth quarter in FY 2008 one federal case was resolved. This is a case where USAID disallowed costs already paid to a contractor for incubators that were installed in Egyptian hospitals but which quickly proved unsafe and was removed from the hospitals. The estimated loss was $1 million, and USAID settled the case for $325,000 by mutual agreement. The settled amount was paid by Treasury on behalf of USAID in the fourth quarter of FY 2008.

NOTE 15. INTRAGOVERNMENTAL COSTS AND EXCHANGE REVENUE

The Consolidated Statement of Net Cost reports the Agency's gross costs less earned revenues to arrive at net cost of operations by Objective and Program Area, as of September 30, 2008. These objectives are consistent with the new State-USAID's Strategic Planning Framework.

The format of the Consolidated Statement of Net Cost is consistent with OMB Circular A-136 guidance.

Note 15 replaced Note 17 which shows the value of exchange transactions between USAID and other Federal entities as well as non-Federal entities. These are also categorized by Objectives, Program Areas and Responsibility Segments. Responsibility Segments are defined in Note 16.

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

INTRAGOVERNMENTAL COSTS AND EXCHANGE REVENUE BY RESPONSIBILITY SEGMENT

For the Years Ended September 30, 2008 and 2007
(In Thousands)

Objective	Africa	Asia & Middle East	DCHA	EGAT	Europe & Eurasia	Global Health	Latin America & Caribbean	2008 Total	2007 Total
Peace and Security									
Intragovernmental Costs	$ 1,236	$ 8,298	$ 2,570	$ 213	$ 2,402	$ —	$ 4,704	$ 19,423	$ 12,294
Public Costs	43,492	571,224	50,214	1,965	69,133	—	91,525	827,553	447,917
Total Program Costs	44,728	579,522	52,784	2,178	71,535	—	96,229	846,976	460,211
Intragovernmental Earned Revenue	(94)	(769)	(106)	(14)	(254)	—	(500)	(1,737)	(751)
Public Earned Revenue	(23)	(188)	(26)	(3)	(62)	—	(122)	(424)	(395)
Total Earned Revenue	(117)	(957)	(132)	(17)	(316)	—	(622)	(2,161)	(1,146)
Net Program Costs	**44,611**	**578,565**	**52,652**	**2,161**	**71,219**	**—**	**95,607**	**844,815**	**459,065**
Governing Justly and Democratically									
Intragovernmental Costs	5,685	11,651	2,351	409	9,205	—	3,204	32,505	39,204
Public Costs	168,959	885,368	67,471	3,310	158,431	—	97,878	1,381,417	1,267,341
Total Program Costs	174,644	897,019	69,822	3,719	167,636	—	101,082	1,413,922	1,306,545
Intragovernmental Earned Revenue	(463)	(1,257)	(144)	(24)	(871)	—	(294)	(3,053)	(2,225)
Public Earned Revenue	(113)	(308)	(35)	(6)	(213)	—	(72)	(747)	(1,273)
Total Earned Revenue	(576)	(1,565)	(179)	(30)	(1,084)	—	(366)	(3,800)	(3,498)
Net Program Costs	**174,068**	**895,454**	**69,643**	**3,689**	**166,552**	**—**	**100,716**	**1,410,122**	**1,303,047**
Investing in People									
Intragovernmental Costs	49,153	16,511	1,197	4,254	4,668	52,160	9,088	137,031	266,292
Public Costs	893,846	991,121	50,188	71,713	53,338	1,517,118	226,728	3,804,052	3,247,457
Total Program Costs	942,999	1,007,632	51,385	75,967	58,006	1,569,278	235,816	3,941,083	3,513,749
Intragovernmental Earned Revenue	(3,860)	(1,014)	(90)	(5,912)	(774)	(235,452)	(613)	(247,715)	(346,333)
Public Earned Revenue	(945)	(360)	(23)	(28,529)	(78)	(665)	(150)	(30,750)	(137,735)
Total Earned Revenue	(4,805)	(1,374)	(113)	(34,441)	(852)	(236,117)	(763)	(278,465)	(484,068)
Net Program Costs	**938,194**	**1,006,258**	**51,272**	**41,526**	**57,154**	**1,333,161**	**235,053**	**3,662,618**	**3,029,681**

(continued on next page)

INTRAGOVERNMENTAL COSTS AND EXCHANGE REVENUE BY RESPONSIBILITY SEGMENT

For the Years Ended September 30, 2008 and 2007
(In Thousands)

Objective	Africa	Asia & Middle East	DCHA	EGAT	Europe & Eurasia	Global Health	Latin America & Caribbean	2008 Total	2007 Total
Economic Growth									
Intragovernmental Costs	8,588	29,547	181	94,787	4,127	—	4,186	141,416	178,937
Public Costs	366,575	1,484,963	5,765	237,426	83,044	—	177,876	2,355,649	2,924,574
Total Program Costs	375,163	1,514,510	5,946	332,213	87,171	—	182,062	2,497,065	3,103,511
Intragovernmental Earned Revenue	(952)	(2,615)	(13)	(229,668)	111	—	(439)	(233,576)	(6,018)
Public Earned Revenue	(233)	(830)	(3)	101,134	(63)	—	(108)	99,897	(96,598)
Total Earned Revenue	(1,185)	(3,445)	(16)	(128,534)	48	—	(547)	(133,679)	(102,616)
Net Program Costs	**373,978**	**1,511,065**	**5,930**	**203,679**	**87,219**	**—**	**181,515**	**2,363,386**	**3,000,895**
Humanitarian Assistance									
Intragovernmental Costs	160	13,750	36,061	—	174	—	561	50,706	57,438
Public Costs	1,527	188,709	527,971	(181,080)	2,857	—	3,728	543,712	1,332,203
Total Program Costs	1,687	202,459	564,032	(181,080)	3,031	—	4,289	594,418	1,389,641
Intragovernmental Earned Revenue	(3)	(315)	(11,691)	—	(17)	—	(16)	(12,042)	(2,865)
Public Earned Revenue	(1)	(77)	(269)	—	(4)	—	(4)	(355)	(722)
Total Earned Revenue	(4)	(392)	(11,960)	—	(21)	—	(20)	(12,397)	(3,587)
Net Program Costs	**1,683**	**202,067**	**552,072**	**(181,080)**	**3,010**	**—**	**4,269**	**582,021**	**1,386,054**
Operating Unit Management									
Intragovernmental Costs	2,921	356	1,738	1,583	—	—	146	6,744	17,873
Public Costs	15,067	14,621	8,701	2,349	8,606	—	2,418	51,763	99,489
Total Program Costs	17,988	14,977	10,439	3,932	8,606	—	2,564	58,507	117,362
Intragovernmental Earned Revenue	(49)	(87)	(17)	(24)	(27)	—	(10)	(109)	(133)
Public Earned Revenue	(12)	(21)	(4)	(6)	98	—	(2)	(53)	(77)
Total Earned Revenue	(61)	(108)	(21)	(30)	71	—	(12)	(162)	(210)
Net Program Costs	**17,927**	**14,869**	**10,418**	**3,902**	**8,677**	**—**	**2,552**	**58,345**	**117,152**
Net Costs of Operations	**$1,550,461**	**$4,208,278**	**$ 741,987**	**$ 73,877**	**$393,831**	**$ 1,333,161**	**$619,712**	**$ 8,921,307**	**$ 9,295,894**

NOTE 16. SCHEDULE OF COSTS BY RESPONSIBILITY SEGMENT

The Schedule of Costs by Responsibility Segment categorizes costs and revenues by Objectives, Program Areas and Responsibility Segment.

A responsibility segment is the component that carries out a mission or major line of activity, and whose managers report directly to top management. The geographic and technical bureaus of USAID (below) meet the criteria of a responsibility segment. These bureaus directly support the Agency goals while the remaining bureaus and offices support the operations of these bureaus. To report the full cost of program outputs, the cost of support bureaus and offices are allocated to the outputs of the geographic and technical bureaus. Intra-agency eliminations are allocated to Program Areas to reflect total costs. The FY 2008 Statement of Net Cost major responsibility segments are (i) the Geographic Bureaus and (ii) the Technical Bureaus. The Geographic Bureaus includes: Africa; Asia and Middle East, Latin America and the Caribbean and Europe and Eurasia. Effective in FY 2008 Asia and Near East bureau has been reorganized as Asia and Middle East. The Technical Bureaus are the Democracy, Conflict, and Humanitarian Assistance (DCHA); Economic Growth, Agriculture, and Trade (EGAT) and Global Health (GH).

SCHEDULE OF COSTS BY RESPONSIBILITY SEGMENT

For the Year Ended September 30, 2008
(In Thousands)

Objective	Africa	Asia & Middle East	DCHA	EGAT	Europe & Eurasia	Global Health	Latin America & Caribbean	Consolidated Total
Peace and Security								
Counter-Terrorism								
Gross Costs	$ 5,007	$ 2,644	$ 996	$ –	$ –	$ –	$ –	$ 8,647
Less: Exchange Revenues	(9)	(1)	(3)	–	–	–	–	(13)
Net Program Costs	4,998	2,643	993	–	–	–	–	8,634
Combating Weapons of Mass Destruction (WMD)								
Gross Costs	–	3	996	–	–	–	–	999
Less: Exchange Revenues	–	–	(3)	–	–	–	–	(3)
Net Program Costs	–	3	993	–	–	–	–	996
Stabilization Operations and Security Sector Reform								
Gross Costs	13,855	256,789	4,629	–	1,444	–	9,793	286,510
Less: Exchange Revenues	(40)	(314)	(14)	–	(8)	–	(108)	(484)
Net Program Costs	13,815	256,475	4,615	–	1,436	–	9,685	286,026
Counter-Narcotics								
Gross Costs	155	198,558	996	–	393	–	41,089	241,191
Less: Exchange Revenues	(1)	(422)	(3)	–	(2)	–	(359)	(787)
Net Program Costs	154	198,136	993	–	391	–	40,730	240,404
Transnational Crime								
Gross Costs	1,596	14,679	996	1,468	2,200	–	2,440	23,379
Less: Exchange Revenues	(4)	(55)	(3)	(11)	67	–	(6)	(12)
Net Program Costs	1,592	14,624	993	1,457	2,267	–	2,434	23,367
Conflict Mitigation and Reconciliation								
Gross Costs	24,116	106,848	44,174	710	67,498	–	42,906	286,252
Less: Exchange Revenues	(64)	(164)	(109)	(6)	(373)	–	(148)	(864)
Net Program Costs	24,052	106,684	44,065	704	67,125	–	42,758	285,388
Total Peace & Security	**$ 44,611**	**$ 578,565**	**$ 52,652**	**$ 2,161**	**$ 71,219**	**$ –**	**$ 95,607**	**$ 844,815**

(continued on next page)

SCHEDULE OF COSTS BY RESPONSIBILITY SEGMENT *(continued)*

For the Year Ended September 30, 2008
(In Thousands)

Objective	Africa	Asia & Middle East	DCHA	EGAT	Europe & Eurasia	Global Health	Latin America & Caribbean	Consolidated Total
Governing Justly and Democratically								
Rule of Law and Human Rights								
Gross Costs	9,801	87,851	3,977	2,542	8,052	—	31,150	143,373
Less: Exchange Revenues	(27)	(210)	(9)	(21)	21	—	(127)	(373)
Net Program Costs	9,774	87,641	3,968	2,521	8,073	—	31,023	143,000
Good Governance								
Gross Costs	78,799	551,606	17,655	813	70,288	—	37,445	756,606
Less: Exchange Revenues	(285)	(945)	(47)	(7)	(545)	—	(133)	(1,962)
Net Program Costs	78,514	550,661	17,608	806	69,743	—	37,312	754,644
Political Competition and Consensus-Building								
Gross Costs	41,460	76,408	15,444	—	21,687	—	12,998	167,997
Less: Exchange Revenues	(131)	(154)	(29)	—	(164)	—	(42)	(520)
Net Program Costs	41,329	76,254	15,415	—	21,523	—	12,956	167,477
Civil Society								
Gross Costs	44,584	181,155	32,745	364	67,609	—	19,489	345,946
Less: Exchange Revenues	(133)	(257)	(93)	(2)	(396)	—	(64)	(945)
Net Program Costs	44,451	180,898	32,652	362	67,213	—	19,425	345,001
Total Governing Justly and Democratically	**174,068**	**895,454**	**69,643**	**3,689**	**166,552**	**—**	**100,716**	**1,410,122**
Investing in People								
Health								
Gross Costs	740,110	554,856	7,163	1,621	12,685	1,569,277	154,769	3,040,481
Less: Exchange Revenues	(4,174)	(552)	(11)	(11)	(569)	(236,116)	(508)	(241,941)
Net Program Costs	735,936	554,304	7,152	1,610	12,116	1,333,161	154,261	2,798,540
Education								
Gross Costs	179,773	280,730	19,927	38,518	22,910	—	66,011	607,869
Less: Exchange Revenues	(573)	(530)	(47)	(285)	(148)	—	(145)	(1,728)
Net Program Costs	179,200	280,200	19,880	38,233	22,762	—	65,866	606,141
Social and Economic Services and Protection for Vulnerable Populations								
Gross Costs	23,116	172,047	24,297	35,826	22,411	—	15,036	292,733
Less: Exchange Revenues	(58)	(293)	(57)	(34,143)	(135)	—	(110)	(34,796)
Net Program Costs	23,058	171,754	24,240	1,683	22,276	—	14,926	257,937
Total Investing in People	**938,194**	**1,006,258**	**51,272**	**41,526**	**57,154**	**1,333,161**	**235,053**	**3,662,618**
Economic Growth								
Macroeconomic Foundation for Growth								
Gross Costs	360	372,988	132	70,584	(5,601)	—	8,366	446,829
Less: Exchange Revenues	(29)	(910)	—	(1,595)	(29)	—	(37)	(2,600)
Net Program Costs	331	372,078	132	68,989	(5,630)	—	8,329	444,229
Trade and Investment								
Gross Costs	49,016	108,265	670	7,812	11,601	—	37,494	214,858
Less: Exchange Revenues	(201)	(202)	(2)	(61)	(76)	—	(140)	(682)
Net Program Costs	48,815	108,063	668	7,751	11,525	—	37,354	214,176

(continued on next page)

SCHEDULE OF COSTS BY RESPONSIBILITY SEGMENT *(continued)*

For the Year Ended September 30, 2008
(In Thousands)

Objective	Africa	Asia & Middle East	DCHA	EGAT	Europe & Eurasia	Global Health	Latin America & Caribbean	Consolidated Total
Financial Sector								
Gross Costs	8,654	39,215	576	(39,207)	2,424	—	5,914	17,576
Less: Exchange Revenues	(26)	35	(2)	4,939	208	—	(15)	5,139
Net Program Costs	8,628	39,250	574	(34,268)	2,632	—	5,899	22,715
Infrastructure								
Gross Costs	56,325	366,135	563	23,054	14,208	—	3,813	464,098
Less: Exchange Revenues	(137)	(1,049)	(2)	(162)	(40)	—	(13)	(1,403)
Net Program Costs	56,188	365,086	561	22,892	14,168	—	3,800	462,695
Agriculture								
Gross Costs	150,462	139,362	987	128,357	6,847	—	24,549	450,564
Less: Exchange Revenues	(477)	(323)	(3)	(1,102)	(54)	—	(65)	(2,024)
Net Program Costs	149,985	139,039	984	127,255	6,793	—	24,484	448,540
Private Sector Competitiveness								
Gross Costs	27,656	314,618	1,721	7,412	48,608	—	19,050	419,065
Less: Exchange Revenues	(68)	(428)	(4)	(58)	(244)	—	(48)	(850)
Net Program Costs	27,588	314,190	1,717	7,354	48,364	—	19,002	418,215
Economic Opportunity								
Gross Costs	15,814	127,812	1,210	47,833	2,625	—	19,828	215,122
Less: Exchange Revenues	(46)	(334)	(4)	(332)	(23)	—	(61)	(800)
Net Program Costs	15,768	127,478	1,206	47,501	2,602	—	19,767	214,322
Environment								
Gross Costs	66,875	46,115	88	86,367	6,460	—	63,048	268,953
Less: Exchange Revenues	(200)	(234)	—	(130,162)	305	—	(168)	(130,459)
Net Program Costs	66,675	45,881	88	(43,795)	6,765	—	62,880	138,494
Total Economic Growth	**373,978**	**1,511,065**	**5,930**	**203,679**	**87,219**	**—**	**181,515**	**2,363,386**
Humanitarian Assistance								
Protection, Assistance and Solutions								
Gross Costs	349	198,836	507,223	—	1,127	—	2,434	709,969
Less: Exchange Revenues	1	(376)	(11,812)	—	(9)	—	(14)	(12,210)
Net Program Costs	350	198,460	495,411	—	1,118	—	2,420	697,759
Disaster Readiness								
Gross Costs	1,338	3,623	56,721	(181,080)	1,788	—	1,855	(115,755)
Less: Exchange Revenues	(5)	(16)	(148)	—	(12)	—	(6)	(187)
Net Program Costs	1,333	3,607	56,573	(181,080)	1,776	—	1,849	(115,942)
Migration Management								
Gross Costs	—	—	88	—	117	—	—	205
Less: Exchange Revenues	—	—	—	—	(1)	—	—	(1)
Net Program Costs	—	—	88	—	116	—	—	204
Total Humanitarian Assistance	**1,683**	**202,067**	**552,072**	**(181,080)**	**3,010**	**—**	**4,269**	**582,021**
Operating Unit Management								
Cross-cutting Management and Staffing								
Gross Costs	17,988	14,977	10,440	3,932	8,605	—	2,564	58,507
Less: Exchange Revenues	(61)	(108)	(22)	(30)	71	—	(12)	(162)
Net Program Costs	17,927	14,869	10,418	3,902	8,676	—	2,552	58,345
Net Cost of Operations	**$1,550,461**	**$4,208,278**	**$ 741,987**	**$ 73,877**	**$ 393,830**	**$1,333,161**	**$ 619,712**	**$8,921,307**

NOTE 17. STATEMENT OF BUDGETARY RESOURCES

The Statement of Budgetary Resources presents information about total budgetary resources available to USAID and the status of those resources, as of September 30, 2008 and 2007. USAID's total budgetary resources were $15.3 billion and $16.8 billion for the years ended September 30, 2008 and 2007.

A. Apportionment Categories of Obligations Incurred

APPORTIONMENT CATEGORIES OF OBLIGATIONS INCURRED
(In Thousands)

	2008	2007
Category A, Direct	$ 769,447	$ 745,601
Category B, Direct	8,699,827	10,846,162
Category A, Reimbursable	11,793	11,992
Category B, Reimbursable	316,837	359,426
Total	$ 9,797,904	$ 11,963,181

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

USAID FY 2008 borrowing authority was $3.3 million for credit financing activities, the Agency did not have any credit financing activities for FY 2007. Borrowing Authority is indefinite and authorized under the Federal Credit Reform Act of 1990 (Title XIII, Subtitle B, P.L. 101-508), and is used to finance obligations during the current year, as needed.

C. Adjustments to Obligated Balance brought foward of Budgetary Resources

The FY 2008 Statement of Budgetary Resources, Obligated Balance Brought Foward, has been adjusted by $100.9 million due to a prior period error. This prior period error consisted of recording undelivered orders unpaid instead of undelivered orders prepaid. The affects of that posting error is displayed below.

ADJUSTMENTS TO OBLIGATED BALANCE BROUGHT FOWARD OF BUDGETARY RESOURCES
(In Thousands)

	TOTAL
2007 Unpaid Obligated Balance, Net, End of Period	$ (14,422,033)
Prior Period Adjustment - Movement Unpaid to Paid	100,881
Adjusted 2008 Obligated Balance, Net: Unpaid Obligations, Brought Forward, October 1	$ (14,321,152)

D. Permanent Indefinite Appropriations

USAID has permanent indefinite appropriations relating to specific Federal Credit Reform Program and Liquidating appropriations. USAID is authorized permanent indefinite authority for Federal Credit Reform Program appropriations for subsidy reestimates and Federal Credit Reform Act of 1990. At year-end FY 08, there is $1,616,689 billion in availability related to Federal Credit Reform Program and Liquidating appropriations.

E. Legal Arrangements Affecting the Use of Unobligated Balances

Division A, Title VII, Section 611 found on page 474 of H. R. 2764, known as the "Consolidated Appropriations Act, 2008" and signed into law as P.L.110-161, provides to USAID extended authority to obligate funds. USAID's appropriations acts for years have consistently provided essentially similar authority. It is commonly known as "511/517" authority, a name that is based on references to the sections of the previous appropriations acts. Under this authority funds shall remain available for obligation for an extended period if such funds are obligated within their initial period of availability. Any subsequent recoveries (deobligations) of these funds become unobligated balances that are available for reporogramming by USAID (subject to OMB approval through the apportionment process).

F. Undelivered Orders

Undelivered Orders for the periods ended September 30, 2008 and 2007 were $12.1 and $12.1 billion.

G. Difference between the Statement of Budgetary Resources and the Budget of the U.S. Government

There are no material differences between the Statement of Budgetary Resouces for FY 2007 and the President's Budget submission for FY 2009. The President's Budget with actual numbers for 2010 has not yet been published. USAID expects no material difference between the President's Budget "actual" column and the FY 2008 reported results when the budget becomes available in February 2009.

DIFFERENCE BETWEEN THE STATEMENT OF BUDGETARY RESOURCES AND THE BUDGET OF THE U.S. GOVERNMENT

(In Thousands)

FY 2008	Budgetary Resources	Obligations	Offsetting Receipts	Net Outlays
Combined Statement of Budgetary Resources	$ 15,316,659	$ 9,797,904	$ 1,361,154	$ 10,182,942
Difference #1: Funds Reported by Other Federal Entities	6,168,870	5,720,949	2	3,204,410
Difference #2: Adjustments to Unliquidated Obligations	(9,800)	(23,988)	–	–
Difference #3: Adjustments to Obligations	(2,286)	–	–	–
Difference #4: Credit Financing and Suspense	(302,187)	(63,019)	(95,631)	84,319
Rounding Differences**				
Budget of the U.S. Government	$ 21,171,256	$ 15,431,846	$ 1,265,525	$ 13,471,671

NOTE 18. RECONCILIATION OF OBLIGATIONS INCURRED TO NET COST OF OPERATIONS

USAID presents the Statement of Net Cost using the accrual basis of accounting. This differs from the obligation-based measurement of total resources supplied, both budgetary and from other sources, on the Statement of Budgetary Resources. The Federal Financial Accounting Standard No. 7 requires "a reconciliation of proprietary and budgetary information in a way that helps users relate the two." The focus of this presentation is to reconcile budgetary net obligations to the net cost of operations. The objective of this information is to categorize the differences between budgetary and financial (proprietary) accounting.

RECONCILIATION OF OBLIGATIONS INCURRED TO NET COST OF OPERATIONS

For the Years Ended September 30, 2008 and 2007
(In Thousands)

	2008	2007
Resources Used to Finance Actvities:		
Budgetary Resources Obligated		
Obligations Incurred	$ 9,797,904	$ 11,963,181
Spending authority from offsetting collections	(1,361,154)	(1,203,063)
Change in Unfilled Customer Orders	52,966	(58,516)
Downward Adjustments of Obligations	(211,230)	(199,264)
Offsetting Receipts	179,387	25,925
Net Obligations	8,457,873	10,528,263
Other resources used to finance activities	19,431	21,857
Resources Used to Finance Activities	8,477,304	10,550,120
Resources Used to Finance items not part of net cost of operations	367,369	(1,389,933)
Total Resources Used to Finance Net Cost of Operations	8,844,673	9,160,187
Components of the Net Cost of Operations:		
Components of Net Cost of Operations that will require or generate resources in future periods	37,211	47,009
Components of Net Cost of Operations that will not require or generate resources	39,423	88,698
Net Cost of Operations	$ 8,921,307	$ 9,295,894

Financial Section

Required Supplementary Information

(Above) **In Moldova, a USAID program known as "domestic factoring" provides business owners with access to flexible financing and allows lenders to offer more competitive rates. This program helps business owners better manage the risk of extensive inventories and, in turn, promote economic growth.**

PHOTO: BASA PRESS

(Preceding page) **The mayor of a town in the Kurdish region of Iraq discusses local priorities during a town meeting. USAID renovated this community hall and helped start civic associations which organize and train women, the disabled, and others. USAID programs in Iraq promote civil society and local governance.**

PHOTO: BEN BARBER / USAID

STATEMENT OF BUDGETARY RESOURCES

REQUIRED SUPPLEMENTARY INFORMATION: SCHEDULE OF BUDGETARY RESOURCES

For the period ended September 30, 2008

(In Thousands)

	Operating	Program						Credit-Financing	Other	Parent Fund	Consolidated Total
	1000	1010	1021	1035	1037	1093	1095				
Budgetary Resources:											
Unobligated Balance, Brought Forward, October 1	$ 67,428	$262,107	$ 305,004	$128,558	$1,552,330	$148,358	$131,693	$1,582,317	$535,656	$140,678	$4,854,129
Recoveries of Prior Year Unpaid Obligations	22,955	4,467	19,505	6,896	56,994	5,214	16,171	2	21,943	57,083	211,230
Budget Authority:											
Appropriation	806,300	295,950	1,636,881	672,350	5,382,324	399,735	-	-	285,101	-	9,478,641
Borrowing Authority	-	-	-	-	-	-	-	3,313	-	-	3,313
Spending Authority from Offsetting Collections:											
Earned:											
Collected	7,034	9	527	146	7,993	-	4,419	197,609	1,141,770	1,647	1,361,154
Change in Unfilled Customer Orders:											
Without Advance from Federal Sources	2,268	-	2,065	(67)	-	-	-	-	(57,232)	-	(52,966)
Subtotal	815,602	295,959	1,639,473	672,429	5,390,317	399,735	4,419	200,922	1,369,639	1,647	10,790,142
Nonexpenditure Transfers, Net, Anticipated and Actual	10,944	(64,352)	(13,514)	1,251	(776,164)	21,919	-	-	404,333	770,135	354,552
Permanently Not Available	(6,006)	(4,715)	(14,226)	(4,844)	(157,664)	(9,157)	-	-	(696,651)	(131)	(893,394)
Total Budgetary Resources	$910,923	$493,466	$1,936,242	$804,290	$6,065,813	$566,069	$152,283	$1,783,241	$1,634,920	$969,412	$15,316,659
Status of Budgetary Resources:											
Obligations Incurred:											
Direct	736,202	306,035	1,598,065	589,045	4,275,973	307,911	116,377	166,533	647,252	725,881	9,469,274
Reimbursible	9,303	9	2,591	79	7,993	-	4,419	18	304,018	200	328,630
Subtotal	745,505	306,044	1,600,656	589,124	4,283,966	307,911	120,796	166,551	951,270	726,081	9,797,904
Unobligated Balance:											
Apportioned	63,854	85,706	351,006	152,188	1,328,672	202,807	-	7,599	112,966	222,926	2,527,724
Subtotal	63,854	85,706	351,006	152,188	1,328,672	202,807	-	7,599	112,966	222,926	2,527,724
Unobligated Balance Not Available	101,564	101,716	(15,420)	62,978	453,175	55,351	31,487	1,609,091	570,684	20,405	2,991,031
Total, Status of Budgetary Resources	$910,923	$493,466	$1,936,242	$804,290	$6,065,813	$566,069	$152,283	$1,783,241	$1,634,920	$969,412	$15,316,659

(continued on next page)

REQUIRED SUPPLEMENTARY INFORMATION: SCHEDULE OF BUDGETARY RESOURCES *(continued)*

For the period ended September 30, 2008

(In Thousands)

	Operating	Program						Credit-Financing	Other	Parent Fund	Consolidated Total
	1000	1010	1021	1035	1037	1093	1095				
Change in Obligated Balance:											
Obligated Balance, Net											
Unpaid Obligations, Brought Forward, October 1	$230,425	$275,883	$2,575,674	$559,100	$5,373,288	$427,618	$2,705,983	$28,669	$749,204	$1,395,308	$14,321,152
Less: Uncollected Customer Payments from Federal Sources, Brought Forward, October 1	(275)	-	(107)	(244)	-	-	(994)	-	(72,854)	(536)	(75,010)
Total Unpaid Obligated Balance, Net	230,150	275,883	2,575,567	558,856	5,373,288	427,618	2,704,989	28,669	676,350	1,394,772	14,246,142
Obligations Incurred Net (+/-)	745,505	306,044	1,600,655	589,124	4,283,966	307,910	120,796	166,552	951,270	726,082	9,797,904
Less: Gross Outlays	(688,719)	(243,405)	(1,367,487)	(459,223)	(3,282,189)	(353,503)	(1,702,112)	(195,914)	(967,328)	(923,063)	(10,182,943)
Less: Recoveries of Prior Year Unpaid Obligations, Actual	(22,956)	(4,467)	(19,505)	(6,896)	(56,994)	(5,214)	(16,171)	(2)	(21,942)	(57,083)	(211,230)
Change in Uncollected Customer Payments from Federal Sources (+/-)	(2,268)	-	(2,065)	67	-	-	-	-	57,232	-	52,966
Obligated Balance, Net, End of Period											
Unpaid Obligations	264,255	334,055	2,789,337	682,106	6,318,071	376,811	1,108,496	(695)	711,204	1,141,244	13,724,884
Less: Uncollected Customer Payments from Federal Sources	(2,543)	-	(2,172)	(178)	-	-	(994)	-	(15,622)	(536)	(22,044)
Total, Unpaid Obligated Balance, Net, End of Period	261,712	334,055	2,787,165	681,928	6,318,071	376,811	1,107,502	(695)	695,582	1,140,708	13,702,840
Net Outlays:											
Gross Outlays	688,719	243,405	1,367,487	459,223	3,282,189	353,503	1,702,111	195,914	967,328	923,063	10,182,942
Less: Offsetting Receipts	(7,034)	(9)	(527)	(146)	(7,993)	-	(4,419)	(197,609)	(1,141,770)	(1,647)	(1,361,154)
Less: Distributed Offsetting Receipts	-	-	-	-	-	-	-	-	(179,387)	-	(179,387)
Net Outlays	$681,685	$243,396	$1,366,960	$459,077	$3,274,196	$353,503	$1,697,692	$(1,695)	$(353,829)	$921,416	$8,642,401

MAJOR FUNDS

Operating Funds

1000 Operating Expenses of USAID

Program Funds

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

CREDIT-FINANCING FUNDS

4119 Israel Guarantee Financing Fund
4137 Direct Loan Financing Fund
4266 DCA Financing Fund
4342 MSED Direct Loan Financing Fund
4343 MSED Guarantee Financing Fund
4344 UE Financing Fund
4345 Ukraine Financing Fund
4491 Egypt Guarantee Financial Fund

OTHER FUNDS

Operating Funds

0300 Capital Investment Fund (CIF)
1007 Operating Expenses of USAID Inspector General
1036 Foreign Service Retirement and Disability Fund

Program Funds

1012 Sahel Development Program
1014 Africa Development Assistance
1023 Food and Nutrition Development Assistance
1024 Population and Planning & Health Dev. Asst.
1025 Education and Human Resources, Dev. Asst.
1027 Transition Initiatives
1028 Global Fund to Fight HIV / AIDS
1029 Tsunami Relief and Reconstruction Fund
1038 Central American Reconciliation Assistance
1040 Sub-Saharan Africa Disaster Assistance
1096 Latin American/Caribbean Disaster Recovery
1500 Demobilization and Transition Fund

Trust Funds

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

Credit Program Funds

0400 MSED Program Fund
0401 UE Program Fund
0402 Ukraine Program Fund
1264 DCA Program Fund
4103 Economic Assistance Loans - Liquidating Fund
4340 UE Guarantee Liquidating Fund
4341 MSED Direct Loan Liquidating Fund
5318 Israel Admin Expense Fund

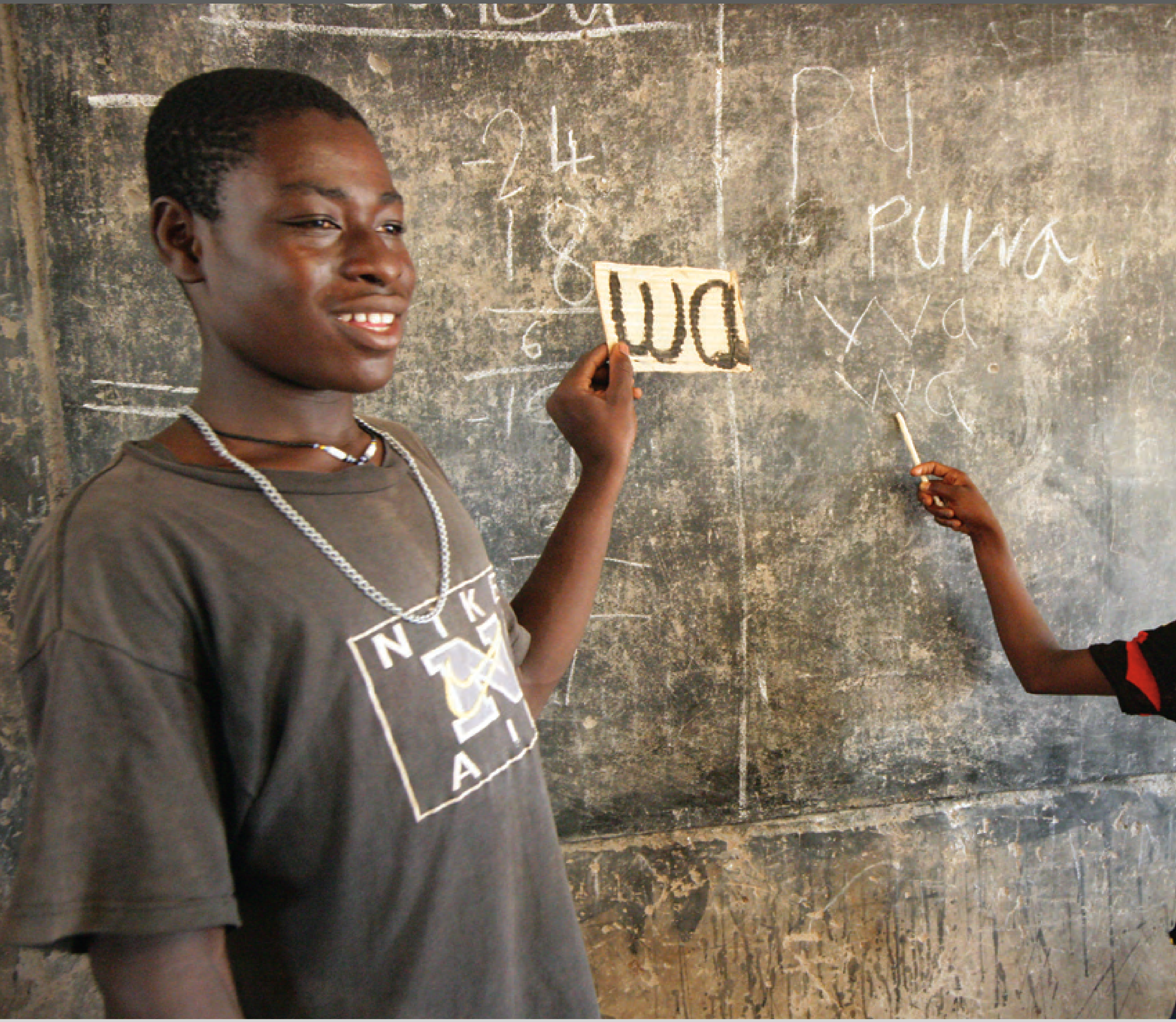
Revolving Funds

4175 Property Management Fund
4513 Working Capital Fund
4590 Acquisition of Property, Revolving Fund

ALLOCATIONS TO OTHER AGENCIES

1000 Operating Expenses of USAID
1010 Special Assistance Initiatives
1014 Africa Development Assistance
1021 Development Assistance
1027 Transition Initiatives
1030 New Global Initiatives Fund – 2007 Appropriations Carry Over
1031 New Global Initiatives Fund – Current Funding
1032 Peacekeeping Operations
1035 International Disaster Assistance
1037 Economic Support Fund
1093 Assistance for the N.I.S. of the Former Soviet Union
1095 Child Survival and Disease Programs Funds
1096 International Organizations and Programs
1500 Demobilization and Transition Fund

Other Accompanying Information



(Above) **As one student writes the word "wa," meaning "come," on the blackboard, another shows the word to the class on a card. This lesson took place at a USAID-supported education center in Kagbal, a rural, underserved community in Ghana. USAID programs help promote literacy and education abroad.**

PHOTO: LOUIS STIPPEL / USAID

(Preceding page) **Students in a South East Asian university study using computers. USAID works with higher education institutions to improve the quality of these institutions and to engage them as a development asset in their own country. Higher education is essential to the success of economic, political, and social development.**

PHOTO: GEMUNU AMARASINGHE / USAID

MANAGEMENT AND PERFORMANCE CHALLENGES

According to USAID's Inspector General (IG), the most serious management and performance challenges facing the Agency are in the following areas:

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

A summary of the issue, actions taken this year, and those remaining are presented for each area of concern. USAID aggressively pursues corrective actions for all significant challenges, whether identified by the Office of Inspector General (OIG), Government Accountability Office (GAO), or other sources.

USAID
FROM THE AMERICAN PEOPLE

Office of Inspector General

OCT 23 2008

INFORMATION MEMO FOR THE ADMINISTRATOR

Donald A. Gambatesa

FROM: Donald A. Gambatesa
Inspector General

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

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

The Reports Consolidation Act of 2000 (Public Law 106-531) requires that agency performance and accountability reports include a statement prepared by each agency's Inspector General that summarizes what the Inspector General considers to be the most serious management and performance challenges facing the agency and an assessment of the agency's progress in addressing those challenges. Our statement for inclusion in USAID's fiscal year 2008 Agency Financial Report is attached.

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

Attachment

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

Office of Inspector General's (OIG) Fiscal Year 2008 Statement on USAID's Most Serious Management and Performance Challenges

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

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

OIG has been reporting challenges in these five areas since 2001.

Financial Management

OIG expects to issue unqualified opinions again on USAID's fiscal year 2008 financial statements. This would be the sixth consecutive year that USAID has received unqualified opinions on its financial statements. Notwithstanding these unqualified opinions and the progress that USAID has made in strengthening its financial management processes, accrual accounting and reporting remain a financial management challenge.

Accrual Accounting and Reporting

Over the past several years, USAID's accrual system has generated erroneous information that has limited the ability of cognizant technical officers (CTOs) to accurately calculate estimates of accrued expenditures and accounts payable for recording in USAID's general ledger. More specifically, USAID's accrual system has not always produced obligation information with the level of detail or reliability necessary for USAID's CTOs to make informed quarterly accrual estimates. Further, notwithstanding the obligation information provided electronically, some USAID CTOs have manually generated incorrect or inaccurate information in making their quarterly accrual estimates. As a result, USAID's accrued expenditures and accounts payable have continued to contain inaccuracies, and OIG has recommended adjustments to USAID's financial statements of millions of dollars to more accurately reflect USAID's accrual activity. For example, as part of the current year's financial statement audit, one OIG test found that 10 out of 22 sampled items contained errors totaling approximately $100 million. Therefore, USAID will have to make a significant adjustment to its general ledger again this year. Although USAID has taken several steps throughout the years to improve its accrual system, including training CTOs and revamping its electronic processes for producing obligation information, inaccuracies continue to be found and OIG continues to closely monitor the Agency's accruals during annual financial statement audits.

Managing for Results

Managing a complex and diverse portfolio of worldwide activities is an inherent challenge for USAID managers. As reported in last year's Agency Financial Report, USAID implements programs in 88 countries and contributes to development through appropriated funding that has more than doubled since 2001. Increased resources have come with new responsibilities, such as intensified efforts to combat HIV/AIDS and malaria and rebuilding efforts following conflicts in Afghanistan, Iraq, Lebanon, and parts of Africa. USAID programs promote a wide range of objectives related to economic growth, agriculture and trade, global health, democracy, conflict prevention, and humanitarian assistance.

Federal laws, such as the Government Performance and Results Act of 1993, require that Federal agencies develop performance measurement and reporting systems that establish strategic and annual plans, set annual targets, track progress, and measure results. In addition, Governmentwide initiatives, such as the President's Management Agenda, require that agencies link their performance results to budget and human capital requirements.

USAID managers continue to make improvements in this area. For example, each quarter the Office of Management and Budget (OMB) scores each agency's status and progress toward implementing the President's Management Agenda (PMA). OMB developed a scoring system based upon the colors green, yellow, and red. A "green" rating indicates success and a "yellow" rating signifies mixed results, while a "red" rating is unsatisfactory. For the quarter ending June 30, 2008, OMB rated USAID's current status and progress in the performance improvement initiative as "green," which, for the current status rating, is an upgrade from the previous "yellow" rating. Therefore, according to OMB, USAID has made progress toward meeting its performance improvement goals.

Nevertheless, OIG continues to monitor USAID's progress in improving its performance management and reporting systems in Washington, as well as overseas. Although USAID included a high-level discussion of performance information in its 2007 Agency Financial Report, it did not include specific performance information relating to any USAID activity or program. In addition, during fiscal year 2008, OIG issued 36 audit reports that included 107 recommendations pertaining to issues involving data quality, performance indicators, reporting of results, and supporting documentation.

Acquisition and Assistance

The majority of USAID's development activities are implemented by contractors, grantees, and recipients of cooperative agreements. Because of the innate complexities in Federal acquisition and assistance—which include adherence to numerous laws, regulations, policies, procedures, and definitions—USAID continues to face challenges in its acquisition of supplies and services, as well as in its delivery of foreign assistance.

To help plan for, execute, and then manage the implementation of its procurement actions, USAID had been developing two new systems—the Global Acquisition System

(GLAS) and the Joint[1] Assistance Management System (JAMS)—to improve USAID's acquisition and assistance functionality worldwide through advanced technology and business process improvements. Over the past year, however, and in continuing efforts to improve its procurement processes and systems, USAID modified GLAS to include the assistance portion that was to be included in JAMS. The modified system, known as the Global Acquisition and Assistance System (GLAAS), allows acquisition and assistance financial transactions to be interfaced with USAID's core financial system, Phoenix. That interface eliminates the need to re-key the acquisition and assistance data into Phoenix.

Nonetheless, according to USAID officials, implementation of GLAAS continues to be a management challenge, primarily because of the lack of resources. Because of this lack, USAID has had problems:

- Meeting the system deployment plan and schedule.
- Ensuring adequate training of system users.
- Providing adequate direct-hire support for activities, such as implementing changes based on user feedback on the system.
- Developing a comprehensive disaster recovery plan.

In addition, OMB identified GLAAS as a high-risk investment due to a variety of factors, such as the high cost and complexity of the investment. OIG is assessing the risks associated with deploying GLAAS, and one audit is planned for fiscal year 2009. (See page 8.)

During the past year, OIG issued seven performance audit reports dealing with specific acquisitions and assistance issues and has three ongoing audits. The seven issued reports were:

- Followup Audit of USAID's Governmentwide Commercial Purchase Card Program (Report 9-000-08-009-P, August 26, 2008)
- Audit of USAID/Vietnam's Procurement and Distribution of Commodities for the President's Emergency Plan for AIDS Relief (Report 5-440-08-007-P, July 7, 2008)
- Audit of USAID/Zambia's Procurement and Distribution of Commodities for the President's Emergency Plan for AIDS Relief (Report 9-611-08-007-P, May 30, 2008)
- Followup Audit on Recommendations Included in the Audit of Selected USAID Bureaus' Training, Use and Accountability of Cognizant Technical Officers (Report 9-000-08-004-P, January 24, 2008)
- Followup Audit of USAID/Senegal's Contracting Operations (Report 7-685-08-004-P, December 28, 2007)
- Audit of USAID's New Partners Initiative Created Under the President's Emergency Plan for AIDS Relief (Report 9-000-08-002-P, December 12, 2007)
- Audit of the Adequacy of USAID's Antiterrorism Vetting Procedures (Report 9-000-08-001-P, November 6, 2007)

[1] JAMS was being implemented jointly with the Department of State.

These 7 reports identified 34 recommendations to correct various deficiencies related to acquisition and assistance activities.

OIG also has three ongoing audits—Audit of USAID's Process for Suspension and Debarment, Audit of USAID's Commodities for Avian Influenza Activities, and Worldwide Audit of USAID's Procurement and Distribution of Commodities for the President's Emergency Plan for AIDS Relief (PEPFAR). The objective of the Suspension and Debarment audit is to determine whether USAID's suspension and debarment process protects the public interest by responding to contractor impropriety in accordance with Federal guidance. The objective of the Avian Influenza Activities audit is to determine whether USAID has properly procured, deployed, and warehoused its avian influenza commodities. And, the objective of the third audit is to determine whether USAID has procured, deployed, and warehoused its PEPFAR commodities to ensure that intended results are achieved and to determine the impact. These audits will be completed in fiscal year 2009.

Human Capital Management

As stated above, since 2001 USAID funding has more than doubled. However, its direct-hire workforce and operating expense budget have remained essentially flat. For example, its full-time permanent employee workforce increased less than 3 percent from 2001 to 2007. Since then, the new demands of rebuilding Afghanistan and Iraq and addressing the prevention, care, and treatment for victims of HIV/AIDS have compounded USAID's challenges. As a consequence, USAID today faces growing human capital gaps as identified by USAID's Administrator and the Business Transformation Executive Committee's (BTEC)[2] annual all-employee survey, including:

- A lack of surge capacity to meet emerging needs.
- A workforce that is rapidly aging, has a void in the midmanagement ranks, and is losing skills and "institutional memory."
- Chronically vacant or understaffed positions and accumulating backlogs of work.
- A bureaucratic and cumbersome performance appraisal process that is perceived to lack fairness, honesty, transparency, and linkages between results and rewards.
- Morale and "burn-out" problems and perceptions that USAID is not an employee-friendly work environment.
- Perceived barriers to equal employment opportunity.
- Insufficient capacity in human resources functions to recruit and develop an effective 21st-century workforce.

Additionally, the PMA identifies the strategic management of human capital as one of the five Governmentwide areas that need improvement. As of June 30, 2008, OMB gave USAID a "yellow" rating, reflecting mixed results for its overall status in the area of human capital management, the same as in 2007. Further, on September 26, 2008, the Government

[2] The purpose of the BTEC is to provide agencywide leadership for initiatives and investments to transform USAID business systems and organizational performance.

Accountability Office issued a report[3] focusing on USAID's acquisition and assistance (A&A) staff that found, among other things:

> The number of A&A staff with the necessary competencies was less than adequate at some missions, while at others it was more than adequate, according to agency officials. For example, officials at the mission in Mali said they have delayed time-sensitive projects because key A&A staff were not available when needed to approve contracts, while officials at the mission in Indonesia said the current number of A&A staff may be more than adequate. Most of the A&A survey respondents overseas also reported difficulty in altering staffing patterns to meet A&A workload demands. Although USAID has made some efforts to address its A&A workforce issues, these efforts do not constitute a strategic A&A workforce plan that takes into account the entire A&A workforce. Without accurate and reliable A&A staff data, USAID does not have adequate information to address current workload imbalances.

In response to the PMA's initiative on human capital and to address its own human capital challenges, USAID has undertaken a major effort to improve and restructure its human capital management. For example, in September 2007, USAID issued a self-assessment report that focused on Civil Service merit staffing, Foreign Service recruitment, and diversity. Also, to address the Agency's most critical workforce and competency gaps, the BTEC led the development of the 5-year USAID Human Capital Strategic Plan. According to USAID, the plan describes the human resources capabilities necessary to implement the overall Joint State Department-USAID Strategic Plan, while directly addressing the human capital goals of the PMA. The plan addresses five strategic objectives:

- Achieve a high-performing workforce.
- Align staff strategically with Agency priorities.
- Establish a more flexible workforce.
- Create a diverse workforce.
- Increase human resources capacity to support USAID's mission.

Additionally, USAID has already instituted a multi-year effort entitled the Development Leadership Initiative (DLI) to rebuild the USAID workforce. It is aimed at increasing the size of USAID's overseas presence and to build a strong corps of professionals to meet the development challenges of the future. USAID plans to request $92.1 million for implementation of the DLI in fiscal year 2009—and hire 300 Foreign Service Officers (above attrition), which represents an approximately 30 percent increase in the Foreign Service overseas workforce. USAID plans to continue this hiring initiative in future years with the goal being to double the size of the Foreign Service by fiscal year 2012.

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[3] "USAID Acquisition and Assistance: Actions Needed to Develop and Implement a Strategic Workforce Plan," Report GAO-08-1059, September 26, 2008.

OIG applauds the Agency's efforts in this area and believes that USAID needs to continue to implement its workforce planning to close skill gaps through recruitment, retention, training, succession planning, and other strategies. OIG plans to conduct an audit of USAID's Human Capital Strategy in fiscal year 2009.

Information Technology Management

USAID has made progress toward addressing weaknesses in its information technology management. However, USAID continues to face management challenges with respect to its implementation of the Homeland Security Presidential Directive (HSPD-12). Specifically, the inherent challenges for integrating and coordinating with other Federal agencies represent only some of the numerous challenges USAID is likely to face in implementing this Governmentwide initiative.

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

OIG first reported the implementation of HSPD-12 in fiscal year 2006 as one of the most serious management and performance challenges facing USAID. OIG reported[5] that USAID did not fully comply with OMB's phase I selected requirements for obtaining background checks of its employees, because USAID personnel could not identify or retrieve all of the identity proofing documents from a system located at the Department of State. Furthermore, USAID did not meet the phase II implementation dates for gaining access to USAID facilities and information systems. Several factors contributed to USAID's inability to meet phase I and phase II requirements: (a) USAID's lack of an implementation plan, (b) failure to establish HSPD-12 as a higher-priority information technology investment, (c) dependencies on Department of State's implementation of HSPD-12, (d) NIST[6]'s evolving technical standards, and (5) funding constraints on Agency budget requests. Further, USAID lacked the resources needed to carry out this Governmentwide initiative. Future challenges that USAID will likely face in this area include:

- Tailoring an implementation plan for USAID/Washington and overseas posts (USAID intends to rely on the Department of State's implementation plan until one can be developed for USAID).

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[4] This standard applies to all employees (e.g., direct hire, Personal Service Contractors, or employees on "loan" from other Federal agencies).
[5] Audit of USAID's Implementation of Selected Homeland Security Presidential Directive 12 (HSPD-12) Requirements for Personal Identity Verification of Federal Employees and Contractors, Audit Report No. A-000-08-004-P, February 6, 2008.
[6] The National Institute of Standards and Technology.

- Obtaining resources to define and develop mechanisms that provide access to USAID’s facilities and information systems.
- Defining an overall framework and policy for coordinating issues between USAID and the Department of State in support of HSPD-12.
- Defining and coordinating the managerial, operational, and technical integration aspects between USAID and the Department of State for implementing physical and logical access.

OIG will continue to monitor USAID’s management of its information technology. Specifically, the following information technology audits are planned in fiscal year 2009:

- Audit of USAID/Washington's Compliance with the Federal Information Security Management Act for Fiscal Year 2009
- Audit of USAID Missions' Compliance with the Federal Information Security Management Act for Fiscal Year 2010
- Audit of USAID’s Compliance with the Federal Financial Management Improvement Act of 1996 for Fiscal Year 2009
- Audit of USAID's Implementation of the Privacy Requirements in Section 522 of the Consolidated Appropriations Act of 2005
- Audit of the Performance of USAID’s Worldwide Global Acquisition and Assistance System at Missions with Moderate and High Telecommunications Profile
- Audit of USAID/Washington’s Group Policy Objects
- Audit of USAID’s Electronic Mail System
- Audit of USAID’s Independent Verifications and Validations for Selected Information Technology Investments within the Bureau for Economic Growth, Agriculture, and Trade’s Information and Communication Technology Team
- Audit of USAID’s Compliance with OMB Requirements for Information Technology Business Cases
- Audit of USAID's Implementation of its Managerial Cost Accounting System.
- Audit of USAID's Inventory Processes to Identify Information Technology Hardware, Operating Systems, and Applications on USAID's Network
- Audit of the Integrity Checks of the Manual Processes Used to Prepare Financial Statements

FY 2008 MANAGEMENT AND PERFORMANCE CHALLENGES		
Management Challenge/ Significant Issue	**Actions Taken in FY 2008**	**Actions Remaining and/or Expected Completion Date**
FINANCIAL MANAGEMENT		
Accrual Accounting and Reporting. Some USAID Cognizant Technical Officers (CTO) have manually generated incorrect or inaccurate information in making their quarterly accrual estimates. As a result, USAID's accrual expenditures and accounts payable have continued to contain inaccuracies, and the Office of Inspector General (OIG) has recommended adjustments to USAID's financial statements to accurately reflect USAID's accrual activity.	The Accruals Reconciliation Report, BOE R0665, has been used successfully for five quarters. This report provides an audit trail for each of the 20,000 plus accrual transactions that are recorded quarterly in the general ledger. Action completed on September 1, 2008. The new online, web-based Phoenix Accruals training was successfully completed by all active CTOs and many other system users by January 31, 2008. There were about 3,000 people who completed the course. Action completed on January 31, 2008. Agency policies were issued: (1) requiring all current CTOs to complete the online, web-based Phoenix Accruals training by December 14, 2007 and all newly appointed CTOs to complete the training prior to appointment; and (2) specifying that the online, web-based Phoenix Accruals training is a prerequisite for being designated as a CTO. Action completed on September 15, 2008.	The Agency will provide ongoing accruals training and continue to hold CTOs responsible for estimating accruals. To improve the latter, the Office of the Chief Financial Officer (OCFO) will request additional resources to bring on a financial analysis unit that will provide qualitative reviews and support.
MANAGING FOR RESULTS		
Performance Improvement Initiative. The OIG issued 44 audit reports that included 153 recommendations pertaining to issues involving data quality, performance indicators, reporting of results, and supporting documentation.	Of the 153 audit recommendations, 92 (or 60%) have been closed.	The Agency plans to close the remaining 61 open audit recommendations in Iraq (14), Egypt (1), Morocco (1), Afghanistan (10), Nepal (1), Pakistan (1), Angola (2), Namibia (3), Rwanda (3), West Africa (1), Madagascar (1), Bolivia (3), Haiti (5), Peru (2), OCFO (5), Office of the Chief Information Officer (OCIO) (5), and Office of Security (SEC) (3). Target completion date: September 30, 2009.
ACQUISITION AND ASSISTANCE		
Procurement Processes and Systems. The success of the Global Acquisition System (GLAS) and the Joint Assistance Management System (JAMS) remains to be seen and recently completed audit of GLAS indicates that USAID did not always follow industry best practices on its development of this system.	USAID has continued and expanded its pilots of the GLAS system. USAID received Office of Management and Budget (OMB) approval to include an assistance component so GLAS has become the GLobal Acquisition and Assistance System (GLAAS). USAID has formed a task force with Human Resources (OHR) to look at staff recruitment and retention. This has resulted in many positive initiatives, including direct hire authority, an increase in recruitment, the use of Presidential Management Fellows, and recruitment and retention incentives being utilized. This is a positive start but much remains to be done. These actions will result in increased staff to address critical contracting and grants initiatives.	The GLAAS Team has a revised schedule for additional pilots and cornerstone missions and the full deployment of GLAAS through June 2011. USAID will continue recruiting and retention of staff efforts and hopes to dramatically increase staff and reach the fully staffed threshold in FY 2010. Under the Development Leadership Initiative (DLI), 175 Contracting Officers will be recruited for the foreign service to increase capacity in the field missions through 2012.

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FY 2008 MANAGEMENT AND PERFORMANCE CHALLENGES *(continued)*		
Management Challenge/ Significant Issue	**Actions Taken in FY 2008**	**Actions Remaining and/or Expected Completion Date**
ACQUISITION AND ASSISTANCE *(continued)*		
OIG Audit Findings. The OIG issued 10 performance audit reports dealing with specific acquisitions and assistance issues. The 10 reports identified 23 recommendations.	Of the 23 audit recommendations, 10 (or 43%) have been closed.	The Agency plans to close the remaining 13 open audit recommendations in Iraq (1), Morocco (1), Senegal (2), Office of Acquisition and Assistance (OAA) (8), and OCIO (1). Target completion date: September 30, 2009.
HUMAN CAPITAL MANAGEMENT		
President's Management Agenda (PMA) Initiative on Human Capital. As of June 30, 2008, OMB gave USAID a "yellow" rating, reflecting mixed results for its overall status in the area of human capital management, the same as in 2007.	Completed analysis of Washington workload driver and refined drivers for the Workforce Planning Model (WPM) to more accurately project Washington personnel requirements. Also, refined WPM to include new strategic direction and added new types of positions that are required to implement the Foreign Assistance Framework more effectively. Refined model now known as the Consolidated Workforce Planning Model (CWPM). Integrated CWPM's output with the Agency's new budget tool to make significantly more accurate Operating Expense estimates based on CWPM's staff projections. This has greatly sped up the budgeting process for USAID and increased its accuracy.	As of September 30, 2008, OMB gave USAID a "green" rating, indicating success. Action completed.
GAO Audit Report No. GAO-08-1059. On September 26, 2008, the Government Accountability Office (GAO) issued a report focusing on USAID's Acquisition and Assistance (A&A) staff that found the number of A&A staff with the necessary competencies was less than adequate at some missions, while at others it was more than adequate. GAO recommends that USAID develop and implement a strategic A&A workforce plan that matches resources to priority needs, such as the evaluation of the A&A function. Specifically, GAO recommends that the strategic A&A workforce plan includes a process to collect, analyze, and maintain (1) sufficiently reliable and up-to-date data on the Agency's A&A staff levels and (2) comprehensive information on the competencies of the A&A staff.	Audit report was released at the end of FY 2008 with Agency comments on actions to be undertaken in FY 2009 and FY 2010.	Strategic workforce planning is being supported by an analytical workforce planning model and WebPass post personnel system which tracks information on locally hired staff at post and will assist in making available accurate information on mission staffing, including A&A specialists. The Agency is working toward completing implementation of the competency management and HR line of business (LoB) tools during FY 2009 and FY 2010.

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FY 2008 MANAGEMENT AND PERFORMANCE CHALLENGES *(continued)*		
Management Challenge/ Significant Issue	**Actions Taken in FY 2008**	**Actions Remaining and/or Expected Completion Date**
HUMAN CAPITAL MANAGEMENT *(continued)*		
Workforce Planning. USAID needs to continue to implement its workforce planning to close skills gaps through recruitment, retention, training, succession planning, and other strategies.	Activated the Learning Management System (LMS) competency management module for OHR, Information Technology (IT), and Contract specialists. Second assessments of OHR and Contract specialists is underway. IT completed its first annual assessment using the tool. Leadership competencies were loaded into the LMS tool. Gap analyses were done for OHR, IT, and Contract specialists and strategies in place to close gaps. For example, IT is using retention bonuses to retain critical skills. OAA and OHR assembled a task force to develop, implement, and monitor strategies to close civil service gaps that include continuously open vacancy announcements, direct hire authority, and a special authority to hire annuitants without reduction of their annuities. For OHR specialists, specialized training was designed, and critical new positions were established and filled, e.g., Branch Chief for Performance Management. USAID hired 120 Foreign Service Officers (FSO) in FY 2008. OHR revised the entire recruitment process to ensure a diverse workforce with 21st Century skills and reduce the time it takes to get new recruits on board. Activated the LMS 360 Tool for Senior Management Group assignment process that started in September 2008. This resulted in delaying the activation of the Succession Planning Module. The Office of Personnel Management (OPM) certified USAID's civil service and foreign service performance appraisal systems and has received a "green" checkmark for Results-Oriented Performance Culture. USAID's first Human Capital Management Report (HCMR) was recognized by OPM as one of the three best and OPM provided it to other agencies to help them prepare their next HCMR. The USAID Human Capital Strategic Plan (HCSP) FY 2009-2013 was posted on external website on the policy/budget page. The Performance Management Plan for the HCSP was completed. USAID received provisional Senior Executive Service (SES) certification October 15, 2008.	OHR completed first ever Five-Year Workforce plan and is on track to post by December 15, 2008. OHR is currently in the first phase of activation of the Succession Planning Module which includes determining USAID-specific configurations and corresponding data elements and data transfer requirements and beta testing. Expected completion of this phase is tentatively planned for January 2009. USAID on track to hire 300 FSOs in FY 2009.

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FY 2008 MANAGEMENT AND PERFORMANCE CHALLENGES *(continued)*		
Management Challenge/ Significant Issue	**Actions Taken in FY 2008**	**Actions Remaining and/or Expected Completion Date**
INFORMATION TECHNOLOGY MANAGEMENT		
Implement Homeland Security Presidential Directive-12 (HSPD-12).	USAID issued a total of 2,050 Identification (ID) Cards to domestic employees and contractors. USAID started the Personal Identity Verification (PIV) process for (existing) on-board contractors and direct hires. Further progress restricted by lack of resources.	Complete issuing credentials for all direct hires and contractors by June 2009. [Note: Funding and staffing issues remain a problem. This is a multiyear effort. Other completion dates are unknown at this time.] Staff project team for development activities, including a full project plan, detailed cost estimate and implementation schedule. Provide funding to support 2.0 full-time equivalent (FTE) contractor "engineering/planning" staff and 2.5 FTE contractor "operations" staff for enrollment and badging.

SUMMARY OF FINANCIAL STATEMENTS AUDIT AND MANAGEMENT ASSURANCES

The Office of Management and Budget (OMB) requires all agencies to prepare Table 1 (Summary of Financial Statement Audit) and Table 2 (Summary of Management Assurances). Table 1 reflects that the Independent Auditor gave the Agency an unqualified opinion on the financial statements with one material weakness. Table 2 shows the Agency has an unqualified Federal Managers' Financial Integrity Act (FMFIA) Assurance Statement with no management-identified internal control material weaknesses and no non-conformances with financial management systems requirements. In addition, both the Agency and the Auditor have determined that the Agency is in compliance with the Federal Financial Management Improvement Act (FFMIA). These tables correspond with the information presented in the Management's Discussion and Analysis (MD&A) Section of the report.

SUMMARY OF FINANCIAL STATEMENTS AUDIT

Table 1. SUMMARY OF FINANCIAL STATEMENTS AUDIT

Audit Opinion: Unqualified

Restatement: No

Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Reconciliations of Fund Balance with the U.S. Treasury	0	1	0	0	1
Total Material Weaknesses	**0**	**1**	**0**	**0**	**1**

SUMMARY OF MANAGEMENT ASSURANCES

Table 2. SUMMARY OF MANAGEMENT ASSURANCES

Effectiveness of Internal Control over Financial Reporting (FMFIA § 2) (App A, OMB Cir A-123)

Statement of Assurance: Unqualified

Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
None	0	0	0	0	0	0
Total Material Weaknesses	**0**	**0**	**0**	**0**	**0**	**0**

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Table 2. SUMMARY OF MANAGEMENT ASSURANCES *(continued)*

Effectiveness of Internal Control over Operations (FMFIA § 2)

Statement of Assurance: Unqualified

Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Implementation and activity monitoring in high threat environments	1	0	1	0	0	0
Total Material Weaknesses	**1**	**0**	**1**	**0**	**0**	**0**

Conformance with Financial Management System Requirements (FMFIA § 4)

Statement of Assurance: Systems conform to financial management system requirements

Non-Conformances	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
None	0	0	0	0	0	0
Total non-conformances	**0**	**0**	**0**	**0**	**0**	**0**

Compliance with Federal Financial Management Improvement Act (FFMIA)

	Agency	Auditor
Overall Substantial Compliance	Yes	Yes
1. System Requirements	Yes	Yes
2. Accounting Standards	Yes	Yes
3. USSGL at Transaction Level	Yes	Yes

DEFINITION OF TERMS

Beginning Balance: The ending balance of material weaknesses from the prior year.

New: The total number of material weaknesses that have been identified during the current year.

Resolved: The total number of material weaknesses that have dropped below the level of materiality in the current year.

Consolidated: The combining of two or more findings

Reassessed: The removal of any finding not attributable to corrective actions (e.g., management has re-evaluated and determined a material weakness does not meet the criteria for materiality or is redefined as more correctly classified under another heading (e.g., FMFIA Section 2 to a FMFIA Section 4 and vice versa)).

Ending Balance: The agency's year-end balance.

IMPROPER PAYMENTS INFORMATION ACT (IPIA) REPORTING DETAILS

I. RISK FACTORS

The Office of Chief Financial Officer (OCFO) developed its 2008 IPIA program review and risk assessment strategy by extracting the Agency's worldwide payment data files from its financial system, Phoenix, from October 2007 to September 2008. In response to the General Accountability Office's (GAO) 2007 IPIA audit recommendations, the OCFO provided IPIA risk assessment guidance and tools to USAID's Financial Management Offices (FMO) overseas to enable them to enhance their individual assessment process. The Agency's risk assessment methodology consisted of weighting and scoring each of USAID's payment streams by assigning a rating of low, moderate, or high. These ratings were based on the following risk factors:

- Dollar amount of program
- Type of program activity
- Internal controls
- Interviews with stakeholders
- Activities identified as risk susceptible through testing and review
- Review of U.S. Treasury disbursement and Agency ad hoc reports

RISK ASSESSMENT

In FY 2008, all IPIA communications were posted to the OCFO website for Agency staff to acquaint themselves with the process, make recommendations, and take appropriate action where necessary. Although the OCFO's initial assessment indicated that the payment streams did not meet and/or exceed both of the Office of Management and Budget's (OMB) threshold requirements ($10 million and an error rate of 2.5%) for "significant erroneous payments," the OCFO determined that the Contracts, Grants/Cooperative Agreements, and Cash Transfers were susceptible to erroneous payments due to their high dollar value and volume of transactions. These three payment streams total $11.1 billion and represent 88% of the Agency's total outlays of $12.6 billion for FY 2008. The remaining 10 payment streams did not meet OMB's threshold for reporting improper payments nor pose a significant concern; however, the Agency reviewed and evaluated each payment stream. The OCFO proceeded to the next step in the risk assessment process and obtain a statistically valid sample that would subject *all* Agency programs and outlays to a higher level of improper payment review.

Upon request from the OCFO, the USAID's Office of Inspector General (OIG) conducted a risk assessment and provided the OCFO with a sample by payment stream. The OIG sampling consisted of 3,031 transactions totaling $2.8 billion worldwide with a confidence level of 95% and an error rate of 5%. The sampling results did not indicate any improper payments.

CONTRACTS, GRANTS, AND COOPERATIVE AGREEMENTS

Contracts constitute 46% of the Agency's outlays while Grants and Cooperative Agreements constitute 25%. Both have been identified as highly susceptible to improper payments, i.e., estimated improper payments exceed 2.5% of program outlays and $10 million. Each of the 50 USAID Missions performed a comprehensive review and risk analysis of the OIG sample transactions.

- Of the 50 Missions 40 (or 80%) were included in the OIG stratified sample universe of 1,776 transactions. Their review results did not indicate any improper payments.

- The remaining 10 Missions (or 20%) had no transactions in the OIG sample universe. However, these 10 Missions reviewed their outlays that were not included in the sample universe and reported no improper payments.
- USAID/Washington performed an in-depth review of 1,255 of the OIG's sample transactions and identified one transaction for $69 million that was returned to the Agency by the U.S. Treasury due to invalid vendor banking account information.

Additionally, the Agency staff reviewed approximately 26,000 high dollar value transactions totaling more than $6.5 billion from a universe of 1.1 million transactions that totaled more than $12.6 billion in order to determine if overpayments and underpayments occurred under these two payment streams. The review consisted of tracing the amount of each transaction to the related invoice, checking for proper signatures, and ensuring that the payments were in compliance with governing agreements and Agency polices.

Approximately $105 million that consisted of one payment for $69 million in U.S. Treasury returned payments representing 0.83% of the total Agency outlays of $12.6 billion were identified as improper payments. Additionally, $56 thousand in interest payments were incurred by the Agency. The Agency has re-issued the returned payments to the appropriate vendors. USAID funding and disbursement activities under the Contract, Grants, and Cooperative Agreements are assigned to alpha-numeric obligation numbers; therefore the risk of significant erroneous payments is minimized. Over and underpayments are identified timely through daily reconciliation processes.

CASH TRANSFERS[1]

Although the OCFO has high confidence in the internal controls in place for making cash transfers to foreign governments and foreign bank accounts, the OCFO still decided to include the cash transfer payment activity as risk-susceptible due to its the large-dollar value. The OCFO subjects this activity to a series of monthly internal reviews that consist of analyzing and comparing data outputs and reports, cross-referencing and performing comparisons to ensure that payment data are accurate, and monitoring the improper payment rate on an ongoing basis. Cash Transfers represent 17% of the Agency's total outlays of $12.6 billion and have been identified as moderately susceptible to improper payments. Due to the high dollar value associated with this payment stream, the Cash Management and Payment Division (CMP) performed an in-depth review of the total 9,937 detailed records that are equivalent to 623 payment documents totaling $2.2 billion to determine if improper payments were made. After a review and analysis of U.S. Treasury disbursement reports and the Agency's accounting system, Phoenix, CMP identified improper payments totaling $2 million which represents 0.02% of the Agency's total cash outlays of $12.6 billion. This rate was calculated by dividing the improper payment dollars of $2 million by the total Agency outlays of $12.6 billion. Results indicate that this payment stream is far below OMB's improper payment threshold of $10 million and 2.5% rate. These improper payments occurred due to vendors changing their banking information without informing the Agency of the change. However, through the OCFO's own internal recovery process, 100% of the improper payments identified were recovered and properly re-issued to the vendors.

OTHER PAYMENT STREAMS

The remaining 10 payment streams totaling $1.5 billion represent 12% of the Agency's total outlays of $12.6 billion for FY 2008. In addition, Agency staff members perform pre and post-audit reviews of claims, which provide the assurance that improper payments are unlikely. However, in the event that improper payments are made they are identified through the various systems reconciliations, and timely, appropriate action is taken to recoup these funds for proper re-issuance. Also, the CMP staff asked each stakeholder specific questions in order to determine the risk susceptibility of these payment streams. The results of the interviews indicated that adequate internal controls are in place to address potential payment deficiencies. This assessment is reflected in Table 1.

II. STATISTICAL SAMPLING

The OCFO collaborated with the OIG and obtained a statistically valid sample of the Agency's payment streams which the OCFO subjected to a higher level of improper payment review. The scope of the statistical sampling constituted generating a sample size that clearly defined and identified the dollar outlays that were susceptible to significant erroneous payments. Each payment stream was analyzed separately and organized into stratifications, based on the volume of the activity.

1. Cash Transfers are cash disbursements to a foreign country or organization based on Cash Transfer authorizations in the form of official State Department cables from USAID overseas Missions or an official agreement from USAID/Washington. The cables and agreements are received, accepted, and processed in the OCFO and transmitted to the recipient's bank account via the U.S. Treasury and Federal Reserve Bank.

Samples were then selected among the different stratifications until an acceptable statistical sample size was achieved.

A statistically valid sample size of 3,031 transactions totaling $2.8 billion with a confidence level of 95% and an error rate of 5% was selected from a payment universe by the OIG's statistician. A sample size of 1,776 transactions was disseminated to USAID Missions with instructions on how to perform the review and analysis. The remaining 1,255 transactions were reviewed and analyzed by USAID/Washington to determine if any of the transactions were underpayments or overpayments. The analytical process was conducted by tracing each transaction to the voucher to determine its susceptibility to improper payments. Also, USAID/Washington and the Missions checked for proper signatures and compliance of each invoice with the governing agreement. USAID/Washington conducted an interview of the stakeholders and the results were reviewed and analyzed by the USAID/Washington staff to determine vulnerability of the stakeholders programs.

III. CORRECTIVE ACTION

CONTRACTS, GRANTS, COOPERATIVE AGREEMENTS, AND CASH TRANSFERS

USAID Contracts, Grants, and Cooperative Agreements program payment activities have been labeled risk-susceptible due to the high-dollar value of these programs and they continue to be analyzed, reconciled and closely monitored by the OCFO staff to ensure compliance with the provisions of the IPIA, Agency policies, and governing agreements. As a result of this effort the error rate for Contracts, Grants, Cooperative Agreements, and Cash Transfers continues to be less than OMB's error rate of 2.5%. Also, the Agency has revamped its internal controls by developing strict guidelines and measures for payments in an effort to eliminate improper payments. In addition, the Agency has in place skilled, experienced staff who are tasked with performing a risk assessment of all the programs under their domain to determine their susceptibility to improper payments and have adopted a more consistent and reliable tool for assessing and evaluating improper payments.

The Iraq Reconstruction and the Afghanistan Assistance and Reconstruction programs continue to be challenges for USAID. These activities are often high profile and large dollar value and are located in high-threat environments where travel to projects sites for inspection may be limited due to safety concerns. Missions in these countries have taken steps within their management control to strengthen monitoring and field reporting capabilities. The Agency continued to use a spatially enabled management information system to remotely monitor progress of construction activities.

The OCFO compiles and consolidates the reconstruction and assistance program activities in both Afghanistan and Iraq into monthly reports which are distributed to stakeholders, internal and external clients, including USAID Missions and Bureaus, as a tool to monitor their program and payment activities and to increase overall transparency of these high-profile programs.

In a continuing effort to reduce improper payments, the OCFO staff members are actively engaged in the ongoing review, sampling, identification, and implementation of the necessary internal controls. In addition, ongoing training is provided to staff on meeting the President's goal to eliminate improper payments. Agency managers work closely with professional recovery auditors on reducing and recovering improper payments. Additionally, work objectives related to reducing improper payments have been incorporated in relevant CMP staff 2008 work plans to further ensure compliance with IPIA.

INTEREST PAYMENTS

In FY 2008, the Agency paid approximately $56 thousand in late payment interest disbursed under the Contract payment stream. As a corrective action the Agency has taken a proactive stand in ensuring that all vendor invoices submitted to the Agency for payment are processed timely and in accordance with the Prompt Payment Act (PPA). For example, interest payment status reports are generated on a regular basis to enable managers to address the root cause of late payments and take corrective action. The OCFO also documents all processes to ensure consistent application of procedures and corrective action plans. To ensure competency, OCFO staff employees attend Agency funded training classes that cover the PPA and Agency regulations regarding payments.

TREASURY RETURNED PAYMENTS

As a corrective action plan the Agency has developed internal controls which require validation of vendor information before issuing a payment. Also, training is offered to staff members on accounts payable issues that include validation of vendor information and ensuring a claim is valid for payment. In addition, the OCFO reviews daily U.S. Treasury disbursements reports for returned payments. If returned payments are disclosed the OCFO addresses the issue with the appropriate staff. Corrective action is then taken by contacting the vendor for current information in order to reissue the payment.

OTHER PAYMENT STREAMS

Although the FY 2008 risk assessment concluded that 10 out of its 13 payment streams and programs are at a low risk for improper payment and the error rate remains far below the OMB guidance thresholds, the Agency continues to conduct various levels of internal improper payment reviews and samplings for all programs and payment activities throughout the year. Additionally, all high profile and dollar programs are considered risk-susceptible and subject to further analysis, review, and scrutiny.

ACCRUALS[2]

The accruals exercise has been an effective tool in helping to reduce improper payments as responsible Officers review relevant historical information for assurance that related payments have been properly made. OMB's Core Financial System requirements stipulate that an agency's core financial system must be able to provide timely and useful financial information to support management's fiduciary role, budget formulation and execution functions, fiscal management of program delivery and program decision–making, and internal and external reporting requirements. External reporting requirements include the requirements for financial statements prepared in accordance with accrual accounting concepts and Generally Accepted Accounting Principle (GAAP) within the form and content prescribed by OMB; reporting requirements prescribed by the U.S. Treasury; and legal, regulatory, and other special management requirements of the Agency. The core financial system must provide complete, reliable, consistent, timely, and useful comparative financial management information on operations.

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

STATUS/PROJECT REVIEWS

The Agency's Contract Audit Management (CAM) team within the Office of Acquisition and Assistance (OAA) reviews audit reports relating to audits of grantees and sub-grantees for resolution of audit findings. The audits are performed by external auditors and the ensuing reports are submitted to the OIG, grantees, and sub-grantees.

OMB Circular A-133 requires the auditor to audit the entire universe of Federal awards, including sub-awards. Therefore, any excess billing or amount that is unallowable will be questioned by the auditor. The auditor's report is sent to the Clearinghouse for submission to the USAID OIG. Upon determination that questioned costs are present, the OIG will issue recommendations in a formal result of audit findings and direct those findings to OAA for negotiations with the grant recipient or contractor.

Upon receiving the A-133 audit reports, OAA sends a letter to the recipient and, if the recommendation involves questioned costs, a copy of the demand payment request is forwarded to the OCFO to record a receivable and pursue collection action. If the findings are procedural, the Agency asks the recipient to provide a corrective action plan with a time line for correcting the deficiencies. The Agency follows up on the action plan until the deficiencies are corrected and asks the audit firm to include a follow-up on the implementation of the corrective action plan to ascertain if the deficiencies were corrected appropriately.

2. Accruals are accounting estimates of services or goods rendered which have not yet been paid.

IV. IMPROPER PAYMENT REPORTING

The following tables are required for each reporting agency. Table 1 reflects the total voucher count, disbursements, risk assessed, and improper payment rates for USAID's payment streams for FY 2008. The overpayment rate is calculated by dividing the overpayment dollars by the dollars paid. Table 2 reflects prior year, current year, and future year outlays, as well as the corresponding actual and/or estimated improper payment rate by percentage and dollar value for each of these years.

Table 1. TOTAL VOUCHER COUNT AND DISBURSEMENTS, RISK ASSESSED, AND IMPROPER PAYMENT RATES FOR FY 2008

(In Millions)

Payment Stream	Risk Assessed	Voucher Count	Outlays	Payment Stream Disbursement Rate	Payment Stream Error Rate
Cash Transfers	Moderate				
Total Payments		9,937	$ 2,187	17.31%	0.00%
Underpayments		–	–	0.00%	0.00%
Overpayments		8	2	0.00%	0.09%
Contracts	High				
Total Payments		267,275	5,767	45.66%	0.00%
Underpayments		–	–	0.00%	0.00%
Overpayments		290	69	0.00%	1.20%
Grants and Cooperative Agreements	High				
Total Payments		142,340	3,126	24.75%	0.00%
Underpayments		–	–	0.00%	0.00%
Overpayments		1	36	0.00%	1.15%
Credit Financing Funds	Low				
Total Payments		1,078	13	0.11%	0.00%
Underpayments		–	–	0.00%	0.00%
Overpayments		–	–	0.00%	0.00%
Allowances	Low				
Total Payments		24,859	17	0.13%	0.00%
Underpayments		–	–	0.00%	0.00%
Overpayments		–	–	0.00%	0.00%
Other Operating Expenses	Low				
Total Payments		235,901	405	3.21%	0.00%
Underpayments		–	–	0.00%	0.00%
Overpayments		–	–	0.00%	0.00%
Payments to Other Agencies	Low				
Total Payments		13,349	503	3.98%	0.00%
Underpayments		–	–	0.00%	0.00%
Overpayments		–	–	0.00%	0.00%
Payroll	Low				
Total Payments		230,659	457	3.62%	0.00%
Underpayments		–	–	0.00%	0.00%
Overpayments		–	–	0.00%	0.00%
Revolving Funds	Low				
Total Payments		11,034	31	0.24%	0.00%
Underpayments		–	–	0.00%	0.00%
Overpayments		–	–	0.00%	0.00%
Training	Low				
Total Payments		15,570	18	0.14%	0.00%
Underpayments		–	–	0.00%	0.00%
Overpayments		–	–	0.00%	0.00%

(continued on next page)

Table 1. TOTAL VOUCHER COUNT AND DISBURSEMENTS, RISK ASSESSED, AND IMPROPER PAYMENT RATES FOR FY 2008 *(continued)*

(In Millions)

Payment Stream	Risk Assessed	Voucher Count	Outlays	Payment Stream Disbursement Rate	Payment Stream Error Rate
Transportation	Low				
Total Payments		17,236	53	0.42%	0.00%
Underpayments		–	–	0.00%	0.00%
Overpayments		–	–	0.00%	0.00%
Travel	Low				
Total Payments		115,616	54	0.43%	0.00%
Underpayments		–	–	0.00%	0.00%
Overpayments		–	–	0.00%	0.00%
Local Currency Trust Funds	Low				
Total Payments		1,300	1	0.01%	0.00%
Underpayments		–	–	0.00%	0.00%
Overpayments		–	–	0.00%	0.00%
Total Count and Overpayment		**299**	**$ 107**		
Total Count and Payments		**1,086,154**	**$ 12,632**	**100.00%**	
Improper Payment Rate*			**0.85%**		

* Improper payment rate is calculated by dividing total improper payment of $107,000,000 by the total outlays of $12,632,000,000

Table 2. IMPROPER PAYMENT (IP) REDUCTION OUTLOOK

(In Millions)

	Prior Year (2007)		
Programs	**PY Outlays**	**PY IP %**	**PY IP $**
Cash Transfers	$ 1,418	0.18%	$ 3
Grants/Contracts	$ 7,841	1.23%	$ 96

	2008			2009		
Programs	**CY Outlays**	**CY IP %**	**CY IP $**	**CY+1 Outlays***	**CY+1 IP %**	**CY+1 IP $**
Cash Transfers	$ 2,187	0.09%	$ 2	$ 2,296	0.05%	$ 1.15
Contracts	$ 5,767	1.20%	$ 69	$ 6,055	0.50%	$ 30.28
Grants, & Cooperative Agreements	$ 3,126	**1.15%**	$ 36	$ 3,282	0.50%	$ 16.41

	2010			2011		
Programs	**CY+2 Outlays**	**CY+2 IP %**	**CY+2 IP $**	**CY+3 Outlays**	**CY+3 IP %**	**CY+3 IP $**
Cash Transfers	$ 2,411	0.02%	$ 0.42	$ 2,532	0.01%	$ 0.25
Contracts	$ 6,358	0.25%	$ 15.90	$ 6,676	0.03%	$ 1.67
Grants, & Cooperative Agreements	$ 3,446	**0.25%**	$ 8.62	$ 3,619	0.03%	$ 0.90

* A growth rate of 5% is estimated for FY 2009, FY 2010 and FY 2011 outlays

Source of Data:

- 2008 Net Outlays from USAID's Financial System, Phoenix
- OCFO/CMP Internal Control reports and vouchers

The cumulative funds recovered from FY 2006 to FY 2008 amount to approximately $216 million for Contracts, Grants, and Cooperative Agreements and $12 million for Cash Transfers. The total cumulative amounts identified as erroneous during this period were fully recovered. The OCFO is committed to proactively identifying and pursuing the recovery of all Agency payments identified through its financial system and close out reviews.V. Recovery auditing reporting for the following:

V. RECOVERY AUDITING EFFORT

The OCFO continues to sample and estimate the level of improper payments for all payment streams to determine if there are costs and overpayments identified, recorded in the Agency financial records, and disclosed in the quarterly and annual financial statement for recovery. The OCFO continues its work in developing and implementing an effective recovery audit system to ensure that all Agency overpayments are identified and recovered. The OCFO performs reviews of financial information monthly to identify deficiencies in the payment process and takes corrective action as appropriate.

In a continuing effort to reduce improper payments, OAA now requires new vendors to register with the Central Contractor Registration (CCR) which is the primary registrant database for the Federal Government. CCR collects, validates, stores, and disseminates data in support of agency acquisition missions. The vendor information is downloaded from CCR into the Agency's financial system, Phoenix, through an interface module thereby keeping the vendor information in the Agency's financial system current. The Agency has also embarked upon vendor code clean-up to ensure uniqueness and consistency of vendor codes in Phoenix. A vendor code is a unique identifier of a vendor in Phoenix. When multiple vendor codes exist, each code may contain different vendor information for the same vendor. Therefore, instances of improper payment may occur when a vendor code with wrong vendor information is selected for payment. The vendor code clean-up effort is geared toward creating a single unique vendor code for each vendor in Phoenix. This will eliminate the selection of the wrong vendor codes for payment.

OIG'S PRE AND POST-AUDIT REVIEWS

The OIG post-audit reviews are one of the primary methods of sampling and estimating the improper payment rate for the Contracts, Grants, and Cooperative Agreements programs. All nonprofit U.S.-based organizations that expend $500 thousand or more in Federal awards are subject to an OMB Circular A-133 financial audit which is reviewed by the Agency's OIG. All foreign nonprofit organizations that expend $300 thousand during their fiscal year in USAID awards are subject to a recipient-contracted audit (RCA) performed by approved Certified Public Accountant (CPA) firms which are reviewed by the respective USAID Regional Inspector General (RIG) overseas. All USAID commercial vendor contracts with incurred-cost submissions are subject to an annual Defense Contract Audit Agency (DCAA) audit. The Agency's procurement office also reviews the OIG recommendations for ongoing audits to ensure payments to recipients are accurate and proper. The OIG tracks audit review activities in the Consolidated Audit Compliance System (CACS) while the OCFO reviews and calculates the improper payment rate for these programs. In FY 2008, the cumulative audited amount recorded in CACS totaled $4.9 billion. $27 million of the total audited amount was identified as excess billing and the total $27 million was fully recovered during FY 2008.

In the event that amounts identified for recovery are not fully recouped, the Contracting Officer with oversight authority over contracts or the Agreement Officer with oversight authority over grants and cooperative agreement will issue a demand letter Bill for Collection, which serves as the initial billing. The demand letter Bill for Collection is forwarded to the Mission or Regional Controllers office for field audits or Washington Financial Services (WFS) for USAID/Washington audits to establish the accounts receivable. Barring any debt

RECOVERY AUDITING RESULTS

(In Millions)

Agency Component	Amount Subject to Review for CY Reporting	Actual Amount Reviewed and Reported CY	Amounts Identified for Recovery CY	Amounts Recovered CY	Amounts Identified for Recovery PY	Amounts Recovered PY	Cumulative Amounts Identified for Recovery (CY+PYs)	Cumulative Amounts Recovered (CY+PYs)
Office of Inspector General	$4,941	$4,941	$27	$27	$17	$17	$44	$44

compromise, suspension, termination of collection, and closeout or write-off, the recovery process makes full use of all collection tools available, including the U.S. Treasury collection service and/or the Department of Justice claims litigation process. The collection effort may take several months.

VI. REMEDIAL ACTION

- Existing control process and the implementation of OMB Circular A-123, *Managements Responsibility for Internal Controls*, revised Appendix A requirements continue to ensure that the Agency's internal control over financial reporting and systems are well documented, sufficiently tested, and properly assessed. In turn, improved internal controls enhance safeguards against improper payments, fraud, and waste and better ensure that the Agency's resources continue to be used effectively and efficiently to meet the intended program objectives. Toward this end, the OCFO engaged the services of external contractors in FY 2006 to assess the internal control structure of the Agency in accordance with Circular A-123 to review critical operations within USAID that may be vulnerable to risk. The Agency opted to implement A-123 Appendix A requirement in a phased-in approach based on risk, with four processes being tested each year over three years with FY 2008 being the third and final year. The A-123 assessment team reviewed USAID/Washington's CMP Accounts Payable and Advances processes in FY 2007, as both were deemed to be medium risk. The purpose of the review was to ensure compliance with the A-123 Appendix A of cash disbursement related processes and for compliance with related Federal regulations such as the PPA and the IPIA. The team did not identify any significant deficiencies or material weaknesses in the Accounts Payable process and identified only one significant deficiency in the Advances Process relating to prompt recording of transactions, not improper recording or disbursement. The scope of the A-123 Appendix A assessment during FY 2008 included testing of all key business processes, consisting of Accounts Payable and Advances, at a sample of eight of the 38 overseas FMOs or "Cognizant Controller" locations. The team did not identify any significant deficiencies or material weaknesses that would have an adverse effect on the Agency's ability to make proper payments. The A-123 team will continue to monitor internal controls related to cash management processes throughout FY 2009 and subsequent years.
- The OCFO and the OIG continue with the yearly financial management reviews and certifications of financial statements for the Agency. The primary objectives of these reviews and certifications are to obtain assurances of the Agency's compliance with the Federal Managers' Financial Integrity Act of 1982 (FMFIA), the Federal Financial Management Improvement Act of 1996 (FFMIA), and the IPIA to enhance the Agency's internal financial controls, and to resolve financial management issues in a more efficient, timely manner.
- Also, the Agency continues to implement GAO's 2007 Audit recommendations by:
  - expanding existing IPIA guidance to include detailed procedures for addressing four key steps—perform risk assessment, estimate improper payments, implement a corrective action, and annually report that OMB requires agencies to perform in meeting the improper payment requirements;
  - developing a risk assessment tool, such as a risk assessment matrix, to determine if risks exist, what those risks are, and the potential or actual impact of those risks on program operations;
  - using the risk assessment tool to institute a systematic approach to identify programs and activities susceptible to significant improper payments under IPIA;
  - maintaining documentation of actions performed to address IPIA and the Recovery Auditing Act requirements;
  - developing a comprehensive recovery auditing program that is specifically designed to identify overpayments to contractors that are due to payment errors; and
  - adhering to OMB's guidance for reporting recovery auditing information in the annual Federal Acquisition Regulation (FAR).
- The development of a comprehensive auditing program is in its early stages. However, the OCFO analyses and reconciles vendor accounts on a frequent basis to assure the accuracy of vendor payments. The OCFO continues to sample and estimate the level of improper payments for all payment streams to determine if there are costs and overpayments identified for recovery.

VII. AGENCY INFORMATION SYSTEMS AND OTHER INFRASTRUCTURE

PHOENIX

With a worldwide consolidated financial and accounting system, Phoenix, now in place, Agency staff members with authorized access to the worldwide financial system are now able to continuously monitor, review, analyze, and reconcile financial data. Now that USAID/Washington has the capability to access and review the financial payments activities worldwide through Phoenix, future IPIA review efforts to minimize the risk of making erroneous or improper payments will be more streamlined, yielding enhanced effectiveness, efficiency, and results.

GLOBAL ACQUISITION AND ASSISTANCE SYSTEM

The Agency has acquired a GLobal Acquisition and Assistance System (GLAAS) to enable the Agency to improve acquisition and assistance systems. GLAAS is currently in its testing and implementation phase. Upon its rollout worldwide, it is expected that GLAAS will meet the unique functional and technical procurement requirements of the Agency and will be fully interfaced with Phoenix. In addition, GLAAS will support E-Government initiatives.

VIII. STATUTORY AND REGULATORY BARRIERS

Staff shortage may limit the Agency's corrective actions in reducing improper payments in the future. The Agency's senior management staff has identified the staff shortage as a reportable condition and is considering remedial steps that would mitigate the effects of the staff shortage in reducing improper payments.

IX. ADDITIONAL COMMENTS

- USAID worldwide payments were processed in a single unified financial system, Phoenix, in 2008. The availability of the Agency's financial data in Phoenix has greatly enhanced internal controls and transparency of the entire Agency's financial activities. Implemented procedures where current financial data are subject to various monthly reviews and cross-referenced with other internal and external reports.
  - The U.S. Treasury returned undeliverable USAID funds to the Agency for proper issuance. The OCFO continues to monitor and address the root causes of undeliverable funds in order to minimize or eliminate the problem.
  - The OCFO monitors all payments subject to the PPA and takes corrective action to minimize interest penalty payments.
  - The OCFO develops several other system reports and tools to aid in the identification and review of possible worldwide erroneous/duplicate payments.
- Internal and external payable reviews and consultations.
  - The A-123 management internal control compliance assessment team provided recommendations for improving the content, style, and format of future IPIA reports.
  - The OCFO IPIA review team utilized lessons learned from independent reviews and other agencies' best practices.
- Re-evaluated existing IPIA review processes and further defined IPIA approach and strategy for FY 2008.
  - The OCFO staff updated and documented the Agency's overall IPIA strategy and review practices for incorporation in future reports.
  - The OCFO benefited from the expertise and support of the OIG who provided an analytical review of the Agency's payment stream data.
  - The OCFO IPIA team learned the value of extending reviews to other internal and external reports. This allowed the Agency to leverage off work/actions previously completed by individuals with expert knowledge leading to less duplication of effort and greater independence and transparency.

Appendix

(Above) **Children pumping clean water from their new community well in an Afghan village. New wells provide a reliable source for cleaner water and reduce the incidence of dysentery and other waterborne diseases, saving children's lives.**

(Preceding page) **A scientist in Sri Lanka works in a rubber polymer lab. USAID supports high technology research to improve the natural rubber industry and boost revenue from this key export.**

PHOTO: GEMUNU AMARASINGHE / USAID

ABBREVIATIONS AND ACRONYMS

A&A	Acquisition and Assistance
AA	Assistant Administrator
ADP	Automatic Data Processing
ADS	Automated Directives System
AFR	Africa Bureau
AFR	Agency Financial Report
AFRICOM	Africa Command
AICPA	American Institute of Certified Public Accountants
ANE	Asia and Near East Bureau
APR	Annual Performance Report
ARS	Accruals Reporting System
BSM	Business Systems Modernization
BTEC	Business Transformation Executive Committee
CACS	Consolidated Audit Compliance System
CAM	Contract Audit Management
CAP	Corrective Action Plan
CCR	Central Contractor Registration
CFO	Chief Financial Officer
CIF	Capital Investment Fund

CMP	Cash Management and Payment Division (USAID)
CPA	Certified Public Accountant
CPC	Critical Priority Country
CPIC	Capital Planning and Investment Control
CRS	Catholic Relief Services
CTO	Cognizant Technical Officer
CWPM	Consolidated Workforce Planning Model
CY	Current Year
DCA	Development Credit Authority
DCAA	Defense Contract Audit Agency
DCHA	Democracy, Conflict, and Humanitarian Assistance Bureau (USAID)
DFA	Director, U.S. Foreign Assistance
DLI	Development Leadership Initiative
DOD	Department of Defense
DOL	Department of Labor
E&E	Europe and Eurasia Bureau
EA	Enterprise Architecture
EGAT	Economic Growth, Agriculture, and Trade Bureau (USAID)
FACTS	Foreign Assistance Coordination and Tracking System
FAR	Federal Acquisition Regulation
FASAB	Federal Accounting Standards Advisory Board
FECA	Federal Employees Compensation Act
FFMIA	Federal Financial Management Improvement Act
FMFIA	Federal Manager's Financial Integrity Act
FMLoB	Financial Management Line of Business
FMO	Financial Management Office
FSL	Foreign Service Limited
FSN	Foreign Service National
FSIO	Financial Systems Integration Office
FSO	Foreign Service Officer
FTE	Full-Time Equivalent
FY	Fiscal Year
GAAP	Generally Accepted Accounting Principles
GAO	Government Accountability Office
GGL	Génération Grands Lacs
GH	Global Health Bureau (USAID)
GLAAS	GLobal Acquisition and Assistance System
GLAS	Global Acquisition System
GMRA	Government Management Reform Act
GPRA	Government Performance and Results Act
GSA	General Services Administration,
HCMR	Human Capital Management Report
HCSP	Human Capital Strategic Plan
HHS	Department of Health and Human Services
HIV/AIDS	Human Immune Deficiency Virus/Acquired Immune Deficiency Syndrome
HSPD	Homeland Security Presidential Directive
HTE	High Threat Environment
ID	Identification
IFMS	Integrated Financial Management System
IG	Inspector General

IP Improper Payment

IPAC Intragovernmental Payment and Collection

IPIA Improper Payments Information Act

IRI Interactive Radio Instruction

IT Information Technology

JAMS Joint Assistance Management System

JFMS Joint Financial Management System

LAC Latin America and the Caribbean Bureau

LMS Learning Management System

LoB Line of Business

MCRC Management Control Review Committee

MD&A Management's Discussion and Analysis

ME Middle East Bureau

MOV Maintenance of Value

MSED Micro and Small Enterprise Development

MTB Manage to Budget

NFC National Finance Center

NGO Non-Governmental Organization

NIST National Institute of Standards and Technology

NXP Nonexpendable Property

OAA Office of Acquisition and Assistance

OCFO Office of the Chief Financial Officer

OCIO Office of the Chief Information Officer

OHR Office of Human Resources

OIG Office of Inspector General (USAID)

OMB Office of Management and Budget

OPM Office of Personnel Management

PAR Performance and Accountability Report

PART Program Assessment and Rating Tool

PEPFAR President's Emergency Plan for AIDS Relief

PIV Personal Identity Verification

P.L. Public Law

PMA President's Management Agenda

POD Phoenix Overseas Deployment

PP&E Property, Plant and Equipment

PPA Prompt Payment Act

PPC Policy and Program Coordination Bureau (USAID)

PSIP Procurement System Improvement Program

PY Prior Year

RCA Recipient-Contracted Audit

RIG Regional Inspector General (USAID)

RM Resource Management Bureau (USAID)

RSO Regional Security Officer

SEC Office of Security (USAID)

SEED Support for East European Democracy

SES Senior Executive Service

STAK Seed Trade Association of Kenya

STATE/F Office of the Director of U.S. Foreign Assistance (Department of State)

TAMPA Tegemo Agricultural Monitoring and Policy Analysis

TraiNet Training Results and Information Network

UE Urban and Environmental

UNESCO	United Nations Educational, Scientific and Cultural Organization
U.S.	United States
USAID	U.S. Agency for International Development
USDA	U.S. Department of Agriculture
USDH	U.S. Direct Hire
USPSC	U.S. Personal Services Contractor
USSGL	U.S. Standard General Ledger
WBS	Work Breakdown Structure
WFS	Washington Financial Services
WMD	Weapons of Mass Destruction
WPM	Workforce Planning Model

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We welcome your comments on how we can improve this report. Please provide comments to:

U.S. Agency for International Development

ATTN: Gloria White

M/CFO/APC (RRB 2.10-05)

1300 Pennsylvania Avenue, N.W.

Washington, DC 20523-2101

gwhite@usaid.gov

Phone: (202) 712-5339

Fax: (202) 216-3380

U.S. Agency for International Development
1300 Pennsylvania Avenue, N.W.
Washington, DC 20523
Tel: (202) 712-0000
Fax: (202) 216-3524
www.usaid.gov

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