USAID
FROM THE AMERICAN PEOPLE

FISCAL YEAR 2009

AGENCY FINANCIAL REPORT

Partnerships for a Better Life

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. From FY 2003 to FY 2006, the U.S. Agency for International Development (USAID) produced a Performance and Accountability Report (PAR) which, in a single report, satisfied the reporting requirements of the following laws:

- 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

Since FY 2007, USAID has elected to produce three separate reports in lieu of a consolidated PAR:

- Agency Financial Report (AFR) – provides complete details on relevant financial results
- Annual Performance Report (APR) – provides complete details on performance results [to be submitted in conjunction with the Congressional Budget Justification (CBJ) in February 2010]
- Summary of Performance and Financial Information Report (formerly Citizens' Report) – summarizes the AFR and APR in a brief, user-friendly format [available February 15, 2010]

All three reports 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 financial results, a high-level discussion of program performance, and management assurances related to the FMFIA and FFMIA. The second section, Financial Section, provides the financial details, including the independent auditor's report and audited financial statements. The third section, Other Accompanying Information, includes a statement prepared by the Agency's IG summarizing what the IG considers to be the most serious management and performance challenges facing the Agency; tables summarizing the financial statement audit and management assurances; and IPIA reporting details.

***(Cover)* Afghan farmers harvest wheat in a field on the outskirts of Kabul. Nearly 80 percent of Afghans earn their living by farming. USAID's agriculture programs—active in all 34 provinces—promote alternatives to illicit poppy production.**

PHOTO: SHAH MARAI / AFP

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Alonzo L. Fulgham

BACKGROUND

The U.S. Agency for International Development (USAID) advances U.S. foreign policy throughout the world by promoting broadly shared economic prosperity, strengthening democracy and good governance, improving global health, helping societies to prevent and recover from conflicts, and providing humanitarian relief in the wake of natural and man-made disasters. We support economic and social development, and human security and well-being in partnership with local governments and civil societies, private voluntary organizations, universities, businesses, international agencies, governments, and other U.S. Government agencies to build stronger, more stable societies that respond to the needs of their people.

VISION

"Our common prosperity will be advanced by allowing all humanity—men and women—to reach their full potential."

– President Barack Obama,
Remarks in Cairo,
June 4, 2009

"We advance our own security, prosperity, and values when we work to improve the material conditions of people everywhere."

– Secretary of State Hillary Rodham Clinton,
Remarks after receiving the Four Freedoms Awards,
September 11, 2009

USAID's vision to accelerate the advancement of stable democracy, inclusive prosperity, and human well-being in developing countries is entirely consistent with and supportive of these imperatives. The Obama Administration also recognizes development as a key instrument of "smart power" and an equal partner, along with diplomacy and defense, in furthering U.S. national security and foreign policy. As such, USAID engages with the Departments of State and Defense as well as other government agencies in planning and carrying out its programs. The goals of these efforts are described in the joint *State-USAID Strategic Plan for Fiscal Years (FY) 2007-2012.*

MISSION

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. We work with governments and civil society to assist individuals to build their own futures. During FY 2009, USAID continued to address worldwide development challenges and humanitarian needs from our headquarters in Washington, D.C. and at over 80 missions around the world. Some of this year's major challenges, priorities, and management challenges are outlined below.

PEACE AND SECURITY

USAID fosters peace and security through development programs and improved interagency and civilian-military policy and program coordination. In particular, USAID works closely with the other U.S. agencies, other governments and private and non-profit organizations to enhance stability in Afghanistan and Pakistan. During FY 2009, USAID has re-oriented its program to align with the President's strategy and put more civilian expertise on the ground. In Iraq, USAID is developing and carrying out programs to assist the complex transition from conflict to sustainable development.

GOVERNING JUSTLY AND DEMOCRATICALLY

USAID understands that good governance is an important component of sustainable development. USAID programs emphasize more transparent and accountable governance at national and local levels, strengthening the rule of law and respect for human rights, promoting legitimate and competitive elections and political processes, strengthening civil society, and developing free and independent media. For example, USAID's National Capacity Development program named "Tatweer" after the Arabic word for development, assists the Government of Iraq in reforming internal operations and systems, implementing best practices and lessons learned, and applying international standards. USAID/Tatweer focuses on strategic planning, budgeting and fiscal management, project administration, personnel systems, leadership and communications, information technology (IT), and anti-corruption. As the USAID/Tatweer program gradually phases out, nearly all training will be conducted by Iraqi ministries. This approach ensures future sustainability by providing the Government of Iraq with the capacity to take up the expense of identifying needs, selecting candidates, training candidates, and monitoring performance.

INVESTING IN PEOPLE

Health. USAID takes an integrated approach to global health. Fighting individual diseases, while important, is not sufficient to produce lasting improvements in peoples' health. Programs to improve maternal and child health, increase access to voluntary family planning, reduce the spread of infectious diseases, and build the capacity of developing country health systems are all part of an integrated approach. In May 2009, President Barack Obama announced his commitment to spending $63 billion over six years (2009-2014) to bring better health to people around the globe. The Global Health Initiative is a comprehensive approach that will prevent millions of new HIV infections, reduce mortality of mothers and children under age five, avert millions of unintended pregnancies, and eliminate some neglected tropical diseases.

Education. USAID programs promote greater access to quality education around the world. USAID supports teacher and school administrator training, improved teaching and learning materials, increased parental and community engagement in schools, school rehabilitation and construction, and scholarships for students, among other activities. For example, USAID collaborated with other international organizations to measure learning outcomes and set global indicators of education quality. As a result, educators developed measures to assess reading and math skills in early grades, and to assess school variables that are linked to improved learning.

Vulnerable Populations. USAID social sector programs address factors that put disadvantaged groups and individuals at increased risk of poverty, exclusion, neglect, or victimization, and help vulnerable populations manage their risks and gain access to opportunities that support their full and productive participation in society. For example, USAID programs have provided referrals to medical care, counseling and family mediation, social and economic reintegration support, and legal support for close to 20,000 survivors of gender-based violence in the Democratic Republic of the Congo.

PROMOTING ECONOMIC GROWTH AND PROSPERITY

Economic growth is essential for countries to emerge from dependence on foreign aid and generate the resources to address illiteracy, poor health, and other development challenges on their own. USAID promotes broad-based economic growth through programs to develop well-functioning markets, enhance access to opportunity, and improve economic governance. Recognizing that all growth takes place at the enterprise level, in FY 2009, USAID mobilized an additional $316 million in private financing through 19 new Development Credit Authority (DCA) guarantees, to help micro, small, and medium-sized enterprises gain access to commercial sources of capital. By developing partnerships around joint guarantees in FY 2009, USAID leveraged $36 in private financing for every $1 spent on the guarantee.

In FY 2008, rising food prices highlighted the vulnerability—as well as the importance—of agriculture as a driver of broad-based economic growth in much of the developing world. Indeed, USAID used $200 million in FY 2009 supplemental development funding to launch an aggressive agriculture and food security response. These programs, focused on Saharan Africa, aim to increase smallholder productivity, expand regional trade and market access, and as a result, increase rural incomes and food security. These activities are providing a foundation for the design and implementation of a broader U.S. Government food security initiative for implementation in FY 2010 and beyond. This broader initiative supports the global effort to halve poverty and hunger by FY 2015 and re-establishes U.S. leadership in agricultural development.

Economic growth programming is also a significant part of the solution in resolving or preventing conflict by addressing such issues as lack of equal opportunity. More than one-third of FY 2009 economic growth programming was targeted to countries either experiencing or prone to conflict.

PROVIDING HUMANITARIAN ASSISTANCE

USAID is the world leader in responding to natural and man-made disasters. In FY 2009, USAID provided over $1.4 billion in humanitarian assistance or food aid. USAID provided approximately $1.9 billion in emergency food aid assistance, as well as $375 million for development food aid programs globally. Our international food assistance programs have proven increasingly responsive to global efforts at reducing food insecurity and targeting those most in need. USAID responded to 57 disasters in 46 countries to meet the basic needs of affected populations. In all cases, responses came within 72 hours of declared disasters. Altogether, USAID provided $754 million to meet humanitarian needs, build the capacity of countries to prepare for their own rapid response, and increase the affected population's ability to cope with and recover from the effects of a disaster.

STRENGTHENING MANAGEMENT CAPABILITIES

During FY 2009, USAID made significant progress toward strengthening management, although more remains to be done to ensure that the Agency has the human and other resources it needs to plan and implement sound development and humanitarian assistance programs in a transparent, accountable manner in enormously challenging circumstances.

- Through the Development Leadership Initiative, USAID has increased its career foreign service workforce from 1,098 at the beginning of FY 2009 to 1,305 at the end. They will significantly increase USAID's ability to deliver more effective development programs and engage with partners to leverage additional resources for development.
- USAID improved and integrated IT solutions, consistent with a single strategy and focus on worldwide deployment of an assistance/acquisition solution, GLAAS (Global Acquisition and Assistance System). GLAAS is a new enterprise business system that will, for the first time, give USAID the ability to process more than $11.5 billion in acquisition and assistance transactions worldwide.
- The Agency improved collaboration with the international development community, promoting innovative technologies that enable more people to participate in and benefit from development efforts.

For the seventh 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, we incurred a single material weakness related to reconciling USAID's Fund Balance with the U.S. Treasury. USAID will prepare a plan to address this continuing deficiency and invest resources to assure better oversight of our funds.

For the third consecutive year, the Agency has elected to prepare an Agency Financial Report (AFR), rather than a consolidated Performance and Accountability Report. Comprehensive performance information, including major performance accomplishments, will be reported in the Annual Performance Report and the Summary of Performance and Financial Information. These two reports will be available on February 15, 2010.

The Independent Auditor's Report, including the reports on internal control and compliance with laws and regulations, is located in the financial section of the AFR. Issues on internal control, identified by management and the auditors, including planned corrective actions and timeframes, are discussed in the Management's Discussion and Analysis (MD&A) section of this report. I hereby certify that the financial data in the FY 2009 AFR are reliable and complete.

With the support of Congress, senior officials in the U.S. Government have made a significant commitment to development through appropriations that have more than doubled since 2001. Consistent with this trend, Congress substantially increased USAID's budget for FY 2009. USAID recognizes that with additional resources comes additional responsibility. We are committed to managing these appropriations in a transparent and accountable fashion as we carry out a mission that reflects the generosity of the American people and improves the lives of millions worldwide.

Alonzo L. Fulgham
Acting Administrator
November 16, 2009

Management's Discussion and Analysis

***(Above)* At the Sauyemwa Primary School in Caprivi Region, Namibia, students arrive to class in uniforms sewn by volunteer tailors. A small grant program provides money for the materials the tailors use to create uniforms specifically for students who have been orphaned.**

PHOTO: AED

***(Preceding page)* Graduates of Afghanistan's Kunar Construction Center, funded in part by USAID, received vocational training in carpentry, masonry, electrical work, and painting. First launched in 2008, the center has graduated more than 500 students, many of whom have found jobs in the country's construction industry.**

PHOTO: USAID

MISSION AND ORGANIZATIONAL STRUCTURE

USAID has chosen to produce an alternative to the consolidated Performance and Accountability Report (PAR) called an Agency Financial Report (AFR). USAID will include its FY 2009 Annual Performance Report (APR) with its Congressional Budget Justification (CBJ) and will post it on the Agency's website at *http://www.usaid.gov/policy* in February 2010. In addition, USAID will select key information outlined in the AFR and APR and present a summary of performance and financial information on the same website in February 2010. For more information related to these reports, please see "About this Report" on the inside cover.

MISSION

In 1961, the U.S. Congress passed the Foreign Assistance Act to create an agency to administer long-range economic and humanitarian assistance to developing countries. Two months after passage of the act, President John F. Kennedy established the U.S. Agency for International Development (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.

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*).

USAID has undergone a number of restructurings over the years to improve its performance, including a major reform effort in 2006 that more closely aligned foreign assistance activities carried out by USAID and the Department of State.

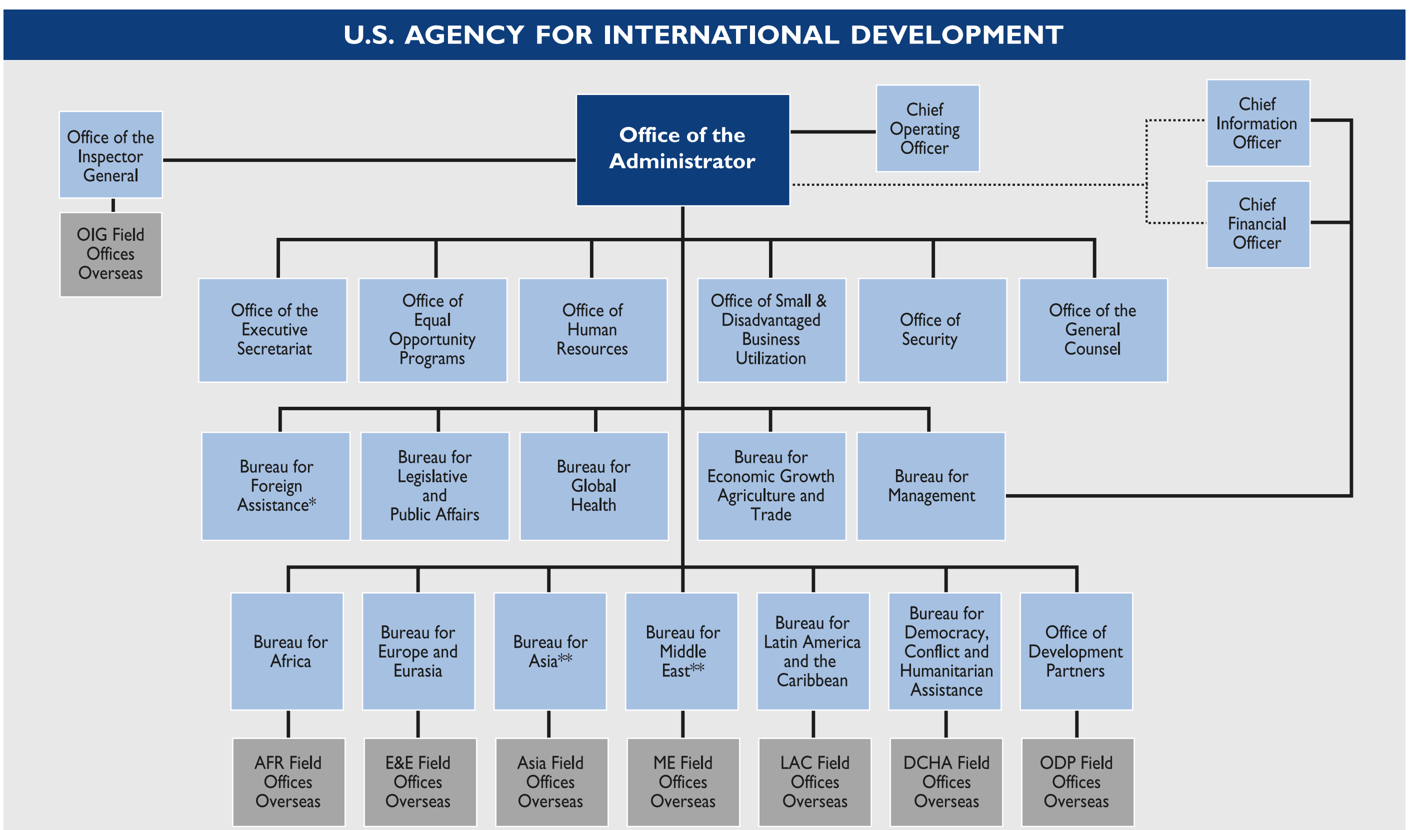
In 2008 and 2009, USAID has embarked on an aggressive effort to increase and revitalize its workforce. The Development Leadership Initiative (DLI) is bringing skilled Foreign Service Officers into the Agency and challenging them to address some of the many critical foreign assistance priorities today, including advancing economic development, responding to humanitarian crises, and promoting better governance.

This is no more important than in Afghanistan and Pakistan, where the Agency is increasing its capacity to carry out the civilian components of President Barack Obama's strategy to promote peace and stability in these two countries.

ORGANIZATIONAL STRUCTURE

USAID is an independent Federal agency that receives overall foreign policy guidance from the Secretary of State. The Agency provides economic, development, and humanitarian assistance around the world in support of the foreign policy goals of the United States. USAID is headed by an Administrator and Deputy Administrator, both appointed by the President and confirmed by the Senate. The current Acting Administrator is Alonzo L. Fulgham. The Agency is headquartered in Washington, D.C., and carries out its mission in 88 countries. USAID plans its assistance programs jointly with the Department of State.

In Washington, USAID's bureaus are responsible for the Agency's major activities. USAID has geographic bureaus, functional bureaus, and central bureaus. Independent offices support crosscutting services. The geographic bureaus are: Africa (AFR), Asia (ASIA), Middle East (ME), Latin America and the Caribbean (LAC), and Europe and Eurasia (E&E). These geographic bureaus are supported by three functional 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, technology, and education; and the Bureau for Global Health (GH), which provides expertise in global health challenges, such as maternal and child health, and HIV/AIDS. Central bureaus include: Management (M), which administers centralized support services for the Agency's worldwide operations; and Legislative and Public Affairs (LPA), which



** 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.*

manages the Agency's outreach programs to promote an understanding of USAID's mission and programs. Each bureau is overseen by an Assistant Administrator, appointed by the President and confirmed by the Senate.

In addition to these bureaus, USAID has seven independent offices that are responsible for discrete functions for the Agency that include human capital management, diversity programs, security, and partnerships. These offices are: the Office of the Executive Secretariat (ES); the Office of Equal Opportunity Programs (EOP); the Office of the General Counsel (GC); the Office of Small Disadvantaged Business Utilization (OSDBU); Office of Security (SEC); the Office of Human Resources (OHR); and the Office of Development Partners (ODP). The DCHA Bureau and the ODP are shown at the bottom of the organizational chart because they have field offices. Finally, the Office of Inspector General (OIG) reviews the integrity of Agency operations through audits, appraisals, investigations, and inspections.

ORGANIZATIONAL STRUCTURE OVERSEAS

USAID's 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 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 (three to four 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 that 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 provincial reconstruction teams that combine personnel from USAID and the Departments of State and Defense, to promote local development and conflict resolution throughout these two countries.

Over the coming years, mission categories and size will change as USAID fully implements the DLI. This initiative will significantly increase USAID's overseas foreign service workforce.

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 decisionmakers, 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 DIRECTIONS

On August 31, 2009, President Barack Obama signed a Presidential Study Directive that calls for the development of a U.S. Global Development Policy. The National Security Council and the National Economic Council will lead the 120-day study, with participation from USAID, the Department of State, and more than 10 other departments and agencies involved in development assistance and policy.

USAID is also working with the Department of State on a Quadrennial Diplomacy and Development Review (QDDR). The QDDR offers an opportunity to take a strategic look at how USAID develops policies, allocates resources, deploys its staff, and exercises its authorities. It will be designed to provide the short, medium, and long-term blueprint for USAID's future development efforts. USAID's Acting Administrator serves as a co-chair of the QDDR effort under the leadership of Deputy Secretary of State Jack Lew.

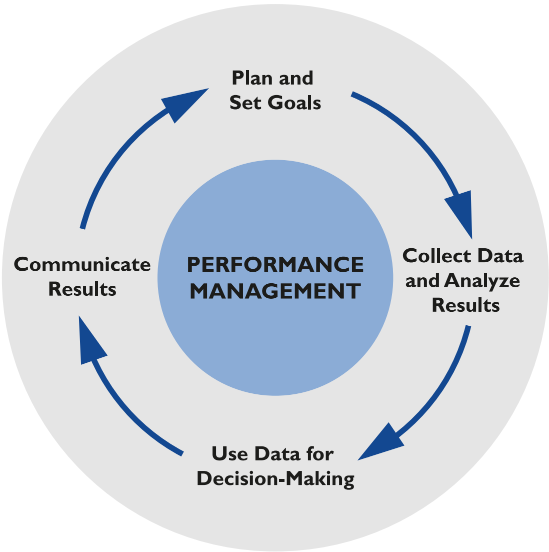
Both these efforts will inform the next update of USAID's strategic plan scheduled for 2010. Currently, USAID shares a joint strategic plan with the Department of State entitled *State-USAID Strategic Plan for FY 2007-2012*, which outlines seven strategic goals on diplomacy, development, and humanitarian assistance. These goals are: Achieving Peace and Security, Governing Justly and Democratically, Investing in People, Promoting Economic Growth and Prosperity, Providing Humanitarian Assistance, 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 the table on page 18 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) plan and set goals, (2) collect data and analyze results, (3) use data for decision-making, and (4) communicate results.

USAID missions and offices are responsible for establishing performance management plans to measure progress toward intended objectives. They are also responsible for reporting key indicators in their annual performance reports. At 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.

A good performance target is ambitious and achievable. USAID follows a multi-step process when determining its targets by examining: the baseline value before U.S. Government intervention; historical trends and the level of progress that occurred in the



past; expert judgments from technical experts in the field; research findings and empirical evidence cited in research; accomplishments of similar programs elsewhere (with similar characteristics); and customer expectations. The process also looks at what will be accomplished over a five-year period with the fiscal year budget. Agency leaders then map out a plan to progress from the baseline.

PERFORMANCE INDICATORS

See table starting on page 13 for a representative set of approximately 38 indicators that will illustrate the FY 2009 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 2009, USAID will report on them in the *FY 2009 Annual Performance Report* (APR) in February 2010 in conjunction with the *FY 2011 Foreign Operations Congressional Budget Justification*. In addition, USAID will present a summary of performance and financial information on the website *http://www.usaid.gov/policy*. See Appendix A for further details on the indicators.

DATA QUALITY

Data are only useful if the information collected is of high quality. As indicated in USAID's 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 all performance data reported to Washington. They also 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 *third-party sources* (data from other government agencies or development organizations). Generally, the data that USAID has the most control over go through the most rigorous USAID assessments to ensure that the data meet quality requirements. While the data for third-party 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.

STRENGTHENING EVALUATION AT USAID

During 2009, USAID took a number of steps to strengthen evaluation and re-establish its leadership both within the Federal Government and across the international development community. This included re-establishing USAID's central evaluation unit charged with providing Agency-wide oversight, leadership, and coordination in assessing program performance and impact; updating USAID's formal evaluation policy (*http://www.usaid.gov/policy/ads/200/203.pdf*); and reaffirming Agency evaluation requirements.

To strengthen evaluation capacity, USAID provided intensive training to about 100 staff through its Evaluation Certificate Course and through a web-based Monitoring and Evaluation Distance Learning Course, jointly developed with the Department of State. In addition, USAID established a new evaluation community of interest, the Evaluation Interest Group, with more than 125 members, monthly meetings, and a lively Internet presence through a redesigned USAID evaluation website, EvalWeb, *http://www.usaid.gov/policy/evalweb/*. Together with the Department of State, USAID established a Foreign Affairs Evaluation Working Group that meets biweekly and also includes representatives from the Millennium Challenge Corporation.

Just as importantly, USAID reasserted its global leadership in evaluation and actively engaged in a variety of interagency, national, and international evaluation forums. This included participating actively in the Organization for Economic Cooperation and Development/Development Assistance Committee (OECD/DAC) Evaluation Network, organizing and moderating a highly successful Advisory Committee on Foreign Voluntary Assistance workshop on strengthening evaluation, and serving on the Office of Management and Budget's (OMB) Evaluation Experts and Evaluation Working Groups. During 2009, USAID also played key roles in several collaborative, multi-donor evaluations, including the OECD/DAC-led Paris Declaration Evaluation (Phase 2) and the Dutch-led Sudan Humanitarian Assistance Evaluation.

ILLUSTRATIVE ACCOMPLISHMENTS

Below are illustrative accomplishments achieved in FY 2009 in each of the five strategic goal areas that apply to USAID programs and the indicators that represent these results.

STRATEGIC GOAL ON PEACE AND SECURITY

It is a tenet of U.S. policy that the security of U.S. citizens at home and abroad is best guaranteed when countries and societies are secure, free, prosperous, and at peace. USAID and its partners seek to strengthen its capabilities, as well as those of its international partners, to prevent or mitigate conflict, stabilize countries in crisis, promote regional stability, and protect civilians. USAID achieves these objectives by providing assistance in the following areas: countering terrorism, supporting counternarcotics activities, strengthening stabilization operations and promoting security sector reform, combating transnational crime, and sponsoring conflict mitigation and reconciliation programs.

Promoting Peace amid Profits: *Colombian farmers choose coffee and cacao over coca*

A Colombian man grows organic coffee on land that was once used to grow coca.

PHOTO: MIKAIL HOOK

Juan Avendaño is a small coffee producer in northern Colombia's Sierra Nevada de Santa Marta, the world's largest seaside mountain, and a pilot area for the Government of Colombia's Family Forest Wardens program, which aids small farmers previously involved in illicit crop production to gain access to wider markets at home and abroad for legal products that they agree to grow.

Contributing to the indicator "Hectares of alternative crops targeted by U.S. Government programs under cultivation," the program has focused primarily on improving product quality and introducing environmentally responsible organic production of coffee and cacao (the plant used to make chocolate). With USAID help, Juan became the first coffee grower on the Sierra to be certified in organic production, the culmination of a four-year process.

Juan said, "At first I doubted the usefulness of all the training sessions, but I don't anymore. I have 2.5 hectares (six acres) of coffee. Before I was taught the composting and pest management techniques, I could only harvest 4,000 kilos (8,800 pounds) of coffee a year from my plants. Now, I can get over 10,000 kilos (22,000 pounds) from the same area, not to mention that I can sell them in new markets where they pay me more than triple the normal price."

Creating Alternatives in Closed Environments: *Lebanese and Palestinian youth join forces to improve their communities*

A group of young Lebanese and Palestinians near the volatile Ein El Helweh refugee camp have established themselves as role models for other youth by embracing civic responsibilities and initiating community improvements. Contributing to the indicator, "Number of people from at risk groups reached through U.S. Government-supported conflict mitigation activities," USAID provided leadership training to youth in Al Villat, a mixed Lebanese-Palestinian community deeply affected by recurring violence in the nearby refugee camp.

The youths applied their skills by organizing a one-month children's program that promoted nonviolence through recreational, educational, and artistic activities. The program culminated in an environmental campaign in which the trainees led street-cleaning and mural-painting activities and arranged a public concert for 250 residents. The participants also transferred their skills to Al Ismailiya, a neighboring community with similar ethnic divisions. There, they conducted youth-to-youth training and joint activities, including a health-awareness festival that drew crowds of people from both neighborhoods.

"We want to work on our neighborhood to make it a better place and then present it as a model for other neighborhoods," said one of the young activists. They have been inspired by positive responses from the community and, according to one of the lead organizers, are eager to forge ahead. "This is only the beginning!" he said.

STRATEGIC GOAL ON GOVERNING JUSTLY AND DEMOCRATICALLY

The U.S. Government supports just and democratic governance for three related reasons: as a matter of principle, as a contribution to U.S. national security, and as a cornerstone of USAID's broader development agenda. Governments that respect human rights, respond to the needs of their people, and govern by rule of law are more likely to conduct themselves responsibly toward other nations. Effective and accountable democratic states are also best able to promote broad-based and sustainable prosperity. USAID's goal is therefore to promote freedom and strengthen effective democracies by assisting countries to move along a continuum toward democratic consolidation. Within this objective, there are four strategic program areas: rule of law and human rights, good governance, political competition and consensus-building, and civil society.

Coordinating the Country's Court Cases: *Computerized systems streamline Bosnia-Herzegovina courts*

When Zana Perla went to Sarajevo's Municipal Court to check on the status of her court case, she gave the clerk her case number and found out in just a few minutes. "It was fast and efficient," she said. "Now I have an easy way to track my documents and case progress whenever I need to."

Delays and backlogs have plagued Bosnia and Herzegovina's courts for years. But recent court administration reforms have dramatically improved the efficiency and transparency of the courts. This contributes to the indicator "Number of U.S. Govenment-assisted courts with improved case management."

USAID developed a computerized case management system that assigns each case a unique number that ties together all related documentation in a central database. The new system allows court staffers and judges to have immediate access to all information related to a case with the touch of a finger.

The results are extraordinary. The Banja Luka District Court has reduced its backlog of cases by 45 percent after only one year. Zenica's Municipal Court has noted a 34 percent reduction in the time it takes to process a case. Most importantly, citizens are benefiting while investors see that the costs and risks of doing business in Bosnia and Herzegovina have been reduced.

Developing National Government Institutions: *Sustaining effectiveness of Iraqi public administration*

USAID's National Capacity Development program, named Tatweer after the Arabic word for "development," works closely with 17 ministries and executive agencies to increase their effectiveness in public administration. USAID/Tatweer assists the Government of Iraq in reforming internal operations and systems, implementing best practices and lessons learned, and applying international standards.

Iraqi civil servants receive training that helps them do their jobs.

PHOTO: BEN BARBER / USAID

Core focus areas include strategic planning, budgeting and fiscal management, project administration, personnel systems, leadership and communications, information technology (IT), and anti-corruption. USAID/Tatweer works in all 18 provinces and coordinates closely with the deputy prime minister to assure that critical service delivery ministries have programs tailored to the individual needs of each province. All training is in Arabic and most is done outside Baghdad. The program maintains offices in Baghdad, Erbil, Ramadi (El Anbar), Hillah (Babil), Kirkuk, and Basrah.

From among the 70,000 civil servants trained, 2,000 have been trained as trainers in their own right and will sustain the program as USAID/Tatweer gradually phases out. As a result, nearly all training is being conducted by the Iraqi ministries themselves rather than USAID/Tatweer—contributing to the indicator "Number of executive branch personnel trained with U.S. Government assistance." This approach ensures future sustainability by providing the Government of Iraq with the capacity to take up the expense of identifying needs, selecting candidates, training candidates, and monitoring performance.

STRATEGIC GOAL ON INVESTING IN PEOPLE

The lack of education and training, poor health and disease, high levels of unintended pregnancy, and the lack of services, particularly for vulnerable populations are important root causes of the problems faced by U.S. partners in development assistance. These problems both destroy lives and destabilize countries. USAID's approach for the Investing in People strategic objective is to help recipient nations achieve sustainable improvements in the well-being and productivity of their citizens, and build sustainable capacity to provide services that meet the people's needs in three priority program areas: health, education, and social services and protection for especially vulnerable populations.

Providing Life-Saving Maternal Health Services: *Better birthing practices in rural Pakistan*

On Mother's Day, May 10, 2009, USAID marked 20 years of work to research, prevent, and treat the major causes of maternal death and disability in high burden countries. USAID has focused on a set of interventions targeting specific complications of pregnancy and birth that alone lead to two-thirds of maternal deaths in the developing world. This includes excessive bleeding, hypertension, infections, anemia, and prolonged labor. As a result of this focus, USAID maternal health programs have helped to reduce maternal mortality rates in 10 countries within a decade.

This 9-year-old stars in an educational radio program for Madagascar pupils.

PHOTO: NORMA EVANS / EDC

One example of this success can be seen in the Pakistan Initiative for Mothers and Newborns (PAIMAN) that USAID established to address the country's lack of quality obstetric care. Contributing to the indicator "Number of deliveries with a skilled birth attendant in U.S. Government-assisted programs," PAIMAN collaborates with community-based organizations all over the country to renovate and establish clinics, distribute medical supplies, educate the public through various media, and train traditional birth attendants and midwives.

One of the training participants was Naseem, a traditional birth attendant who provides the only obstetric care in Taxila—a rural area in western Punjab Province. During the eight-day workshop, she learned about client-centered approaches, clean delivery practices, recognition of danger signs, and the importance of timely referrals for women who need hospital care. Naseem is now one of more than 250 traditional birth attendants and 2,350 community midwives in rural Pakistan who have taken part in the USAID training and implement safer medical care for expectant mothers.

Learning through Interactive Radio Instruction: *A young girl is the voice of educational reform in Madagascar*

Tahina Dähn Ralamboarison may only be three feet five inches tall, and all of nine years old, but she is already a key player in the Ministry of Education's plan to improve the quality of primary education in Madagascar. Tahina was selected from over 60 eager applicants to play the part of "Vaviroa" in interactive radio programs developed for first and second graders.

The programs, developed with USAID assistance, are part of the Ministry of Education's commitment to providing the country's 15,000 community-based teachers with ongoing training in new, student-centered teaching strategies. This contributes to the indicator "Number of teachers/educators trained with U.S. Government support." Broadcast directly into classrooms three times a week, the programs model how games, manipulatives, stories, songs, and group work can help pupils learn.

Teachers testing the programs are enthusiastic about their quality and their potential to change the face of primary classes nationwide. They are amazed to see their pupils carrying out the new activities, particularly those that require learners to take ownership of the learning process. For Tahina, who comes to the Ministry of Education production studio once a week with her friends Diary Andriatiana (who reads the role of "Faly") and Séphora Rafaliarivelo ("Mendrike") to record the children's voices, the programs are just fun.

STRATEGIC GOAL ON PROMOTING ECONOMIC GROWTH AND PROSPERITY

Economic growth provides citizens and their governments with the resources they need to meet their own needs and aspirations, including improved education, health, peace, and security, and thus to emerge from dependence on foreign assistance. Rapid recovery from the current global economic crisis and restoration of broad-based economic growth will further expand the number of countries that have become effective partners with the United States in working toward a more stable, secure, healthy, and prosperous world. USAID works with both government and non-government partners to empower private entrepreneurs, workers, and enterprises to take advantage of expanding opportunities in a global economy. To achieve these outcomes, USAID administers programs in the following eight program areas: macroeconomic foundation for growth, trade and investment, financial sector, infrastructure, agriculture, private sector competitiveness, economic opportunity, and the environment.

Investing in Each Other: *By pooling funds, women in Malawi create the capital to become self-sufficient*

After Anes Chikadzuma's husband passed away, her family became destitute, growing only enough food for four months every year, with no money for health care or education. Anes, from Central Malawi's Chauwa village, joined the village savings and loan group—one of 600 supported by USAID's I-LIFE program. There, she was able to buy fertilizer, pay for farm labor to increase her crop production, and learn about other income generating activities.

USAID initiated the I-LIFE program, which contributes to the indicator "Number of women's organizations/associations assisted as a result of U.S. Government-supported interventions." It aims to improve the lives of rural women by increasing their food security using village savings and loans. Each group consists of approximately 20 members, each of whom makes small individual contributions to a shared fund every week. The group members can access credit and borrow from the pooled savings at an interest rate far below that of local money lenders. As the members continually use and repay money lent, they have access to more money each year.

Two farmers work on USAID's Model Rice Farm in northern Nigeria.

PHOTO: JIDE ADENIYI-JONES

Anes has been selected to test and demonstrate new hybrid seeds and a labor-saving way of cultivating maize on her land. She also regularly addresses village meetings and encourages others to join the village savings and loan activities. Now her daughters—one of whom is in high school, and the other at business college—are learning to become independent, successful businesswomen.

Strengthening Rural Microfinance: *Cooperatives in Haiti expand services and availability to reach new clients*

Coffee grower Estiverne Michel-Ange, a client of a rural savings and credit cooperative, has seen the benefits of USAID's support. He said that before partnering with the credit cooperative, the coffee growers association he belongs to did not have enough capital or access to credit to buy adequate inputs for its coffee growers. Now, with training and access to credit and market linkages, the coffee growers were able to start off the year with a good planting season, and are optimistic about the upcoming harvest and future sales.

USAID aims to expand and improve the availability of sustainable microfinance services to rural populations by building the capacity of local financial institutions. Haiti's savings and credit cooperatives are a key component to that plan. With 19 credit cooperatives in Haiti's rural south, the project works to improve management capacity, to formalize their structure to comply with central bank supervisory norms, and to encourage them to develop products and services to expand agricultural production.

Through 31 points of service (of which 18 lie in rural areas and 13 in provincial towns), the project-supported cooperatives serve more than 28,000 credit clients, manage a credit portfolio of more than $10 million, and have more than

100,000 savings accounts. This contributes to multiple indicators including "Number of institutions," "number of borrowers," and "number of depositors"—all at U.S. Government-assisted microfinance institutions.

More than 500,000 people lost homes when Cyclone Aila hit Bangladesh in 2009.

PHOTO: PETER CATON / CARE

STRATEGIC GOAL ON PROVIDING HUMANITARIAN ASSISTANCE

The United States demonstrates its commitment and compassion when it provides aid to the victims of natural disasters, armed conflict, forced migration, persecution, human rights violations, widespread health and food insecurity, and other threats. Effective emergency operations foster the transition from relief through recovery to development, but they cannot replace the investments necessary to reduce chronic poverty or establish just social services. Within this strategic goal, USAID's three primary program areas are: providing protection, assistance, and solutions; preventing and mitigating disasters; and promoting orderly and humane means for migration management.

Responding to Disasters: *Worldwide efforts provide basic inputs to disaster-affected households*

In 2009, USAID responded to 52 disasters in 42 countries, providing more than $750 million to help those in need, thus contributing to the indicator "Number of beneficiaries assisted by U.S. Government-supported protection and solutions activities." 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 has provided nearly $103 million in assistance to internally displaced persons affected by the conflict in Pakistan. The assistance includes interventions in agriculture and food security; economic recovery and market systems; logistics; relief commodities, nutrition; health; humanitarian coordination and information management; protection; shelter and settlements; and water, sanitation, and hygiene. USAID assistance to Pakistan includes emergency relief supplies intended to benefit approximately 570,000 people.

Also to date, USAID has provided approximately $3.6 million toward mitigating the impact of cyclone Aila in Bangladesh through programs in livelihoods; shelter and settlements; and water, sanitation, and hygiene, as well as through the purchase and distribution of emergency relief supplies that reached approximately 37,000 people. USAID assistance included constructing or repairing 2,600 transitional shelters for families whose houses were damaged or destroyed in the most-affected areas of Khulna Division.

Providing Humanitarian Assistance: *Creative solutions to reach displaced families in Pakistan*

In already overstressed host communities, houses meant for 10 people were inhabited by 30 and sometimes more. So, USAID provided assistance that included training and supplies for the construction of bamboo shelters. Families can easily disassemble and carry these temporary shelters with them when they return to their homes. USAID was also able to quickly provide an additional $26.6 million for the local purchase of food aid. The food, which consisted of wheat and beans, was purchased in Pakistan—bolstering the local economy. These activities contribute to the indicator "Percentage of targeted disaster-affected households provided with basic inputs for survival, recovery, or restoration of productive capacity."

To support families with already scarce resources and populations residing outside of camps, creative and flexible solutions are needed. Sometimes these have included cash stipends or vouchers as the only practicable way to provide needed support. Recognizing this need, USAID provided $45 vouchers per household to approximately 20,000 households in response to immediate humanitarian needs throughout Mardan District. The voucher program enabled displaced families to purchase what they needed at local markets. Voucher programs provide a much needed sense of self-reliance in a time of crisis and help stimulate the local economy, which is critical to longer-term recovery.

USAID 2009 REPRESENTATIVE INDICATORS AND PERFORMANCE TRENDS BY STRATEGIC GOALS*,1

ACHIEVING PEACE AND SECURITY

Representative Performance Indicator	FY 2005 Results	FY 2006 Results	FY 2007 Results	FY 2008 Results	FY 2009 Target	FY 2010 Target	Data Note #
Hectares of Alternative Crops Targeted by U.S. Government Programs under Cultivation	N/A	201,955	85,110	229,996	110,615	109,457	2,3,4
Number of People Trained in Conflict Mitigation/Resolution Skills	N/A	N/A	17,965	12,578	30,739	19,074	4,5

GOVERNING JUSTLY AND DEMOCRATICALLY

Representative Performance Indicator	FY 2005 Results	FY 2006 Results	FY 2007 Results	FY 2008 Results	FY 2009 Target	FY 2010 Target	Data Note #
Number of Justice Sector Personnel Who Received U.S. Government Training	N/A	N/A	110,041	56,001	54,835	48,346	4,6
Number of U.S. Government-Assisted Courts with Improved Case Management	N/A	N/A	350	351	375	269	4,7,8
Number of Domestic Election Observers Trained with U.S. Government Assistance	N/A	N/A	53,258	24,629	24,733	16,587	4,9
Number of U.S. Government-Assisted Political Parties Implementing Programs to Increase the Number of Candidates and Members Who are Women	N/A	N/A	127	130	143	119	4,10
Number of U.S. Government-Assisted Civil Society Organizations that Engage in Advocacy and Watchdog Functions	N/A	N/A	1,039	1,315	1,469	1,076	4,11
Europe Non-Governmental Organization Sustainability Index	3.8	3.8	3.8	3.7	3.6	3.5	12,13
Eurasia Non-Governmental Organization Sustainability Index	4.5	4.6	4.6	4.6	4.5	4.4	13,14

INVESTING IN PEOPLE

Representative Performance Indicator	FY 2005 Results	FY 2006 Results	FY 2007 Results	FY 2008 Results	FY 2009 Target	FY 2010 Target	Data Note #
Number of People Receiving HIV/AIDS Treatment in the 15 Focus Countries	401,233	822,000	1.3M	2.0M	2.2M	TBD	8,15,16
Number of People Receiving HIV/AIDS Care and Support in the 15 Focus Countries	2.9M	4.4M	6.6M	9.7M	10.0M	TBD	8,15,17
Average Tuberculosis Treatment Success Rate (TBS) in USAID Priority Countries	N/A	N/A	N/A	80%	81%	82%	18,19,20
Average Tuberculosis Case Detection Rate (TBD) in USAID Priority Countries	N/A	N/A	N/A	55%	57%	59%	19,20,21
Number of People Protected Against Malaria with a Prevention Measure in President's Malaria Initiative Countries	N/A	3.7M	22.3M	25.0M	29.0M	33.0M	4,22
Number of Treatments Delivered to Control Neglected Tropical Diseases	N/A	N/A	36.0M	57.0M	75.0M	164.0M	23,24,25
Percentage of Children with DPT 3 Coverage	58.5%	59.0%	59.6%	60.2%	60.7%	61.3%	20,26
Percentage of Live Births Attended by Skilled Birth Attendants	44.1%	44.9%	45.7%	46.7%	47.2%	47.7%	20,26
Average Modern Contraceptive Prevalence Rate (MCPR)	N/A	N/A	N/A	26.4%	27.4%	28.4%	20,27,28
Average Percentage of Births Spaced Three or More Years Apart	N/A	N/A	N/A	44.80%	45.20%	45.60%	20,29,30
Average Percentage of Women Aged 20-24 Who Had a First Birth Before Age 18	N/A	N/A	N/A	23.80%	23.50%	23.20%	20,31,32
Number of People in Target Areas with Access to Improved Drinking Water Sources	N/A	N/A	2.1M	3.0M	4.9M	4.0M	4,33

** See Appendix A for the performance indicator data notes.*

(continued on next page)

[1] See Appendix A for details of data note 1.

USAID 2009 REPRESENTATIVE INDICATORS AND PERFORMANCE TRENDS BY STRATEGIC GOALS*,[1]

(continued)

INVESTING IN PEOPLE *(continued)*

Representative Performance Indicator	FY 2005 Results	FY 2006 Results	FY 2007 Results	FY 2008 Results	FY 2009 Target	FY 2010 Target	Data Note #
Primary Net Enrollment Rate for a Sample of Countries Receiving Basic Education Funds	66%	72%	76%	78%	79%	80%	34,35,36
Number of People Benefiting from U.S. Social Services and Assistance	N/A	N/A	1.8M	5.3M	5.4M	3.7M	4,37

PROMOTING ECONOMIC GROWTH AND PROSPERITY

Representative Performance Indicator	FY 2005 Results	FY 2006 Results	FY 2007 Results	FY 2008 Results	FY 2009 Target	FY 2010 Target	Data Note #
Time Necessary to Comply with Procedures Required to Export/ Import Goods (days)	N/A	N/A	N/A	78	76	74	38,39,40
Credit to Private Sector as a Percent of GDP	54.9%	54.4%	57.7%	55.3%	54.0%	54.0%	40,41
Number of People with Increased Access to Modern Energy Services	N/A	N/A	1.87M	371,409	1.99M	3.82M	4,8,42
Number of People with Access to Internet Service	N/A	N/A	6.55M	1.5M	1.76M	1.77M	4,8,42
Number of People Benefiting from U.S. Government-Sponsored Transportation Infrastructure Projects	N/A	N/A	1.77M	68,758	801,800	2.38M	4,8,42
Number of Rural Households Benefiting Directly from U.S. Interventions in Agriculture	N/A	N/A	1.88M	3.42M	2.53M	4.05M	4,43
Percent Change in Value of International Exports of Targeted Agricultural Commodities	N/A	N/A	41.10%	63.30%	27.23%	43.57%	4,44
Number of Commercial Laws Put into Place that Fall in the 11 Core Legal Categories for a Healthy Business Environment	N/A	N/A	41	30	22	16	4,45
Percent of U.S. Government-Assisted Microfinance Institutions that Have Reached Operational Sustainability	71%	71%	69%	74%	70%	70%	4,46
Quantity of Greenhouse Gas Emissions Reduced or Sequestered (metric tons)	117M	129M	180M	142M (est.)	138M	133M	47,48
Number of Hectares under Improved National Resource or Biodiversity Management	N/A	N/A	121.61M	126M	113.2M	113.5M	4,49

PROVIDING HUMANITARIAN ASSISTANCE

Representative Performance Indicator	FY 2005 Results	FY 2006 Results	FY 2007 Results	FY 2008 Results	FY 2009 Target	FY 2010 Target	Data Note #
Percent of USAID-Monitored Sites with Dispersed Populations (*Internally Displaced Persons, Victims of Conflict*) Worldwide with Less than 10% Global Acute Malnutrition (GAM) Rate	20%	23%	41%	34%	44%	48%	50,51
Percent of Targeted Beneficiaries Assisted by Protection and Solution Activities Funded by USAID	N/A	N/A	70%	77%	83%	86%	52,53
Percent of Planned Emergency Food Aid Beneficiaries Reached by USAID	85%	84%	86%	92%	93%	93%	54,55
Percent of Targeted Disaster-Affected Households Provided with Basic Inputs for Survival, Recovery or Restoration of Productive Capacity	N/A	N/A	85%	84%	85%	86%	56,57

** See Appendix A for the performance indicator data notes.*

[1] See Appendix A for details of data note 1.

ANALYSIS OF USAID'S FINANCIAL STATEMENTS

The financial statements of USAID reflect the Agency's efforts to fulfill the mission to accelerate human progress in developing countries. This section presents a summary analysis of the key financial statements. This analysis summarizes the data contained in the statements in a format that allows any reader to understand the financial activities and net position of the Agency. 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. 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, 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 the seventh consecutive year the financial statements have received an unqualified audit opinion from the USAID Office of 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.

As USAID continues to engage in Afghanistan and Pakistan with significant resources, there are clear indications that the Agency will be delivering more assistance through host government systems and local organizations. The trend toward greater local delivery of assistance and the resulting internal control challenges will require increased financial attention from USAID's cadre of financial professionals to mitigate risks.

OVERVIEW OF FINANCIAL POSITION

A summary of USAID's major financial activities in FY 2009 and FY 2008 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 2009
(In Thousands)

Net Financial Condition	2009	2008	% Change in Financial Position
Fund Balance with Treasury	$ 21,437,709	$ 19,181,073	12%
Direct Loans and Loan Guarantees, Net	3,762,680	3,988,662	-6%
Accounts Receivable, Net	84,874	267,249	-68%
Cash and Other Monetary Assets, Advances and Other Assets	712,668	801,604	-11%
PP&E, Net and Inventory, Net	140,505	126,998	11%
Total Assets	**$26,138,436**	**$24,365,586**	7%
Debt and Liability for Capital Transfers to the General Fund of the Treasury	3,945,582	4,215,289	-6%
Accounts Payable	1,836,631	1,918,263	-4%
Loan Guarantee Liability	2,283,273	1,606,876	42%
Other Liabilities	603,085	640,683	-6%
Total Liabilities	**$ 8,668,571**	**$ 8,381,111**	3%
Unexpended Appropriations	16,464,124	14,982,084	10%
Cumulative Results of Operations	1,005,741	1,002,391	0%
Net Position	17,469,865	15,984,475	9%
Net Cost	**$11,015,751**	**$ 8,921,307**	23%
Budgetary Resources	**$18,961,887**	**$15,316,659**	24%

BALANCE SHEET SUMMARY

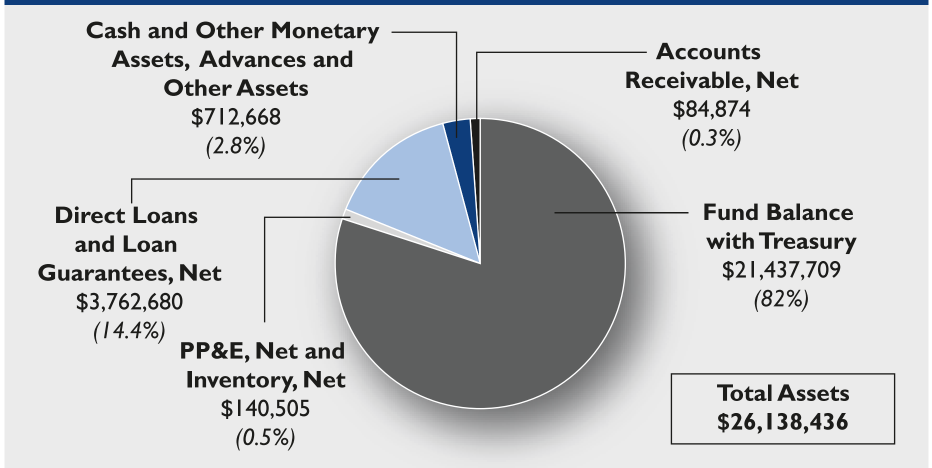
ASSETS – WHAT WE OWN AND MANAGE

The total assets were $26.1 billion as of September 30, 2009. This represents an increase of $1.7 billion (seven percent) over the previous year's total assets of $24.4 billion. This is a result of the Agency receiving $5 billion more in appropriation in FY 2009 including supplemental warrants were received on June 30, 2009 for $3.7 billion. Specifically the Economic Support Fund received an additional $4 billion in appropriations. The Civilian Stabilization Initiative and Assistance for Europe, Eurasia and Central Asia, were two new funds introduced in FY 2009, receiving appropriations of $30 million and $922 million, respectively.

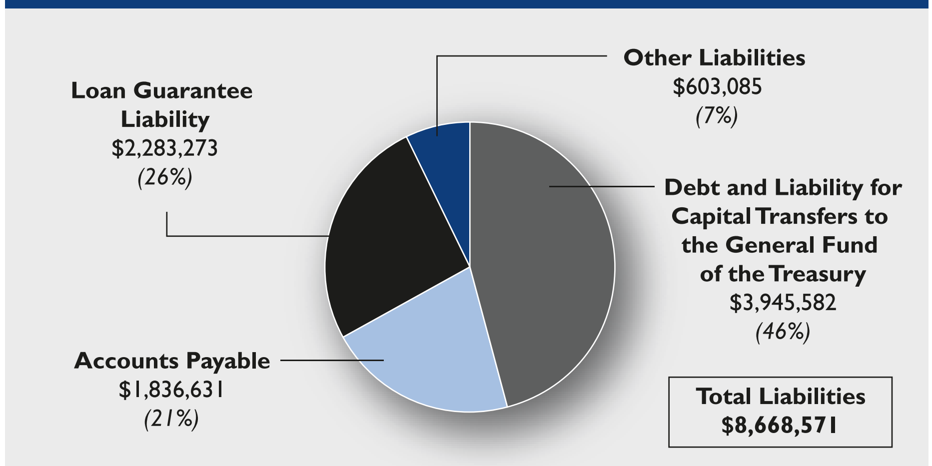
The charts to the right present a comparison of the major asset and liability categories as a percentage of total assets and liabilities. The most significant assets are the Fund Balance with Treasury and Direct Loans and Loan Guarantees, Net which represent 82 percent and 14.4 percent of USAID's current 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 Direct Loans and Loan Guarantees, Net are authorized under the Foreign Assistance Act to assist countries in their community development. These loans have a variance of $226 million (six percent), from the previous year due to a decrease in the Direct Loan Liquidating Fund.

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 required to submit financial data to these parent agencies to enable them to include the Agency's allocations in their financial statements.

FY 2009 TOTAL ASSETS *(In Thousands)*



FY 2009 TOTAL LIABILITIES *(In Thousands)*



LIABILITIES – WHAT WE OWE

The Consolidated Balance Sheet reflects total liabilities of $8.7 billion, of which $3.9 billion (46 percent) is Debt and Liabilities for Capital Transfers to the General Fund of the Treasury as presented in the chart above. These liabilities represent funds borrowed from Treasury to carry out the Agency's Federal Credit Reform program activities and net liquidating account equity. Total liabilities increased $287 million (three percent) compared to FY 2008.

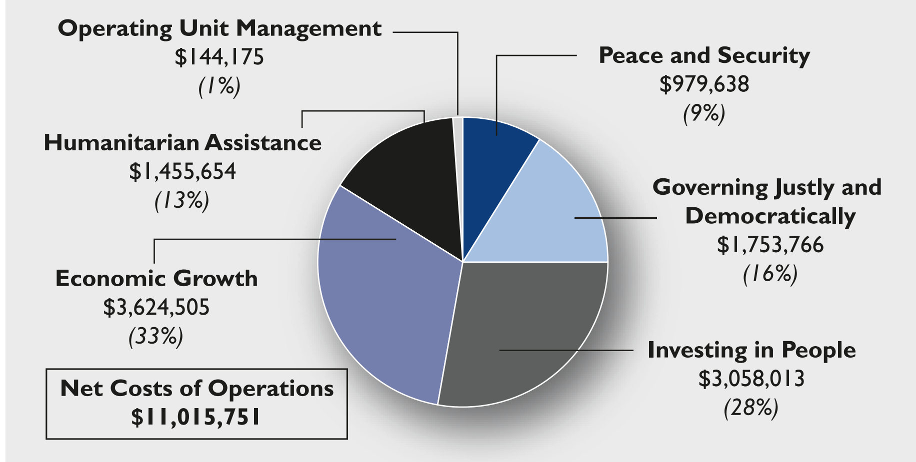
ENDING NET POSITION – WHAT WE HAVE DONE OVER TIME

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 $1.4 billion (nine percent) and is mainly due to an increase of appropriations received. The remaining variance is due to FY 2008 ending balances brought forward related to the Israel Program Account, HIV/AIDS program funds, and Operating Expenses.

RESULTS (NET COST) OF OPERATIONS

OUR SOURCES AND USES OF FUNDS

FY 2009 NET COST OF OPERATIONS *(In Thousands)*



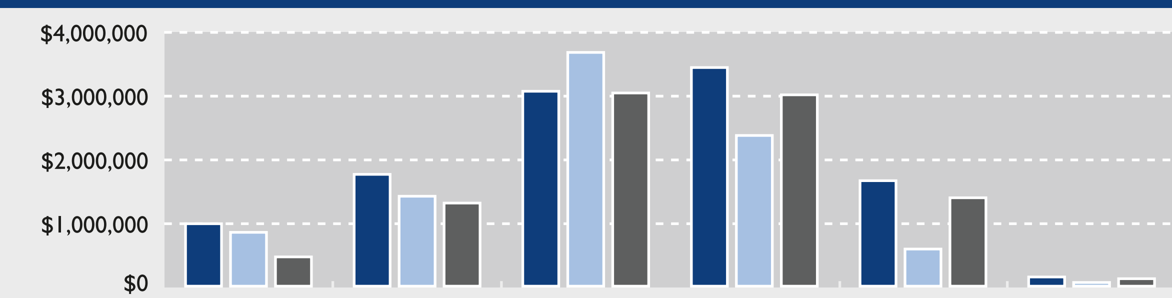
The results of operations are reported in the Consolidated Statement of Net Cost and the Consolidated Statement of Changes in Net Position. The Consolidated Statement of Net Cost represents the cost (net of earned revenues) of operating the Agency's six objectives. These objectives are consistent with the State-USAID Strategic Planning Framework. The two objectives, Economic Growth and Investing in People, represent the largest investments at 33 percent and 28 percent net cost of operations, respectively. The chart above shows the total net cost incurred to carry out each of the Agency's objectives.

For FY 2009 and FY 2008, USAID's net cost of operations totaled $11 billion and $8.9 billion, respectively. Net costs of operations increased $2.1 billion (23 percent) compared to last year. The Economic Growth objective reflects the largest cost point, and has a fluctuation between FY 2007, FY 2008 and FY 2009. The spending levels for the individual goals shows 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. On March 2, 2008, the Bureau for Asia and the Near East Bureau (ANE) was divided into two separate regional bureaus: the Asia Bureau and the Middle East Bureau. However, this did not affect the Agency's overall cost of operations. The increase in Net Cost of Operations is due to changes in Investing in People, Economic Growth, and Humanitarian Assistance program areas. The Economic Growth shows the highest increase by $1.3 billion due to increased spending under Macroeconomic, Financial sector, Infrastructure, and Agriculture. The Investing in People variance was primarily due to an increase of $132 million in revenues for the Health program area.

Major elements of net cost are broken out below. This chart compares the major elements of net cost by year starting with FY 2007 and going through FY 2009.

In addition, the financial reporting of the disbursement of Recovery Act funds by the Agency has comported with statutory mandates and OMB requirements. Monitoring of internal controls provides assurance that funds are properly

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 2009	$ 979,638	$ 1,753,766	$ 3,058,013	$ 3,624,505	$ 1,455,654	$ 144,175
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

accounted for and reported. The Agency has developed a series of reports to allow internal tracking of activities under the act to ensure the funds are spent efficiently. The table below captures the cost at the program area level within each of the six objectives. These lower levels provide the necessary information to better manage USAID programs.

FY 2009 NET COST PROGRAM AREAS
(In Thousands)

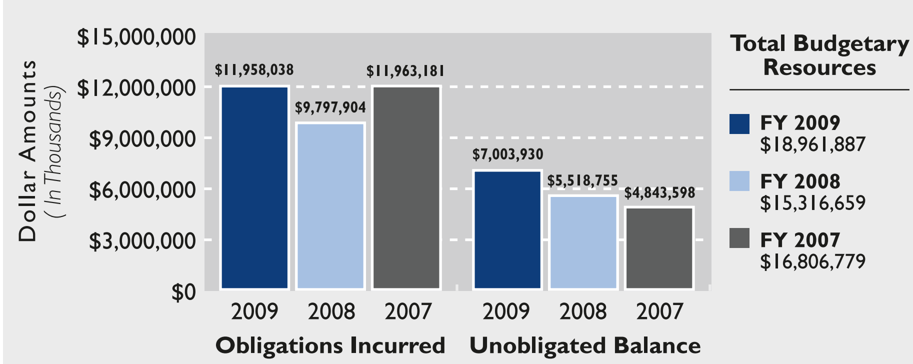
OBJECTIVE	PROGRAM AREA	TOTAL
Peace & Security	Counterterrorism	$ 15,075
	Combating Weapons of Mass Destruction (WMD)	3,928
	Stabilization Operations and Security Sector Reform	223,232
	Counternarcotics	410,914
	Transnational Crime	19,400
	Conflict Mitigation and Reconciliation	307,088
Peace & Security Total		979,638
Governing Justly & Democratically	Rule of Law and Human Rights	169,837
	Good Governance	992,191
	Political Competition and Consensus-Building	262,166
	Civil Society	329,573
Governing Justly & Democratically Total		1,753,766
Investing in People	Health	1,749,384
	Education	786,554
	Social and Economic Services and Protection for Vulnerable Populations	522,075
Investing in People Total		3,058,013
Economic Growth	Macroeconomic Foundation for Growth	1,026,663
	Trade and Investment	154,082
	Financial Sector	450,403
	Infrastructure	688,944
	Agriculture	532,303
	Private Sector Competitiveness	301,360
	Economic Opportunity	178,819
	Environment	291,932
Economic Growth Total		3,624,505
Humanitarian Assistance	Protection, Assistance and Solutions	870,674
	Disaster Readiness	584,763
	Migration Management	217
Humanitarian Assistance Total		1,455,654
Operating Unit Management	Crosscutting Management and Staffing	97,249
	Program Design and Learning	3,128
	Administration and Oversight	43,798
Operating Unit Management Total		144,175
Total Net Cost of Operations		$ 11,015,751

BUDGETARY RESOURCES

OUR FUNDS

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. For FY 2009, the Agency received $19 billion in budgetary resources, of which, by the end of FY 2009, it had obligated $12 billion and left unobligated $7 billion.

STATUS OF BUDGETARY RESOURCES FY 2009, FY 2008 AND FY 2007



OBLIGATIONS AND OUTLAYS

The Status of Budgetary Resources table compares obligations incurred and unobligated end of year balances for FY 2009, FY 2008, and FY 2007. During FY 2009, USAID obligated $2.1 billion more than it did in FY 2008. Nonetheless, because USAID's total budgetary resources in FY 2009 were $3.6 billion greater in FY 2008, USAID's unobligated balance at the end of FY 2009 was $1.5 billion more than at the end of FY 2008. During FY 2008, USAID obligated $2.2 billion less than it did in FY 2007, but its budgetary resources were only $1.5 billion less than in FY 2007, therefore USAID's unobligated balance at the end of FY 2008 was $0.7 billion more than at the end of FY 2007.

Net outlays reflect disbursements net of offsetting collections and distributed offsetting receipts. USAID recorded total net outlays of $9.4 billion occurring during this year, and these outlays were disbursed on time according to contracted terms. Budgetary resources increased $3.6 billion (24 percent), from FY 2008, while net outlays increased $807 million (nine percent).

LIMITATIONS OF THE FINANCIAL STATEMENTS

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. The statements should be read with the understanding that they are for a component of the U.S. Government, a sovereign entity.

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

MANAGEMENT ASSURANCES

FISCAL YEAR 2009 – 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, 2009 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, 2009 was operating effectively and no material weaknesses were found in the design or operation of the internal control over financial reporting. USAID acknowledges that the auditor's report identified as a material weakness inadequacies in reconciling the Fund Balance with the U.S. Treasury. USAID management identified similar related inadequacies but, based on improvements made during FY 2009, categorized them as a significant deficiency.

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 substantially comply with the requirements of the Federal Financial Management Improvement Act (FFMIA) as of September 30, 2009.

Alonzo L. Fulgham
Acting Administrator
November 16, 2009

FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT (FMFIA)

The FMFIA requires agencies to establish and maintain an effective system of internal control and to perform ongoing reviews to achieve the objectives of effective and efficient operations, reliable financial reporting, and compliance with applicable laws and regulations. It also requires that the Agency head, based on an evaluation, provides an annual FMFIA assurance statement on whether USAID has met this requirement.

Internal Control Over Operations

USAID's Internal Control Program is comprehensive and requires Agency managers to take systematic and proactive measures to develop and implement appropriate cost-effective controls for results-oriented management and evaluate effectiveness on a continuous basis. The Agency's Management Control Review Committee (MCRC) oversees the Agency's internal control program, including the identification, correction, and reporting on internal control deficiencies. The MCRC is chaired by the deputy administrator and is composed of USAID senior managers. Information from annual certification statements provided by mission directors, assistant administrators, and independent office directors serves as the basis for the Administrator's Annual Statement of Assurance. This document asserts the adequacy of the Agency's internal control environment and explains whether related 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, USAID managers give consideration to the Government Accountability Office (GAO) and the Office of Inspector General (OIG) reviews, audits, inspections, and investigations as part of the evaluation process.

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. 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 specifically. Appendix A signals increased responsibility and awareness of management for financial related controls. USAID remains 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.

USAID management uses the standard principles of a risk-based approach to comply with the requirements outlined in Appendix A and continually monitor financial related controls. Monitoring includes updating process documentation, updating key controls based on operational changes, and testing key controls in Washington and in the missions according to a risk-based cyclical schedule as follows:

- High Risk – annually
- Moderate Risk – biennially
- Low Risk – triennially

Accordingly, the FY 2009 Appendix A review focused primarily on high-risk key business processes, with additional qualitative reviews. Several control deficiencies were identified as part of this assessment. However, no Agency-level material weaknesses were identified.

The OIG, in its financial statement audit, identified a material weakness related to USAID's reconciliation of the Fund Balance with the U.S. Treasury. This condition was also identified by management during the combined efforts of the assessment of the effectiveness of internal control over financial reporting as of June 30, 2009, and as part of the overall evaluation of the system of internal controls for the Office of the CFO's Central Accounting and Reporting Division in effect during the year ended September 30, 2009. While management acknowledges related vulnerabilities, based on progress made toward corrective actions over the last year, this deficiency is noted as "significant" and is voluntarily disclosed in this report.

As reported, the OIG material weakness stems from third-party payments in the general ledger appropriations that were different from the appropriations in which the Department of Treasury recorded identical payments. Management acknowledges this as a root cause, as well as other contributing factors disclosed as part of its overall FMFIA review and in concert with A-123, Appendix A efforts. Details are included in the description of the significant deficiency outlined in the following FMFIA Significant Deficiencies and Corrective Action Plans table.

The Office of the CFO made significant strides during FY 2009 to remediate the deficiency. With the assistance of USAID/Washington operating units and its overseas missions, a Cash Reconciliation Tool (CART) to reconcile all headquarters cash transactions was implemented. CART enables management to make the cash reconciliation process at headquarters complete, eliminate previous Statement of Transactions (SF-224) reporting process deficiencies, and greatly reduces the number of outstanding items in the suspense account. The improvements have enabled management to match 90 percent of the offsetting suspense items posted by headquarters. Specifically, as of September 30, 2009, management matched 4,597 of 4,982 items in the suspense accounts that resulted from FY 2009 transactions, leaving 385 items unmatched. Additionally, through the newly implemented processes, management was able to match 35,791 of 43,973 legacy items held in the suspense accounts. Although the absolute dollar amount of transactions that make up the current year difference between the Fund Balance with the U.S. Treasury recorded in the financial accounting system and the fund balance reported by Treasury are large, management believes that enhanced internal controls significantly reduced related weaknesses associated with the design and operating effectiveness and efficiencies.

Other strategies for addressing the deficiency included the implementation of several new processes that mitigate, improve, and address its Fund Balance with the U.S. Treasury suspense clearing process. These actions are also outlined in the FMFIA Significant Deficiencies and Corrective Action Plans table.

Management will continue to channel focused efforts to reconcile current monthly transactions with the Department of Treasury and to identify, track, resolve, and eliminate suspense items older than 60 days by end of FY 2010. In addition, management will work closely with the OIG to ensure that the new initiatives are functioning as intended.

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 assessment results have been communicated to responsible and affected process owners for remediation. USAID management will continue to monitor progress of corrective actions toward remedying control deficiencies identified.

FMFIA Significant Deficiencies and Corrective Action Plans

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

FMFIA SIGNIFICANT DEFICIENCIES AND CORRECTIVE ACTION PLANS	
OPERATIONS	
Deficiency	**Limited Ability to Implement and Monitor Activities in High Threat Environments (HTE).** HTEs, such as Afghanistan, Pakistan, Iraq, and West Bank/Gaza, and USAID's adherence to the U.S. Government's "No Contact" policy, which selectively impacts West Bank/Gaza—continues to restrain travel to project sites where Agency employees can monitor implementation and to meet with USAID partners. Meanwhile, the challenge remains of attracting appropriately qualified personnel to staff Missions in HTE countries. Together, these weaknesses continue to limit, to some extent, USAID's ability to implement and monitor programs. USAID needs to improve information sharing and best practices on implementation and monitoring among country programs and to update its guidance to managers responsible for such programs.
Actions Taken	Since the deficiency was first reported in FY 2006, specific steps have been taken to strengthen recruiting, assignments, and training for Critical Priority Countries (CPC). During FY 2009, missions in these countries continued to take steps within their management control to implement and monitor activities as effectively 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. Under a contract awarded in September 2008, the Asia and Middle East bureaus developed and launched a website of online resources and best practices on monitoring and evaluation (M&E) in HTEs, gleaned from USAID officers, implementing partners and outside organizations who have worked in HTEs. The inherent security risks posed by war zones and HTEs remain beyond USAID's management control. However, since the deficiency was first identified as a material weakness in FY 2006, USAID has taken key steps within its management control to mitigate the weakness by adapting its management and administration to work effectively in HTEs.

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FMFIA SIGNIFICANT DEFICIENCIES AND CORRECTIVE ACTION PLANS *(continued)*	
OPERATIONS *(continued)*	
Actions Remaining and Expected Completion Date	USAID can implement programs effectively and efficiently in HTEs provided there is ongoing investment in security, collaboration with Regional Security Officers (RSO), full staffing, effective training for field staff in HTEs, and alternative approaches to monitoring are 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 2010, the Agency will launch an outreach effort to inform field officers of an improved website, also known as the M&E portal, which was designed for those having previous M&E experience in the field, but are new to working M&E in HTEs. For those with no previous M&E experience, the site provides a primer on M&E basics and a resource center of materials. A follow-up evaluation of the portal's utility to USAID officers will be conducted in the first quarter of FY 2010 and any resulting recommendations will be incorporated into the site. Furthermore, outreach to and dialogue with Department of State 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:** April 10, 2010
Deficiency	**Enterprise Architecture (EA) Issue Persists.** The Clinger-Cohen Act of 1996 and OMB guidance mandate that all agencies have an EA program and appropriate EA staffing. USAID does not meet these requirements. This deficiency hampers the Agency's ability to properly plan and execute an effective and efficient information technology (IT) program that is in concert with IT capital investments, budgets, and improvement of Agency business processes and systems.
Actions Taken	Over the last year, progress has been made in several areas. A budget was identified and a contract was put in place to provide core contractor support services. There has been agreement to hire and funding identified to support four civil service direct hires in order to provide a cadre of staff knowledgeable of EA standards, processes, and best practices. OMB and the Department of State have agreed with USAID planning, execution, and reporting directly to OMB, rather than jointly with the Department of State. This will allow for better representation of EA for both agencies. Additionally, an EA Subcommittee (EAS) of the Business Transformation Executive Committee (BTEC) was approved to provide executive-level guidance to the Agency's EA activities and priorities.
Actions Remaining and Expected Completion Date	(1) Mature the EAS activities, processes, and procedures to meet OMB guidance and Agency needs (ongoing). (2) Revise EAS Charter to integrate with Knowledge Management and IT Steering subcommittees and to meet the expectations of the BTEC (December 2009). (3) Hire EA direct-hire staff (January thru September 2010). (4) Develop EA processes and artifacts to institute formal policies, guidance, and governance (July 2010). (5) Develop EA models, transition plans, and other artifacts to support future Agency budget and capital investments (December 2010). **Target Completion Date:** December 31, 2010

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FMFIA SIGNIFICANT DEFICIENCIES AND CORRECTIVE ACTION PLANS *(continued)*	
OPERATIONS *(continued)*	
Deficiency	**Noncompliance with Equal Employment Opportunity (EEO) Program Requirements Mandated by 29 CFR 1614.102(a)(20).** The cited regulations governing Federal sector equal employment opportunity require each agency to provide sufficient resources to its EEO program to ensure efficient and successful operation. At present: complaints of discrimination are not processed within the regulatory timeframe, and are not in accordance with all complaint processing procedures; required annual compliance reports to oversight agencies frequently miss the submission deadline; required monitoring function is inadequately met; and implementation of the Notification and Federal Employees Antidiscrimination and Retaliation Act (NoFEAR) required training is jeopardized. The EEO Office is minimally able to maintain basic Agency-wide EEO services. Customer feedback consistently demonstrates an increased need for outreach and visibility of the Office of Equal Opportunity Programs (EOP) efforts to meet the Agency's legal obligation for achieving diversity and affirmative employment. EOP's capacity to sustain diversity initiatives and plans to assess and monitor the recruitment, hiring, representation, and retention of the Agency's employees and various employment categories, e.g., Development Leadership Initiative (DLI) classes, U.S. personal services contractor (USPSC), a large segment of the USAID population; and to help the Agency achieve its Human Capital Strategic Plan objective to attain a diverse workforce is seriously diminished. Management decisions on office reorganization, office specific staffing freeze (critical vacancies going unfilled), and decisions on EOP inclusion and participation on boards and panels have resulted in serious staff deficiencies that have impacted Agency adherence to statutory EEO requirements and implementation of diversity enhancing initiatives.
Actions Taken	Limited staff is assigned extra duties, as well as duties that are outside their normal responsibilities. Contractors used to staff DLI panel deliberations are reassigned to help process complaints. A part-time contractor is retained to help process formal complaints.
Actions Remaining and Expected Completion Date	Complete and implement office reorganization to establish the proposed Office of Civil Rights and Diversity with structure, authorities, and staffing/resources that meet statutory and regulatory requirements and Agency goals for a diverse, equitable, and respectful workplace with adequate staff to address program requirements. **Target Completion Date:** December 31, 2009
FINANCIAL REPORTING (OMB CIRCULAR A-123, APPENDIX A)	
Deficiency	**Accrual Module Does Not Always Reduce Accruals by Subsequent Payments.** Modified accrual amounts are not reduced by all subsequent payments made while the accrual "window" is open. The accrual module does not reduce the full accrual amounts when the accrual is entered at the header level and the payments are posted at the accounting line level. If a modified accrual is entered at the header level, the accrual module automatically prorates the accrual over the obligation's accounting lines. If the payment on a particular accounting line exceeds the modified accrual amount on that same line, it reduces that portion of the modified accrual amount to zero, but does not reduce a line for the excess payment amount.
Actions Taken	The Office of the Chief Financial Officer (CFO) reviewed the module requirements and agreed to make modification.
Actions Remaining and Expected Completion Date	The Office of the CFO management will modify accrual module to remedy subsequent payment issue. **Target Completion Date:** June 30, 2010

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FMFIA SIGNIFICANT DEFICIENCIES AND CORRECTIVE ACTION PLANS *(continued)*	
FINANCIAL REPORTING (OMB CIRCULAR A-123, APPENDIX A) *(continued)*	
Deficiency	**USAID/Washington and Missions Continue to Have Large Unreconciled Differences, Beyond 60 Days, in the Outstanding Suspense Aging Report.** The cause of the differences is attributed to unreconciled suspense account transactions remaining in the outstanding suspense aging report beyond 60 days. The differences remain unreconciled because USAID was not investigating and resolving all the suspense transactions in a timely manner. Treasury Financial Manual Volume I, Bulletin No. 2007-07, Suspense "F" Account Discontinuance and Waiver Policy, states that agencies with approved waivers, the F3875 and F3885 suspense accounts are required to have balances no more than 60 days old effective February 28, 2009. Management's recognition of the fund balance issues also include: (a) complexity of transactions; (b) legacy differences from prior years; (c) untimely posting of Intragovernmental Payment and Collection (IPAC) transactions; and (d) unreconciled third party transactions.
Actions Taken	During FY 2009, USAID implemented several new processes to improve and address its suspense clearing process. These improvements consisted of the following: • Implementing the use of the automated CART to track and resolve open suspense transactions; • Creating a central database of all suspense transactions worldwide; • Producing monthly suspense transaction aging reports for headquarters and missions; • Matching 90% of the offsetting suspense items posted by headquarters; • Posting all IPAC transactions in the month received or sending them to the missions to post; • Creating a procedure that assures all IPACs worldwide are posted; • Implementing at headquarters and missions a process to post Treasury/Phoenix cash transaction differences to suspense in a single posting supported by a detailed aging report called the Post Statement of Differences (SOD) Report; • Implementing procedures to obtain third-party cash transaction reports on a daily basis, as opposed to monthly, in order to allow for timely reconciliation with substantial improvement noted in the A-123 testing; and • Implementing procedures to correctly report the SF-224. In July 2009, management issued new guidance and instructions for missions to post, track, and clear transactions in the suspense fund account.
Actions Remaining and Expected Completion Date	With new guidance issued in July 2009 and other process improvements, management will continue to work toward elimination of suspense items older than 60 days by end of FY 2010. **Target Completion Date:** September 30, 2010

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FMFIA SIGNIFICANT DEFICIENCIES AND CORRECTIVE ACTION PLANS *(continued)*	
FINANCIAL REPORTING (OMB CIRCULAR A-123, APPENDIX A) *(continued)*	
Deficiency	**USAID's Reconciliation of Loans Receivable is Not Adequate and Does Not Resolve Differences Between USAID and its Loan Services Provider** The differences are a result of contrasting loan restructuring business rules practiced by Midland Loan Services and by USAID. When loans are restructured or written off, Midland modifies the corresponding loan information in its enterprise loan system; USAID does not modify the loan information in the Phoenix accounting system until updated information and approvals relating to the restructured loans are received from the Department of Treasury and OMB. Follow-up on Government Management Reform Act (GMRA) audit identified deficiencies revealed that some issues remain outstanding.
Actions Taken	Management implemented a process to reconcile loans receivable balances in Phoenix with the loans receivable balances in Midland's Enterprise Loan System. In addition, follow-up steps and reconciliation of identified differences was initiated and progress has been made in reducing the identified differences.
Actions Remaining and Expected Completion Date	Management will continue to work toward reconciling and resolving the identified differences through its newly defined process improvement. **Target Completion Date:** September 30, 2010

FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT (FFMIA) COMPLIANCE ASSESSMENT

The FFMIA 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 CFO's principal goals are to establish business processes enabling the worldwide Office of the CFO organization to be a value-added provider of financial information and services to USAID's customers, partners, and stakeholders. The CFO is committed to strengthen organizational competencies to effectively and efficiently manage financial business processes and information while maintaining a strong focus on preserving fiscal integrity and internal controls. In order to leverage the transformation of the Office of the CFO, USAID focuses on the combined strengths of its organizational knowledge, leadership, and commitment to developing individuals, coupled with the ability to communicate responsive strategies and messages to meet the needs of its stakeholders.

The CFO's goals and strategies, as well as key Agency's initiatives such as DLI and CPC, are supported through a variety of initiatives, including:

Technology

- Assure financial and change management elements, such as the Phoenix interface and overseas controller support are coordinated for the Global Acquisition and Assistance System (GLAAS) through partnership with OAA;
- Serve as the executive sponsor and provide functional support to the webTA project implementation;
- Strengthen financial reporting by expanding reporting capabilities and soliciting feedback from the field on field developed reports to define "best of breed" financial reports and optimal presentation of data;

- Improve Cash Reconciliation performance by expanding the missions' use of CART and monitoring overall mission reconciliation performance; and

- Champion the Financial Modernization program, including the Phoenix version 6.3 implementation.

Human Capital

- Expand training opportunities for worldwide Office of the CFO workforce by championing needs based, regional controller-developed training programs and using distance learning options, when practical;

- Close the U.S. direct-hire (USDH) staffing gap; and

- Establish an Office of the CFO worldwide staffing model to track staffing and skill requirements.

International Operations

- Establish an Office of the CFO regionalization-globalization strategy by defining financial regionalization in the CFO context; and

- Reduce inherent vulnerability of mission-held cashier imprest funds by utilizing privatized cashiering services or Department of State cashiers under International Cooperative Administrative Support Services (ICASS), where cost effective, and implementing the Department of Treasury's Debit Card program, where feasible.

Financial Policy

- Reduce the number of transaction postings under the framework related to program support costs by reviewing budget and accounting procedures for possible reductions in transaction postings; and

- Improve Agency oversight of transportation costs, particularly premium class travel.

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. The Financial System's division initiated a Financial Management Modernization program in FY 2009. The initial phase includes a software upgrade to address evolving Federal requirements from OMB and the Financial Systems Integration Office (FSIO), as well as the Department of Treasury's government-wide accounting initiative. The upgrade will also enhance Phoenix performance, address security vulnerabilities, and allow Phoenix to interface more effectively with other Agency systems. The Phoenix system upgrade is scheduled to be completed in FY 2010.

CART. CART is an automated tool to reconcile between the Department of Treasury and U.S. Disbursing Offices' (USDO) transactions, and Agency posted transactions. The tool, developed by USAID/Egypt, automates several processes that generate reports for the Department of Treasury and USAID management, allowing the latter to monitor and track open items until they are closed. CART also automates the processing of downloaded Department of Treasury data to generate the monthly Standard Form (SF)-224 report with incorporated controls that facilitate no Statement of Differences (SOD). Currently, CART is in use at a majority of USAID missions.

GLAAS. GLAAS is the Agency's worldwide web-based acquisition and assistance (A&A) system. GLAAS enables the Agency to increase the overall effectiveness of its development programs by accurately tracking development resources and supporting USAID resource stewardship. GLAAS improves the A&A process across USAID by implementing efficient, effective, and streamlined process improvements and functionality, including improving and streamlining the A&A process, providing more accurate and comprehensive information, and strengthening A&A tools and functionalities. Currently, GLAAS is operating as a production pilot in select offices in USAID/Washington and in missions in the Latin America and Caribbean, Asia, and Africa regions and missions in Caucasus/Armenia. GLAAS will also allow USAID to retire both the New Management System (NMS) A&A

Module currently used for acquisition and assistance actions in Washington, as well as acquisition and assistance on the web.

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 Manage to Budget (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, and time and attendance. 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. Worldwide deployment of the system and training concluded in June 2009.

- ***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.

- ***webTA.*** The Agency's 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. U.S. personal services contractor (USPSC) employees began using webTA in late September 2009. Future implementation phases will extend webTA timekeeping to foreign service national (FSN) employees.

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. As of late September 2009, NFC also began to process payroll for USAID's USPSC employees.

- ***Midland Loan Services (Midland).*** USAID outsources standard credit reform transactions to Midland.

- ***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; and

- 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 IT strategic plan, 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 FSIO, as well as the Department of Treasury's new government-wide accounting initiative. The software upgrade that is scheduled to be completed in FY 2010 will address new Federal financial system requirements and security vulnerabilities and will allow Phoenix to better interface with other Agency systems. Subsequent financial modernization program phases will enhance Phoenix functionality and standardize business processes across USAID/Washington and the missions in line with other Agency business system modernization efforts.

- ***GLAAS.*** Deployments for both acquisition and assistance functionality are scheduled for FY 2010 through FY 2011 in USAID/Washington, as well as missions in Latin America and the Caribbean, Europe and Eurasia, Middle East, Asia, and Africa. GLAAS is also preparing to integrate with the Agency's Field Support System (FS-AID), which tracks mission orders destined for centrally-managed agreements.

- ***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). The development project for an interface between E2 and Phoenix will kick off in October 2009 and conclude in FY 2011. USAID will also continue to expand CART's usage in the missions as a means to standardize, document, and track cash reconciliation.

- ***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 making further improvements to the automated interfaces between these providers and Phoenix in order to achieve greater integration.

OTHER MANAGEMENT INFORMATION, INITIATIVES, AND ISSUES

IMPLEMENTING THE RECOVERY ACT

Pursuant to Division A, Title XI of the American Recovery and Reinvestment Act (Recovery Act) of 2009 (P.L. 111-5), USAID received $38 million for immediate IT security and upgrades to support mission-critical operations. USAID is using Recovery Act funds to complete the rollout of its Global Acquisition and Assistance System (GLAAS). GLAAS is a new enterprise business system that will, for the first time, give USAID the ability to process more than $11.5 billion annually in acquisition and assistance transactions worldwide.

Investment in GLAAS serves two essential functions: expansion of E-Government initiatives and Agency business modernization. GLAAS will maximize interoperability and minimize redundancy through integration with a host of internal and external systems. The real-time integration of GLAAS with USAID's financial management system will allow the Agency to provide comprehensive, timely, and accurate reports to OMB, Congress, and other stakeholders. GLAAS will also integrate with external government systems including FPDS-NG, FedBizOpps, FAADS, and Grants.gov, simplifying the acquisition and assistance process and enhancing USAID's ability to provide important financial information to the public.

To date, Recovery Act funds have enabled USAID to make significant accomplishments toward the completion and deployment of GLAAS. On August 3, 2009, USAID released GLAAS 3.1, which provided critical functionality for headquarters offices and overseas missions. On June 8, 2009, USAID deployed GLAAS to five additional overseas missions in the Asia Region (Regional Development Mission for Asia, Cambodia, East Timor, Nepal, and Vietnam). This deployment raised the total number of overseas missions with GLAAS access to 20, representing approximately 25 percent of USAID missions. The deployments completed through June 2009 enabled the Agency to significantly increase the use of GLAAS for managing acquisitions and assistance projects. During FY 2009, USAID obligated $1.7 billion through GLAAS, reflecting more than a 1,700 percent increase over the amount obligated during FY 2008. Once fully deployed, GLAAS will provide significant benefits to the Agency and its stakeholders through staff workload optimization, legacy system retirement, and enhancements to reporting and project management capabilities.

For more details on Recovery Act material activities, please go to the Agency's Recovery website at *http://www.usaid.gov/recovery/*

FINANCIAL STATEMENT AUDIT FINDINGS

One material weakness and four significant deficiencies were identified in the FY 2009 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 2009		
Material Weakness	**Planned Corrective Actions**	**Target Completion Date**
USAID Does Not Reconcile its Fund Balance with Treasury Account with the U.S. Treasury and Resolve Reconciling Items in a Timely Manner (Repeat Finding)	The CFO will focus in FY 2010 on eliminating legacy differences, suspense account differences and differences caused by transactions made by third party payment service providers on USAID's behalf.	September 30, 2010
Significant Deficiency	**Planned Corrective Actions**	**Target Completion Date**
USAID's Process to Reconcile Loans Receivable Is Not Effective And Does Not Resolve Differences Between USAID and Its Loan Services Provider in a Timely Manner (Repeat Finding)	USAID will develop and implement procedures to complete a thorough reconciliation of the outstanding loan balances maintained in its accounting system with those maintained by Midland Loan Services and resolve differences reported by borrowers.	September 30, 2010
USAID's Accrual Reporting System Does Not Record Accrued Expenses Accurately	USAID will rectify the flaw in the financial accounting system to ensure that payments made for amounts accrued are applied to the related contract or task order accruals before quarterly accruals are recorded against the original contract obligation in the accounting system.	July 7, 2010
Intragovernmental Transactions Remain Unreconciled (Repeat Finding)	USAID plans to continue meeting with the Department of State, USDA, and other trading partners to address business rules related to parent/child reporting, unbilled balances, Intragovernmental Payment and Collection (IPAC) transactions, and accrual transactions.	September 30, 2010

PROGRESS MADE ON ISSUES FROM THE FY 2008 FINANCIAL STATEMENT AUDIT

USAID has taken extensive and aggressive actions during FY 2009 to address the material weakness and significant deficiencies identified in the FY 2008 audit as indicated in the table below.

SUMMARY OF INDEPENDENT AUDITOR'S REPORT FINDINGS FY 2008		
Material Weakness	**Corrective Actions**	**Actions Remaining and Target Completion Date**
USAID does Not Reconcile its Fund Balance with the U.S. Treasury and Resolve Reconciling Items (Repeat Finding)	USAID made the following improvements to resolve most of the weaknesses in its cash reconciliation process: • Implemented use of the automated CART to produce the SF-224 report of disbursements and collections to Treasury, and to track and resolve reconciling items; • Produced monthly suspense transaction aging reports; • Reduced backlog of outstanding suspense items by more than 90 percent; • Posted all IPAC transactions in the month received; • Created a procedure that assures all IPACs worldwide are posted; • Reduced number of unposted payrolls at the end of the month to one; • Increased frequency of warrant and transfer reconciliations; • Designed and partially implemented a headquarters reconciliation process for USDO 1221 payments; • Created a reconciliation process for non-pooled grantee payments by HHS; • Implemented a process to post Treasury/Phoenix cash transaction differences to suspense in a single posting supported by a detailed aging report called the Post SOD Report.	In FY 2010, USAID plans to reduce or eliminate the headquarters backlog of unreconciled USDO 1221 transactions, further reduce the number of outstanding suspense items worldwide, and design a process to reconcile pooled HHS disbursements. Target Completion Date: September 30, 2010
Significant Deficiency	**Corrective Actions**	**Date Closed or Target Completion Date**
Accounting for Loans Receivable	USAID implemented 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. Specifically, a new format (comparative spreadsheet) was implemented to help quantify and present differences between Phoenix and Midland, USAID's loan services provider, in a more meaningful way. As a result of recent reconciliation efforts, the difference between Phoenix and Midland was reduced to a net $13.1 million difference with an absolute value of $89.5 million.	Closed: September 23, 2009
Accounting for Accounts Payable and Accrued Expenses	USAID developed and implemented procedures to ensure that Contracting Officer's Technical Representatives (COTR) 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. All new COTRs are required to complete the mandatory online accruals course prior to becoming a certified COTR. This course details how to properly calculate an accrual and how to record the accrual in the Phoenix accounting system. A Quarterly Accruals Worksheet was developed for all Washington COTRs to use when recording accruals each quarter and to keep on file as documentation for the OIG staff and/or other auditors.	Closed: May 6, 2009
General Ledger Posting Models Weaknesses	USAID developed and implemented an overall plan to identify and correct errors in the posting models and to maintain, update, and test posting models on a periodic basis.	Closed: March 23, 2009
Reconciliation of Intragovernmental Transactions (Repeat Finding)	USAID initiated meetings with: (1) Department of State to address business rules related to parent/child reporting, unbilled balances, and IPAC transactions; and (2) USDA to review business rules regarding accrual transactions. USAID also developed an "Intragovernmental Tracker" tool to document issues, actions, and progress.	Closed: March 12, 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 the OIG staff work in partnership to ensure timely and appropriate responses to audit recommendations. The OIG contracts with the Defense Contract Audit Agency (DCAA) to audit U.S.-based contractors and relies on non-Federal auditors to audit U.S.-based grant recipients. Overseas, local auditing firms or the supreme audit institutions (SAI) of host countries audit foreign-based organizations. The 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 2009, USAID received 425 audit reports; 378 of these reports covered financial audits of contractors and recipients and 47 covered Agency programs or operations. The Agency closed 696 audit recommendations. Of these, 298 were from audits performed by the OIG staff and 398 were from financial audits of contractors or grant recipients. USAID took final action on recommendations with $4.6 million in disallowed costs, and $20.5 million was put to better use during the fiscal year.

At the end of FY 2009, there were 626 open audit recommendations. Of these, 37 were over one year old. Ten of the 37 were under formal administrative or judicial appeal with the Agency's procurement executive or the Civilian Board of Contract Appeals (CBCA). The remaining 27, or 4.3 percent, were audit recommendations that could not be closed within a year of the management decision (i.e., corrective action plan) date. In addition, there was one audit recommendation over six months old without a management decision. This was in relation to an audit of the adequacy of USAID's anti-terrorism vetting procedures.

The 27 audit recommendations that were over one year old included 13 recommendations requiring collection of funds from contractors and recipients, one requiring management efficiency (i.e., funds to be put to better use), and 13 requiring improvements in Agency programs and operations. The latter were tied to an audit of USAID/Angola's democracy and governance activities; an Agency-contracted audit of USAID resources by Southern African Development Community-Parliamentary Forum (SADC-PF); an audit of USAID's compliance with the Federal Information Security Management Act (FISMA) for FY 2008; a recipient-contracted audit of USAID agreements with Hope Worldwide South Africa; and an audit of the adequacy of USAID's anti-terrorism vetting procedures.

MANAGEMENT ACTION ON RECOMMENDATION THAT FUNDS BE PUT TO BETTER USE

	Recommendations	Dollar Value ($000)
Beginning balance 10/1/2008	17	$ 16,845
Management decisions during the fiscal year	11	14,471
Final action	16	20,511
Recommendations implemented	16	20,511
Recommendations not implemented	0	-
Ending Balance 9/30/2009	12	$ 10,805

MANAGEMENT ACTION ON AUDITS WITH DISALLOWED COSTS

	Recommendations	Dollar Value ($000)
Beginning balance 10/1/2008	153	$ 152,646
Management decisions during the fiscal year	212	23,812
Final action	191	4,639
Collections/Offsets/Other	186	4,271
Write-offs	5	368
Ending Balance 9/30/2009	174	$ 171,819

FEDERAL REAL PROPERTY INITIATIVE

Pursuant to the Federal Real Property Initiative, USAID designated the Director of the Office of Overseas Management Staff (OMS) as the Agency's Senior Real Property Officer and, in collaboration with the Department of State's Overseas Buildings Operations Bureau (OBO), issued a joint State-USAID Asset Management Plan (AMP). The AMP, which meets requirements under Executive Order 13327 on Federal Real Property Asset Management, forms a comprehensive approach to managing the real property assets needed to support development and diplomatic missions.

Since 2005, USAID has worked in joint coordination with OBO and USAID Executive Officers on this initiative. Some of the activities implemented include maintaining an accurate inventory of real property held by USAID; identifying and managing capital projects; developing a long-range overseas building plan and a long range overseas maintenance plan; identifying surplus assets for removal from the inventory; and using metrics to assess performance and make decisions. USAID will continue efforts to maintain a right-sized real property portfolio in 2010 and beyond using the three "R" rule—maintaining assets at the right cost, right condition, and right size.

ELIMINATING IMPROPER PAYMENTS

The Improper Payments Information Act (IPIA) of 2002 (P.L. 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. 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 2009, 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) **A group of Palestinian children takes part in a hands-on science lesson as part of a USAID-funded Model School Program.**

PHOTO: AMIDEAST

(Preceding page) **A meal is served to Pakistani civilians forced to flee Taliban fighters in Swat Valley and Buner in May. This camp in Mardan was just one place where 1.5 million internally displaced people took shelter after a Pakistan military offensive to quell the militants resulted in a short-lived but fierce response. The United States provided $110 million to aid displaced civilians.**

PHOTO: TARIQ MAHMOOD / AFP

A MESSAGE FROM THE CHIEF FINANCIAL OFFICER

The U.S. Agency for International Development (USAID) is pleased to have earned an unqualified audit opinion on its financial statements for the seventh consecutive year. The USAID Office of Inspector General's (OIG) opinion reports that the statements have presented fairly, in all material respects, the financial position of the Agency as of September 30, 2009 and 2008; and its net cost, net position, and budgetary resources are in conformity with generally accepted accounting principles (GAAP).

David D. Ostermeyer

For the first time, financial management is not listed among the OIG's most significant areas of concern. In fact, in its annual statement on the most serious management and performance challenges for USAID, the OIG acknowledged that financial management was dropped from its top five areas in recognition of the Phoenix implementation and continued unqualified audit opinions since 2003. This is a significant accomplishment by Agency staff that worked diligently on financial management improvement goals.

The *Agency Financial Report (AFR) for Fiscal Year 2009* is the Agency's principal publication and report to the President and the American people on its 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.

While the OIG acknowledged progress by USAID in reconciling differences between the Agency's Fund Balance and its cash balance reported by the U.S. Treasury, it continued to classify this finding as a material weakness for 2009. Significant factors contributing to our unreconciled differences were our inability to fully resolve differences caused by legacy differences, third-party payments, and to reconcile transactions in our suspense accounts. During FY 2009, USAID implemented several new processes to improve and address these problems. These improvements included better reconciliations procedures for third-party grant payments; worldwide implementation of an automated Cash Reconciliation Tool (CART) to track and resolve open suspense transactions; creating a worldwide central database of all suspense transactions; producing monthly suspense transaction aging reports for headquarters and missions; in 2009, clearing 90 percent of suspense items posted by headquarters over the last nine years; posting all Intragovernmental Payment and Collection (IPAC) transactions in the month received or sending them to the missions for posting; creating a procedure that assures all IPACs worldwide are posted; and implementing at headquarters and missions a process to ensure that all transactions posted by the U.S. Treasury are also posted in our accounting system, eliminating statement of differences.

The Independent Auditor's Report includes three significant deficiencies and two related audit recommendations. Corrective action plans have been prepared related to reconciling loan receivables, accounting for accrued expenses, and reconciling intragovernmental transactions. Over the upcoming weeks, I will assure that adequate resources are available to ensure effective reconciliation of U.S. taxpayer resources.

I also want to point out that the remaining significant deficiencies identified in the FY 2008 audit were addressed during FY 2009 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.

As discussed in the Management Assurances section of the MD&A, three significant deficiencies were reported under Section 2 (financial reporting) of the Federal Managers' Financial Integrity Act (FMFIA). Corrective action plans have been prepared for the exceptions related to: (1) accrual subsequent payments; (2) large unreconciled differences, beyond 60 days in the outstanding suspense aging report; and (3) reconciliation of loans receivable with target completion dates of June 30, 2010, September 30, 2010, and September 30, 2010, respectively. 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). I am also pleased to report that the Office of Management and Budget's (OMB) Financial Systems Integration Office (FSIO) awarded our accounting software baseline release with certification. This is good news as we will upgrade to this version in June 2010.

USAID is committed to minimizing the risk of making erroneous or improper payments to contractors, grantees, and customers. This year, we revamped our approach by implementing a comprehensive annual internal control review and substantive testing of payments program in accordance with the Improper Payments Information Act (IPIA) and OMB Circular A-123 guidance. We also have an aggressive system in place to monitor payments. This is especially true for high profile programs, including those associated with man-made disasters and reconstruction and stabilization efforts.

As USAID continues to engage in Afghanistan and Pakistan with significant resources, there are clear indications that the Agency will be delivering more assistance through host government systems and local organizations. The trend toward greater local delivery of assistance and the resulting internal control challenges will require increased financial attention from USAID's cadre of financial professionals to mitigate risks.

While we are pleased with our FY 2009 accomplishments, we will strive to improve all aspects of financial performance and to maintain higher financial management standards in FY 2010. We will continue to promote effective internal controls and resolve any impediments that could affect the auditor's ability to issue an unqualified audit opinion next year. As the Agency expands assistance through the use of host country contracting, we will aim to develop more effective financial system assessment tools.

David D. Ostermeyer
Chief Financial Officer
November 16, 2009

FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

(Above) **Farmers in southern Kyrgyzstan learn that drying tomatoes can help diversify their businesses. Some of these tomatoes were bound for U.S. and European export markets.**

PHOTO: WINROCK INTERNATIONAL

(Preceding page) **Children from Barahona, a town in the Dominican Republic, prepare to plant sea grapes along the Birán River as part of the Barahona Ecotourism Cluster project. USAID linked public and private groups to clean up rivers and towns in the country and to promote ecotourism.**

PHOTO: LEAH GARCIA / CHEMONICS

Office of Inspector General

November 13, 2009

MEMORANDUM

TO: David D. Ostermeyer, Chief Financial Officer

FROM: Joseph Farinella, AIG/A /s/

Joseph Farinella

SUBJECT: Audit of USAID's Financial Statements for Fiscal Years 2009 and 2008

The Office of Inspector General (OIG) is transmitting its report on the *Audit of USAID's Financial Statements for Fiscal Years 2009 and 2008*. 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 16, 2009. In accordance with fiscal year 2009 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 2009 and 2008.

With respect to internal control, we identified one deficiency that we consider to be a material weakness. The material weakness pertains to USAID's process to reconcile 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) process to reconcile loans receivable, (2) accounting for accrued expenses, and (3) 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 three recommendations to improve USAID's internal control over financial reporting.

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We have considered your response to the draft report and the recommendations included therein and have reached management decisions on the recommendations. Please forward all information to your Office of Audit, Planning and Coordination for final action. (*See Appendix II for USAID's Management Comments).*

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 2010 financial statements.

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, 2009, and 2008; 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 process to reconcile its Fund Balance with the U.S. Treasury. We also identified three deficiencies in internal control considered to be significant deficiencies, related to the following aspects of USAID's financial management process to:

- Reconcile loans receivable
- Account for accrued expenses
- Reconcile intra-governmental 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, 2009, USAID reported total budgetary resources of approximately $19 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) 2009, USAID has prepared the following:

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

AUDIT OBJECTIVE

The Office of Inspector General (OIG) performed these audits to answer the following question:

> 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 2009 and 2008?

In our opinion, the financial statements referred to above present fairly, in all material respects and in conformity with accounting principles generally accepted in the United States of America, USAID's assets, liabilities, and net position; net costs; changes in net position; and budgetary resources as of September 30, 2009, and 2008, and for the years then ended.

In accordance with *Government Auditing Standards*, the OIG has also issued reports, dated November 13, 2009, 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, 2009, and 2008, 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, 2009, and 2008. These financial statements are the responsibility of USAID's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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 and OMB Bulletin 07-04 require that we plan and perform the audits 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 accounting principles generally accepted in the United States of America, USAID's assets, liabilities, and net position; net costs; changes in net position; and budgetary resources as of September 30, 2009, and 2008, 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 13, 2009, 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.

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 13, 2009

REPORT ON INTERNAL CONTROL

We have audited the consolidated balance sheets of USAID as of September 30, 2009, and 2008. 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, 2009, and 2008, and have issued our report thereon dated November 13, 2009. 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 Office of Management and Budget (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, 2009 and 2008, we considered USAID's internal control over financial reporting by obtaining an understanding of USAID's internal control, determined whether internal controls had been placed in operation, assessed control risk, and performed tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 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. The objective of our audit was not to provide an opinion on internal control and therefore, we do not express an opinion on 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 material weaknesses or significant deficiencies. 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 deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We identified one deficiency in internal control that we consider to be a material weakness, as defined above, relating to USAID's reconciliation of its Fund Balance with the U.S. Treasury.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies to be significant deficiencies in USAID's internal control:

- Process to Reconcile Loans Receivable Is Not Effective and Does Not Resolve Differences In A Timely Manner
- Accrual Reporting System Does Not Record Accrued Expenses Accurately

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- Intragovernmental Transactions Remain Unreconciled

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 16, 2009.

Material Weakness

USAID Does Not Reconcile Its Fund Balance with Treasury Account with the U.S. Treasury and Resolve Reconciling Items in a Timely Manner (*Repeat Finding*)

USAID continues to have large unreconciled differences between the Fund Balance with Treasury account recorded in its financial accounting system (Phoenix) and the Fund Balance reported by the U.S. Department of the Treasury (Treasury). As of September 30, 2009, these differences totaled $45 million net ($711 million absolute value). These differences occurred because USAID frequently recorded third party payments in its general ledger in appropriations that were different from the appropriations in which Treasury recorded the identical payments. As noted in prior years and continuing for the first two quarters of fiscal year (FY) 2009, USAID did not report all monthly cash disbursements and cash receipts that were recorded in Phoenix on the Statement of Transactions (SF-224) and instead reported only transactions that agreed with Treasury's records. Some of the transactions that constituted the differences were reported on USAID's SF-224 but were not recorded in Phoenix. Other transactions, many dating back several years, were recorded in the suspense account but not reported on USAID's SF-224. During FY 2009, USAID obtained a waiver from Treasury to record transactions in the suspense account. Treasury requires that all such transactions be resolved within 60 days. USAID acknowledged that it did not meet this requirement in its annual certification to Treasury in July 2009 and committed to do so by the end of FY 2010.

Treasury's reconciliation procedures state that an agency may not arbitrarily adjust its Fund Balance with 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 Treasury and requires a certification that reconciliations have been performed in accordance with TFM Volume 1, Part 2-5100.

In FY 2009, USAID implemented a plan that identifies, tracks, and resolves historical and current year unreconciled items. In addition, USAID has established the Cash Reconciliation Team to strengthen USAID's reconciliation process and the Data Integrity Team to investigate and resolve the cash balance differences that have arisen from past

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transactions. The plan has achieved significant success but large differences persist. Management believes that all differences will be resolved before the end of FY 2010. As a result of these differences, USAID recorded adjustments of $45 million at the end of FY 2009 to ensure that the Fund Balance with Treasury account agreed with the balance reported on Treasury's Form 2108, Year End Closing Statement. We recognize that this will be an ongoing effort and will monitor USAID's progress during future audits. Therefore, we are making the following recommendation:

> *Recommendation No 1: We recommend that USAID's Chief Financial Officer intensify efforts to reconcile current monthly transactions with Treasury and identify, track, and resolve legacy differences recorded in the suspense accounts and in other appropriation accounts.*

Significant Deficiencies

USAID's Process to Reconcile Loans Receivable Is Not Effective and Does Not Resolve Differences in a Timely Manner *(Repeat Finding)*

During our review of the Loans Receivable account, we noted that USAID continues to have large unreconciled differences between amounts recorded in its general ledger (Phoenix) and amounts recorded in the financial accounting system of its loan services provider. USAID has contracted with Midland Loan Services, a subsidiary of PNC Financial Services Group, Inc., to service its loan portfolio and to maintain accurate loan balances. Midland processes USAID's loan transactions in the Enterprise Loan System (ELS) and runs a monthly interface between the ELS and Phoenix to ensure that the information in the ELS agrees with the information in Phoenix. This interface is necessary because Phoenix does not use the same accounting identification information for the loans that are recorded and maintained in Midland's ELS. USAID uploads loan transactions to Phoenix through a general ledger translation table created by USAID. However, USAID does not possess sufficient knowledge or understanding of the General Ledger Interface Translation Table that Midland transmits to upload transactions to Phoenix and Midland does not provide adequate support that clearly identifies the transactions that require adjustments before they are recorded in the Phoenix accounting system.

In prior periods, the translation table had not been adequately updated, and some transactions were not captured by Phoenix. This caused significant differences between Phoenix and ELS. Although USAID has made improvements, large unreconciled differences between the two systems remain. These differences persist because USAID continues to rely on loan data from borrowers that have not been reconciled since Midland took over the loan servicing functions in 1999. In addition, USAID does not obtain and review adequate data that support loan balances in the loan services provider's records that are uploaded to USAID's general ledger. Over the past year, USAID has made progress in investigating and resolving these differences, but as of September 30, 2009, a net difference of $153 million between the two systems remained. USAID recorded audit adjustments of $153 million to bring Phoenix into agreement with ELS.

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 the accounting period. SFFAS Technical Release Number 6, *Preparing Estimates for Direct Loan and Loan Guarantee Subsidies under the Federal Credit Reform Act,* requires the Agency to maintain an audit trail from individual transactions in the subsidiary ledger to the general ledger.

Because USAID is required to maintain accurate and complete records of all outstanding loans, both direct loans and loans guaranteed by the U.S. Government, we are making the following recommendation:

> *Recommendation No. 2: We recommend that the Chief Financial Officer develop and implement procedures to conduct a thorough reconciliation of the outstanding loan balances maintained in its accounting system with those maintained by Midland and those reported by the borrowers.*

USAID's Accrual Reporting System Does Not Record Accrued Expenses Accurately

USAID's process for calculating and recording accrued expenses is not operating effectively. We reviewed USAID's quarterly accrual transactions and the methodology used to calculate those amounts, as well as each quarter's accrual reconciliation report, to determine whether disbursements made after the initial accrual calculation were properly deducted from the corresponding accrued amounts before the final accrued expenses were recorded in the financial accounting system. When USAID contracts for goods or services, in some instances, the initial contract is amended for additional or new services related to the original scope of work. When this occurs, USAID issues task orders as amendments to the original contract and records obligations against each task order. However, all disbursements made for work on the initial contract or the amendments are identified by the obligation number that was created when the original obligation against the initial contract was recorded. During our review, we identified 4,755 instances totaling $115 million that occurred in FY 2009, in which disbursements for services related to original contracts and subsequent task orders were not fully deducted from the calculated accrual amounts that were initially recorded by the Contracting Officer Technical Representative.

Specifically, when more than one task order was funded under the initial contract and a disbursement exceeded the accrual amount on the initial contract, the excess amount was not deducted from the obligation related to the task order. Therefore, the accrual amount related to that initial contract and its amendments were overstated in USAID's financial accounting system. We conducted tests of the details of each quarterly accrual and found that the total overstatement for the entire year was approximately $115 million. This overstatement occurred because of a flaw in the financial accounting system script used by USAID that does not allow for disbursements that exceed accruals under original contracts to be applied to accruals related to other amendments under the same contract before the calculated accrual is recorded against the initial contract obligation. As of September 30, 2009, we determined that the accounts payable and accrued expenses reported in the financial statements were overstated by approximately

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$16 million. As a result, we proposed an adjustment for the $16 million to accurately reflect USAID's accounts payable and accrued expenses in the general ledger.

USAID's Automated Directive System 631.3.4, *Accrued Expenditures*, states that the modified accrual estimates must be updated for payments made after the initial accrual amount has been recorded in the Phoenix accounting system. Because of the flaw in USAID's financial accounting system, which does not allocate disbursements against all related accruals, we are making the following recommendation:

> *Recommendation No. 3: We recommend that the Chief Financial Officer rectify the flaw in the financial accounting system script to ensure that payments made for amounts accrued are applied to the related contract or task order accruals before quarterly accruals are recorded against the original contract obligation in the accounting system.*

Intragovernmental Transactions Remain Unreconciled
(Repeat Finding)

USAID continues to have a large number of intragovernmental transactions that have not been reconciled. As of September 30, 2009, the U.S. Treasury reported a net difference of $3.1 billion in intragovernmental transactions between USAID and other Federal agencies. Of this amount, USAID was required to reconcile $101 million in accordance with OMB Circular A-136, *Financial Reporting Requirements,* and the U.S. Department of Treasury's (Treasury) *Federal Intragovernmental Transactions Accounting Policies Guide, section 17.1*. These differences which are reported by Treasury each quarter in the Material Differences/Status of Disposition Certification Report[1] represent differences identified by Treasury between USAID's records and those of its Federal trading partners that exceed $50 million or the assurance threshold which is determined by Treasury. In its third and fourth quarter material difference reports Treasury did not report any difference greater than $50 million but reported lesser differences totaling $101 million. Although USAID has increased its efforts to resolve unreconciled amounts, significant differences still exist, including the $101 million that should have been reconciled with four different Federal agencies. These differences occurred because USAID's trading partners recorded the transactions in different accounting periods or used different accounting methodologies to record them.

USAID is continuously researching intragovernmental activity and developing new tools in order to improve USAID's reconciliation process and eliminate the differences. 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.

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[1] The Ma erial Differences/S a us Disposi ion Cer ifica ion Repor allows agencies o iden ify differences wi h rading par ners by reciprocal ca egories ha are grea er han or equal o a respec ive reconcilia ion assurance level

Although $3 billion of the $3.1 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 is making an effort to confirm the general fund activity and plans to continue its efforts to collaborate with Treasury to research and reconcile these differences.

We identified similar conditions related to USAID's reconciliation of intragovernmental process in a previous audit report[2] 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 differences in future audits.

Other Matters

GAO Financial Audit Manual requires the auditor to disclose whether material weaknesses identified during the audit were identified in USAID's Federal Managers' Financial Integrity Act report. In the FY 2009 Report on Internal Control, OIG reported a material weakness pertaining to USAID's reconciliation of its Fund Balance with Treasury account. USAID did not report this material weakness. Instead, it reported this as a significant deficiency.

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 13, 2009

[2] *Report on the Audit of USAID s Financial Statements for Fiscal Years 2008 and 2007* p 9 November 13 2008,
h p //www usaid gov/oig/public/fy08rp s/0 000 09 001 c pdf

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REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS

We have audited the consolidated balance sheets of USAID as of September 30, 2009, and 2008. 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, 2009, and 2008, 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 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 Federal Managers' Financial Integrity Act (FMFIA). Appendix A of OMB Circular A-123 contains an assessment process that management should implement in order to properly assess and improve internal controls over financial reporting. The assessment process should provide management with the information needed to support a separate assertion on the effectiveness of the internal controls over financial reporting, as a subset of the overall FMFIA report.

In 2009, USAID monitored key business processes and followed up on recommendations made in prior years. For FY 2009, USAID, in its Management Assurance Report to the President and Congress, identified and reported the following significant deficiencies:

- Accrual Module does not always reduce accruals by subsequent payments
- USAID/Washington and Missions continue to have large unreconciled

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differences, beyond 60 days, in the Outstanding Suspense Aging Report

- USAID's reconciliation of Loans Receivable is not adequate and does not resolve differences between USAID and its loans services provider.

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
- Reconciliation of loans receivable
- Accounting for accounts payable and accrued expenses
- 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 13, 2009

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's 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 Chief Financial Officer's (CFO) office accepts this recommendation. USAID management also commented that last year, the CFO made good progress on reconciling cash transactions that USAID originates. USAID's CFO further commented that his office will focus in FY 2010 on eliminating legacy differences and differences caused by transactions made by third party payment service providers on USAID's behalf. The target completion date is September 30, 2010. We have reached management decision on this recommendation and will review USAID's implementation of this recommendation during our FY 2010 GMRA audit.

USAID management agreed to implement recommendation No. 2 and promised to make significant progress in investigating and resolving loans receivable differences. The target completion date is September 30, 2010. We have reached management decision on this recommendation and will review USAID's implementation of this recommendation during our FY 2010 GMRA audit.

USAID management agreed to implement recommendation No. 3 and commented that Management agrees that the script used to adjust accruals for late payments is faulty. The CFO commented that the script does not accurately subtract all payments, causing accruals to be overstated. The CFO noted that USAID's contractor for Phoenix, CGI, has begun development of a modification to the payment adjustment script that will eliminate this weakness. The current plan is to have the enhanced script included with the Momentum 6.3.1 release in June 2010. The CFO commented that the FY 2010 third quarter accruals will be adjusted completely and accurately for all payments made during the accrual cycle. The target completion date is July 7, 2010. We have reached management decision to this recommendation and will review USAID's implementation of this recommendation during our FY 2010 GMRA audit.

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 the requirements of Federal Financial Management Improvement Act of 1996 (FFMIA); 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's 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 FMFIA, 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, 2009, and 2008. 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, we considered potential aggregate errors exceeding $267 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 was substantially compliant with section 803(a) of the FFMIA which requires agencies to report whether their financial management systems substantially comply with: (1) Federal financial management systems requirements; (2) applicable Federal accounting standards; and (3) the United States Government Standard General Ledger (USSGL) at the transaction level. To perform our review, we conducted assessments, with contractor support, of USAID's time and attendance system (Web TA) and Phoenix financial management systems to determine whether the systems substantially complied with selected mandatory requirements contained in the Financial Systems Integration Office, 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 Web TA and Phoenix officials as well as contract and Agency systems personnel to obtain the necessary documentation to support our compliance assessment. Our review disclosed that USAID has implemented 19 systems changes since Phoenix was determined to be compliant in FY 2006. However, none of the changes resulted in USAID not being compliant with FFMIA. In addition, we requested and obtained a memorandum from the Office of the Chief Financial Officer certifying that FY 2009 upgrades or changes to the Phoenix accounting system did not result in USAID being substantially noncompliant with FFMIA.

We also evaluated USAID's financial transactions that were recorded in Phoenix to determine if they were compatible with Federal accounting standards and the USSGL at the transaction level and we did not observe any exceptions. We concluded therefore, that our review found no instances of substantial noncompliance with any of the three FFMIA section 803 (a) requirements.

MANAGEMENT COMMENTS

MEMORANDUM

TO: AIG, Joseph Farinella

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

SUBJECT: Management Response to Draft Independent Auditor's Report on USAID's Financial Statements for Fiscal Years 2009 and 2008 (Report No. 0-000-10-001-C)

Thank you for your draft report on the *Audit of USAID's Financial Statements for Fiscal Years 2009 and 2008* and for the professionalism and dedication exhibited by your staff throughout this entire process.

Fiscal Year (FY) 2009 was another significant year for federal financial management at USAID. For the first time in many years, the Inspector General's annual report to the Acting Administrator did not list Financial Management among USAID's most serious management and performance challenges. We are gratified that the USAID Inspector General will issue unqualified opinions on all 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 Weakness: USAID Does Not Reconcile its Fund Balance with Treasury Account with the U.S. Treasury and Resolve Reconciling Items In a Timely Manner (Repeat Finding)

Recommendation No 1: We recommend that USAID's Chief Financial Officer intensify efforts to reconcile current monthly transactions with Treasury and identify, track and resolve legacy differences recorded in the suspense accounts and in other appropriation accounts.

Management Decision: We accept the recommendation. Last year, the Chief Financial Officer (CFO) made good progress on reconciling cash transactions that USAID originates. The CFO will focus in FY 2010 on eliminating legacy differences and differences caused by transactions made by third party payment service providers on USAID's behalf.

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Target completion date: September 30, 2010

Significant Deficiency: USAID's Process to Reconcile Loans Receivable Is Not Effective And Does Not Resolve Differences Between USAID and Its Loan Services Provider In A Timely Manner (Repeat Finding)

Recommendation No. 2: We recommend that the Chief Financial Officer develop and implement procedures to conduct a thorough reconciliation of the outstanding loan balances maintained in its accounting system with those maintained by Midland and those reported by the borrowers.

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

Target completion date: September 30, 2010

Significant Deficiency: USAID's Accrual Reporting System Does Not Record Accrued Expenses Accurately

Recommendation No. 3: We recommend that the Chief Financial Officer rectify the flaw in the financial accounting system script to ensure that payments made for amounts accrued are applied to the related contract or task order accruals before quarterly accruals are recorded against the original contract obligation in the accounting system.

Management Decision: We agree to implement the recommendation. Management agrees that the script used to adjust accruals for late payments is faulty. The script does not accurately subtract all payments, causing accruals to be overstated. Our contactor for Phoenix, CGI, has begun development of a modification to the payment adjustment script that will eliminate this weakness. The current plan is to have the enhanced script included with the Momentum 6.3.1 release in June 2010. The FY 2010 Q3 accruals will be adjusted completely and accurately for all payments made during the accrual cycle.

Target completion date: July 7, 2010

Significant Deficiency: Intragovernmental Transactions Remain Unreconciled (Repeat Finding)

There are no recommendations associated with this significant deficiency. The CFO has implemented corrective actions related to audit recommendations issued under the GMRA audit reports for FYs 2005-2008. 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 hard 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 2008 Findings and Recommendations

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.

Status: The Chief Financial Officer (CFO) noted that USAID will need additional resources to implement this recommendation. USAID implemented a process that documents its reconciliations, and identifies and tracks all differences for the headquarters paying location until they are resolved. USAID has made progress in this area but large differences still remain. USAID has established the Cash Reconciliation Team to strengthen USAID's reconciliation process and the Data Integrity Team to investigate and resolve the cash balance differences that have arisen from past transactions. Target completion date: September 30, 2010.

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.

Status: USAID has made progress in investigating and resolving differences but large differences remain. Target completion date of September 30, 2009 has been achieved.

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.

Status: USAID CFO noted that formal and detailed procedures were 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 of September 30, 2009 has been achieved.

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.

Status: The CFO noted that USAID 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 of June 30, 2009 has been achieved.

Status of 2005 Findings and Recommendations

In FY 2005 audit report, the OIG recommended that USAID's Chief Financial Officer direct its Financial Management Office to conduct quarterly intragovernmental reconciliations of activity and balances with its trading partners in accordance with the requirements of the Federal Intragovernmental Transactions Accounting Policies Guide, issued by the Department of Treasury's Financial Management Service.

Status: USAID has implemented this recommendation but significant differences still remain. However, USAID is continuously researching intragovernmental activity and developing new tools in order to improve USAID's reconciliation process and eliminate the differences.

FINANCIAL SECTION

Financial Statements and Notes

(Above) **The *Inma* Agribusiness Program has been working with fish farmers in Iraq to improve their production. *Inma*, which means growth in Arabic, links farmers with agribusiness, financial services, and domestic and international markets. The program purchased six million fingerlings (young fish) for this fish farm.**

PHOTO: USAID

(Preceding page) **A Nepali child opens wide to receive a vitamin A supplement. She is among the more than three million children receiving twice-yearly doses of the vitamin. USAID funds this effort, which also trains health workers to administer the vitamins and educates community members about the importance of vitamins.**

PHOTO: CLIFF LUBITZ / USAID

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. Comparative data for FY 2008 have been included.

USAID's principal financial statements and additional information for FY 2009 and FY 2008 consist of the following:

The **Consolidated Balance Sheet,** which presents as of September 30, 2009 and 2008 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 2008 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, 2009 and 2008. 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 17, Schedule of Cost by Responsibility Segments, to the consolidated financial statements. Comparative data for FY 2009 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, 2009 and 2008. 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 2009 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 2009 and FY 2008, the status of these resources was at year-end, the change in obligated balance during FY 2009 and FY 2008, and outlays of budgetary resources for the years ended September 30, 2009 and 2008. Information in this statement is reported on the budgetary basis of accounting. Comparative data for FY 2008 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 2008 Note data may have been restated or recast to enable comparability with the FY 2009 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 (GMRA) of 1994, 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.

Effective for FY 2007, the **Consolidated Statement of Financing** is presented in Note 19, Reconciliation of Obligation Incurred to Net Cost of Operations, per OMB's authority under Statements of Federal Financial Accounting Standard (SFFAS) No. 7, and is no longer considered a basic statement.

FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET

As of September 30, 2009 and 2008
(In Thousands)

	2009	2008
ASSETS:		
Intragovernmental:		
Fund Balance with Treasury (Note 2 and 15)	$ 21,437,709	$ 19,181,073
Accounts Receivable (Note 3)	220	220
Other Assets (Note 4)	12,014	1,753
Total Intragovernmental	21,449,943	19,183,046
Cash and Other Monetary Assets (Note 5)	322,851	302,628
Accounts Receivable, Net (Note 3)	84,654	267,029
Direct Loans and Loan Guarantees, Net (Note 6)	3,762,680	3,988,662
Inventory and Related Property, Net (Note 7)	22,711	32,729
General Property, Plant, and Equipment, Net (Notes 8 and 9)	117,794	94,269
Advances (Note 4)	377,803	497,223
Total Assets	**$ 26,138,436**	**$ 24,365,586**
LIABILITIES (Note 17):		
Intragovernmental:		
Accounts Payable (Note 10 and 15)	$ 2,552	$ 48,389
Debt (Note 11)	477,381	477,372
Liability for Capital Transfers to the General Fund of the Treasury (Note 11)	3,468,201	3,737,917
Other Liabilities (Note 12)	67,735	159,437
Total Intragovernmental	4,015,869	4,423,115
Accounts Payable (Note 10)	1,834,079	1,869,874
Loan Guarantee Liability (Note 6)	2,283,273	1,606,876
Federal Employee and Veteran's Benefits (Note 13)	26,885	21,269
Other Liabilities (Notes 10, 12, and 13)	507,155	459,977
Total Liabilities	**8,667,261**	**8,381,111**
Commitments and Contingencies (Note 14)	1,310	–
NET POSITION:		
Unexpended Appropriations	16,464,124	14,982,084
Cumulative Results of Operations	1,005,741	1,002,391
Total Net Position (Note 15)	**$ 17,469,865**	**$ 15,984,475**
Total Liabilities and Net Position	**$ 26,138,436**	**$ 24,365,586**

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENT OF NET COST

For the Years Ended September 30, 2009 and 2008
(In Thousands)

OBJECTIVES	2009	2008
Peace and Security:		
Gross Costs	$ 983,269	$ 846,976
Less: Earned Revenue	(3,631)	(2,161)
Net Program Costs	979,638	844,815
Governing Justly and Democratically:		
Gross Costs	1,759,735	1,413,922
Less: Earned Revenue	(5,969)	(3,800)
Net Program Costs	1,753,766	1,410,122
Investing in People:		
Gross Costs	3,466,346	3,941,083
Less: Earned Revenue	(408,333)	(278,465)
Net Program Costs	3,058,013	3,662,618
Economic Growth:		
Gross Costs	4,418,757	2,497,065
Less: Earned Revenue	(794,252)	(133,679)
Net Program Costs	3,624,505	2,363,386
Humanitarian Assistance:		
Gross Costs	1,460,372	594,418
Less: Earned Revenue	(4,718)	(12,397)
Net Program Costs	1,455,654	582,021
Operating Unit Management:		
Gross Costs	145,198	58,507
Less: Earned Revenue	(1,023)	(162)
Net Program Costs	144,175	58,345
Net Costs of Operations (Notes 16 and 17)	**$ 11,015,751**	**$ 8,921,307**

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

For the Years Ended September 30, 2009 and 2008
(In Thousands)

	2009 Consolidated Total	2008 Consolidated Total
Cumulative Results of Operations:		
Beginning Balances	$ 1,002,391	$ 415,605
Beginning Balances, as Adjusted	1,002,391	415,605
Budgetary Financing Sources:		
Appropriations Used	10,796,496	9,397,644
Donations and Forfeitures of Cash and Cash Equivalents	76,897	87,774
Transfers-in/out without Reimbursement	132,445	165
Other Financing Sources (Non-Exchange):		
Imputed Financing	13,263	22,509
Total Financing Sources	11,019,101	9,508,092
Net Cost of Operations	(11,015,751)	(8,921,307)
Net Change	3,350	586,785
Cumulative Results of Operations:	1,005,741	1,002,391
Unexpended Appropriations:		
Beginning Balance	14,982,084	14,787,230
Beginning Balance, as Adjusted	14,982,084	14,787,230
Budgetary Financing Sources:		
Appropriations Received	12,187,744	9,389,158
Appropriations Transferred in/out	121,792	370,567
Other Adjustments	(31,000)	(167,227)
Appropriations Used	(10,796,496)	(9,397,644)
Total Budgetary Financing Sources	1,482,040	194,854
Total Unexpended Appropriations	16,464,124	14,982,084
Net Position	**$ 17,469,865**	**$ 15,984,475**

The accompanying notes are an integral part of these statements.

COMBINED STATEMENT OF BUDGETARY RESOURCES

For the Years Ended September 30, 2009 and 2008
(In Thousands)

	2009		2008	
	Budgetary	**Non-Budgetary Credit Reform**	**Budgetary**	**Non-Budgetary Credit Reform**
Budgetary Resources:				
Unobligated Balance, Brought Forward, October 1	$ 3,908,007	$ 1,616,689	$ 3,271,812	$1,582,317
Recoveries of Prior Year Unpaid Obligations	391,919	28	211,228	2
Budget Authority:				
Appropriations	12,263,857	1	9,478,641	–
Borrowing Authority (Note 11)	–	13	–	3,313
Spending Authority from Offsetting Collections:				
Earned:				
Collected	1,020,840	216,823	1,163,545	197,609
Change in Receivables from Federal Sources	(2,703)	–	–	–
Change in Unfilled Customer Orders:				
Without Advance from Federal Sources	8,373	(35)	(52,966)	–
Subtotal	13,290,367	216,802	10,589,220	200,922
Nonexpenditure Transfers, Net, Anticipated and Actual	154,587	–	354,552	–
Permanently Not Available	(616,512)	–	(893,394)	–
Total Budgetary Resources	**$ 17,128,368**	**$ 1,833,519**	**$13,533,418**	**$ 1,783,241**
Status of Budgetary Resources:				
Obligations Incurred: (Note 18)				
Direct	$ 11,323,163	$ 190,089	$ 9,302,741	$ 166,533
Reimbursable	444,804	(18)	328,612	18
Subtotal	11,767,967	190,071	9,631,353	166,551
Unobligated Balance:				
Apportioned (Note 2)	4,148,492	3,514	2,400,824	7,599
Subtotal	4,148,492	3,514	2,400,824	7,599
Unobligated Balance Not Available (Note 2)	1,211,909	1,639,934	1,501,241	1,609,091
Total Status of Budgetary Resources (Note 18)	**$ 17,128,368**	**$ 1,833,519**	**$13,533,418**	**$ 1,783,241**

(continued on next page)

COMBINED STATEMENT OF BUDGETARY RESOURCES *(continued)*

For the Years Ended September 30, 2009 and 2008
(In Thousands)

	2009		2008	
	Budgetary	**Non-Budgetary Credit Reform**	**Budgetary**	**Non-Budgetary Credit Reform**
Change in Obligated Balance:				
Obligated Balance, Net				
Unpaid Obligations, Brought Forward, October 1	$ 13,725,579	$ (695)	$ 14,292,483	$ 28,669
Less: Uncollected Customer Payments from Federal Sources, Brought Forward, October 1	(22,044)	–	(75,010)	–
Total Unpaid Obligated Balance, Net (Note 18)	13,703,535	(695)	14,217,473	28,669
Obligations Incurred Net (+/-)	11,767,967	190,071	9,631,353	166,551
Less: Gross Outlays	(10,679,531)	(189,988)	(9,987,029)	(195,914)
Less: Recoveries of Prior Year Unpaid Obligations, Actual	(391,919)	(28)	(211,228)	(2)
Change in Uncollected Customer Payments from Federal Sources (+/-)	(5,670)	35	52,966	–
Obligated Balance, Net, End of Period				
Unpaid Obligations	14,422,096	(640)	13,725,579	(695)
Less: Uncollected Customer Payments from Federal Sources	(27,714)	35	(22,044)	–
Total, Unpaid Obligated Balance, Net, End of Period	14,394,382	(605)	13,703,535	(695)
Net Outlays:				
Gross Outlays	10,679,531	189,988	9,987,028	195,914
Less: Offsetting Receipts (Note 18)	(1,020,840)	(216,823)	(1,163,545)	(197,609)
Less: Distributed Offsetting Receipts	(182,729)	–	(179,387)	–
Net Outlays	**$ 9,475,962**	**$ (26,835)**	**$8,644,096**	**$ (1,695)**

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 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*.

USAID accounting policies follow generally accepted accounting principles (GAAP) 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.

American Recovery and Reinvestment Act

Recovery Act funds are for immediate information technology security and upgrades to support mission-critical operations. Due to Agency IT priorities and toward maximizing job creation with the Recovery Act funds, USAID determined that the funding should be dedicated to the Global Acquisition and Assistance System (GLAAS) project.

Programs

The statements present the financial activity of various programs and accounts managed by USAID. The programs include the Democracy Fund, Assistance for Europe, Eurasia, and Central Asia, Civilian Stabilization Initiative, Iraq Relief and Reconstruction Fund, Economic Support Fund, Development Assistance, Special Assistance Initiatives, International Disaster Assistance, Global Health and Child Survival, Transition Initiatives, and Direct and Guaranteed Loan Programs. This classification is consistent with the Budget of the United States.

Democracy Fund

This fund is for the necessary expenses to carry out the provisions of the Foreign Assistance Act of 1961 which is to promote democracy globally. This fund specifically is intended for programs that that support good governance, human rights, independent media, and the rule of law, and otherwise strengthen the capacity of democratic political parties, governments, nongovernmental organizations and institutions, and citizens to support the development of democratic states, institutions, and practices that are responsive and accountable to citizens.

Assistance for Europe, Eurasia, and Central Asia

Funds appropriated under this heading shall be considered to be economic assistance under the Foreign Assistance Act of 1961. These funds are available for the Southern Caucasus region may be used for confidence-building measures and other activities in furtherance of the peaceful resolution of conflicts, to include conflicts in Nagorno-Karabagh.

Funds appropriated in prior years under the headings "Independent States of the Former Soviet Union" and "Assistance for Eastern Europe and the Baltic States" shall be available under this heading. That withstanding, 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.

Civilian Stabilization Initiative

This fund provides support for the necessary expenses needed to establish, support, maintain, mobilize, and deploy a civilian response corps in coordination with the USAID. This fund is also used for related reconstruction and stabilization assistance to prevent or respond to conflict or civil strife in foreign countries or regions, or to enable transition from such strife.

Capital Investment Fund

This fund provides for the necessary expenses for overseas construction and related costs, and for the procurement and enhancement of information technology and related capital investments. Specifically, this fund provides assistance in supporting the GLAAS system.

Iraq Relief and Reconstruction Fund

This fund supports necessary expenses related to providing humanitarian assistance in and around Iraq and to carrying out the Foreign Assistance Act of 1961 as it relates to 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

The Economic Support Fund (ESF) supports U. S. foreign policy objectives by providing economic assistance to allies and countries in transition to democracy. Programs funded through this account 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, supports initiatives intended to stabilize population growth, protects the environment, and fosters 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.

Special Assistance Initiatives

This program provides funds for democratic and economic restructuring in Central and Eastern European countries consistent with the objectives of the Support for the 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 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 provides assistance in disaster preparedness, prevention, and mitigation. It also provides emergency commodities and services for immediate healthcare and nutrition. The fund also ensures that USAID staff is able to respond to emergencies throughout the world in a timely manner.

Global Health and Child Survival

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 major infectious diseases 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. This program supports U.S. foreign policy objectives by helping local partners advance peace and democracy in priority countries in crisis. Seizing critical windows of opportunity, the Office of Transition Initiatives (OTI) works on the ground to provide fast, flexible, short-term assistance targeted at key political transition and stabilization needs.

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 to support the costs for immigrants resettling to Israel from the former Soviet Union, Ethiopia, and other countries. Under this program, the U.S. Government guaranteed the repayment of up to $10 billion in loans from commercial sources, to be borrowed in $2 billion annual increments. Borrowing was completed under the program during FY 1999, with approximately $9.2 billion being guaranteed. Guarantees are made by USAID on behalf of the U.S. Government, with funding responsibility and basic administrative functions 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 loans issued under this portfolio during FY 2003.

- ***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 percent risk-sharing with a private-sector institution, and (3) the DCA guarantee addresses a financial market failure in-country and does not "crowd-out" private sector lending. DCA can be used in any sector and by any USAID operating unit whose project meets the DCA criteria. DCA projects are approved by the Agency Credit Review Board and the Chief Financial Officer.

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

  The Loan Guarantees to Egypt Program was established under the Emergency Wartime Supplemental Appropriations Act of 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. The appropriations are categorized as annual, multi-year, and no-year appropriations that may be used within statutory limits. Appropriations are recognized as revenues at the time the related program or administrative expenses are incurred. Appropriations expended for capitalized property and equipment are not recognized as expenses. In addition to funds warranted directly to USAID, the agency also receives allocation transfers from the U.S. Department of Agriculture (USDA) Commodity Credit Corporation, the Executive Office of the President, 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 U.S. 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 $25,000 or greater and a useful life of two years or more. Acquisitions that do not meet these criteria are recorded as operating expenses. Assets are capitalized at historical cost, depending on when the asset was put into production and depreciated using the straight-line method (mid-year and mid-quarter). 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 Credit Reform Act (CRA) of 1990, which became effective on October 1, 1991, has significantly changed the manner in which USAID's loan programs finance their activities. The main purpose of CRA was to more accurately measure the cost of Federal credit programs and to place the cost of such programs on a budgetary basis equivalent to other Federal spending. Consequently, commencing in fiscal 1992, USAID cannot make new loans or guarantees without an appropriation available to fund the cost of making the loan or guarantee. This cost is known as "subsidy."

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

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

O. ANNUAL, SICK, AND OTHER LEAVE

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

P. RETIREMENT PLANS AND POST EMPLOYMENT BENEFITS

USAID recognizes its share of the cost of providing future pension benefits to eligible employees over the period of time the employees provide the related services. The pension expense recognized in the financial statements equals the current service cost for USAID employees for the accounting period less the amount contributed by the employees. The measurement of the service cost requires the use of an actuarial cost method and assumptions. 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 (i) expenses and losses and (ii) financing sources, including appropriations, revenues and gains, since the inception of the activity.

S. NON-ENTITY ASSETS

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

T. AGENCY COSTS

USAID costs of operations are comprised of program and operating expenses. USAID/Washington program expenses by 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 Credit Reform 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. Per OMB guidance, child transfer activities are to be included and parent transfer activities are to be excluded in trial balances. 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, 2009 and 2008 consisted of the following:

FUND BALANCE WITH TREASURY
(In Thousands)

Fund Balance	**2009**	**2008**
Trust Funds	$ 50,238	$ 49,614
Revolving Funds	4,328,092	3,689,191
Appropriated Funds	16,927,098	15,458,588
Other Funds	132,281	(16,320)
Total	$ 21,437,709	$ 19,181,073
Status of Fund Balance with Treasury	**2009**	**2008**
Unobligated Balance		
Available	$ 4,152,006	$ 2,408,423
Unavailable	2,851,843	3,110,332
Obligated and Other Balances Not Yet Disbursed (Net)	14,433,860	13,662,318
Total	$ 21,437,709	$ 19,181,073

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. The total available unobligated balance includes expired funds which are available for upward adjustments, however they are not available to incur new obligations. In the crosswalk for the Statement of Budgetary Resources the expired fund balance is included in line 10C which is the unobligated balance not available.

NOTE 3. ACCOUNTS RECEIVABLE, NET

The primary components of USAID's accounts receivable as of September 30, 2009 and 2008 are as follows:

ACCOUNTS RECEIVABLE, NET (In Thousands)	Receivable Gross	Allowance Accounts	Receivable Net 2009	Receivable Net 2008
Intragovernmental				
Appropriation Reimbursements from Federal Agencies	$ 761	$ N/A	$ 761	$ 761
Accounts Receivable from Federal Agencies	616,309	N/A	616,309	52,001
Less Intra-Agency Receivables	(616,850)	N/A	(616,850)	(52,542)
Total Intragovernmental Account Receivables	220	N/A	220	220
Accounts Receivable to the Public	82,850	1,804	84,654	267,029
Total Receivables	$ 83,070	$ 1,804	$ 84,874	$ 267,249

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 percent 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 percent allowance for uncollectible amounts is estimated for accounts receivable due from the public, which are more than one year past due. Accounts receivable from missions are collected and recorded to the respective appropriation.

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

NOTE 4. OTHER ASSETS

Advances as of September 30, 2009 and 2008 consisted of the following:

ADVANCES (In Thousands)	2009	2008
Intragovernmental		
Advances to Federal Agencies	$ 12,014	$ 1,753
Total Intragovernmental	12,014	1,753
Advances to Contractors/Grantees	310,343	376,804
Advances to Host Country Governments and Institutions	59,136	114,122
Advances, Other	8,324	6,297
Total with the Public	377,803	497,223
Total Other Assets	$ 389,817	$ 498,976

FY 2009 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, 2009 and 2008 are as follows:

CASH AND OTHER MONETARY ASSETS
(In Thousands)

Cash and Other Monetary Assets	2009	2008
Imprest Fund-Headquarters	$ 5	$ 5
UE and Micro and Small Enterprise Fund Cash w/Fiscal Agent	50	50
Foreign Currencies	322,796	302,573
Total Cash and Other Monetary Assets	$ 322,851	$ 302,628

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 by the Department of State was $5 million in FY 2009 and $5 million in FY 2008. 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 $322.9 million in FY 2009 and $302.6 million in FY 2008. USAID does not have any non-entity cash or other monetary assets.

NOTE 6. DIRECT LOAN AND LOAN GUARANTEES, NET

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 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 Office of Management and Budget (OMB). Subsidy relating to existing loans and guarantees is generally required to be reestimated on an annual basis to adjust for changes in risk and interest rate assumptions. Direct loans are reported net of an allowance for this subsidy cost (allowance for subsidy). The subsidy costs associated with loan guarantees are reported as loan guarantee liability.

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

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

SUMMARY OF LOANS RECEIVABLES, NET
(In Thousands)

	2009	2008
Net Direct Loans Obligated Prior to 1992 (Allowance for Loss Method)	$ 3,314,440	$ 3,489,183
Net Direct Loans Obligated After 1991 (Present Value Method)	288,912	282,738
Defaulted Guaranteed Loans from Pre-1992 Guarantees (Allowance for Loss Method)	159,328	216,741
Total Loans Receivable, Net as reported on the Balance Sheet	$ 3,762,680	$ 3,988,662

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, 2009:				
Direct Loans	$ 3,962,336	$ 260,642	$ 908,538	$ 3,314,440
MSED	29	–	29	–
Total	$ 3,962,365	$ 260,642	$ 908,567	$ 3,314,440
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

Loan Programs	**Loans Receivables Gross**	**Interest Receivable**	**Allowance for Subsidy Cost (Present Value)**	**Value of Assets Related to Direct Loans, Net**
Direct Loans Obligated After 1991 as of September 30, 2009:				
Direct Loans	$ 1,027,918	$ 12,732	$ (800,470)	$ 240,179
UE - Subrogated Claims	40,974	2,461	5,480	48,915
MSED	150	–	(333)	(183)
Total	$ 1,069,042	$ 15,193	$ 795,323	$ 288,911
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

TOTAL AMOUNT OF DIRECT LOANS DISBURSED (In Thousands)		
Direct Loan Programs	**2009**	**2008**
Direct Loans	$ 4,991,805	$ 5,595,015
UE - Subrogated Claims	42,000	–
MSED	179	179
Total	$ 5,033,984	$ 5,595,194

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

(In Thousands)

	2009				2008		
	Direct Loan	UE - Sub. Claims	MSED	Total	Direct Loan	MSED	Total
Beginning Balance, Changes, and Ending Balance							
Beginning Balance of the Subsidy Cost Allowance	$ 861,084	$ –	$ 357	$ 861,441	$ 741,374	$ 357	$ 741,731
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
(B) Fees Received	–	–	–	–	–	–	–
(C) Foreclosed Property Acquired	–	–	–	–	–	–	–
(D) Loans Written Off	–	–	–	–	–	–	–
(E) Subsidy Allowance Amortization	(169,266)	–	–	(169,266)	6,784	–	6,784
(F) Other	108,652	(5,480)	(24)	103,148	86,278	–	86,278
Ending Balance of the Subsidy Cost Allowance Before Reestimates	$ 800,470	$ (5,480)	$ 333	$ 795,323	$ 861,084	$ 357	$ 861,444
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	$ 800,470	$ (5,480)	$ 333	$ 795,323	$ 861,084	$ 357	$ 861,444

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): 2009				
UE	$ 234,772	$ 57,300	$ 132,744	$ 159,328
Total	$ 234,772	$ 57,300	$ 132,744	$ 159,328
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 POST-1991 GUARANTEES

In 2009, the UE Program had $3.7 million in defaults on payments.

In 2008, 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 (2009):		
UE	$ 1,048,525	$ 1,048,525
MSED	16,996	8,498
Israel	12,220,958	12,220,958
DCA	234,065	96,382
Egypt	1,250,000	1,250,000
Total	$ 14,770,544	$ 14,624,363
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
New Guaranteed Loans Disbursed (2009):		
DCA	$ 40,006	$ 18,730
Total	$ 40,006	$ 18,730
New Guaranteed Loans Disbursed (2008):		
DCA	$ 75,831	$ 30,333
Total	$ 75,831	$ 30,333

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, 2009:			
UE	$ 90,793	$ 154,795	$ 245,588
MSED	–	693	693
Israel	–	1,824,893	1,824,893
DCA	–	34,071	34,071
Egypt	–	178,028	178,028
Total	$ 90,793	$ 2,192,480	$ 2,283,273
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

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 (2009):					
DCA	$ –	$ 3,571	$ –	$ –	$ 3,571
Total	$ –	$ 3,571	$ –	$ –	$ 3,571
Subsidy Expense for New Loan Guarantees (2008):					
DCA	$ –	$ 1,575	$ –	$ –	$ 1,575
Total	$ –	$ 1,575	$ –	$ –	$ 1,575

(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 (2009):				
UE	$ –	$ –	$ 5,256	$ 5,256
Israel	–	–	282,969	282,969
Egypt	–	–	–	–
Total	$ –	$ –	$ 288,225	$ 288,225
Modifications and Reestimates (2008):				
UE	$ –	$ –	$ 8,351	$ 8,351
Israel	–	–	2,227	2,227
Egypt	–	–	11,663	11,663
Total	$ –	$ –	$ 22,241	$ 22,241

TOTAL LOAN GUARANTEE SUBSIDY EXPENSE

(In Thousands)

Loan Guarantee Programs	2009	2008
DCA	$ 626	$ 1,575
UE	5,256	8,351
MSED	–	–
Israel	282,969	2,227
Egypt	–	11,663
Total	$ 288,851	$ 23,816

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	–	2.78%	–	–	2.78%

SCHEDULE FOR RECONCILING LOAN GUARANTEE LIABILITY BALANCES

(In Thousands)

(Post-1991 Loan Guarantees)	DCA	MSED	UE	Israel	Egypt	Total
2009						
Beginning Balance, Changes, and Ending Balance						
Beginning Balance of the Loan Guarantee Liability	$ 25,972	$ 412	$ 138,058	$ 1,160,451	$ 184,237	$1,509,130
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	3,571	–	–	–	–	3,571
Total of the Above Subsidy Expense Components	29,543	412	138,058	1,160,451	184,237	1,512,701
Adjustments:						
(A) Loan Guarantee Modifications	–	–	–	–	–	–
(B) Fees Received	1,424	7	1,926	–	–	3,357
(C) Interest Supplements Paid	–	–	–	–	–	–
(D) Foreclosed Property and Loans Acquired	–	–	–	–	–	–
(E) Claim Payments to Lenders	(637)	–	(3,719)	–	–	(4,356)
(F) Interest Accumulation on the Liability Balance	–	–	6,303	72,412	7,904	86,619
(G) Other	3,741	274	18,589	–	–	22,604
Ending Balance of the Loan Guarantee Liability Before Reestimates	34,071	693	161,157	1,232,863	192,141	1,620,925
Add or Subtract Subsidy Reestimates by Component:						
(A) Interest Rate Reestimate	–	–	–	–	–	–
(B) Technical/Default Reestimate	–	–	(6,363)	592,029	(14,112)	571,554
Total of the Above Reestimate Components	–	–	(6,363)	592,029	(14,112)	571,554
Ending Balance of the Loan Guarantee Liability	$ 34,071	$ 693	$ 154,794	$ 1,824,892	$ 178,029	$2,192,479
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

ADMINISTRATIVE EXPENSE *(In Thousands)*		
Loan Programs	**2009**	**2008**
DCA	$ 10,632	$ 9,774
Total	$ 10,632	$ 9,774

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. Seven countries are in violation of Section 620q of the Foreign Assistance Act (FAA), owing $25.7 million that is more than six months delinquent. Seven countries are in violation of the Brooke-Alexander Amendment to the Foreign Operations Export Financing and Related Programs Appropriations Act, owing $410.1 million that is more than one year delinquent. Outstanding direct loans receivable for countries in violation of Section 620q totaled $16.2 million. Outstanding direct loans receivable for countries in violation of the Brooke Amendment totaled $345.7 million.

2. The MSED Liquidating Account general ledger has a loan receivable balance of $29,000. This includes a loan pending closure. This loan is being carried at 100 percent bad debt allowance.

3. Reestimate amounts are subject to approval by the Office of Management and Budget (OMB), and any adjustments, if necessary, will be made in Fiscal Year 2010.

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, 2009 and 2008 are as follows:

INVENTORY AND RELATED PROPERTY *(In Thousands)*		
	2009	**2008**
Items Held for Use		
Office Supplies	$ 4,565	$ 9,858
Items Held in Reserve for Future Use		
Disaster Assistance Materials and Supplies	11,473	5,591
Birth Control Supplies	6,673	17,280
Total Inventory and Related Property	$ 22,711	$ 32,729

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 $25,000. There are no items obsolete or unserviceable, and no restrictions on their use. Inventory costing less than $25,000 is expensed as incurred.

NOTE 8. GENERAL PROPERTY, PLANT AND EQUIPMENT, NET

The components of Property, Plant & Equipment (PP&E) as of September 30, 2009 and 2008 are as follows:

GENERAL PROPERTY, PLANT AND EQUIPMENT, NET
(In Thousands)

	Useful Life	Cost	Accumulated Depreciation	Net Book Value 2009	Net Book Value 2008
The components of PP&E as of September 30, 2009 are as follows:					
Classes of Fixed Assets					
Equipment	3 to 5 years	$ 92,713	$ (75,954)	$ 16,759	$ 20,633
Buildings, Improvements, and Renovations	20 years	93,139	(44,674)	48,465	36,601
Land and Land Rights	N/A	8,800	N/A	8,800	2,456
Assets Under Capital Lease (Note 9)		13,442	(8,969)	4,473	4,497
Construction in Progress	N/A	–	–	–	–
Internal Use Software	3 to 5 years	84,191	(44,894)	39,296	30,082
Total PP&E		$ 292,285	$ (174,491)	$ 117,794	$ 94,269

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

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

Equipment consists primarily of electric generators, Automated 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 buildings.

NOTE 9. LEASES

As of September 30, 2009 and 2008 Leases consisted of the following:

LEASES (In Thousands)		
Entity as Lessee		
Capital Leases:	**2009**	**2008**
Summary of Assets Under Capital Lease:		
Buildings	$ 13,442	$ 6,002
Accumulated Depreciation	(8,969)	(1,505)
Net Assest under Capital Leases	$ 4,473	$ 4,497

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:	**2009**	**2008**
Fiscal Year	**Future Costs**	**Future Costs**
2009	$ –	$ 297
2010	3,015	297
2011	390	231
2012	–	52
2013	2,375	972
2014	2,375	–
After 5 Years	1,170	768
Net Capital Lease Liability (Note 12)	$ 9,325	2,617
Lease Liabilities Covered by Budgetary Resources	$ 9,325	$ 2,617

Operating Leases:

Future Payments Due:	**2009**	**2008**
Fiscal Year	**Future Costs**	**Future Costs**
2009	$ –	$ 62,162
2010	66,972	58,012
2011	61,840	55,226
2012	56,527	52,630
2013	54,887	41,332
2014	60,132	19,642
After 5 Years	194,632	–
Total Future Lease Payments	$ 494,991	$ 289,004

Operating lease payments total $495 million in future lease payment, $257 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 2009 and FY 2008 amounted to $44 million and $40.6 million, respectively.

NOTE 10. LIABILITIES COVERED AND NOT COVERED BY BUDGETARY REOURCES

Liabilities not covered by budgetary resources include accrued unfunded annual leave and separation 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, 2009 and 2008 liabilities covered and not covered by budgetary resources were as follows:

LIABILITIES COVERED AND NOT COVERED BY BUDGETARY RESOURCES

(In Thousands)

	2009	2008
Intragovernmental		
Accounts Payable	$ 2,532	$ 48,375
Disbursements in Transit	20	14
Total Intragovernmental	2,552	48,389
Accounts Payable	1,806,648	1,856,887
Disbursements in Transit	27,431	12,987
Total with the Public	1,834,079	1,869,874
Total Other	6,609,662	6,265,740
Total Liabilities Covered by Budgetary Resources	$ 8,446,293	$ 8,184,003
Liabilities Not Covered by Budgetary Resources		
Accrued Annual Leave	$ 73,411	$ 59,972
FSN Separation Pay Liability	6,638	4,543
Total Accrued Unfunded Annual Leave and Separation Pay	80,049	64,515
Accrued Unfunded Workers Compensation Benefits (Note 13)	50,125	34,848
Debt - Contingent Liabilities for Loan Guarantees	90,794	97,745
Total Liabilities Not Covered by Budgetary Resources	220,968	197,108
Total Liabilities	$ 8,667,261	$ 8,381,111

NOTE 11. DEBT

USAID Intragovernmental Debt as of September 30, 2009 and 2008 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	2008 Beginning Balance	Net Borrowing	Accrued Interest Paid	2008 Ending Balance	Net Borrowing	2009 Ending Balance
Direct Loan	$ 498,506	$ 3,241	$ (24,447)	$ 477,300	$ (4)	$ 477,296
DCA	–	72	–	72	$ 13	85
Total Treasury Debt	$ 498,506	$ 3,313	$ (24,447)	$ 477,372	$ 9	$ 477,381

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 2008, $24.5 million in accrued interest was included in the Direct Loan balance. The ending FY 2009 DCA loan balance had a zero amount balance accrued 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 $3.5 billion, which under the Act is required to be recorded as Liability for Capital Transfers to the General Fund of the Treasury. All debt shown is intragovernmental debt.

NOTE 12. OTHER LIABILITIES

As of September 30, 2009 and 2008 Other Liabilities consisted of the following:

OTHER LIABILITIES (In Thousands)	2009	2008
Intragovernmental		
IPAC Suspense	$ (2,411)	$ –
Unfunded FECA Liability	9,871	5,648
Credit Program	35,476	126,228
Custodial Liability	10,252	14,451
Other	14,548	13,110
Total Intragovernmental	$ 67,735	$ 159,437
Accrued Funded Payroll and Leave (Note 13)	23,240	13,579
Unfunded Leave (Note 10)	80,049	64,515
Advances From Others	1,690	1,114
Deferred Credits	16,160	12,893
Foreign Currency Trust Fund	323,942	302,708
Capital Lease Liability (Note 9)	9,325	2,617
Custodial Liability	–	–
Other Liabilities	52,749	62,551
Total Liabilities With the Public	$ 507,155	$ 459,977
Total Other Liabilities	$ 574,890	$ 619,414

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.

NOTE 13. FEDERAL EMPLOYEES AND VETERAN'S BENEFITS

The provision for workers' compensation benefits payable, as of September 30, 2009 and 2008 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.

For FY 2009, USAID's total FECA liability was $50.1 million and comprised of unpaid FECA billings for $26.9 million and estimated future FECA costs of $23.3 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.

ACCRUED UNFUNDED WORKERS' COMPENSATION BENEFITS
(In Thousands)

	2009	2008
Liabilities Not Covered by Budgetary Resources		
Future Workers' Compensation Benefits	$ 26,885	$ 21,269
Accrued Funded Payroll and Leave (Note 12)	23,240	13,579
Total Accrued Unfunded Workers' Compensation Benefits	$ 50,125	$ 34,848

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, 2009 a total of eight cases were pending.

One case has been designated as probable with a total of $1.3 million.

This case is where a contractor seeks costs that were incurred by one of its subcontractors; however USAID disputes those costs as unsubstantiated. The estimated loss is $1.3 million.

Five cases have been designated as reasonably possible, a total of $16 million:

- The first case is a basis claim that USAID has willfully violated the Fair Labor Standards Act by failing to compensate employees for overtime worked. The estimated loss is $7 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.
- In the fourth case the plaintiff is suing on the grounds of a breach of contract and seeks relief. The estimated loss is $1.6 million.
- The fifth case is an appeal case to the government's decision to disallow cost which had allegedly been incurred by the appellant. The appellant has requested that the Board enter a judgment that the Government is not entitled to disallow and demand repayment of the costs at issue. The estimated loss is $1.6 million.

The two remaining cases have a remote likelihood of unfavorable outcome. Two cases were also dismissed voluntarily without any payment of funds by the Agency.

During the fourth quarter in FY 2009 there were no new cases or settlements. However, the likelihood of loss for one case was elevated to probable.

USAID's normal course of business involves the execution of project agreements with foreign governments that are a type of treaty. All of these agreements give rise to obligations that are fully reported on USAID's financial statements, and none of which are contingent. It is not USAID's normal business practice to enter into other types of agreements or treaties with foreign governments that create contingent liabilities.

NOTE 15. RECOVERY ACT FUNDS

RECOVERY ACT ASSETS, LIABILITIES AND NET POSITION (In Thousands)	Recovery Act Assets, Liabilities and Net Position
Fund Balance With Treasury	**$ 34,379**
Total Assets	**34,379**
Accounts Payable	2,908
Total Liabilities	**2,908**
Unexpended Appropriations	31,471
Cumulative Results of Operations	–
Total Net Position	**31,471**
Total Liabilities and Net Position	**$ 34,379**

	Status of Recovery Act Funds
Total Budgetary Resources	**$ 38,000**
Obligated Balance	20,060
Unobligated Balance	17,940
Total Status of Budgetary Resources	**$ 38,000**
Total, Unpaid Obligated Balance, Net, End of Period	**16,439**
Net Outlays	**$ 3,621**

The balances for each line item in this footnote are included in the cummulative balances presented in their respective financial statements.

In February, 2009, Congress passed the American Recovery and Reinvestment Act of 2009 with the goal to create jobs, spur economic activity and invest in long term economic growth. This $787 billion Recovery plan includes federal tax cuts and incentives, an expansion of unemployment benefits, and other spending on social entitlement programs. In addition, federal agencies are using Recovery funds to award contracts, grants, and loans around the country.

USAID has received $38 million for immediate information technology security and upgrades to support mission-critical operations. Due to Agency IT priorities and toward maximizing job creation with the Recovery Act funds, USAID determined that the funding should be dedicated to the Global Acquisition and Assistance System (GLAAS) project. There is one fund in association with the Recovery Act Funds. The $38 million is included in USAID's Fund Balance amount of $21.4 billion.

NOTE 16. 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, 2009. These objectives are consistent with the new State/USAID Strategic Planning Framework.

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

Note 16 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 17.

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, 2009 and 2008
(In Thousands)

Objective	Africa	Asia	DCHA	EGAT	Europe & Eurasia	Global Health	Latin America & Caribbean	Middle East	2009 Total	2008 Total
Peace and Security										
Intragovernmental Costs	**$ 2,244**	**$ 11,285**	**$ 3,079**	**$ 752**	**$ 1,527**	**$ –**	**$ 5,784**	**$ 3,077**	**$ 27,748**	**$ 19,423**
Public Costs	40,421	347,580	61,490	3,855	41,168	–	195,468	265,539	955,521	827,553
Total Program Costs	42,665	358,865	64,569	4,607	42,695	–	201,252	268,616	983,269	846,976
Intragovernmental Earned Revenue	(159)	(706)	(264)	(33)	(190)	–	(814)	(439)	(2,605)	(1,737)
Public Earned Revenue	(63)	(278)	(104)	(13)	(75)	–	(320)	(173)	(1,026)	(424)
Total Earned Revenue	(222)	(984)	(368)	(46)	(265)	–	(1,134)	(612)	(3,631)	(2,161)
Net Program Costs	**42,443**	**357,881**	**64,201**	**4,561**	**42,430**	**–**	**200,118**	**268,004**	**979,638**	**844,815**
Governing Justly and Democratically										
Intragovernmental Costs	13,784	8,456	3,022	541	5,611	–	4,574	5,117	41,105	32,505
Public Costs	192,944	641,074	95,972	3,272	171,995	–	130,681	482,692	1,718,630	1,381,417
Total Program Costs	206,728	649,530	98,994	3,813	177,606	–	135,255	487,809	1,759,735	1,413,922
Intragovernmental Earned Revenue	(953)	(1,047)	(427)	(31)	(538)	–	(564)	(723)	(4,283)	(3,053)
Public Earned Revenue	(375)	(412)	(168)	(12)	(212)	–	(222)	(285)	(1,686)	(747)
Total Earned Revenue	(1,328)	(1,459)	(595)	(43)	(750)	–	(786)	(1,008)	(5,969)	(3,800)
Net Program Costs	**205,400**	**648,071**	**98,399**	**3,770**	**176,856**	**–**	**134,469**	**486,801**	**1,753,766**	**1,410,122**
Investing in People										
Intragovernmental Costs	79,519	14,334	1,923	5,148	4,330	23,506	10,705	7,610	147,075	137,031
Public Costs	777,310	500,483	63,956	64,229	84,602	936,911	179,093	712,687	3,319,271	3,804,052
Total Program Costs	856,829	514,817	65,879	69,377	88,932	960,417	189,798	720,297	3,466,346	3,941,083
Intragovernmental Earned Revenue	(10,669)	(1,347)	(274)	(6,423)	(243)	(366,005)	(1,107)	(1,052)	(387,120)	(247,715)
Public Earned Revenue	(4,206)	(531)	(108)	(14,710)	(96)	(711)	(436)	(415)	(21,213)	(30,750)
Total Earned Revenue	(14,875)	(1,878)	(382)	(21,133)	(339)	(366,716)	(1,543)	(1,467)	(408,333)	(278,465)
Net Program Costs	**841,954**	**512,939**	**65,497**	**48,244**	**88,593**	**593,701**	**188,255**	**718,830**	**3,058,013**	**3,662,618**

(continued on next page)

INTRAGOVERNMENTAL COSTS AND EXCHANGE REVENUE BY RESPONSIBILITY SEGMENT

For the Years Ended September 30, 2009 and 2008
(In Thousands)

Objective	Africa	Asia	DCHA	EGAT	Europe & Eurasia	Global Health	Latin America & Caribbean	Middle East	2009 Total	2008 Total
Economic Growth										
Intragovernmental Costs	24,528	33,303	111	27,172	14,815	–	45,113	19,142	164,184	141,416
Public Costs	387,197	886,963	2,376	578,263	586,232	–	661,027	1,152,515	4,254,573	2,355,649
Total Program Costs	411,725	920,266	2,487	605,435	601,047	–	706,140	1,171,657	4,418,757	2,497,065
Intragovernmental Earned Revenue	(1,749)	(50,487)	(16)	(72,062)	(1,918)	–	(27,596)	(2,332)	(156,160)	(233,576)
Public Earned Revenue	(690)	(728)	(6)	(256,408)	(756)	–	(378,585)	(919)	(638,092)	99,897
Total Earned Revenue	(2,439)	(51,215)	(22)	(328,470)	(2,674)	–	(406,181)	(3,251)	(794,252)	(133,679)
Net Program Costs	**409,286**	**869,051**	**2,465**	**276,965**	**598,373**	**–**	**299,959**	**1,168,406**	**3,624,505**	**2,363,386**
Humanitarian Assistance										
Intragovernmental Costs	175	2,324	37,261	–	276	–	350	12,165	52,551	50,706
Public Costs	2,806	129,119	709,821	511,794	19,521	–	18,611	16,149	1,407,821	543,712
Total Program Costs	2,981	131,443	747,082	511,794	19,797	–	18,961	28,314	1,460,372	594,418
Intragovernmental Earned Revenue	(10)	(249)	(3,005)	–	(39)	–	(35)	(46)	(3,384)	(12,042)
Public Earned Revenue	(4)	(98)	(1,185)	–	(15)	–	(14)	(18)	(1,334)	(355)
Total Earned Revenue	(14)	(347)	(4,190)	–	(54)	–	(49)	(64)	(4,718)	(12,397)
Net Program Costs	**2,967**	**131,096**	**742,892**	**511,794**	**19,743**	**–**	**18,912**	**28,250**	**1,455,654**	**582,021**
Operating Unit Management										
Intragovernmental Costs	4,053	4,589	8,780	2,649	3,864	–	558	1,951	26,444	6,744
Public Costs	16,479	26,621	31,216	7,464	18,930	–	2,606	15,438	118,754	51,763
Total Program Costs	20,532	31,210	39,996	10,113	22,794	–	3,164	17,389	145,198	58,507
Intragovernmental Earned Revenue	(76)	(58)	(340)	(67)	(45)	–	(10)	(272)	(868)	(109)
Public Earned Revenue	(30)	(23)	(47)	(26)	(18)	–	(4)	(7)	(155)	(53)
Total Earned Revenue	(106)	(81)	(387)	(93)	(63)	–	(14)	(279)	(1,023)	(162)
Net Program Costs	**20,426**	**31,129**	**39,609**	**10,020**	**22,731**	**–**	**3,150**	**17,110**	**144,175**	**58,345**
Net Costs of Operations	**$1,522,476**	**$2,550,167**	**$1,013,063**	**$855,354**	**$ 948,726**	**$ 593,701**	**$ 844,863**	**$2,687,401**	**$11,015,751**	**$ 8,921,307**

NOTE 17. 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 2009 Statement of Net Cost major responsiblitiy 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 2009 Asia and Middle East are being reported separately. 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, 2009
(In Thousands)

Objective	Africa	Asia	DCHA	EGAT	Europe & Eurasia	Global Health	Latin America & Caribbean	Middle East	Consolidated Total
Peace and Security									
Counter-Terrorism									
Gross Costs	$ 12,207	$ 285	$ 219	$ –	$ –	$ –	$ –	$ 2,435	$ 15,146
Less: Exchange Revenues	(71)	(1)	(1)	–	–	–	–	1	(72)
Net Program Costs	12,136	284	218	–	–	–	–	2,436	15,074
Combating Weapons of Mass Destruction (WMD)									
Gross Costs	–	–	39	–	4,007	–	–	–	4,046
Less: Exchange Revenues	–	–	–	–	(117)	–	–	–	(117)
Net Program Costs	–	–	39	–	3,890	–	–	–	3,929
Stabilization Operations and Security Sector Reform									
Gross Costs	3,345	395	(147)	–	991	–	9,034	210,238	223,856
Less: Exchange Revenues	(14)	(1)	2	–	(3)	–	(87)	(521)	(624)
Net Program Costs	3,331	394	(145)	–	988	–	8,947	209,717	223,232
Counter-Narcotics									
Gross Costs	40	250,371	2,442	–	73	–	159,541	(2)	412,465
Less: Exchange Revenues	–	(673)	(12)	–	–	–	(866)	–	(1,551)
Net Program Costs	40	249,698	2,430	–	73	–	158,675	(2)	410,914
Transnational Crime									
Gross Costs	930	5,379	39	2,277	5,432	–	3,619	1,830	19,506
Less: Exchange Revenues	(8)	(21)	–	(26)	(22)	–	(26)	(3)	(106)
Net Program Costs	922	5,358	39	2,251	5,410	–	3,593	1,827	19,400
Conflict Mitigation and Reconciliation									
Gross Costs	26,143	102,435	61,977	2,330	32,192	–	29,058	54,115	308,250
Less: Exchange Revenues	(129)	(288)	(357)	(20)	(123)	–	(155)	(89)	(1,161)
Net Program Costs	26,014	102,147	61,620	2,310	32,069	–	28,903	54,026	307,089
Total Peace & Security	**42,443**	**357,881**	**64,201**	**4,561**	**42,430**	**–**	**200,118**	**268,004**	**979,638**
Governing Justly and Democratically									
Rule of Law and Human Rights									
Gross Costs	16,758	40,415	3,059	2,341	33,254	–	44,708	30,000	170,535
Less: Exchange Revenues	(83)	(131)	(9)	(27)	(125)	–	(268)	(56)	(699)
Net Program Costs	16,675	40,284	3,050	2,314	33,129	–	44,440	29,944	169,836

(continued on next page)

SCHEDULE OF COSTS BY RESPONSIBILITY SEGMENT *(continued)*

For the Year Ended September 30, 2009
(In Thousands)

Objective	Africa	Asia	DCHA	EGAT	Europe & Eurasia	Global Health	Latin America & Caribbean	Middle East	Consolidated Total
Good Governance									
Gross Costs	78,374	439,472	52,933	649	46,574	–	42,448	334,751	995,201
Less: Exchange Revenues	(577)	(936)	(277)	(6)	(274)	–	(277)	(662)	(3,009)
Net Program Costs	77,797	438,536	52,656	643	46,300	–	42,171	334,089	992,192
Political Competition and Consensus-Building									
Gross Costs	71,792	124,982	13,463	–	23,368	–	17,449	12,101	263,155
Less: Exchange Revenues	(401)	(270)	(93)	–	(81)	–	(99)	(46)	(990)
Net Program Costs	71,391	124,712	13,370	–	23,287	–	17,350	12,055	262,165
Civil Society									
Gross Costs	39,804	44,661	29,539	823	74,410	–	30,650	110,957	330,844
Less: Exchange Revenues	(267)	(122)	(216)	(10)	(270)	–	(142)	(244)	(1,271)
Net Program Costs	39,537	44,539	29,323	813	74,140	–	30,508	110,713	329,573
Total Governing Justly and Democratically	**205,400**	**648,071**	**98,399**	**3,770**	**176,856**	**–**	**134,469**	**486,801**	**1,753,766**
Investing in People									
Health									
Gross Costs	619,249	267,769	14,083	4,091	63,720	960,416	93,249	109,846	2,132,423
Less: Exchange Revenues	(13,377)	(1,249)	(94)	(67)	(249)	(366,715)	(1,070)	(218)	(383,039)
Net Program Costs	605,872	266,520	13,989	4,024	63,471	593,701	92,179	109,628	1,749,384
Education									
Gross Costs	220,705	217,259	19,579	34,272	10,921	–	72,439	214,600	789,775
Less: Exchange Revenues	(1,414)	(537)	(101)	(428)	(39)	–	(330)	(373)	(3,222)
Net Program Costs	219,291	216,722	19,478	33,844	10,882	–	72,109	214,227	786,553
Social and Economic Services and Protection for Vulnerable Populations									
Gross Costs	16,875	29,789	32,218	31,014	14,291	–	24,110	395,851	544,148
Less: Exchange Revenues	(84)	(92)	(188)	(20,638)	(51)	–	(143)	(876)	(22,072)
Net Program Costs	16,791	29,697	32,030	10,376	14,240	–	23,967	394,975	522,076
Total Investing in People	**841,954**	**512,939**	**65,497**	**48,244**	**88,593**	**593,701**	**188,255**	**718,830**	**3,058,013**
Economic Growth									
Macroeconomic Foundation for Growth									
Gross Costs	3,806	5,970	40	16,326	456,582	–	505,105	450,148	1,437,977
Less: Exchange Revenues	(17)	(14)	–	(2,444)	(2,193)	–	(405,238)	(1,409)	(411,315)
Net Program Costs	3,789	5,956	40	13,882	454,389	–	99,867	448,739	1,026,662
Trade and Investment									
Gross Costs	22,627	38,552	27	5,725	6,949	–	37,680	43,124	154,684
Less: Exchange Revenues	(127)	(115)	–	(48)	(26)	–	(204)	(83)	(603)
Net Program Costs	22,500	38,437	27	5,677	6,923	–	37,476	43,041	154,081
Financial Sector									
Gross Costs	16,551	7,995	195	333,796	18,251	–	2,567	395,080	774,435
Less: Exchange Revenues	(109)	(18)	(2)	(322,655)	(66)	–	(15)	(1,166)	(324,031)
Net Program Costs	16,442	7,977	193	11,141	18,185	–	2,552	393,914	450,404
Infrastructure									
Gross Costs	102,314	545,052	24	10,807	19,737	–	6,492	55,538	739,964
Less: Exchange Revenues	(618)	(50,095)	–	(114)	(64)	–	(23)	(104)	(51,018)
Net Program Costs	101,696	494,957	24	10,693	19,673	–	6,469	55,434	688,946
Agriculture									
Gross Costs	141,593	121,038	27	163,017	28,109	–	28,553	53,913	536,250
Less: Exchange Revenues	(881)	(436)	–	(2,308)	(81)	–	(131)	(111)	(3,948)
Net Program Costs	140,712	120,602	27	160,709	28,028	–	28,422	53,802	532,302

(continued on next page)

SCHEDULE OF COSTS BY RESPONSIBILITY SEGMENT *(continued)*

For the Year Ended September 30, 2009

(In Thousands)

Objective	Africa	Asia	DCHA	EGAT	Europe & Eurasia	Global Health	Latin America & Caribbean	Middle East	Consolidated Total
Private Sector Competitiveness									
Gross Costs	32,581	95,433	247	4,397	56,909	–	31,449	81,312	302,328
Less: Exchange Revenues	(179)	(235)	(2)	(37)	(189)	–	(149)	(178)	(969)
Net Program Costs	32,402	95,198	245	4,360	56,720	–	31,300	81,134	301,359
Economic Opportunity									
Gross Costs	18,098	53,440	1,900	25,424	13,671	–	6,264	60,821	179,618
Less: Exchange Revenues	(90)	(177)	(18)	(298)	(52)	–	(36)	(129)	(800)
Net Program Costs	18,008	53,263	1,882	25,126	13,619	–	6,228	60,692	178,818
Environment									
Gross Costs	74,155	52,786	27	45,943	839	–	88,030	31,721	293,501
Less: Exchange Revenues	(418)	(125)	–	(567)	(3)	–	(384)	(71)	(1,568)
Net Program Costs	73,737	52,661	27	45,376	836	–	87,646	31,650	291,933
Total Economic Growth	**409,286**	**869,051**	**2,465**	**276,964**	**598,373**	**–**	**299,960**	**1,168,406**	**3,624,505**
Humanitarian Assistance									
Protection, Assistance and Solutions									
Gross Costs	506	128,933	690,875	–	19,423	–	6,973	28,316	875,026
Less: Exchange Revenues	(1)	(340)	(3,874)	–	(52)	–	(21)	(64)	(4,352)
Net Program Costs	505	128,593	687,001	–	19,371	–	6,952	28,252	870,674
Disaster Readiness									
Gross Costs	2,475	2,510	56,181	511,794	182	–	11,988	(2)	585,128
Less: Exchange Revenues	(13)	(7)	(316)	–	(1)	–	(28)	–	(365)
Net Program Costs	2,462	2,503	55,865	511,794	181	–	11,960	(2)	584,763
Migration Management									
Gross Costs	–	–	26	–	192	–	–	–	218
Less: Exchange Revenues	–	–	–	–	(1)	–	–	–	(1)
Net Program Costs	–	–	26	–	191	–	–	–	217
Total Humanitarian Assistance	**2,967**	**131,096**	**742,892**	**511,794**	**19,743**	**–**	**18,912**	**28,250**	**1,455,654**
Operating Unit Management									
Cross-cutting Management and Staffing									
Gross Costs	17,071	29,491	8,508	4,528	19,290	–	2,560	16,431	97,879
Less: Exchange Revenues	(93)	(78)	(60)	(55)	(57)	–	(13)	(279)	(635)
Net Program Costs	16,978	29,413	8,448	4,473	19,233	–	2,547	16,152	97,244
Program Design and Learning									
Gross Costs	516	808	418	774	135	–	30	457	3,138
Less: Exchange Revenues	(1)	(1)	(1)	(4)	–	–	–	–	(7)
Net Program Costs	515	807	417	770	135	–	30	457	3,131
Administration and Oversight									
Gross Costs	2,945	911	31,068	4,813	3,369	–	574	501	44,181
Less: Exchange Revenues	(12)	(2)	(326)	(34)	(6)	–	(1)	–	(381)
Net Program Costs	2,933	909	30,742	4,779	3,363	–	573	501	43,800
Total Operating Unit Management	**20,426**	**31,129**	**39,607**	**10,022**	**22,731**	**–**	**3,150**	**17,110**	**144,175**
Net Cost of Operations	**$1,522,476**	**$2,550,167**	**$1,013,061**	**$855,355**	**$948,726**	**$593,701**	**$844,864**	**$2,687,401**	**$11,015,751**

NOTE 18. 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, 2009 and 2008. USAID's total budgetary resources were $19.0 billion and $15.3 billion for the years ended September 30, 2009 and 2008.

A. Apportionment Categories of Obligations Incurred

APPORTIONMENT CATEGORIES OF OBLIGATIONS INCURRED *(In Thousands)*	2009	2008
Category A, Direct	$ 1,048,679	$ 769,447
Category B, Direct	10,464,573	8,699,827
Category A, Reimbursable	16,911	11,793
Category B, Reimbursable	427,875	316,837
Total	$ 11,958,038	$ 9,797,904

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

The Agency did not have any borrowing authority in FY 2009. Fiscal Year 2008 borrowing authority was $3.3 million for credit financing activities. 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. Permanent Indefinite Appropriations

USAID has permanent indefinite appropriations relating to specific Federal Credit Reform Program and Liquidating appropriations. USAID has authorized permanent indefinite authority for Federal Credit Reform Program appropriations for subsidy reestimates and Federal Credit Reform Act of 1990. At year-end FY 2008, there is $1.62 billion in availability related to Federal Credit Reform Program and Liquidating appropriations.

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

E. Undelivered Orders

Undelivered Orders for the periods ended September 30, 2009 and 2008 were $14.2 billion and $12.1 billion.

F. 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 2008 and the President's Budget submission for FY 2010. The President's Budget with actual numbers for 2011 has not yet been published. USAID expects no material difference between the President's Budget "actual" column and the FY 2009 reported results when the budget becomes available in February 2010.

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

(In Thousands)

FY 2009	Budgetary Resources	Obligations	Offsetting Receipts	Net Outlays
Combined Statement of Budgetary Resources	$ 18,961,887	$ 11,958,038	$ (1,237,663)	$ 10,869,519
Difference #1: Funds Reported by Other Federal Entities	6,496,642	6,184,067	(2,399)	4,521,219
Difference #2: Child Activity Reported by USAID	(461,676)	(295,882)	–	(619,428)
Difference #3: Reported in the SBR but excluded from SF-133s	(369,992)	–	–	(99,642)
Difference #4: Adjustments to Obligations	37,633	(34,619)	–	–
Difference #5: Credit Financing and Suspense	–	–	–	(24,123)
Budget of the U.S. Government	$ 24,664,494	$ 17,811,604	$ (1,240,062)	$ 14,647,546

NOTE 19. 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, 2009 and 2008
(In Thousands)

	2009	2008
Resources Used to Finance Actvities:		
Budgetary Resources Obligated		
Obligations Incurred	$ 11,958,038	$ 9,797,904
Spending authority from offsetting collections	(1,237,663)	(1,361,154)
Change in Unfilled Customer Orders	(8,338)	52,966
Downward Adjustments of Obligations	(391,947)	(211,230)
Offsetting Receipts	182,729	179,387
Net Obligations	10,502,819	8,457,873
Other resources used to finance activities	13,263	22,509
Resources Used to Finance Activities	10,516,082	8,480,382
Resources Used to Finance items not part of net cost of operations	99,154	364,291
Total Resources Used to Finance Net Cost of Operations	10,615,236	8,844,673
Components of the Net Cost of Operations:		
Components of Net Cost of Operations that will require or generate resources in future periods	313,001	37,211
Components of Net Cost of Operations that will not require or generate resources	87,514	39,423
Net Cost of Operations	$ 11,015,751	$ 8,921,307

The 2008 balance for the line titled "Other resources used to finance activities" was incorrectly published as $19,431 and has been updated to $22,509. Furthermore, the 2008 balance for the line titled "Resources Used to Finance items not part of net cost of operations" was incorrectly published as $367,369 and has been updated to $364,291.

FINANCIAL SECTION

REQUIRED SUPPLEMENTARY INFORMATION

(Above) **These children are staying at Le Bon Samaritan, a center funded by USAID and UNICEF in Benin that houses youngsters rescued from life on the streets and from international child traffickers. The child in the foreground was soon to be reunited with his mother.**

PHOTO: ANDRÉ ROUSSEL / USAID

(Preceding page) **A man displaced by the military offensive launched in late April by the Pakistan military against the Taliban carries food supplies donated by USAID as he makes his way from the Swabi internally displaced people (IDP) camp where he had been living to a transport that will return him home.**

PHOTO: A. MAJEED / AFP

STATEMENT OF BUDGETARY RESOURCES

REQUIRED SUPPLEMENTARY INFORMATION: SCHEDULE OF BUDGETARY RESOURCES

For the period ended September 30, 2009

(In Thousands)

	Recovery Act	Operating	Program								Credit-Financing	Other	Parent Fund	Consolidated Total
	302	1000	305	1010	1021	1035	1037	1093	1095					
Budgetary Resources:														
Unobligated Balance, Brought Forward, October 1	$ –	$ 165,808	$ –	$ 187,423	$ 335,911	$ 217,399	$1,784,822	$ 258,158	$ 31,487		$1,616,689	$ 683,668	$ 243,331	$ 5,524,696
Recoveries of Prior Year Unpaid Obligations	–	48,955	–	3,659	28,198	9,312	113,101	16,002	25,294		28	76,425	70,973	391,947
Budget Authority:														
Appropriation	–	1,059,184	30,000	–	2,000,000	820,000	7,120,402	–	–		1	1,234,271	–	12,263,858
Borrowing Authority	–	–	–	–	–	–	–	–	–		13	–	–	13
Spending Authority from Offsetting Collections:														
Earned:														
Collected	–	9,622	–	–	24,332	376	42,956	–	–		216,823	942,193	1,361	1,237,663
Change in Receivables from Federal Sources	–	–	–	–	–	–	–	–	–		–	(2,703)	–	(2,703)
Change in Unfilled Customer Orders:														
Without Advance from Federal Sources	–	3,531	–	35	99	27	1,871	38	12		(35)	2,760	–	8,338
Subtotal	–	1,072,337	30,000	35	2,024,431	820,403	7,165,229	38	12		216,802	2,176,521	1,361	13,507,169
Nonexpenditure Transfers, Net, Anticipated and Actual	38,000	679	–	(77,369)	(6,003)	–	(274,406)	42,188	–		–	262,571	168,927	154,587
Permanently Not Available	–	(389)	–	(1)	(326)	(2,233)	(2,975)	(942)	–		–	(586,730)	(22,916)	(616,512)
Total Budgetary Resources	$ 38,000	$1,287,390	$ 30,000	$ 113,747	$2,382,211	$1,044,881	$8,785,771	$ 315,444	$ 56,793		$1,833,519	$2,612,455	$ 461,676	$ 18,961,887
Status of Budgetary Resources:														
Obligations Incurred:														
Direct	$ 20,060	$ 988,315	$ –	$ 93,325	$1,811,388	$ 734,134	$6,294,968	$ 207,443	$ (19,355)		$ 190,090	$ 897,001	$ 295,883	$ 11,513,252
Reimbursible	–	13,152	–	35	24,431	403	44,828	38	12		(18)	361,905	–	444,786
Subtotal	20,060	1,001,467	–	93,360	1,835,819	734,537	6,339,796	207,481	(19,343)		190,072	1,258,906	295,883	11,958,038
Unobligated Balance:														
Apportioned	17,940	278,200	–	4,529	477,058	186,917	2,409,327	104,355	25,988		3,514	585,318	58,860	4,152,006
Subtotal	17,940	278,200	–	4,529	477,058	186,917	2,409,327	104,355	25,988		3,514	585,318	58,860	4,152,006
Unobligated Balance Not Available	-	7,723	30,000	15,858	69,334	123,427	36,648	3,608	50,148		1,639,933	768,231	106,933	2,851,843
Total, Status of Budgetary Resources	$ 38,000	$1,287,390	$ 30,000	$ 113,747	$2,382,211	$1,044,881	$8,785,771	$ 315,444	$ 56,793		$1,833,519	$2,612,455	$ 461,676	$ 18,961,887

(continued on next page)

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

For the period ended September 30, 2009

(In Thousands)

	Recovery Act	Operating	Program							Credit-Financing	Other	Parent Fund	Consolidated Total
	302	1000	305	1010	1021	1035	1037	1093	1095				
Change in Obligated Balance:													
Obligated Balance, Net													
Unpaid Obligations, Brought Forward, October 1	$ –	$ 264,255	$ –	$334,055	$2,789,337	$ 682,106	$6,318,070	$ 376,811	$ 1,108,497	$ (695)	$ 711,204	$1,141,244	$ 13,724,884
Less: Uncollected Customer Payments from Federal Sources, Brought Forward, October 1	–	(2,543)	–	–	(2,172)	(178)	–	–	(994)	–	(15,621)	(536)	(22,044)
Total Unpaid Obligated Balance, Net	–	261,712	–	334,055	2,787,165	681,928	6,318,070	376,811	1,107,503	(695)	695,583	1,140,708	13,702,840
Obligations Incurred Net (+/-)	20,060	1,001,467	–	93,360	1,835,819	734,537	6,339,796	207,481	(19,343)	190,072	1,258,906	295,883	11,958,038
Less: Gross Outlays	(3,621)	(820,877)	–	(283,851)	(1,501,368)	(636,491)	(4,735,561)	(322,079)	(716,497)	(189,988)	(1,039,757)	(619,429)	(10,869,519)
Less: Recoveries of Prior Year Unpaid Obligations, Actual	–	(48,955)	–	(3,659)	(28,198)	(9,312)	(113,101)	(16,002)	(25,294)	(28)	(76,425)	(70,973)	(391,947)
Change in Uncollected Customer Payments from Federal Sources (+/-)	–	(3,531)	–	(35)	(99)	(27)	(1,871)	(38)	(12)	35	(57)	–	(5,635)
Obligated Balance, Net, End of Period													
Unpaid Obligations	16,439	395,890	–	139,905	3,095,590	770,840	7,809,204	246,211	347,363	(639)	853,928	746,725	14,421,456
Less: Uncollected Customer Payments from Federal Sources	–	(6,074)	–	(35)	(2,271)	(205)	(1,871)	(38)	(1,006)	35	(15,678)	(536)	(27,679)
Total, Unpaid Obligated Balance, Net, End of Period	16,439	389,816	–	139,870	3,093,319	770,635	7,807,333	246,173	346,357	(604)	838,250	746,189	14,393,777
Net Outlays:													
Gross Outlays	3,621	820,877	–	283,851	1,501,368	636,491	4,735,561	322,079	716,497	189,988	1,039,757	619,429	10,869,519
Less: Offsetting Receipts	–	(9,622)	–	–	(24,332)	(376)	(42,956)	–	–	(216,822)	(942,194)	(1,361)	(1,237,663)
Less: Distributed Offsetting Receipts	–	–	–	–	–	–	–	–	–	(182,729)	–	–	(182,729)
Net Outlays	$ 3,621	$ 811,255	$ –	$283,851	$1,477,036	$ 636,115	$4,692,605	$ 322,079	$ 716,497	$ (209,563)	$ 97,563	$ 618,068	$ 9,449,127

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)
0302 Capital Investment Fund-Recovery Act
0306 Assistance for Europe, Eurasia and Central Asia
1007 Operating Expenses of USAID Inspector General
1036 Foreign Service Retirement and Disability Fund

Program Funds

0305 Civilian Stabilization Initiative
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) **Three generations of Ixil Maya women, all survivors of armed conflict that has convulsed Guatemala over the last several decades, are working to rebuild the social fabric of their society through a USAID food security program.**

PHOTO: WENDE DUFLON / USAID

(Preceding page) **In Mali, a seamstress sews a garland of HIV awareness ribbons. The ribbons were handed out by people traveling in a caravan crossing the Sahel region of Africa to spread HIV prevention messages.**

PHOTO: J. SHADID / 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:

- Working in Conflict Areas
- 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.

Office of Inspector General

NOV 3 2009

MEMORANDUM FOR THE ACTING ADMINISTRATOR

FROM: Inspector General

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

On October 16, 2009, I sent you the annual statement by the Office of Inspector General (OIG), summarizing the management and performance challenges that OIG considers to be the most serious for USAID. On the basis of feedback that we received, we have revised the statement. The attached document supersedes the previous annual statement.

If you have any questions or wish to discuss this document further, I would be happy to meet with you.

Attachment

cc: David Ostermeyer, Chief Financial Officer

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

STATEMENT BY THE OFFICE OF INSPECTOR GENERAL:
USAID'S MOST SERIOUS MANAGEMENT AND PERFORMANCE CHALLENGES

REVISED NOVEMBER 3, 2009

Fiscal Year 2009

USAID faces its most serious management and performance challenges in the following five areas:

- Working in Conflict Areas
- Managing for Results
- Acquisition and Assistance
- Human Capital Management
- Information Technology Management

For fiscal year (FY) 2009, the Office of Inspector General (OIG) is reporting "Working in Conflict Areas" as a serious management and performance challenge for the first time. OIG has reported challenges in the other four areas since 2001. Although OIG had previously reported financial management as a serious management challenge, we note that USAID has implemented an integrated financial management system, Phoenix, and has obtained unqualified audit opinions on its financial statements since 2003. OIG will continue to monitor financial management issues through its annual audits of USAID's financial statements and other audit activities.

Working in Conflict Areas

USAID faces enormous challenges in implementing its program and activities in Afghanistan, Pakistan, and Iraq. Deteriorating security, weakness in governance, and corruption are persistent problems. In addition, USAID faces operational issues such as staffing challenges and difficulties obtaining housing and office space for its personnel.

USAID manages a substantial portfolio of funding in these countries. As of September 30, 2009, USAID/Afghanistan was managing a portfolio of $5.3 billion. USAID/Pakistan was managing a portfolio of $2.3 billion, with the prospect of that portfolio increasing dramatically in coming years. At the same time, USAID/Iraq was managing a portfolio of $2.5 billion, with 11 direct implementing partners covering development activities throughout Iraq. Recent appropriations have provided about a half billion dollars annually for USAID/Iraq programs.

Afghanistan and Pakistan. The greatest challenge to carrying out development programs in Afghanistan and Pakistan is the dangerous conflict in these areas. In general, USAID personnel cannot travel outside the capital city of either country without the Regional Security Office's approval. Travel to some project areas can be prohibited for long periods of time, and personnel implementing these projects are targeted by insurgents.

With deteriorating security, monitoring the progress of USAID programs in these countries has become more and more difficult—especially because funding is being increased to the areas that are most insecure. In Pakistan, for example, much of USAID's assistance is directed to the Federally Administered Tribal Areas, where USAID employees cannot travel.

A myriad of other problems exacerbate USAID's ability to achieve its assistance objectives in both countries: a lack of strong government institutions, widespread corruption, absence of the rule of law, internally displaced persons, high illiteracy rates (especially in the most insecure areas, which receive the bulk of USAID funding), and the host governments' inability to consistently maintain and sustain completed projects.

From an operational perspective, the missions are finding it harder and harder to fill positions with qualified, experienced staff. Danger is not the only deterrent for some Agency employees; many are reluctant to serve in an "unaccompanied" post. For example, the mission has had to fill some positions with personal services contractors, some of whom may be unfamiliar with USAID policies and procedures and may lack the indepth development experience of U.S. direct-hire staff.

Further, obtaining housing and office space is problematic at both missions. Housing is especially critical in Afghanistan, where personnel are often required to share residential space. Increasingly, many employees are asked to share living quarters in metal containers no larger than 10 by 12 feet. In Pakistan, residential housing is available, but rents are rapidly rising. Both missions lack adequate office space, and employees often work in cramped offices, sometimes sharing cubicles and desks. Construction of additional office space has been delayed in both locations.

Iraq. As with Afghanistan and Pakistan, precarious security conditions place severe limitations on USAID/Iraq's ability to implement and monitor its development activities. According to the Embassy's Regional Security Office, more than 200 American civilians have been killed in the course of their duties. With the planned departure of most U.S. troops by August 2010, the security of USAID staff will increasingly depend on private security contractors, whose activities have been scrutinized and whose capabilities are limited compared with those of U.S. military forces. After a period of decreased violence, bombings and sectarian violence have recently surged between Shiites and Sunnis. As a result, USAID has difficulty recruiting Iraqi professionals to key positions in the USAID mission or retaining them because of the threat of violence. Moreover, violence makes counterparts reluctant to visit USAID staff in the International Zone, and many key counterparts do not welcome visits from USAID staff because of the resulting attention.

Oversight of USAID programs is also complicated by widespread corruption and USAID staffing issues. In both 2007 and 2008, Transparency International's "Corruption Perception Index" ranked Iraq at 178 out of 180 countries. USAID/OIG audits and investigations have frequently indentified corrupt schemes that have hindered program accomplishments. However, the much-needed oversight by USAID staff serving on provincial reconstruction teams will be reduced, as those employees are being drawn down from 20 to fewer than 10.

USAID has been working to provide alternatives to its traditional methods of monitoring programs. For example, the Agency recently issued guidance on monitoring USAID activities in high-threat environments. Recommended alternative methods might include requiring photographic evidence or the use of other technology to verify accomplishment results, or relying on other U.S. Government agencies to make site visits. Such alternative monitoring methods can help mitigate, but not eliminate, the challenges of working in conflict areas.

Managing for Results

USAID manages a large portfolio of foreign assistance programs designed to help achieve long-term development, respond to humanitarian emergencies, rebuild countries that have experienced high levels of violent conflict, or respond to transnational issues that threaten the interests of the United States and other countries. USAID faces several related challenges in ensuring that these programs achieve planned results.

Transformational Development. The U.S. Department of State-USAID strategic plan for FY 2007–2012 describes transformational development as the ultimate goal of the foreign assistance reform effort led by the Director of U.S. Foreign Assistance. The strategic plan states that transformational development "engenders lasting economic, social, and democratic progress, through a transformation of institutions, economic structures, and human capacity, so that nations can sustain further advances on their own."

To serve as a useful guideline for evaluating foreign assistance programming proposals, though, and ultimately to serve as a measure of the success of foreign assistance programs, the concept of transformational development needs a more concrete, operational definition. However, transformational development is not defined in USAID's Automated Directives System or in any other USAID publication. This omission makes it impossible to objectively evaluate whether USAID programs have been designed to promote transformational development or are effectively contributing to it. USAID needs to develop an operational definition of transformational development, with guidance on how to incorporate the concept into program planning and program management decisions.

Assistance Planning. OIG audits frequently identify weaknesses in assistance planning that can impair the effectiveness of USAID programs. During FY 2009, 20 OIG audits reported that

- Overall program performance indicators and targets were not established or were not very closely related to USAID activities (18 cases);
- Overall program targets were not assigned to specific contractors or grantees (1 case); and

- Performance targets in program management plans, contracts and grants, and annual work plans were inconsistent or contradicted one another (3 cases).

The impact of these and similar planning deficiencies is that they make it hard for program implementers—USAID, host governments, and contractors and grantees—to achieve clarity on program goals and how to accomplish them. Moreover, program implementers cannot be held accountable for poor performance if targets and indicators are not clearly specified.

Results Reporting. Results achieved by USAID-financed programs are reported mainly through the annual performance reports that are submitted by USAID operating units to the State Department's Office of the Director of U.S. Foreign Assistance (DFA). These annual performance reports, in turn, inform external reporting to stakeholders and the public through USAID's Annual Performance Report and the Congressional Budget Justification.

The narrative sections of the annual reports provide an opportunity for USAID operating units to describe the context in which USAID programs are implemented and to discuss the degree to which USAID programs have influenced the quality of governance, economic growth and poverty reduction, health status, educational attainment, and other desired outcomes. However, some of the performance narratives do not place results in context or provide a balanced, objective description of program performance. For example, one USAID operating unit reported that "an area of 6,848,500 hectares of Amazon forest has been secured under improved natural resource management." The size of the area was based on reporting by partners. However, they did not provide data on this indicator consistently or establish in every instance a clear link to USAID assistance. For example, one partner reported hectares of land covered by participatory regional planning after the partner had provided information that was used to map a protected forest—but mapping protected forest is not the same as placing it under a participatory regional planning regime. Another partner reported an increase in area under improved management, after it assumed that the Federal Government would implement a plan that the partner helped prepare. Although some organizations reported areas placed under regional planning regimes or a sustainable management plan based on indirect assistance, such as training, others did not. Also, partners did not have sufficient evidence to support the area reported.

Another reporting weakness is that reported results are frequently inaccurate: in FY 2009, 18 OIG audit reports disclosed that data reported by USAID operating units or their partners were misstated.

In our opinion, reporting results that are inaccurate or that lack needed context can undermine USAID's credibility and impair USAID's ability to secure the resources it needs to accomplish its mission.

Acquisition and Assistance

Most of USAID's development activities are implemented by contractors, grantees, and recipients of cooperative agreements. USAID has encountered major challenges in deploying a global acquisition and assistance system, using performance-based contracting, and monitoring cost-reimbursement contracts.

To help plan for, execute, and manage the implementation of its procurement actions, USAID is in the process of deploying the Global Acquisition and Assistance System (GLAAS) and plans to complete the implementation and deployment around June 2011 at a total cost of about $100 million. USAID received $38 million in American Recovery and Reinvestments Act (Recovery Act) funds and is using the funds for the GLAAS project. GLAAS is intended to interface acquisition and assistance financial transactions with USAID's core financial system, Phoenix. GLAAS is a high-profile system because of several factors—for example, the Office of Management and Budget identified GLAAS as a high-risk investment; GLAAS receives Recovery Act funding; and the value of potential transactions processed by the system will be in the billions of dollars. Some current and potential challenges for USAID include the following:

- Complying with Recovery Act mandates, such as tracking invoice payments with multiple funding sources to specific Recovery Act funds.
- Providing adequate direct-hire support for activities, such as financial integration, training, customer care, project management, functional requirements, and engineering management.
- Managing various project artifacts, such as requirement documents, project plans, business cases, risk assessments, total project expenditures, and contingency planning.

As part of the its Recovery Act oversight activities, OIG monitors and assesses risks associated with the GLAAS project and plans to conduct reviews on Recovery Act compliance and the project's high-risk areas in FY 2010 and beyond.

Additionally, according to Federal Acquisition Regulation (FAR) subpart 37.102, performance-based contracting is the preferred method of acquiring services and must be used to the maximum extent practicable. However, this method is not commonly used by USAID. FAR subpart 37.6 and related subparts state that performance-based contracting (1) describes the requirements in terms of results rather than the methods of performance of the work; (2) uses measurable performance standards (i.e., in terms of quality, timeliness, quantity) and quality assurance surveillance plans; and (3) includes positive and negative performance incentives where appropriate.

OIG audits over the past several years have shown that USAID has not incorporated all of the FAR requirements for performance-based contracting for some of it procurements. For example, a recent OIG audit of selected information technology task orders found that USAID did not always (1) incorporate meaningful performance standards to the maximum extent practicable, (2) use quality assurance surveillance plans, or (3) incorporate performance incentives into the task orders to the maximum extent practicable.[1]

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[1] Audit of Selected Performance-Based Task Orders for Information Technology Services, Report No. A-000-08-005-P, May 15, 2008.

USAID commonly uses cost-reimbursement contracts, which allow for payment of allowable incurred costs. FAR subpart 16.301-2 states that cost-reimbursement contracts are suitable for use only when uncertainties involved in contract performance do not permit costs to be estimated with sufficient accuracy to use any type of fixed-price contract. Subpart 301-3 states that this method of contracting may be used only when there is appropriate Government surveillance during performance to provide reasonable assurance that efficient methods and effective cost controls are used. Therefore, use of cost-reimbursement contracts places a heavy burden on USAID operating units to sufficiently monitor the implementation of these awards to reasonably ensure that American taxpayer funds are efficiently and effectively spent. Moreover, this method is more difficult to use to ensure that performance quality levels and desired outcomes are achieved.

OIG's FY 2010 audit plan includes two efforts related to procurement: (1) Audit of USAID's Commodities for Malaria Prevention and Treatment, and (2) Survey of USAID's Contracting Mechanisms. The audit of malaria commodities will determine whether USAID procured, stored, and distributed commodities for the prevention and treatment of malaria to help ensure that prevention and treatment goals are achieved. The survey will determine which contracting mechanisms used by USAID are most consistent with Federal procurement policies and current interests of the administration and Congress. The survey will include assessing the advantages and disadvantages of each contracting mechanism, with an emphasis on identifying the inherent risks. Concerns include the length of time involved in the procurement process, contractors' accountability for their performance, and the amount of money spent on contractors.

Human Capital Management

USAID has previously identified human capital issues such as the need to recruit, retain, and train a diverse workforce to respond to the various work needs throughout the world. The demands of working in areas of conflict in Afghanistan, Pakistan, and Iraq have compounded USAID's challenges. Moreover, the Government Accountability Office (GAO) issued a report in September 2008 focusing on USAID's acquisition and assistance (A&A) staff. Among its conclusions, GAO found that

> 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.[2]

To address its human capital challenges, USAID has developed (1) the Development Leadership Initiative (DLI), (2) a human capital strategic plan for 2009 to 2013, and (3) a 5-year workforce plan for the same period. The overall goal of the DLI is to double the size of the Foreign Service by 2012 and increase the civil service workforce to complement the larger Foreign Service.

USAID stated that it has begun to implement the initiative and plans as follows:

- Recruitment—USAID is on track to hire 300 Foreign Service officers within a 12-month period ending March 31, 2010. To date, over 220 officers have begun working with USAID.
- Retention—USAID has increased the funding for the student loan repayment program, which is having the intended positive impact on retention.
- Training/Competency Management—USAID has continued expanded outreach in training through e-learning and field visits and fellowships for Foreign Service nationals. The Office of Human Resources (OHR) has also developed a competency management module, which will be piloted in the first quarter of FY 2010.
- Succession Planning—The 5-year workforce plan and its addendum provide a full description of USAID succession planning program. Beginning in the first quarter of FY 2010, OHR will update, refine, and post the plan annually.
- Acquisition and Assistance staff—OHR has improved the integrity of its post personnel system to assess project needs accurately in field missions and in Washington for USAID's entire workforce, including acquisition and assistance professionals. Also, the Office of Acquisition and Assistance undertook competency assessments in FY 2009 of all direct-hire contracting specialists and officers to identify skill gaps.

Although USAID has made significant progress, OIG believes that USAID needs to continue to implement its workforce planning to close skill gaps through recruitment, retention, training, succession planning, and other strategies. For example, with all the new hires, USAID needs to ensure that it properly allocates the new staff among its operating units and provides adequate training and supervision to appropriately carry out the work. OIG plans to conduct an Audit of USAID's Efforts to Increase Technical Expertise in FY 2010. This audit will determine whether USAID's efforts to overcome technical expertise limitations have been successful.

Information Technology Management

USAID has made progress in addressing weaknesses in its information technology (IT) management. However, USAID continues to face inherent management challenges for

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

integrating and coordinating initiatives with other Federal agencies with respect to its implementation of Homeland Security Presidential Directive 12[3] (HSPD-12) and the Office of Management and Budget's Trusted Internet Connection (TIC) initiative.[4] Moreover, the Agency must ensure that the right processes are used to consolidate the IT infrastructures and services of USAID and the Department of State.

- **HSPD-12 Initiative.** OIG reported[5] that USAID lacked the resources needed to carry out this governmentwide initiative and relied on the Department of State's implementation plan until one could be developed for USAID. Ongoing and potential challenges for USAID include resource constraints and implementation of an approach that integrates USAID's overseas posts, while ensuring that USAID's implementation plan is consistent with the Department of State's role and for overseeing U.S. Government offices operating overseas from a technical, policy, and management perspective.

- **TIC Initiative.** USAID offices overseas use the Internet as well as headquarters offices. Probable future challenges for USAID include obtaining resources to develop and implement an enterprise technical solution to centralize Internet access points, as well as identifying, coordinating, and incorporating the Department of State's role of overseeing U.S. Government offices operating overseas from a technical, policy, and management perspective.

- **Combined IT Infrastructures.** USAID and the Department of State have already endorsed the consolidation of IT personnel and infrastructure for Afghanistan, to take effect by November 15, 2009. In this consolidation, USAID personnel would transition to the Department of State's network (OpenNet). Additionally, USAID and the Department of State have started to contemplate the potential for integrating their IT infrastructures to realize increased business effectiveness and cost savings for both USAID/Washington and overseas posts. Among the many probable challenges in this area are coordination for information and system security, customer service, backup and contingency planning, personnel integration (including Foreign Service nationals), and measures to ensure that USAID applications continue to function, such as financial and related systems.

As resources permit, OIG intends to monitor the development of these IT initiatives.

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[3] HSPD-12 required the development and agency implementation of a mandatory, Governmentwide standard for secure and reliable forms of identification for Federal employees and contractors in gaining physical access to Federal facilities and virtual access to Federal information systems. The directive applies to all employees, including direct hires, personal service contractors, or employees "on loan" from other Federal agencies.
[4] The Trusted Internet Connection initiative, also known as TIC, is mandated in Office of Management and Budget Memorandum M-08-05 issued November 20, 2007. The memorandum was meant to optimize individual external connections, including Internet points of presence currently in use by the Federal Government of the United States. It includes a program for improving the Federal Government's incident response capability through a centralized gateway monitoring at a select group of TIC access providers.
[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.

FY 2009 MANAGEMENT AND PERFORMANCE CHALLENGES	
WORKING IN CONFLICT AREAS	
Challenge	**Afghanistan, Pakistan, and Iraq.** Oversight of USAID programs is complicated by deteriorating security and a myriad of other problems, including widespread corruption and USAID staffing issues.
Actions Taken	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 2009, 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 high threat environments (HTE) was drafted by an Agency-wide working group and approved as Agency policy. Under a contract awarded in September 2008, the Asia and Middle East bureaus developed and launched a website of online resources and best practices on monitoring and evaluation (M&E) in HTEs, gleaned from USAID officers, implementing partners and outside organizations that have worked in HTEs. 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; at its first meeting of FY 2009, the MCRC maintained this issue as a significant deficiency.
Actions Remaining and/or Expected Completion Date	USAID can implement programs effectively and efficiently in HTEs provided there is ongoing investment in security, collaboration with Regional Security Officers (RSO), 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 2010, the Agency will launch an outreach effort to inform field officers of the M&E portal. A follow-up evaluation of the site's utility to USAID officers will be conducted in winter 2010 and any resulting recommendations will be incorporated into the site. Furthermore, outreach to and dialogue with Department of State 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:** April 10, 2010
MANAGING FOR RESULTS	
Challenge	**Transformational Development.** USAID needs to develop an operational definition of transformational development, with guidance on how to incorporate the concept into program planning and program management decisions.
Actions Taken	The terminology of *Transformational Development* was not used during the foreign assistance reform effort of the previous Administration (2006-2009). For the official (historical) definition of the term, please see the report on Policy Framework for Bilateral Foreign Aid, January 2006 at *http//pdf.dec.org/pdf_docs/PDACG244.pdf. The new Administration may bring this concept back in the future.*
Actions Remaining and/or Expected Completion Date	**Target Completion Date:** N/A

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FY 2009 MANAGEMENT AND PERFORMANCE CHALLENGES *(continued)*	
MANAGING FOR RESULTS *(continued)*	
Challenge	**Assistance Planning.** During FY 2009, 20 Office of Inspector General (OIG) audits reported that (1) overall program performance indicators and targets were not established or were not very closely related to USAID activities; (2) overall program targets were not assigned to specific contractors or grantees; and (3) performance targets in program management plans, contracts, and grants, and annual work plans were inconsistent or contradicted one another. This makes it difficult for program implementers to achieve clarity on program goals and to be held accountable for poor performance if targets and indicators are not clearly specified.
Actions Taken	USAID's Office of Management Policy, Budget, and Performance (MPBP) developed a training course in Managing for Results (MfR) that aims to revitalize staff skills in planning and performance management, including lessons that specifically address this challenge, such as indicator selection, target setting, using performance management plans, and incorporating performance management into contracts and grants. To date, the workshop has been offered five times, overseas and in Washington, training approximately 125 individuals. Special effort was made to provide MfR skills to the incoming Development Leadership Initiative Officers, who will take on many of these duties upon reaching post. In addition, MPBP routinely reviews strategic frameworks and provides technical assistance and interpretation of the Automated Directives System (ADS) 200 to operating units.
Actions Remaining and/or Expected Completion Date	Additional MfR workshops are scheduled to occur in FY 2010, as is a Training of Trainers workshop, which will enable USAID staff to disseminate these skills and provide technical assistance in these critical areas more broadly and rapidly than is now possible. **Target Completion Date:** March 31, 2010
Challenge	**Results Reporting.** Some of the performance narratives do not place results in context or provide a balanced, objective description of program performance. In FY 2009, 18 OIG reports disclosed that data reported by USAID operating units or their partners were misstated.
Actions Taken	Last year marked the first year for all USAID and Department of State operating units (over 180 operating units) to submit a Performance Plan and Report (PPR). Each submission was reviewed and feedback was provided to the operating unit noting the strengths and weaknesses of the PPR. In instances where narratives were found to lack country context and linkages to outcome and impact goals, this was noted in a memo to the operating unit, allowing the operating unit time to revise and resubmit the PPR in final. Following the completion of the initial PPRs, the Bureau for Foreign Assistance conducted an after action review and survey to identify challenges that operating units face in completing the PPR; to identify and correct any misunderstandings; and to see where the PPR guidance and process could be clarified, strengthened, or modified. For example, the after action review for the last PPR highlighted operating units' desire for example narratives to be provided in the PPR guidance. This and other findings of the after action review were incorporated into the guidance for the FY 2009 PPRs, which will be due on December 1.
Actions Remaining and/or Expected Completion Date	The Bureau for Foreign Assistance expects to continue to seek improvements in the way operating units report results and in the review and feedback process to operating units. **Target Completion Date:** Ongoing

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FY 2009 MANAGEMENT AND PERFORMANCE CHALLENGES *(continued)*	
ACQUISITION AND ASSISTANCE	
Challenge	**Deploying a Global Acquisition and Assistance System (GLAAS).** Some current and potential challenges for USAID include: (1) complying with the American Recovery and Reinvestment Act (Recovery Act) of 2009 mandates, such as tracking invoice payments with multiple funding sources to specific Recovery Act funds; (2) providing adequate direct-hire support for activities, such as financial integration, training, customer care, project management, functional requirements, and engineering management; and (3) managing various project artifacts, such as requirement documents, project plans, business cases, risk assessments, total project expenditures, and contingency planning.
Actions Taken	(1) The Office of the Chief Financial Officer's (CFO) Cash Management and Payment Division (CMP) continues to monitor and increase staff awareness regarding the importance of consistent and accurate processing and posting of payments involving Recovery Act funds. Recently, an email notification was sent to all CMP staff detailing the heightened procedures for approving payments for all vendors subject to the Recovery Act. Included in this communication was an updated list of all vendors subject to the Recovery Act; as well as a new checklist to be used internally for each of these vendor invoice submissions. The checklist adds several additional layers of internal controls and check points to the review and payment process to prevent the comingling of the Recovery Act funds. Also, CMP management met with staff that has a role in registering and processing invoices to answer Recovery Act-related processing questions, as well as to ensure staff understanding of the new process to facilitate compliance. The Office of the CFO/CMP is committed to strong internal controls and processes to minimize the risks of inaccurate payment and posting of Recovery Act funds. (2) USAID has staffed GLAAS with direct hires in the lead positions required to support the GLAAS project in all of the areas mentioned in the challenge documented above, with the exception of financial integration. For financial integration, USAID has instead integrated staff supporting the Phoenix System and financial management activities for the Agency directly into the GLAAS team, with oversight provided by the Office of the CFO. The GLAAS project brought in an outside consultant group to conduct an Independent Verification and Validation (IV&V) of its processes and deployment plan. With the findings in hand, the team implemented steps to ensure best practices were being followed, and processes were efficient and formalized. In addition, Integrated Baseline Reviews (IBR) have been held to review and refine project cost estimates and plans. This project management best-practice activity provided a firm understanding of the consolidated project cost and schedule through completion in June 2011. (3) An IV&V identified issues and associated recommendations related to the management of project artifacts, for which the GLAAS team has completed implementation of appropriate corrective actions. The GLAAS team has strengthened the document review process to ensure that all deliverables and other important project documents receive the appropriate review before being finalized. Documents are stored on shared drives (e.g., eRooms) for purposes of facilitating broad access across the entire GLAAS team. This includes important project management artifacts, such as the Risk Register, Project Control Account Plans, and Integrated Master Schedule. The project involves the use of other automated tools, such as DOORS (Dynamic Object-Oriented Requirements System) and JIRA for controlling, tracking, and monitoring the status of requirements and issues, respectively. The project follows formal processes for managing all activities, including processes designed to provide the necessary review and assessment of cost, schedule, technical, and risk impacts for purposes of determining whether to adopt any proposed changes. The GLAAS team established a formal Control Account Plan for carrying out the full range of activities necessary to complete the project, such as project management, software development, data migration, training, and help desk support. The plan includes detailed resource (staff and funding) requirements organized by the Work Breakdown Structure. The Control Account Plan, in conjunction with the Integrated Master Schedule, provides a comprehensive plan for the GLAAS project, which the GLAAS team monitors through formal management processes, including earned value, schedule, and risk management.

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FY 2009 MANAGEMENT AND PERFORMANCE CHALLENGES *(continued)*	
ACQUISITION AND ASSISTANCE *(continued)*	
Actions Remaining and/or Expected Completion Date	The Recovery Act invoice payments and tracking process has improved. Additional training and efficiencies have been incorporated to improve this process. The GLAAS direct-hire staff is adequate with all required lead positions filled. Management of GLAAS artifacts has improved. Standardization and improvement of all processes are continuously being addressed and implemented to ensure that project artifacts, expenditures, and processes are properly maintained and managed. **Target Completion Date:** March 31, 2010
Challenge	**Using Performance-Based Contracting.** The OIG audits have shown that USAID has not incorporated all of the Federal Acquisition Regulation (FAR) requirements for performance-based contracting for some of its procurements. For example, USAID did not always (1) incorporate meaningful performance standards to the maximum extent practicable, (2) use quality assurance surveillance plans, or (3) incorporate performance incentives into the task orders to the maximum extent practicable.
Actions Taken	Created a full-time position in the Office of Acquisition and Assistance (OAA) for a performance-based contracting expert to liaison between OAA and operating units.
Actions Remaining and/or Expected Completion Date	Target date to fill the position is January 30, 2010.
Challenge	**Monitoring Cost-Reimbursement Contracts.** USAID commonly uses cost-reimbursement contracts, which places a heavy burden on USAID operating units to sufficiently monitor the implementation of these awards to reasonably ensure that U.S. taxpayer funds are efficiently and effectively spent. Moreover, this method is more difficult to use to ensure that performance quality levels and desired outcomes are achieved.
Actions Taken	Continuing recruitment of general service and foreign service staff. Forty-three Development Leadership Foreign Service Officers (FSO) have joined the OAA. On September 30, 2009, the Agency awarded a contract for technical and advisory services for evaluation activities worldwide. It includes designing and implementing both quantitative and qualitative evaluation studies and assessments, developing evaluation training and guidance, and providing evaluation technical assistance for USAID development programs. The contract is administered by MPBP.
Actions Remaining and/or Expected Completion Date	**Target Completion Date:** December 2012

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FY 2009 MANAGEMENT AND PERFORMANCE CHALLENGES *(continued)*	
HUMAN CAPITAL MANAGEMENT	
Challenge	**Workforce Planning.** USAID needs to continue to implement its workforce planning to close skills gaps through recruitment, retention, training, succession planning, and other strategies.
Actions Taken	USAID has developed: (1) the Development Leadership Initiative (DLI), (2) the Human Capital Strategic Plan FY 2009-2013, and (3) a five-year workforce plan for the same period. The overall goal of the DLI is to double the size of the Foreign Service by 2012 and increase the civil service workforce to complement the larger Foreign Service. USAID has begun to implement the initiative and plans as follows: **Recruitment.** USAID brought on board more than 220 FSOs during FY 2009 and is on track to hire 300 FSOs within the 12-month period ending March 31, 2010. As of the halfway mark (September 30, 2009), the Agency has hired 181 of the 300. **Retention.** USAID has increased the funding for the student loan repayment program, which is having the intended positive impact on retention. **Training/Competency Management.** USAID has continued expanded outreach in training through e learning, field visits, and fellowships for foreign service national (FSN) employees. The Office of Human Resources (OHR) has also added the e-Individual Development Plan (e-IDP) functionality to the competency management assessments. OHR will pilot (beta test) e-IDP in the first quarter of FY 2010 with full implementation expected by the end of the third quarter of FY 2010. **Succession Planning.** The five-year workforce plan and its addendum provide a full description of USAID's succession planning program. Beginning in the first quarter of 2010 (and annually thereafter), OHR will update, amplify, refine, and post the new plan on the OHR web page. **Acquisition and Assistance Staff.** OHR has improved the integrity of its post personnel system to assess project needs accurately in field missions and in Washington for USAID's entire workforce, including acquisition and assistance professionals. Also, OAA undertook competency assessments in FY 2009 of all direct-hire contracting specialists and officers to identify skills gaps. The entire workforce planning process forms the basis for the Annual Budget submission and Congressional Budget Justification (CBJ) regarding workforce operating expense funds, for the overseas construction planning, and for new organization charts for each mission. Based on these analyses, OHR provides data to the Budget Office, and that data serve as the basis for a more accurate operating year staffing budget estimate by determining not only numbers of staff, but types and locations. The Budget Office uses OHR's numbers to set the proposed budget. Missions, bureaus, and offices come in with their recommendations. Headquarters, the Department of State, and the Office of Management and Budget (OMB) review and adjust actual numbers for the CBJ. OHR uses the Consolidated Workforce Planning Model (CWPM) to equitably redistribute whatever resources it can afford.
Actions Remaining and/or Expected Completion Date	USAID will continue implementing all aspects of the new human capital strategic plan and associated five-year workforce plan, which will be updated to reflect the strategic directives of the new administration based on the refined CWPM and include new plans to close both numbers and skills gaps through recruitment, retention, succession planning, and further roll-out of the competency management system in USAID's Learning Management System (LMS). Though the challenges of closing quantitative and qualitative gaps in USAID's workforce will never go away (i.e., USAID's people will continue to retire or move on and USAID's strategic objectives will change), USAID will have institutionalized its workforce planning process. This means there will be a process that provides Agency leaders with the necessary and timely information required to ensure that USAID has the workforce it needs to successfully accomplish its mission. **Target Completion Date:** September 30, 2010

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FY 2009 MANAGEMENT AND PERFORMANCE CHALLENGES *(continued)*	
INFORMATION TECHNOLOGY MANAGEMENT	
Challenge	**Implement Homeland Security Presidential Directive-12 (HSPD-12) Initiative.** USAID lacks the resources needed to carry out this government-wide initiative and relies on the Department of State's implementation plan until one can be developed for USAID. Ongoing and potential challenges include resource constraints and implementation of an approach that integrates USAID's overseas posts, while ensuring that USAID's implementation plan is consistent with the Department of State's role, and for overseeing U.S. Government offices operating overseas from a technical, policy, and management perspective.
Actions Taken	HSPD-12 identification (ID) cards were issued to all domestic USAID employees. Ronald Reagan Building physical access controls are in place domestically. Additional HSPD-12 ID cards were issued to new hires and those whose cards had expired.
Actions Remaining and/or Expected Completion Date	Full compliance for physical access controls overseas is contingent on Department of State implementation. While the Office of the Chief Information Officer (OCIO) is seeking funds to plan, design, pilot, and implement logical access controls to meet HSPD-12 requirements, such funds are not available at this time.
Challenge	**Implement Trusted Internet Connection (TIC) Initiative.** USAID offices overseas use the Internet as well as headquarters offices. Probable future challenges for USAID include: (1) obtaining resources to develop and implement an enterprise technical solution to centralize Internet access points, as well as (2) identifying, coordinating, and incorporating the Department of State's role of overseeing U.S. Government offices operating overseas from a technical, policy, and management perspective.
Actions Taken	USAID has selected a TIC provider (AT&T); procured TIC services from the vendor; coordinated with the vendor and the Department of Homeland Security (DHS) to plan, engineer, then implement USAID network changes to support the centralized Internet access point; plan for implementation of TIC services through AT&T; and begun the process to transition all USAID users worldwide to route through the centralized Internet access point. As of October 23, 2009, several hundred users in Washington have been transitioned to use the AT&T-provided Internet Service Provider (ISP) portal, including 15 pilot users located at headquarters. Also, all users in nine missions have been successfully transitioned. These missions are: Conakry, Freetown, Juba, Lilongwe, Ashgabat, Windhoek, Pristina, Georgetown, and Bogota. Change requests have been approved to move users in 32 more missions to the AT&T portal, and are being scheduled with mission management.
Actions Remaining and/or Expected Completion Date	The OMB-mandated government-wide deadline for obtaining TIC compliance is December 31, 2009. Remaining work USAID must accomplish by this deadline includes: completing the transition of users worldwide to route through the new centralized Internet access point, and implementation of TIC services required by DHS and OMB. **Target Completion Date:** December 31, 2009

SUMMARY OF FINANCIAL STATEMENT 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 shows 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 STATEMENT AUDIT

Table 1. SUMMARY OF FINANCIAL STATEMENT AUDIT

Audit Opinion: Unqualified

Restatement: No

Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
USAID Does Not Reconcile its Fund Balance with Treasury Account with the U.S. Treasury and Resolve Reconciling Items In a Timely Manner (Repeat Finding)	1	0	0	0	1
Total Material Weaknesses	**1**	**0**	**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**

(continued on next page)

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
None	0	0	0	0	0	0
Total Material Weaknesses	**0**	**0**	**0**	**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) ASSESSMENT

IMPROPER PAYMENT COMPLIANCE

To improve the integrity of the Federal Government's payments and the efficiency of its programs and activities, Congress enacted the Improper Payments Information Act (IPIA) of 2002 (Public Law (P.L.) 107-300). The IPIA contains requirements in the areas of improper payment identification and reporting. USAID is dedicated to reducing fraud, waste, and abuse by adequately reviewing and reporting programs susceptible to improper payments in accordance with IPIA and the Office of Management and Budget (OMB) Circular A-123 *Management's Responsibility for Internal Control*, Appendix C, *Requirements for Effective Measurement and Remediation of Improper Payments*. USAID has taken significant steps to reduce or eliminate the Agency's improper payments through comprehensive annual internal control reviews and substantive testing of payments in accordance with IPIA and OMB guidance. USAID requires the staff associated with payments to exercise the highest degree of quality control in all facets of the payment process and holds employees accountable for improper payments.

Appendix C of OMB Circular A-123 requires all Executive branch agencies to:

- Review all programs and activities and identify those that are susceptible to significant erroneous payments. OMB defines significant erroneous payments as those in any particular program or activity that exceed both 2.5% of program payments and $10 million annually.
- Obtain a statistically valid estimate of the annual amount of improper payments in programs and activities.
- Implement a plan to reduce erroneous payments.
- Report estimates of the annual amount of improper payments in programs and activities and progress in reducing them.

The IPIA defines improper payment as any payment that should not have been made or that was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements. Incorrect amounts are overpayments and underpayments (including inappropriate denials of payment or service). An improper payment includes any payment that was made to an ineligible recipient or for an ineligible service, duplicate payments, payments for services not received, and payments that are for the incorrect amount. In addition, when an agency's review is unable to discern whether a payment was proper as a result of insufficient or lack of documentation, this payment must also be considered an error.

USAID'S PROCESS

The USAID process for complying with the IPIA consists of four steps:

1. Identify all programs and administrative activities;
2. Perform a detailed risk assessment of all programs identified in the first step, for potential indicators of significant improper payments;
3. Statistical sample testing of payments by independent reviewers of all programs and activity payments to determine programs and activities susceptible to a significant improper payment level; and
4. Establish, execute, and monitor corrective action plans for reducing improper payments in the identified at-risk programs and activities.

The Office of the Chief Financial Officer (CFO) is responsible for reviewing all the Agency's payments in its programs and activities and for reporting erroneous payments annually. The above four-step process was conducted for the IPIA reporting period of July 1, 2008 through June 30, 2009.

IPIA REPORTING DETAILS

I. RISK FACTORS AND RISK ASSESSMENT

In FY 2008, the Office of the CFO developed its 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 July 2008. The Agency's risk assessment methodology consisted of weighting and scoring each of USAID's 13 payment streams.

For FY 2009, the Office of the CFO enhanced its IPIA review and risk assessment strategy by transitioning from a review of its 13 payment streams to performing a review and risk assessment of its 27 program areas and activities. The new approach enabled the Office of the CFO to substantiate programs that are significantly susceptible to improper payments in compliance with the IPIA and OMB Circular A-123, Appendix C. Additionally, the Office of the CFO provided IPIA risk assessment questionnaires to USAID's Overseas Field Missions' Financial Management Offices (FMO) to enable them to perform their individual risk assessment and evaluation process. The Agency's risk assessment methodology consisted of weighing and scoring each of USAID's 27 program areas based on risk factors, probability and impact of risk, and by assigning a rating of low, medium, or high. The ratings were based on the following risk factors for each program:

- Total value of disbursements;
- Total number of disbursement transactions (by accounting line);
- Total number of unique contractors and vendors;
- Total value of cancelled and returned payments;
- Total value of interest payments; and
- Degree of maturity or stability.

Based on the results of the risk assessments completed by the Overseas Field Missions' FMOs, together with the risk factors identified above, the Office of the CFO populated a risk matrix with qualitative data for each program (and risk condition. The qualitative data were used in conjunction with the scoring criteria to assign a risk score to each risk condition. The Office of the CFO used the risk condition scores and weighting formulas to determine an overall risk score, and identify programs at high risk of being susceptible to significant improper payments. As a result, none of the program areas met the OMB threshold requirements of significant erroneous payments, which are defined as annual erroneous payments in the program exceeding both 2.5% of program payments and $10 million. However, based on the risk assessment results, the Office of the CFO deemed the Health and Education programs susceptible to significant erroneous payments due to the additional aforementioned risk factors. The FY 2009 risk assessment results formed the baseline for future assessments. Accordingly, the Office of the CFO's IPIA review was performed across all program areas including those that were not deemed susceptible to significant erroneous payments. The assessed risk for each program area can be found in Table 2 on page 133.

II. STATISTICAL SAMPLING

The objective of sampling all program areas for the period July 1, 2008 through June 30, 2009 was to:

- Select a statistically random sample of sufficient size to yield an estimate with a 90% confidence interval of plus or minus 2.5 percentage points around the estimate of the percentage of erroneous payments;
- Select a sample from all the items that compose the population so that each item has an opportunity for selection; and
- Select a representative sample to reach a conclusion on the error rate by projecting the results of the sample to the population and calculating the estimated amount of improper payments made in those programs (gross total of both over and under payments, i.e., not the net of over and under payments).

The sample size was determined using the sample size formula provided in Appendix C of OMB Circular A-123. Results produced a minimum of 45 samples (or 45 accounting lines) for each program or a minimum total of 1,215 samples, which meets the precision requirements specified in Appendix C of OMB Circular A-123.

$$n \geq \frac{2.706(1-P)}{\left(\frac{.025}{P}\right)^2 P}$$

Where n is the required minimum sample size and P is the estimated percentage of erroneous payments.

An analysis of the total number of accounting lines and dollar amounts by program area can be found in Table 1.

Code	Description	Samples Selected	Total Accounting Lines	Total Dollar Amount
Table 1. ANALYSIS OF SAMPLES BY PROGRAM AREA *($ in Millions)*				
A01	Counterterrorism	38 (a)	1,166	$ 14
A02	Combating Weapons of Mass Destruction (WMD)	19 (b)	214	0.37
A03	Stabilization Operations and Security Sector Reform	61	2,595	360
A04	Counternarcotics	49	4,817	379
A05	Transnational Crime	59	5,953	25
A06	Conflict Mitigation and Reconciliation	59	12,987	300
A07	Rule of Law and Human Rights	53	12,629	172
A08	Good Governance	52	25,262	885
A09	Political Competition and Consensus Building	76	12,885	213
A10	Civil Society	81	18,140	358
A11	Health	150	71,842	4,631
A12	Education	80	22,295	632
A13	Social and Economic Services and Protection for Vulnerable Populations	75	5,989	274
A14	Macroeconomic Foundation for Growth	40 (a)	7,349	691
A15	Trade and Investment	56	14,476	167
A16	Financial Sector	44 (a)	8,307	424
A17	Infrastructure	68	12,141	633
A18	Agriculture	67	19,205	405
A19	Private Sector Competitiveness	60	15,418	287
A20	Economic Opportunity	58	9,366	260
A21	Environment	71	18,435	242
A22	Protection, Assistance, and Solutions	91	23,754	1,834
A23	Disaster Readiness	63	4,590	52
A24	Migration Management	22 (b)	146	0.04
A25	Crosscutting Management and Staffing	96	82,041	214
A26	Program Design and Learning	3 (b)	80	0.55
A27	Administration and Oversight	42 (b)	3,322	14
	Total Samples	**1,633** (c)	**415,404**	**$ 13,467**

(a) For testing Recovery Auditing transactions remotely by the Overseas Field Missions, the Agency did not select a separate and distinct sample. Samples under the contract payment stream designation were transferred from the IPIA test pool for testing under Recovery Auditing. These program areas were also considered low risk.

(b) For testing the fourth quarter of FY 2008 and third quarter of FY 2009, the Agency modified the test population to include only those accounting lines with values exceeding $20,000. The change in the sampling methodology caused the total samples tested for improper payments to fall below the calculated minimum of 45 accounting lines for each program. These program areas were also considered low risk.

(c) In summary, the Agency tested 418 samples above the required minimum total of 1,215 to meet the precision requirements specified in Appendix C of OMB Circular A-123.

III. CORRECTIVE ACTION PLAN

USAID has rated seven of its 27 programs as moderately susceptible to improper payments due to the high-dollar value of these programs. The seven identified programs are Protection Assistance and Solutions, Good Governance, Environment, Trade and Investment, Agriculture, Infrastructure, and Crosscutting Management and Staffing. These programs continue to be analyzed, reconciled, and closely monitored by the Office of the CFO to ensure compliance with the provisions of the IPIA, Agency policies, and governing agreements. Because of this effort, the error rate for these programs continues to be less than OMB's error rate of 2.5%. 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 and 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 a challenge 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 continues to use aerial observations and ground systems that enable management to monitor progress of construction activities remotely.

The Office of the CFO compiles and consolidates the reconstruction and assistance program activities in both Afghanistan and Iraq into monthly reports, which are distributed to stakeholders and 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 Office of the CFO 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 for 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 Cash Management and Payment (CMP) Division staff 2010 work plans to ensure compliance with IPIA.

Interest Payments

In FY 2009, program payments included approximately $48,000 in late payment interest. Comparatively, the Agency reduced its late payment interest by $8,000 during the reporting period. This interest payment reduction effort is due to the collaborative due diligence of the staff who are working conscientiously to attain the goals and mission of the Agency. 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. 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 Office of the CFO also documents all processes to ensure consistent application of procedures and corrective action plans. To ensure competency, the Office of the CFO staff employees attend Agency-funded training classes that cover the Prompt Payment Act, Accounts Payable, and Agency regulations regarding payments.

Treasury Returned Payments

Treasury returned payments constitute the highest amount of improper payments under the Agency's programs and activities. To mitigate the effects of Treasury returned payments, the Agency has developed internal controls, which require validation of vendor information before issuing a payment. The Agency offers training to staff members on payment processes that include validation of vendor information and ensuring a claim is valid for payment in accordance with the Prompt Payment Act. In addition, the Office of the CFO reviews daily Treasury disbursement reports for returned payments. If the Treasury report discloses returned payments, the Office of the CFO addresses the issue by requiring the appropriate staff to contact the vendor for current information in order to reissue the payment.

Other Program Areas and Activities

Although the FY 2009 risk assessment concluded that 18 of the 27 programs had a low risk for improper payments and the error rate remained 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, the Agency considers all high profile and high-dollar programs as risk-susceptible and subjects them to further analysis, review, and scrutiny.

Accruals

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 the accrual basis of accounting 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. Contracting Officer's Technical Representatives (COTR), 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 Office of Inspector General (OIG), grantees, and sub-grantees.

OMB Circular A-133 requires an audit of the entire universe of Federal awards, including sub-awards. Therefore, the auditor will question any excess billing or amount that is unallowable. 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 Office of the CFO 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

IV. PROGRAM IMPROPER PAYMENT REPORTING

Table 2 reflects the program areas, risk assessed, accounting lines, and disbursements for the FY 2009 reporting period. Table 3 reflects a total overpayment of $38 million (rounded) and the improper payment rate for individual program areas.

Table 2. TOTAL RISK ASSESSED, ACCOUNTING LINES, AND DISBURSEMENTS FOR FY 2009

Program Areas	Risk Assessed	Accounting Lines	Disbursements (*$ in Millions)*
A01 – Counterterrorism	Low	1,166	$ 14
A02 – Combating Weapons of Mass Destruction (WMD)	Low	214	0.37
A03 – Stabilization Operations and Security Sector Reform	Low	2,595	360
A04 – Counternarcotics	Low	4,817	379
A05 – Transnational Crime	Low	5,953	25
A06 – Conflict Mitigation and Reconciliation	Low	12,987	300
A07 – Rule of Law and Human Rights	Low	12,629	172
A08 – Good Governance	Medium	25,262	885
A09 – Political Competition and Consensus Building	Low	12,885	213
A10 – Civil Society	Low	18,140	358
A11 – Health	High	71,842	4,631
A12 – Education	High	22,295	632
A13 – Social and Economic Services and Protection for Vulnerable Populations	Low	5,989	274
A14 – Macroeconomic Foundation for Growth	Low	7,349	691
A15 – Trade and Investment	Medium	14,476	167
A16 – Financial Sector	Low	8,307	424
A17 – Infrastructure	Medium	12,141	633
A18 – Agriculture	Medium	19,205	405
A19 – Private Sector Competitiveness	Low	15,418	287

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Table 2. TOTAL RISK ASSESSED, ACCOUNTING LINES, AND DISBURSEMENTS FOR FY 2009 *(continued)*

Program Areas	Risk Assessed	Accounting Lines	Disbursements *($ in Millions)*
A20 – Economic Opportunity	Low	9,366	260
A21 – Environment	Medium	18,435	242
A22 – Protection, Assistance, and Solutions	Medium	23,754	1,834
A23 – Disaster Readiness	Low	4,590	52
A24 – Migration Management	Low	146	0.04
A25 – Crosscutting Management and Staffing	Medium	82,041	214
A26 – Program Design and Learning	Low	80	0.55
A27 – Administration and Oversight	Low	3,322	14
Totals		**415,404**	**$ 13,467**

Table 3. IMPROPER PAYMENT (IP) REDUCTION OUTLOOK[(a)]

(In Millions)

	Prior Year (2008)		
Program	**PY Outlays**	**PY IP %**	**PY IP $**
USAID Payment Streams	$ 12,632	.85%	$ 107
	2009		
Program Areas	**CY Outlays**	**CY IP %[(b)]**	**CY IP $[(c)]**
A01 – Counterterrorism	$ 14	0.06%	$ 0.09
A02 – Combating Weapons of Mass Destruction (WMD)	0.37	0.00%	-
A03 – Stabilization Operations and Security Sector Reform	360	0.00%	0.02
A04 – Counternarcotics	379	0.07%	0.27
A05 – Transnational Crime	25	0.02%	0.05
A06 – Conflict Mitigation and Reconciliation	300	0.07%	0.21
A07 – Rule of Law and Human Rights	172	0.07%	0.12
A08 – Good Governance	885	0.19%	2
A09 – Political Competition and Consensus Building	213	0.12%	0.25
A10 – Civil Society	358	0.06%	.023
A11 – Health	4,631	0.41%	19
A12 – Education	632	0.22%	1
A13 – Social and Economic Services and Protection for Vulnerable Populations	274	0.06%	0.02
A14 – Macroeconomic Foundation for Growth	691	0.06%	0.41
A15 – Trade and Investment	167	0.91%	1
A16 – Financial Sector	424	0.30%	1
A17 – Infrastructure	633	0.59%	4
A18 – Agriculture	405	0.21%	1
A19 – Private Sector Competitiveness	287	0.34%	1
A20 – Economic Opportunity	260	0.19%	0.50
A21 – Environment	242	0.82%	2
A22 – Protection, Assistance, and Solutions	1,834	0.15%	3
A23 – Disaster Readiness	52	0.07%	0.04
A24 – Migration Management	0.04	0.52%	0
A25 – Crosscutting Management and Staffing	214	0.43%	1
A26 – Program Design and Learning	0.55	0.41%	0
A27 – Administration and Oversight	14	0.07%	0
Totals	**$ 13,467**	**0.28% [(c)]**	**$ 38**

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Table 3. IMPROPER PAYMENT (IP) REDUCTION OUTLOOK *(continued)* *(In Millions)*									
	2010			**2011**			**2012**		
Program	**(CY+1) Outlays[(d)]**	**(CY+1) IP %[(d)]**	**(CY+1) IP $**	**(CY+2) Outlays**	**(CY+2) IP %**	**(CY+2) IP $**	**(CY+3) Outlays**	**(CY+3) IP %**	**(CY+3) IP $**
Program Areas	$ 14,141	0.20%	$ 28	$ 14,848	0.12%	$ 18	$ 15,590	0.04%	$ 6

(a) FY 2008 included the following payment streams: Cash Transfers, Contracts, and Grants and Cooperative Agreements. For FY 2009, based on GAO's recommendations, the Office of the CFO enhanced its IPIA review by transitioning from a review of payment streams to performing a review of USAID's 27 program areas and activities. Therefore, the reduction outlook targets are now based on program areas, which include the payment streams as they identify the types of payments within each program area.

(b) The improper payment error rate for each program area is calculated by dividing the improper payment amount by the outlays.

(c) The improper payment rate of 0.28 percent for all program areas is calculated by dividing total improper payments of $38,000,000 (rounded) by total outlays of $13,467,000,000 (rounded).

(d) An improper payment reduction of 0.08 percent is estimated for FY 2010, FY 2011, and FY 2012. A growth rate of five percent is estimated for FY 2010, FY 2011, and FY 2012.

Source of Data:

- Total Disbursements from July 1, 2008 through June 30, 2009 from the USAID's financial system, Phoenix
- Office of the CFO/CMP reports and vouchers
- Washington and Overseas Field Missions Test Results

V. RECOVERY AUDITING EFFORT

The National Defense Authorization Act for FY 2002, Section 831 (P.L. 107-107, codified at 31 U.S.C. §§ 3561-3567), also known as the Recovery Auditing Act, requires agencies that enter into contracts with a total value in excess of $500 million in a fiscal year to carry out a cost-effective program for identifying errors made in paying contractors and for recovering amounts erroneously paid to the contractors. A required element of such a program is the use of recovery audits and recovery activities.

The Agency issued contracts exceeding $1.7 billion during FY 2009. Contract payments represented approximately 30% of Agency-wide payments for the Recovery Auditing FY 2009 reporting period (July 1, 2008 through June 30, 2009). The Agency is committed to the assurance of payment accuracy. The Office of the CFO continued to make significant progress and improvements in its Recovery Auditing efforts. The Office of the CFO's CMP Division engaged the CFO's A-123 Assessment Team of external contractors to establish and implement a cost-effective program for identifying errors made in paying contractors in compliance with the Recovery Auditing Act and the revised OMB Circular A-123, Appendix C *Requirements for Effective Measurement and Remediation of Improper Payments* Part II, Recovery Auditing guidance.

Through the recovery auditing efforts of the A-123 assessment team, the Agency has gained valuable efficiencies including dedicated resources; enhanced internal controls; standardized processes and documentation; progress in complying with laws, regulations, standards, guidance, and recommendations from the government community; and strengthened focus on identifying and preventing contract payment errors, resulting in overpayments.

Efforts included the implementation and performance of an extensive, Agency-wide post-payment test and review process for identifying overpayments to contractors during the reporting period. The recovery audit process consisted of quarterly assessments, performed both internally by field mission personnel and independently by the A-123 assessment team. The post-payment tests and reviews were conducted over a 12-month period. The payment request and supporting documentation, contracts and contract modifications, and related information from the financial management system were evaluated to determine the accuracy of the payment and potential amounts to be recovered.

Contract testing was performed using the following four-tier review process to identify potential contract overpayments resulting from duplicate payments; errors on invoices or financing requests; failure to reduce payments by applicable sales discounts, cash discounts, rebates, or other allowances; payments for items not received; mathematical or other errors in determining payment amounts and executing payments; and the failure to obtain credit for returned merchandise.

- first tier – potential duplicate payments;
- second tier – interest payments;
- third tier – cancelled payments; and

- fourth tier – all payments made to contractors during the reporting period.

The A-123 assessment team traveled to nine field missions across four regional bureaus and performed tests of contracts and contract payments. The team also perform%ed substantial testing at the Washington headquarters. In addition, the Office of the CFO's Audit Performance and Compliance (APC) Division, CMP, and the A-123 assessment team established tests procedures and selected samples of contract payments to be reviewed internally by field mission personnel, whose payments were captured in the core financial management system. The results of the internal assessments were reviewed, compiled, and summarized by the A-123 assessment team.

In addition to the post-payment tests and reviews, the Agency also prevents overpayments and underpayments through other post-payment methods and prepayment initiatives. Prepayment initiatives consist of multiple levels of completeness, existence, and accuracy reviews. Other post-payment review methods consist of performance and contract audits.

A general description and evaluation of other significant steps taken to detect overpayments to contractors resulting from payment errors include the development and implementation of a Recovery Audit Program, the identification of classes of contracts that have a higher potential for payment errors, statistical sampling, independent testing, performance of quality assurance reviews resulting from internal testing, and the leverage of the results of other internal and external assessments.

The Recovery Audit Program establishes the overall plan for the performance of recovery audits and reviews of recovery activities. It is intended to assist in successfully implementing recovery auditing as part of an overall program of effective internal control over contract payments. The Recovery Audit Program includes the planning, on-site testing, remote testing, documentation of results and maintaining documentation, and reporting phases. The program provides procedures to:

- Facilitate adherence to the requirements of the Recovery Audit Act and OMB Circular A-123, Appendix C Part II, which emphasizes identifying and preventing overpayments to contactors and OMB Circular A-136 Recovery Auditing reporting requirements;
- Provide direction to determine the nature and extent of the test work, including the means to capture results;
- Perform tests, reviews, and evaluation of results;
- Facilitate annual reporting;
- Ensure all staff involved in the testing are aware of the steps; and
- Ensure all steps are carried out to the satisfaction of USAID.

The annual A-123 Appendix A, *Risk Assessment and Monitoring Processes*, incorporates a review of prepayment and payment controls under the accounts payable business process, which decreases the probability of improper payments. In addition, a risk assessment was developed, performed, and documented specifically to identify those classes of contracts that have a higher potential for payment errors. In coordination with the processes implemented at headquarters, the field missions conducted internal risk assessments to identify the strengths and weaknesses surrounding improper payments including overpayments. As FY 2009 commenced the first assessment period under the established Recovery Audit Program, all classes of contracts and contract payments were considered for recovery audits. There were no classes of contracts excluded from recovery auditing.

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 Chief Financial Officer*	$ 4,380	$ 342	$ 31	$ 31	$ 69	$ 69	$ 100	$ 100
Office of Inspector General	$ 8,011	$ 8,011	$ 23	$ 23	$ 44	$ 44	$ 67	$ 67

*The Office of the CFO's CMP Division engaged the CFO's A-123 assessment team of external contractors to establish and implement a cost-effective program for identifying errors made in paying contractors in compliance with the Recovery Auditing Act. Through these efforts, the A-123 assessment team identified total contract disbursements (payments) subject to review, amounts for recovery, and actual amount recovered for FY 2009.

Recovery Auditing and Activity Results for the Office of the CFO

- The total amount subject to review represents the total dollar value of contract disbursements (payments) in the core financial management system during July 1, 2008 through June 30, 2009, by accounting line.
- The actual amount of reviewed and reported represents the total dollar value of disbursements by accounting line selected for internal and independent testing.
- Amounts identified for recovery represent the total dollar value of the erroneous (overpaid) portion of the payment.
- Amounts recovered represent the total dollar value of successful collection activities conducted by CMP and the field mission accounting stations.
- Amounts identified for prior year recovery represent the amount of overpayments for the contracts payment stream reported under IPIA in FY 2008.
- Amounts recovered for prior year represent the amount of overpayments for the contracts payment stream reported under IPIA in FY 2008. The total overpayment was recovered in FY 2008.

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 $500,000 or more in Federal awards are subject to an OMB Circular A-133 financial audit, which is reviewed by the Agency's OIG. All foreign nonprofit organizations that expend $300,000 during their fiscal year in USAID awards are subject to a recipient-contracted audit (RCA) performed by approved Certified Public Accountant (CPA) firms which are reviewed by the 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 insure that payments to recipients are accurate and proper. The OIG tracks audit review activities in the Consolidated Audit Compliance System (CACS) while the Office of the CFO reviews and calculates the improper payment rate for these programs. In FY 2009, the cumulative audited amount recorded in CACS totaled $8 billion. $23 million of the total audited amount was identified as excess billing and the total $23 million was fully recovered during FY 2009.

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 agreements 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 controller's office for field audits or Washington Financial Services (WFS) for USAID/Washington audits to establish an accounts receivable. Barring any debt 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.

Significant recovery auditing accomplishments for FY 2009 include the following:

- Successful implementation of the Government Accountability Office (GAO) 2007 audit recommendations through the creation and maintenance of documentation retention, the development of a comprehensive recovery auditing program that is specifically designed to identify overpayments to contractors that are due to payment errors, and adherence to OMB's guidance for reporting recovery auditing information in the annual Agency Financial Report (AFR).
- An evaluation of approximately $342 million in contract payments were reviewed for correctness. Of that amount, $31 million of overpayments (less than 1% of the *Amount Subject to Review* and 10% of the *Actual Amount Reviewed and Reported*) were identified and $31 million was recovered during the fiscal year.

Corrective Actions and Management Improvements

The root cause of amounts identified for recovery represented mathematical errors, erroneous payments of interest for non-late payments and the selection of the incorrect prompt payment type code, payments to the wrong vendor, bank routing errors, payments for disallowed costs, allowance payments to personal service contractors after the discontinuance of the allowance, lack of supporting documentation, and interest payments due to late payments.

Although the Agency defines interest payments as overpayments, the amount of late payment interest to contractors ($38,613.05) was not included in the amounts identified for recovery. However, the analysis was captured in the IPIA review.

To address the root causes of payment errors, CMP and the field mission accounting stations have identified improvements and corrective actions to reduce or eliminate occurrences of root causes. Those plans include:

1. The recalculation of invoice for arithmetical accuracy;
2. A review of payment instructions to ensure the proper vendor and vendor code are selected,
3. A review of contractor bank information for validity and agreement to the core financial management system prior to payment;
4. An assessment of risk and review of management controls to assure that they are operating as intended,
5. Performance of periodic reviews of agreements and contracts on terms of payments;
6. And periodic reviews of processed payments.

Payments to the wrong vendors and bank routing errors constituted a large volume of overpayments. 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 U.S. Government. CCR collects, validates, stores, and disseminates data in support of Agency acquisition activities. 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 implemented a management improvement program to address the flaws in the Agency's internal controls over contractor payments discovered during the course of implementing the Recovery Audit Program, and other control activities over contractor payments. The management improvement program establishes a vendor code clean-up process 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.

VI. REMEDIAL ACTION

- Existing control processes and the implementation of the OMB Circular A-123, *Managements Responsibility for Internal Controls* revised Appendix A requirements to 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. With contractor support, the Office of the CFO is assessing 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 A-123 team will continue to monitor internal controls throughout FY 2010 and subsequent years.
- The Office of the CFO and the OIG will 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:

  1. Obtain assurances of the Agency's compliance with the Federal Managers' Financial Integrity Act (FMFIA) of 1982, the Federal Financial Management Improvement Act (FFMIA) of 1996, and the IPIA;
  2. Enhance the Agency's internal financial controls; and
  3. Resolve financial management issues in a more efficient and timely manner.
- The Agency has implemented all of GAO's 2007 audit recommendations by engaging the services of independent contractors (A-123 Assessment Team) to perform improper payment testing, recovery auditing, and assist in the development of processes and procedures to implement GAO's recommendations.
- With contractor support, the Office of the CFO will develop an OMB Circular A-123 Compliance Procedures Manual, which addresses Appendix C, *Requirements for Effective Measurement and Remediation of Improper Payments*.

The IPIA section of the procedures manual will contain detailed procedures on:

1. Performing a risk assessment based on programs and activities;
2. Sampling methodology for selecting sample transactions for testing in accordance with OMB A-123 Appendix C and the GAO Federal Accounting Manual;
3. Testing sampled transactions for USAID headquarters and the missions for a 12 month reporting period in order to determine an estimate of improper payments by program areas;

4. Identifying monitoring procedures and corrective action to reduce improper payments; and

5. Compiling and reporting mechanisms to facilitate the annual reporting requirements of improper payments to OMB.

- Developed a risk assessment framework using several external resources such as the Committee of Sponsoring Organizations of the Treadway Commission, which issued the Enterprise Risk Management-Integrated Framework, and GAO Internal Control Management and Evaluation Tool. The risk assessment matrix tool for the first year addressed the following risk factors for each program:
  - Total value of disbursements;
  - Total number of disbursement transactions by accounting line;
  - Total number of unique contractors and vendors;
  - Total value of cancelled and returned payments;
  - Total value interest payments; and
  - Degree of maturity or stability.

Each of USAID's 27 program areas is weighed with a risk level based on probability and impact scoring. The results of this risk assessment scoring matrix will be used to identify: (1) which program areas will be susceptible to significant erroneous payments, (2) what those risks are, and (3) the impact of those risks.

- Dedicated a shared database to maintain documentation of all actions performed to address IPIA and the Recovery Auditing Act requirements. In addition, developed a compilation spreadsheet and folders to contain all of the risk assessments information received from the Overseas Field Missions. Test Plans and workbooks for reviewing sample transactions for IPIA and Recovery Auditing Act testing were developed and being maintained in the IPIA database.

- Developed a Recovery Audit Program that establishes the overall plan for the performance of recovery audits and review of recovery activities. It is intended to assist in successfully implementing recovery auditing as part of an overall program of effective internal control over contract payments. The Recovery Audit Program includes the planning, on-site testing, remote testing, documentation of results and maintaining documentation, and reporting phases. The program provides procedures to:
  - Facilitate adherence to the requirements of the Recovery Audit Act and OMB Circular A-123, Appendix C Part II with emphasis on identifying and preventing overpayments to contactors and OMB Circular A-136 Recovery Auditing reporting requirements;
  - Provide direction in terms of determining the nature and extent of the test work, including the means to capture results;
  - Perform tests, reviews, and evaluation of results;
  - Facilitate annual reporting on the recovery auditing program in the AFR;
  - Ensure all staff involved in the testing are aware of the steps; and
  - Ensure all steps are carried out to the satisfaction of USAID.

- Continue to adhere to OMB's guidance for reporting recovery auditing information in the AFR.

VII. AGENCY INFORMATION SYSTEMS AND OTHER INFRASTRUCTURE

Phoenix

In 1999, USAID initiated the Phoenix project to implement a single Agency-wide integrated core financial system. Configured for USAID, Phoenix is a commercial off-the-shelf, web-based financial management system. USAID implemented Phoenix in USAID/Washington in December 2000 and completed deployment to 51 USAID missions in May 2006. Having replaced the New Management System (NMS) and Mission Accounting and Control System (MACS) legacy financial management systems, Phoenix is now USAID's accounting system of record worldwide.

The successful implementation of Phoenix allowed USAID to assert compliance with FFMIA and removed a major material weakness on USAID's financial statements.

The Phoenix project is now in its post-deployment "steady state" phase. Steady state entails ongoing maintenance and support, implementing Phoenix enhancements and initiatives, developing interfaces between Phoenix and other systems, and extending Phoenix as an integral component of Agency operations and program management. Agency employees with authorized access to the worldwide financial system are now able to continuously monitor, review, analyze, and reconcile financial data. This process culminates in reducing the risk of improper payments. The Agency will start upgrading Phoenix to a newer version in 2010 and anticipates completion of the upgrade by the end of 2011. The Agency anticipates that the upgrade will further streamline the Agency's business processes and financial integrity thus minimizing the risk of making improper payments.

Global Acquisition and Assistance System

The Global Acquisition and Assistance System (GLAAS) is a worldwide web-based system that manages awards throughout USAID's acquisition and assistance lifecycle, including reporting and administration. GLAAS supports USAID's mission by tracking development resources more accurately to ensure effective management of programs and budgets and facilitate timely and accurate reporting to OMB, Congress, and other stakeholders. GLAAS meets the unique functional and technical procurement requirements of the Agency and is fully interfaced with the Agency's financial system of record, Phoenix. In addition, GLAAS supports E-Government initiatives, and streamlines and automates the acquisition and assistance processes and procedures. GLAAS helps to ensure quality control with automated validations and gives users easy access to templates and Agency-standard forms. The Agency anticipates it will completely roll out GLAAS worldwide by the end of FY 2011.

VIII. STATUTORY AND REGULATORY BARRIERS

Staff shortage continues to 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 control deficiency and is considering remedial steps that would mitigate the effects of the staff shortage in reducing improper payments.

IX. ADDITIONAL COMMENTS

- The availability of the Agency's financial data in Phoenix has greatly enhanced internal controls and transparency of the entire Agency's financial activities. It has implemented procedures where current financial data is subject to various monthly reviews and cross referenced with other internal and external reports, including:.
  - Funds returned from U.S. Treasury;
  - Late payment interest abstracted from Phoenix for the entire Agency; and
  - Developed several other systems reports and tools to aid in the identification and review of possible worldwide erroneous/duplicate payments.
- Internal and external payable reviews by the Office of the CFO resulted in:
  - Enhanced internal control procedures
  - Expanded approach of IPIA reviews
- Re-evaluated existing IPIA review processes and further defined IPIA approach and strategy for FY 2010.
  - The Office of the CFO staff are documenting the Agency's overall IPIA strategy and review practices;
  - Contract team provided the Agency sample transactions based on their independent review and analysis of the program area data provided by the Office of the CFO; and
  - Learned the value of extending reviews to other internal and external reports. This allowed the Agency to leverage the work and actions previously completed by individuals with expert knowledge leading to less duplication of effort and greater independence and transparency.

FY 2010 PLANNED ACTIVITIES

During FY 2010, USAID will take the following actions to minimize the risk of improper payments:

- Continue using independent contractor assistance to perform risk assessments of appropriate program areas and classes of contracts and review samples of transactions/accounting lines for identifying improper payments, including overpayments to contractors;
- Perform quarterly IPIA and Recovery Auditing tests of transactions; the contractors have developed instructional guidelines and workbooks with test steps for mission personnel;
- Continue using contractors to perform on-site IPIA and Recovery Auditing testing of transactions for improper payments and overpayments to contractors, respectively, at nine to 10 missions annually;
- Develop guidelines for performing monthly reviews of cancelled and returned payments and interest payments as an action to minimize the risk of improper payments; and
- Perform quarterly reviews of postings to the CACS to identify contractors cited for improper payments and implement steps to minimize these improper payments in future periods.

In summary, the Agency considers reviews to minimize improper payments as ongoing activities that should be performed throughout the fiscal year.

APPENDICES

***(Above)* A woman from the Lien Chau commune in Vietnam totes emergency supplies paid for by USAID after flooding swamped parts of the country in 2008. Her rice fields were flooded, some of the 265,000 hectares of crops ruined. USAID worked with the Red Cross to provide relief.**

PHOTO: RICHARD NYBERG / USAID

***(Preceding page)* A woman hands out graduation certificates to Afghans who have completed a USAID-funded carpet weaving training program. The program aims to teach women a skill they can use to generate income for themselves and their families.**

PHOTO: JULIE FOSSLER / USAID

APPENDIX A. PERFORMANCE INDICATORS DATA NOTES

1. Please note that results from funds requested for a given fiscal year frequently occur after the fiscal year for which they were requested. Therefore, funds requested for FY 2010 can be expected to also impact targets for FY 2011 and possibly beyond, just as results for FY 2008 were achieved using a combination of funding from current and previous fiscal years.

2. New Indicator for FY 2009. Collection on this indicator began in 2006, and it was selected as representative of Agency programming in Peace and Security for FY 2009.

3. Data Source: FY 2008 Performance Reports from Afghanistan, Bolivia, Colombia, Ecuador, and Peru as collected in the Foreign Assistance and Tracking Coordination System (FACTS).

4. Data Quality: Performance data are verified using data quality assessments (DQA) and must meet five data quality standards of validity, integrity, precision, reliability, and timeliness. The methodology used for conducting the DQAs must be well documented by each operating unit. (For details, refer to USAID's Automated Directives System [ADS] Chapter 203.3.5, *http://www.usaid.gov/policy/ads/200/203.pdf*).

5. Data Source: FY 2008 Performance Reports from Afghanistan, Ethiopia, Haiti, Indonesia, Kenya, Kosovo, Nepal, Nigeria, Somalia, Sudan, Uganda, the Bureau for Democracy, Conflict, and Humanitarian Assistance (DCHA), the East Africa Regional Bureau, and the West Africa Regional Bureau as collected in FACTS.

6. Data Source: FY 2008 Performance Reports from Albania, Angola, Armenia, Azerbaijan, Bolivia, Bosnia and Herzegovina, Cambodia, China, Colombia, Democratic Republic of Congo, Dominican Republic, Egypt, El Salvador, Georgia, Guatemala, Haiti, Honduras, Indonesia, Kazakhstan, Kosovo, Liberia, Macedonia, Mexico, Moldova, Mongolia, Nepal, Nicaragua, Pakistan, Panama, Philippines, Serbia, South Africa, Sudan, Tajikistan, Thailand, Timor-Leste, Turkmenistan, Ukraine, Vietnam, and West Bank and Gaza as collected in FACTS.

7. Data Source: FY 2008 Performance Reports from Afghanistan, Angola, Bolivia, Bosnia and Herzegovina, Cambodia, Colombia, Democratic Republic of the Congo, Dominican Republic, Egypt, Georgia, Guatemala, Guyana, Haiti, Indonesia, Jordan, Kosovo, Liberia, Macedonia, Mexico, Mongolia, Nepal, Philippines, Serbia, Sudan, Thailand, Ukraine, and West Bank and Gaza as collected in FACTS.

8. Results for this indicator are achieved jointly with the Department of State.

9. Data Source: FY 2008 Performance Reports from Albania, Angola, Armenia, Azerbaijan, Bangladesh, Bolivia, Cambodia, Dominican Republic, Ecuador, Ghana, Guatemala, Guinea, Indonesia, Kenya, Morocco, Nicaragua, Nigeria, Pakistan, Philippines, Russia, Sierra Leone, Somalia, Timor-Leste, Yemen, Zimbabwe, USAID DCHA, USAID Southern Africa Regional, and USAID West Africa Regional as collected in FACTS.

10. Data Source: FY 2008 Performance Reports from Armenia, Azerbaijan, Belarus, Cambodia, Colombia, Cuba, Ethiopia, Guinea, Haiti, Indonesia, Kenya, Kosovo, Macedonia, Morocco, Nigeria, Peru, Serbia, Uganda, and Zimbabwe as collected in FACTS.

11. Data Source: FY 2008 Performance Reports from Albania, Armenia, Bangladesh, Bosnia and Herzegovina, Burma, Burundi, Cambodia, Egypt, Guinea, Haiti, Honduras, Indonesia, Kazakhstan, Kenya, Kosovo, Kyrgyz Republic, Lebanon, Liberia, Mexico, Moldova, Montenegro, Nicaragua, Nigeria, Peru, Senegal, Serbia, Somalia, Sri Lanka, Uganda, West Bank and Gaza, Zimbabwe, State Near East Regional, USAID Africa Regional, USAID DCHA, and East Africa Regional as collected in FACTS.

12. The *NGO Sustainability Index* (NGOSI) for Europe and Eurasia covers Southern Tier countries where the U.S. Government is providing assistance: Albania, Bosnia, Bulgaria, Croatia, Kosovo, Macedonia, Montenegro, Romania, and Serbia. Although a small number of the countries closed their programs in FY 2008, the U.S. Government will continue to monitor them for residual effects. NGOSI scores are measured on a scale of 1 to 7, with 7 indicating a poor level of development and 1 indicating advanced progress. Each country report provides an in-depth analysis of the non-governmental organization (NGO) sector and comparative scores for prior years. The full report and rating methodology are usually published in May for the prior year and can be found on USAID's Europe and Eurasia Bureau website, *http://www.usaid.gov/locations/europe_eurasia/dem_gov/ngoindex/*.

13. Data Quality: This indicator has been used by USAID missions, in-county entities, and other donors and development agencies throughout the past 10 years. Individual country scores are reviewed by an editorial committee consisting of USAID and country experts.

14. The NGOSI for Europe and Eurasia covers 12 countries in Eurasia where the U.S. Government provides assistance: Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine, and Uzbekistan. NGOSI scores are measured on a scale of 1 to 7, with 7 indicating a poor level of development and 1 indicating advanced progress. Each country report provides an in-depth analysis of the NGO sector and comparative scores for prior years. The full report and rating methodology are usually published in May for the prior year and can be found on USAID's Europe and Eurasia Bureau website, *http://www.usaid.gov/locations/europe_eurasia/dem_gov/ngoindex/*.

15. Data Source: Semi-Annual and Annual Progress Reports as captured in U.S. Government Country Operational Plan Report Systems. The 15 focus countries are Botswana, Côte d'Ivoire, Ethiopia, Guyana, Haiti, Kenya, Mozambique, Namibia, Nigeria, Rwanda, South Africa, Tanzania, Uganda, Vietnam, and Zambia. HIV/AIDS results are achieved jointly by USAID and other U.S. Government agencies, such as the Departments of State and of Health and Human Services (HHS).

16. Data Quality: The data are verified through triangulation with annual reports by United Nations Joint Program on HIV/AIDS (UNAIDS) and the World Health Organization (WHO), identifying numbers of people receiving treatment. Country reports by United Nations agencies, including the United Nations Children's Fund (UNICEF) and United Nations Development Program, indicating status of human and social indicators such as life expectancy and infant and under-five mortality rates.

17. Data Quality: The data are verified through triangulation with population-based surveys of care and support for orphans and vulnerable children; program monitoring of provider capacity and training; targeted program evaluations; and management information systems that integrate data from patient care management, facility, and program management systems.

18. New indicator for FY 2009. Replacement for the "Number of Countries Achieving a Tuberculosis Treatment Success Rate of 85% or Greater." Justification for the replacement may be found in the Performance Chapter of the *FY 2010 Foreign Operations Congressional Budget Justification*, *http://www.usaid.gov/policy/budget/cbj2010/2010_CBJ_Book_1.pdf*, beginning page 226.

19. Data Source: WHO Reports, Global Tuberculosis Control, Geneva. Countries included are: Afghanistan, Bangladesh, Brazil, Cambodia, Democratic Republic of the Congo, Ethiopia, India, Indonesia, Kenya, Mozambique, Nigeria, Pakistan, Philippines, Russia, South Africa, Tanzania, Uganda, and Zambia. Data from Ukraine are

expected to become available for the first time in FY 2009. Note that targets are set three years in advance and results are reported from data that are three years old. This indicator tracks 19 tier one countries for which progress can be monitored consistently over time less Ukraine, which does not have validated data for this indicator. Zambia did not begin to report to WHO until 2004.

20. Data Quality: USAID's Analysis, Information Management, and Communication (AIM) Project examines all third-party data for this indicator, and triangulates them with various sources to verify the quality, validity, and reliability of the data.

21. New indicator for FY 2009. Replacement for the "Number of Countries Achieving a Tuberculosis Detection Rate of 70% or Greater." Justification for the replacement may be found in the Performance Chapter of the *FY 2010 Foreign Operations Congressional Budget Justification*, *http://www.usaid.gov/policy/budget/cbj2010/2010_CBJ_Book_1.pdf*, beginning page 226.

22. Data Source: USAID program information. The 15 malaria initiative focus countries are Angola, Benin, Ethiopia, Ghana, Kenya, Liberia, Madagascar, Malawi, Mali, Mozambique, Rwanda, Senegal, Tanzania, Uganda, and Zambia. The 2006 results are based only on efforts in Angola, Tanzania, and Uganda. The FY 2007 results reflect activities completed in seven countries and rapid start-up activities initiated in eight new countries.

23. New indicator for FY 2009. Collection began in FY 2007 in conjunction with the President's Initiative on Neglected Tropical Diseases. Selected as representative of Agency activities for FY 2009. Reasoning for the new indicator may be found in the Performance Chapter of the *FY 2010 Foreign Operations Congressional Budget Justification*, *http://www.usaid.gov/policy/budget/cbj2010/2010_CBJ_Book_1.pdf*, beginning page 226.

24. Data Source: Treatment reports, based on standardized reporting forms and methodologies, completed during mass drug administration (MDA) campaigns with support from USAID-supported projects. The planned scale-up under the Initiative calls for expanded coverage within existing countries and an expansion from 12 countries in FY 2008 to 13 countries in FY 2009 and to 18 countries in FY 2010. The 12 initial countries include Burkina Faso, Ghana, Haiti, Mali, Niger, Sierra Leone, South Sudan, Uganda, Bangladesh, Nepal, Democratic Republic of the Congo, and Tanzania. The remaining countries are to be determined.

25. Data Quality: The data are verified through standardized validation surveys that are conducted after each MDA campaign, with results analyzed by USAID-funded partners.

26. Data Source: Demographic Health Surveys and Census Bureau (for population weights) for Maternal and Child Health (MCH) priority countries (Afghanistan, Azerbaijan, Bangladesh, Benin, Bolivia, Cambodia, Democratic Republic of the Congo, Ethiopia, Ghana, Guatemala, Haiti, India, Indonesia, Kenya, Liberia, Madagascar, Malawi, Mali, Mozambique, Nepal, Nigeria, Pakistan, Philippines, Rwanda, Senegal, Sudan, Tajikistan, Tanzania, Uganda, and Zambia).

27. New indicator for FY 2009. Replacement for "Modern Contraceptive Prevalence Rate." Justification for the replacement may be found in the Performance Chapter of the *FY 2010 Foreign Operations Congressional Budget Justification*, *http://www.usaid.gov/policy/budget/cbj2010/2010_CBJ_Book_1.pdf*, beginning page 226.

28. Data Source: Demographic and Reproductive Health Surveys (RHS) data: Bangladesh, Benin, Bolivia, Cambodia, Ethiopia, Ghana, Guatemala, Guinea, Haiti, India (Uttar Pradesh), Jordan, Kenya, Liberia, Madagascar, Malawi, Mali, Mozambique, Nepal, Nigeria, Pakistan, Peru, Philippines, Rwanda, Senegal, Tanzania, Uganda, and Zambia. For India, data are from Uttar Pradesh, where USAID's Family Planning/Reproductive Health program is focused, rather than from India as a whole.

29. Data Source: Demographic and RHS data: Bangladesh, Benin, Bolivia, Cambodia, Ethiopia, Ghana, Guatemala, Guinea, Haiti, India (Uttar Pradesh), Jordan, Kenya, Liberia, Madagascar, Malawi, Mali, Mozambique, Nepal, Nigeria, Pakistan, Peru, Philippines, Rwanda, Senegal, Tanzania, Uganda, and Zambia. For India, data are from Uttar Pradesh, where USAID's Family Planning/Reproductive Health program is focused, rather than from India as a whole.

30. New indicator for FY 2009. Replacement for the "Percentage of Births Spaced Three or More Years Apart." Justification for the replacement may be found in the Performance Chapter of the *FY 2010 Foreign Operations Congressional Budget Justification*, *http://www.usaid.gov/policy/budget/cbj2010/2010_CBJ_Book_1.pdf*, beginning page 226.

31. New indicator for FY 2009. Collection began in FY 2008. Selected as representative of Agency activities for FY 2009. Reasoning for the new indicator may be found in the Performance Chapter of the *FY 2010 Foreign Operations Congressional Budget Justification*, *http://www.usaid.gov/policy/budget/cbj2010/2010_CBJ_Book_1.pdf*, beginning page 226.

32. Demographic and RHS data for Bangladesh, Benin, Bolivia, Cambodia, Ethiopia, Ghana, Guatemala, Guinea, Haiti, India (Uttar Pradesh), Jordan, Kenya, Liberia, Madagascar, Malawi, Mali, Mozambique, Nepal, Nigeria, Pakistan, Peru, Philippines, Rwanda, Senegal, Tanzania, Uganda, and Zambia. For India, data are from Uttar Pradesh, where USAID's Family Planning/Reproductive Health program is focused, rather than from India as a whole. Unlike other indicators, data on this indicator are not available from the U.S. Centers for Disease Control and Prevention/RHS (CDC/RHS) surveys, resulting in the exclusion of Guatemala from the dataset.

33. Data Source: FY 2008 Performance Reports from Angola, Armenia, Bangladesh, Bolivia, Burkina Faso, Burundi, China, Democratic Republic of the Congo, Ecuador, Egypt, Ethiopia, Ghana, Haiti, India, Indonesia, Kenya, Kosovo, Madagascar, Pakistan, Philippines, Senegal, Somalia, South Africa, Sudan, Tanzania, Timor-Leste, West Bank and Gaza, Africa Regional, East Africa Regional, Asia Regional, and West Africa Regional, as captured in FACTS.

34. New indicator for FY 2009. Replacement for "Number of Learners Enrolled in U.S. Government-Supported Primary Schools or Equivalent Non-School-Based Settings, Disaggregated by Sex." Justification for the replacement may be found in the Performance Chapter of the *FY 2010 Foreign Operations Congressional Budget Justification*, *http://www.usaid.gov/policy/budget/cbj2010/2010_CBJ_Book_1.pdf*, beginning page 226.

35. Data Source: UNESCO Institute of Statistics (UIS), which is responsible for collecting and "cleaning" global education data. There is a two-year lag in reporting data from UIS since it takes time to receive and "clean" data (this happens even in the United States).

36. Data Quality: Data come from the acknowledged third-party organization (in this case a multilateral) responsible for collecting and maintaining global education data. Each country reports their country level data to UIS, which reviews all data for errors. Because of lags at each stage there is a two-year delay in reporting. There are problems with reliability with all global education data, and data are often delayed or missing for countries, but this is the most straightforward indicator for assessment and interpretation.

37. Data Source: 2008 Performance Reports from Armenia, Bangladesh, Belarus, Bolivia, Burkina Faso, Colombia, Democratic Republic of the Congo, Ghana, Haiti, Honduras, Liberia, Madagascar, Malawi, Russia, Rwanda, West Bank and Gaza, and USAID Africa Regional, as captured in FACTS.

38. Indicator measurement methodology revised for FY 2009. Justification for the revision may be found in the Performance Chapter of the *FY 2010 Foreign Operations Congressional Budget Justification*, *http://www.usaid.gov/policy/budget/cbj2010/2010_CBJ_Book_1.pdf*, beginning page 226.

39. Data Source: World Bank, Doing Business Report for Afghanistan, Georgia, Kazakhstan, Burkina Faso, Kenya, Haiti, Botswana, Macedonia, Colombia, Ghana, Tajikistan, Indonesia, and Guatemala. The value is the average of the time to comply with export procedures (days) and the time to comply with import procedures (days). Global reporting of these data started in FY 2005. Countries selected for this indicator receive over $1 million in funds and have a specific Trade Facilitation focus.

40. Data Quality: World Development Indicators are one of the World Bank's annual compilations of data about development. Before publication, the data undergo a rigorous review and validation process by World Bank technical staff and country-level committees of statistical agencies. The USAID Economic Analysis and Data Service Project examines the data after public release and notifies the World Bank if erroneous data are published.

41. Data Source: World Bank, World Development Indicators. The 2007 World Bank results are based on FY 2006 data. Data refer to the weighted average for the countries defined by the World Bank as low and middle income countries.

42. Data Source: FY 2008 Performance Reports as captured in FACTS: Modern energy services—Armenia; Bangladesh, Brazil; Dominican Republic; Georgia; Liberia; Philippines; South Africa; Sudan, USAID's Bureau for Economic Growth, Agriculture, and Trade (EGAT), and USAID South Asia Regional. Access to cellular service—USAID Africa Regional; EGAT. Access to Internet services—Armenia; Philippines; USAID Africa Regional; EGAT. Transportation infrastructure projects—Madagascar; Philippines. FY 2009 and 2010 Targets: Modern Energy Services—Afghanistan, Armenia, Georgia, Philippines, EGAT, USAID South Asia Regional. Access to cellular service—USAID Africa Regional. Access to Internet services—Philippines, USAID Africa Regional, EGAT, USAID's Office of Development Partners (ODP). Transportation Infrastructure Projects—Afghanistan, Sudan.

43. Data Source: FY 2008 Performance Reports from Bangladesh, Bolivia, Democratic Republic of the Congo, El Salvador, Georgia, Ghana, Guatemala, Guyana, Haiti, Honduras, Kenya,

Kyrgyz Republic, Lebanon, Liberia, Madagascar, Malawi, Mali, Morocco, Nepal, Pakistan, Rwanda, Tanzania, Timor-Leste, Turkmenistan, Uganda, Yemen, Zambia, EGAT, and West Africa Regional as reported in FACTS.

44. Data Source: FY 2008 Performance Reports from Bolivia, Georgia, Guatemala, Haiti, Rwanda, Senegal, Serbia, Tanzania, Uganda, and Zambia as reported in FACTS.

45. Data Source: FY 2008 Performance Reports from Armenia, Azerbaijan, Egypt, Georgia, Indonesia, Kosovo, Macedonia, Montenegro, Nicaragua, Pakistan, Senegal, South Africa, and Caribbean Regional as reported in FACTS.

46. Data Source: USAID Microenterprise Results Reporting Annual Report to Congress, FY 2007 and earlier editions. The indicator is the number of microfinance institutions (MFI) reporting either operational or financial sustainability, divided by the total number of U.S. Government-supported MFIs, expressed in percent. The FY 2007 value represents 143 operationally sustainable MFIs out of a total of 206 U.S. Government-supported MFIs. Of this total, 202 MFIs operated in 46 countries, two on a regional basis in Asia, and two on a worldwide basis. The indicator value shown for FY 2008 is based on the most recent data available, covering MFI operations in FY 2007. The one-year lag in data availability results from the reporting process, which first gathers data from USAID operating units on their funding for each MFI in the last fiscal year, and then gathers results data directly from those MFIs, based on their most recently completed fiscal year.

47. Data Source: USAID/EGAT Global Climate Change (GCC) team. Data are collected through USAID's annual Online GCC reporting process and represent a best estimate of greenhouse gas emissions, reductions, or avoidance. Over the next year USAID is rolling out web-based calculators that will improve the accuracy, completeness, and comparability of the estimated value of this indicator.

48. Data Quality: Greenhouse gas emissions reduced or sequestered as measured in carbon dioxide (CO_2) equivalent is the standard measure of climate mitigation used throughout the world. It is a common metric that allows comparison between many different types of activities and sectors, and can be added up to show program-wide impacts. This indicator combines the CO_2 equivalent for the energy/industry/transport sector with the land use/agriculture/forestry/conservation sector. More disaggregated estimation tools will be available in FY 2009.

49. Data Source: FY 2008 Performance Reports from Bangladesh, Bolivia, Brazil, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Indonesia, Jamaica, Kenya, Liberia, Madagascar, Malawi, Mexico, Namibia, Nicaragua, Panama, Paraguay, Peru, Philippines, Senegal, Tanzania, Uganda, Africa Regional, Caribbean Regional, Central Africa Regional, Central America Regional, EGAT, Latin America and Caribbean Regional, Regional Development Mission—Asia, and West Africa Regional as reported in FACTS.

50. Data Source: Data were compiled and analyzed by the United Nations Standing Committee on Nutrition (UN SCN), Nutrition Information in Crisis Situations (NICS) from all sources, including the Complex Emergencies Database (CE-DAT), United Nations High Commissioner for Refugees (UNHCR), World Food Program, WHO, other international organizations and NGOs, as well as the CDC. Of the sites monitored in FY 2008, 80% were in Somalia, Sudan, Democratic Republic of the Congo, and Ethiopia. These countries also suffer from the highest overall rates of violence, baseline malnutrition, internal displacement, and insecurity.

51. Data Quality: Nutrition data were taken from surveys, which used a probabilistic sampling methodology that complies with agreed international standards (i.e., WHO, Standardized Monitoring and Assessment of Relief and Transition [SMART] Methodology, and Médécins sans Frontières). The data were taken from surveys that assessed children aged six to 59 months who were 65 to 110 centimeters tall.

52. Data Source: USAID's Office of U.S. Foreign Disaster Assistance (OFDA) Annual Reports, monitoring systems, and implementing partner reporting based on individual response settings.

53. Data Quality: This indicator is reviewed by OFDA's internal systems for measurement and response and coordinated by individual Regional Teams and OFDA's Technical Advisory Group. The result was determined by polling individual Cognizant Technical Officers on their portfolios and averaging the results across all OFDA-funded programs.

54. Data Source: USAID's Office of Food for Peace (FFP) Summary Request and Beneficiary Tracking Table.

55. Data Quality: FFP regularly assesses the quality of data from implementing partners. The last DQA was conducted in July 2007.

56. Data Source: OFDA.

57. Data Quality: This indicator is reviewed by OFDA's internal systems for measurement and response and coordinated by individual Regional Teams and the Technical Advisory Group.

APPENDIX B. ABBREVIATIONS AND ACRONYMS

A&A	Acquisition and Assistance
AA	Assistant Administrator
ADP	Automated Data Processing
ADS	Automated Directives System
AFR	Africa Bureau
AFR	Agency Financial Report
AFRICOM	Africa Command
AICPA	American Institute of Certified Public Accountants
AIM	Analysis, Information Management and Communication
AMP	Asset Management Plan
ANE	Asia and Near East Bureau
APC	Audit, Performance and Compliance
APR	Annual Performance Report
AT&T	Atlantic Telephone and Telegpraph
BSM	Business Systems Modernization
BTEC	Business Transformation Executive Committee
CACS	Consolidated Audit Compliance System
CAM	Contract Audit Management
CART	Cash Reconciliation Tool
CBCA	Civilian Board of Contract Appeals
CBJ	Congressional Budget Justification
CCR	Central Contractor Registration
CDC	Centers for Disease Control
CE-DAT	Complex Emergencies Database
CFO	Chief Financial Officer
CIF	Capital Investment Fund
CMP	Cash Management and Payment Division
CO2	Carbon Dioxide
COTR	Contracting Officer Technical Representative
CPA	Certified Public Accountant
CPC	Critical Priority Country
CRA	Credit Reform Act
CY	Current Year
DCA	Development Credit Authority
DCAA	Defense Contract Audit Agency
DCHA	Democracy, Conflict, and Humanitarian Assistance Bureau
DFA	Director, U.S. Foreign Assistance
DHS	Depatment of Homeland Security
DLI	Development Leadership Initiative
DOD	Department of Defense
DOL	Department of Labor
DOORS	Dynamic Object-Oriented Requirements System
DQA	Data Quality Assessments
e-IDP	electronic -Individual Development Plan
E&E	Europe and Eurasia Bureau
EA	Enterprise Architecture
EAS	Enterprise Architecture Subcommittee
EEO	Equal Employment Opprtunity
EGAT	Economic Growth, Agriculture, and Trade Bureau
EOP	Equal Oportunity Program
ES	Executive Secretary
ESF	Economic Support Fund

FAA	Foreign Assistance Act
FAADS	Federal Assistance Award Data System
FACTS	Foreign Assistance Coordination and Tracking System
FAR	Federal Acquisition Regulation
FASAB	Federal Accounting Standards Advisory Board
FECA	Federal Employees Compensation Act
FedBizOpps	Federal Business Opportunities
FFMIA	Federal Financial Management Improvement Act
FFP	Office of Food for Peace
FISMA	Federal Information Security Management Act
FMFIA	Federal Manager's Financial Integrity Act
FMO	Financial Management Office
FPDS	Federal Procurement Data Systems
FS-AID	Asset Field Support System
FSIO	Financial Systems Integration Office
FSL	Foreign Service Limited
FSN	Foreign Service National
FSO	Foreign Service Officer
FY	Fiscal Year
GAAP	Generally Accepted Accounting Principles
GAM	Global Acute Malnutrition
GAO	Government Accountability Office
GC	General Counsel
GCC	Global Climate Change
GDP	Gross Domestic Product
GH	Global Health Bureau
GLAAS	Global Acquisition and Assistance System
GMRA	Government Management Reform Act
GPRA	Government Performance and Results Act
GSA	General Services Administration,
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
I-LIFE	Improving Livelihoods through Increasing Food Security
ICASS	International Cooperative Administrative Support Services
ID	Identification
IFMS	Integrated Financial Management System
IG	Inspector General
IP	Improper Payment
IPAC	Intragovernmental Payment and Collection
IPIA	Improper Payments Information Act
IT	Information Technology
IV&V	Independent Verification and Validation
LAC	Latin America and the Caribbean Bureau
LMS	Learning Management System
LoB	Line of Business
LPA	Legislative and Public Affairs
M&E	Monitoring and Evaluation
MCH	Maternal and Child Health
MCPR	Modern Contraceptive Prevalence Rate
MCRC	Management Control Review Committee
MD&A	Management's Discussion and Analysis
MDA	Mass Drug Administration
ME	Middle East Bureau
MFI	Micro finance Institutions
MfR	Managing for Results
MOV	Maintenance of Value
MPBP	Office of Management Policy, Budget and Performance
MSED	Micro and Small Enterprise Development
MTB	Manage to Budget
N.I.S.	Newly Independent States
NFC	National Finance Center
NGO	Non-Governmental Organization

NGOSI	Non-Government Organizations Sustainability Index
NMS	New Management System
NoFEAR	Notification and Federal Employees Antidiscrimination and Retaliation Act
NXP	Nonexpendable Property
OAA	Office of Acquisition and Assistance
OBO	Overseas Building Operations Bureau
OCFO	Office of the Chief Financial Officer
OCIO	Office of the Chief Information Officer
ODP	Office of Development Partners
OECD/DAC	Organization for Economic Cooperation Development/Development Assistance Committee
OFDA	Office of U.S. Foreign Disaster and Assistance
OHR	Office of Human Resources
OIG	Office of Inspector General
OMB	Office of Management and Budget
OMS	Office of Overseas Management Staff
OPM	Office of Personnel Management
OSDBU	Office of Small Disadvantaged Business Utilization
OTI	Office of Transition Initiatives
P.L.	Public Law
PAIMANSAI	Pakistan Initiative for Mothers and Newborns
PAR	Performance and Accountability Report
PEPFAR	President's Emergency Plan for AIDS Relief
PIV	Personal Identity Verification
PP&E	Property, Plant and Equipment
PPA	Prompt Payment Act
PPR	Performance Plan and Report
PY	Prior Year
QDDR	Quadrennial Diplomacy and Development Review
RCA	Recipient-Contracted Audit
RHS	Rural Housing Service
RIG	Regional Inspector General
RM	Resource Management Bureau
RSO	Regional Security Officer
SADC-PF	Southern African Development Community - Parliamentary Forum
SAI	Supreme Audit Institutions
SEC	Office of Security
SEED	Support for East European Democracy
SFFAS	Statement of Federal Finanacial Accounting Standard
SMART	Standardized Monitoring and Assessment of Relief and Transition
SOD	Statement of Differences
STATE/F	Office of the Director of U.S. Foreign Assistance (Department of State)
TBD	Tuberculosis Case Detection Rate
TBS	Tuberculosis Treatment Success Rate
TIC	Trusted Internet Connection
U.S.	United States
UE	Urban and Environmental
UIS	Institute for Statistics
UN SCN	United nations Standing Committee on Nutrition
UNAIDS	United Nations Joint Program on HIV/AIDS
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNHCR	United Nations High Commissioner on Refugees
UNICEF	United Nations Children's Fund
USAID	U.S. Agency for International Development
USDA	U.S. Department of Agriculture
USDH	U.S. Direct Hire
USDO	U.S. Disbursing Office
USPSC	U.S. Personal Services Contractor
USSGL	U.S. Standard General Ledger
WFS	Washington Financial Services
WHO	World Health Organization

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We welcome your comments on how we can improve this report. Please provide comments and requests for additional copies to:

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