USAID
FROM THE AMERICAN PEOPLE

FISCAL YEAR 2010

AGENCY FINANCIAL REPORT

PARTNERSHIPS FOR A BETTER FUTURE

Schoolgirls at recess on June 18, 2010 at the Ecole Marie Dominique Mazzarello in Port-au-Prince, where USAID constructed temporary classrooms after the January 12 earthquake. More than 4,000 Haitian schools were damaged in the disaster. Amelia, a 7-year-old student, bears a scar from where a concrete block struck her during the earthquake.

PHOTOS: KENDRA HELMER / USAID

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 and useful format. This report satisfies the reporting requirements of the following legislation:

- Inspector General (IG) Act of 1978 [Amended] – requires information on management actions in response to IG audits
- Federal Managers' Financial Integrity Act (FMFIA) of 1982 – requires ongoing evaluations of, and reports on, the adequacy of internal accounting systems and administrative controls, not just controls over financial reporting but also controls over program areas
- Chief Financial Officers (CFO) Act of 1990 – requires better financial accounting and reporting
- Government Management Reform Act (GMRA) of 1994 – requires annual audited agency-level financial statements as well as an annual audit of Government-wide consolidated 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 agencies to enhance the accuracy and integrity of federal payments
- American Recovery and Reinvestment Act (ARRA) of 2009 – requires reporting on agency allocation of ARRA funds to each state through individual programs

Since FY 2007, the U.S. Agency for International Development (USAID) has elected to continue the production of three separate reports in lieu of a consolidated Performance and Accountability Report (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 2011]
- Summary of Performance and Financial Information Report – summarizes the AFR and APR in a brief, user-friendly format [available February 2011]

All three reports will be available at *http://www.usaid.gov/performance.*

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, management assurances related to the FMFIA and FFMIA; and information on the ARRA. The second section, Financial Section, provides the financial details, including the independent auditor's report, audited financial statements, and a message from the Agency's Chief Financial Officer (CFO). The third section, Other Accompanying Information, includes a statement prepared by the Agency's Office of Inspector General (OIG) summarizing what the OIG 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.

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THIS REPORT IS AVAILABLE AT: *http://www.usaid.gov/performance/agency-performance/afr/*

A MESSAGE FROM THE ADMINISTRATOR

Rajiv Shah

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 and education, helping societies prevent and recover from conflicts, and providing humanitarian relief in the wake of natural and man-made disasters.

MISSION

Over the past 49 years, USAID has helped lift millions from poverty and put countries on a path to sustainable economic growth in partnership with local governments and civil societies, private voluntary organizations, universities, businesses, international agencies, governments and interagency partners. Our mission is to advance broad-based economic growth, democracy and human progress in developing countries.

> "Let's move beyond the old, narrow debate over how much money we're spending and let's instead focus on results—whether we're actually making improvements in people's lives."
>
> *– President Barack Obama, speaking to the United Nations General Assembly, September 22, 2010*

As we come upon our 50th anniversary, it is both a time to reflect and an opportunity to look forward.

Today, with the strong backing of the Obama Administration, the Agency is building on its legacy as one of the world's premier development agencies and making new progress toward its ultimate goal: creating the conditions where U.S. assistance is no longer needed.

To do so, we are partnering with developing nations and other actors and making innovative use of science, technology, and human capital to bring the most profound results to the greatest number of people. Fulfilling this mission effectively motivates everything we do.

This also means we are fundamentally changing the way we do business, redoubling efforts where they have proved successful, and taking a hard look at where we can improve.

Like many government agencies and large organizations, USAID faces its share of management challenges. In the spirit of providing maximum transparency, this report includes the voluntary disclosure of significant deficiencies USAID has identified, and is now working diligently to address.

In response to these and other challenges, USAID has begun to roll out a series of reforms in seven priority areas that will strengthen the Agency's capacity to achieve high-impact development and make smart use of limited resources.

These reforms, known collectively as USAID Forward, encompass procurement reform, talent management, rebuilding policy capacity, strengthening monitoring and evaluation, reasserting budget management, committing to innovation, and embracing science and technology.

This ambitious reform agenda is both a response to persistent challenges and a path to a dynamic future.

FISCAL YEAR (FY) 2010 HIGHLIGHTS

During FY 2010, USAID continued to respond to worldwide development challenges and humanitarian needs from our headquarters in Washington, DC and over 80 missions worldwide, while also working to address serious management and performance challenges and improving how we deliver aid across the globe.

Humanitarian Relief

FY 2010 saw two of the most devastating natural disasters in recent history: January's Haiti earthquake and the summer floods in Pakistan. In both disasters, USAID led a whole-of-government humanitarian response and was the largest overall contributor of disaster relief aid.

Haiti. Since the January 12 earthquake, the U.S. Government has provided more than $1.14 billion in assistance to Haiti, of which almost $663 million came from USAID.

Immense challenges confronted our recovery effort from the very beginning, including debilitating mountains of rubble and the threat of disease outbreak.

With USAID funding, more than 900,000 cubic meters of that rubble has been removed through programs, including cash-for-work, which offer employment to Haitians. And working with the Government of Haiti and the international community, USAID and our partners helped to vaccinate over one million Haitians, which helped prevent widespread disease.

While we were working to provide short-term recovery, we were simultaneously designing investments in agriculture and infrastructure projects that will boost Haiti's prospects for long-term economic growth.

With the remaining FY 2010 allocation and supplemental resources, USAID will distribute close to another $1 billion to support Haiti's reconstruction over the next two years, with up to $120 million going to the Haiti Reconstruction Fund.

Pakistan. In Pakistan, USAID responded swiftly and generously to help coordinate a full-scale response to the massive summer flooding—the country's worst humanitarian crisis in history, estimated to have affected 20 million people.

In response to the floods, USAID is promoting early recovery for populations returning home, especially in the north.

> "Development was once the province of humanitarians, charities, and governments looking to gain allies in global struggles. Today it is a strategic, economic, and moral imperative—as central to advancing American interests and solving global problems as diplomacy or defense."
>
> *– Secretary of State Hillary Rodham Clinton, speaking to the Center for Global Development in Washington, DC, January 6, 2010*

This includes cash-for-work programs, cash grants, vouchers for seeds and agricultural tools, and capacity building for health personnel and communities.

Although the long-term effects of the floods have yet to be seen, our efforts largely curtailed the spread of water-borne illness, a major threat in flood areas, thanks, in part, to the Early Disease Warning System that we had worked to put in place years earlier with the Pakistani Government.

Our assistance strategy focuses on priorities identified by the Pakistanis and puts Pakistan's Government and civil society in the lead to move against them. Expanding direct financing to the Government of Pakistan is critical to encouraging long-term Pakistani ownership of development programs; however, it also requires additional safeguards to ensure accountability and transparent use of U.S. taxpayer dollars.

Science, Technology, and Innovation

For the last half century, much of USAID's greatest work and breakthroughs have come through science, technology and innovation. For instance, this year saw a breakthrough in our cutting-edge, women-centered programming to address the HIV/AIDS epidemic. In July 2010, the Center for the AIDS Program of Research in South Africa (CAPRISA) 004 trial—which was majority-funded by USAID and implemented in South Africa with local partners—produced a huge leap forward in women-controlled HIV prevention. The trial demonstrated that use of a vaginal microbicide gel containing an antiretroviral drug known as tenofovir can help prevent the transmission of HIV from men to women.

It was our commitment to science, technology, and innovation—pillars of the USAID Forward agenda—that led to this tremendous breakthrough in the global fight against AIDS.

This year we also created offices of Science and Technology, and of Innovation. For the first time in 20 years, we have a science and technology advisor and an innovation counselor leading teams to leverage science, technology and innovation to meet the grand challenges in global development.

Since July 2010, USAID has held two signature events convening developmental practitioners with science and technology thinkers: a conference on Transforming Development through Science and Technology, and an interactive Forum on Science, Technology and Innovation at the United Nations General Assembly.

In early October 2010, USAID unveiled its first Development Innovation Ventures (DIV) awards, totaling $1 million, to eight companies and institutions working on devices and technologies they believe will move the needle on innovation in the developing world.

Going forward, USAID will continue to leverage the principles of science, technology, and innovation on many fronts, not least of all to ensure the CAPRISA trial results are confirmed and that at-risk women worldwide are able to access this unique form of prevention.

PRESIDENTIAL INITIATIVES

Global Health Initiative

In recent years, USAID has demonstrated results in our priority areas: maternal and child health, nutrition, family planning, HIV/AIDS, malaria, tuberculosis, neglected tropical diseases, and pandemic influenza.

Building on these successes, the Obama Administration announced the Global Health Initiative on May 5, 2009 with a particular focus on bolstering the health of women, newborns, and children by combating infectious diseases and providing quality health services. With a $63 billion commitment, the Global Health Initiative is an interagency effort that emphasizes linkages among health programs and across agencies to maximize the sustainable health impact the United States achieves for every dollar invested.

Feed the Future Initiative

Feed the Future, the U.S. Government's global hunger and food security initiative, is designed specifically to increase sustainable market-led growth, particularly for small and rural farmers, contributing to an increase in rural incomes and a reduction in the prevalence of poverty.

At the 2009 G8 L'Aquila Summit, President Obama's pledge of at least $3.5 billion for agricultural development, and food security over three years helped to leverage and align more than $18.5 billion from other world donors in support of a common approach.

In FY 2010, the U.S Government, led by USAID, developed and began to roll out country-specific Feed the Future implementation plans in 18 focus countries, a first step toward the development of multiyear strategies that leverage the capabilities of multiple U.S. Government agencies.

Global Climate Change Initiative

The Global Climate Change Initiative, a whole-of-government effort of which USAID is a part, will invest the United States' fair share of approaching $30 billion over fiscal years 2010-2012 to achieve reductions in greenhouse gas emissions in developing countries and promote climate change resilience and adaptation. We will use the full range of mechanisms—bilateral, multilateral, and private—to invest strategically in building lasting resilience to unavoidable climate impacts, reduce emissions from deforestation and land degradation, and support low-emission development strategies.

Financial Reporting and Representation

For the eighth 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 fourth consecutive year, the Agency has elected to prepare an Agency Financial Report (AFR), rather than a consolidated Performance and Accountability Report (PAR). Comprehensive performance information, including major performance accomplishments, will be reported in the Annual Performance Report (APR) and the Summary of Performance and Financial Information. These two reports will be available in February 2011.

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 2010 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. USAID recognizes that with additional resources come 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.

CONCLUSION

In September, at the end of the fiscal year, President Obama addressed the United Nations General Assembly, unveiling a comprehensive global development policy, the first of its kind for a U.S. president. The President's policy directive describes development as a strategic, economic, and moral imperative for our country, and for the first time, elevates international development to a core pillar of U.S. foreign policy.

This is a tremendous responsibility, but also a tremendous opportunity. To rise to the occasion in this ever-changing global landscape, we are identifying and responding to our weaknesses, reforming our operating methods, and creating an unprecedented level of transparency in our Agency to ensure we are delivering exceptional results.

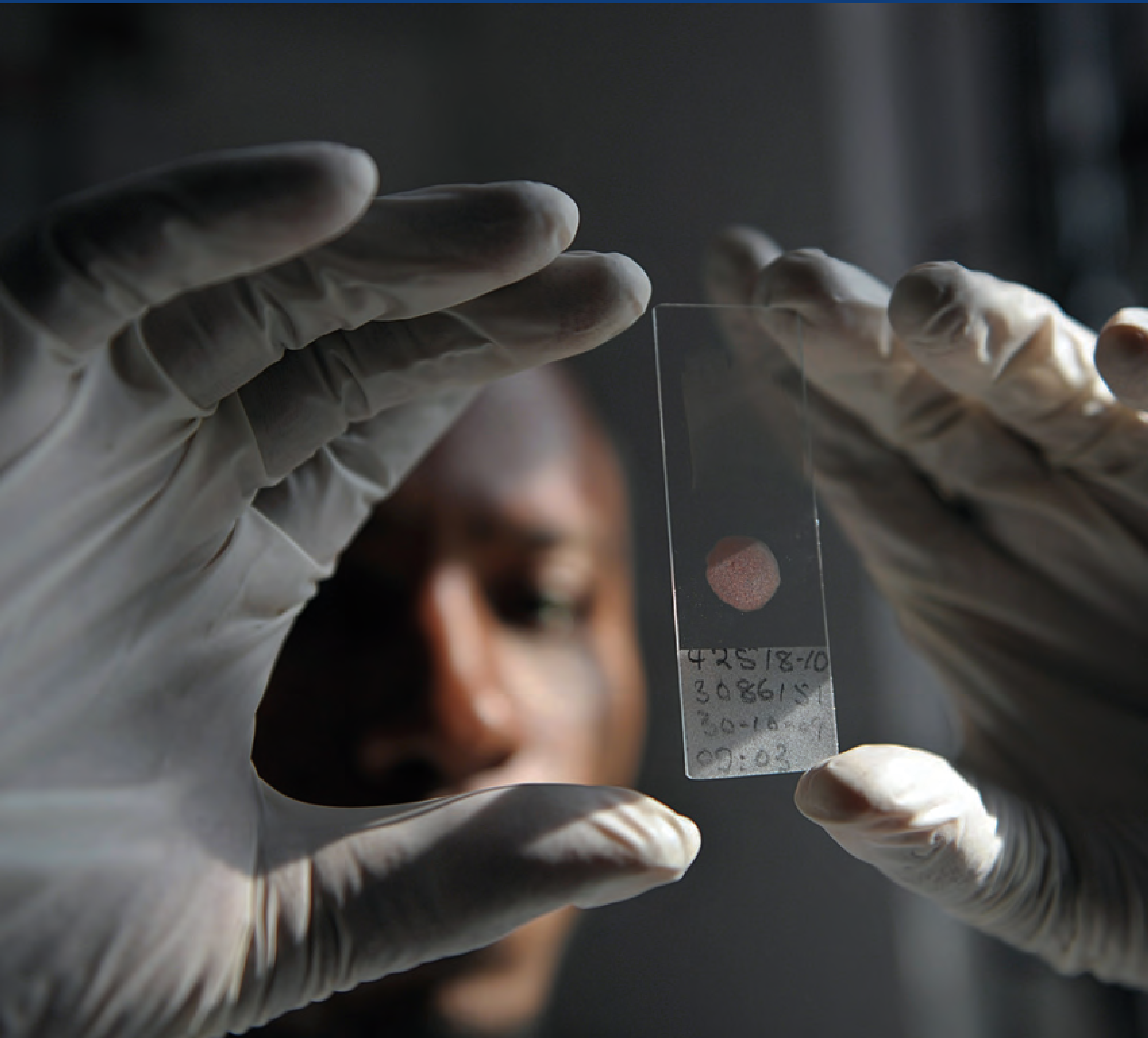
Rebuilding our policy capacity; streamlining procurement; strengthening monitoring and evaluation; achieving more flexibility in the management of our resources; and institutionalizing a new focus on science, technology, and innovation are just parts of an ambitious new reform agenda which will make the Agency more effective, accountable, transparent, strategic, and agile as we to strive to fulfill our mission.

As we approach our 50th year anniversary, poised to celebrate, reflect, and look forward, our overarching goal remains the same: to create the conditions where our assistance is no longer needed.

Achieving that goal, restoring USAID as the world's premier development agency, and ensuring we make effective and efficient use of taxpayer funds are all difficult challenges to meet. But as this report provides in great detail, we welcome the opportunity to do so.

Rajiv Shah
Administrator
November 15, 2010

Management's Discussion and Analysis



(Above) **Flood-affected Pakistanis receive USAID-funded supplies at a World Food Program distribution point in Mohib Banda village on the outskirts of Nowshera on August 6, 2010. The worst inundations in Pakistan's history have affected around 20 million people.**

PHOTO: BEHROUZ MEHRI / AFP

(Preceding page) **A laboratory technician in Bagamoyo, Tanzania prepares a blood smear at the government-run Ifakara Health Institute on October 30, 2009. Supported by USAID, a pioneering vaccine against malaria is in its third phase of testing here. Malaria claims around a million lives each year.**

PHOTO: TONY KARUMBA / AFP

MISSION AND ORGANIZATIONAL STRUCTURE

Mission Statement

USAID's mission is to advance broad-based economic growth, democracy and human progress in developing countries.

Today, with the strong backing of the Obama Administration, the Agency is building on its legacy as one of the world's premier development agencies and making new progress toward its ultimate goal: creating the conditions where U.S. assistance is no longer needed.

To do so, we are partnering with developing nations and other actors, making innovative use of science, technology and human capital to bring the most profound results to the greatest number of people.

** This statement was formulated by the USAID Senior Leadership Team 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 chosen to produce an Agency Financial Report (AFR) and Annual Performance Report (APR). USAID will include its FY 2010 APR with its *Congressional Budget Justification* and will post it on the Agency's website at *http://www.usaid.gov/performance/apr* in February 2011.

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.

ORGANIZATIONAL STRUCTURE

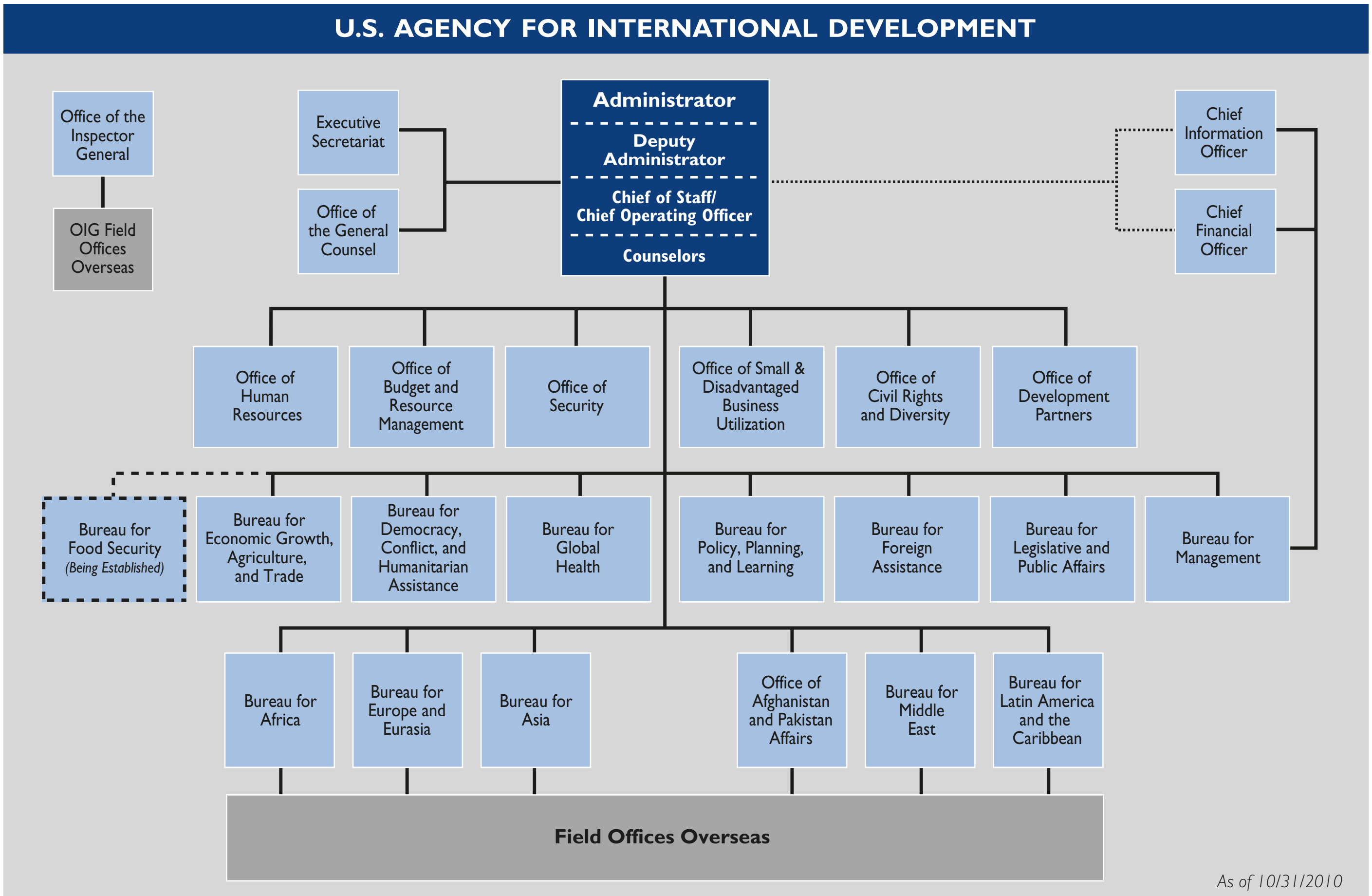
USAID is an independent Federal agency that receives overall foreign policy guidance from the Secretary of State. The Agency provides economic, development, and humanitarian assistance around the world in support of the foreign policy goals of the United States. USAID is headed by an Administrator and Deputy Administrator, both appointed by the President and confirmed by the Senate. The current Administrator is Dr. Rajiv Shah. The Agency is headquartered in Washington, D.C., has an official U.S. presence in 87 countries, and carries out its mission in several others. 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 or more limited services. The geographic bureaus are Africa (AFR), Asia (ASIA), Middle East (ME), Latin America and the Caribbean (LAC), and Europe and Eurasia (E&E). A new Office of Afghanistan and Pakistan Affairs (OAPA) has been created. 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. (A fourth functional Bureau for Food Security is being established.) Central bureaus include the newly established Bureau for Policy, Planning, and Learning (PPL), which oversees all policy and program development and promotes a learning environment; the Bureau for Management (M), which administers centralized support services for the Agency's worldwide operations; and the Bureau for Legislative and Public Affairs (LPA), which manages the Agency's outreach programs to promote 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 nine independent offices that are responsible for discrete Agency functions that include human capital management, diversity programs, security, and partnerships. These offices are (1) the Office of the Executive Secretariat (ES), (2) the Office of Civil Rights and Diversity (OCRD), (3) the Office of the General Counsel (GC), (4) the Office of Small Disadvantaged Business Utilization (OSDBU), (5) Office of Security (SEC), (6) the Office of Development Partners (ODP), (7) the Office of Human Resources (OHR), and (8) a newly established Office of Budget and Resource Management (BRM). Finally, the Office of the 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 all USAID operations fall under Chief of Mission authority. The USAID Director or Representative, as the USAID Administrator's representative and the Ambassador's prime development advisor, 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." USAID missions operate under decentralized program authorities, allowing them to design and implement programs and negotiate and execute agreements.



Missions conduct and oversee USAID's programs worldwide, managing a range of diverse multi-sector programs in developing countries. The Mission Director serves as the development counselor to the Ambassador and directs a team of contracting, legal, and project design officers, financial services managers, and technical officers. Bilateral and regional missions work with host governments and non-governmental organizations (NGO) or other partner organizations to promote sustainable economic growth, meet basic human needs, improve health, mitigate conflict, and/or enhance food security. All missions provide assistance based on integrated strategies that include clearly defined program objectives and performance targets.

USAID also has three "mega" missions, which are necessary for the exceptional programs in Iraq, Afghanistan, and Pakistan. These missions have several hundred staff, comprising U.S. direct-hires (USDH), and personal services contractors (PSC), many of whom staff interagency provincial reconstruction teams. These teams combine personnel from USAID, Departments of State and Defense, and other departments and agencies to promote local development and conflict resolution throughout these three countries.

The workforce in USAID's field missions are composed of three major categories of personnel: USDH employees, U.S. PSCs,(USPSC) and foreign service nationals (FSN), or locally-hired host-country citizens. Career USDHs are foreign service employees assigned to missions for two to four-year tours. USPSCs are U.S. citizen contractors hired for up to five years to carry out a scope of work specified by USAID. FSNs are professionals and administrative staff recruited in their host countries by USAID and account for nearly 50 percent of USAID's total workforce. USAID also assigns Foreign Service Officers to posts where U.S. Government development policies need representation to coordinate and leverage other multilateral and bilateral donors for high priority U.S. Government issues; the Agency currently has officers stationed in Paris, Tokyo, Brussels, Geneva, and Rome, and in the U.S. Africa Command (USAFRICOM) in Stuttgart.

GLOBAL PULSE 2010

Global Pulse 2010 represented a new U.S. Government approach to engage and partner with the international community. Sponsored by USAID in partnership with the Departments of State, Education, Commerce, and Health and Human Services, the three-day online collaboration event connected individuals and organizations who are champions of social issues from around the world to build new, or strengthen existing, relationships, and inform U.S. foreign assistance and diplomatic strategies.

As the name implies, Global Pulse 2010 took the pulse of thousands of participants on key issues facing communities across the globe. Discussions took place within forums on 10 designated topics:

- Inspiring a New Generation
- Empowering Women and Girls
- Enabling Essential Education
- Building Stronger Partnerships
- Exercising Political and Civil Rights
- Promoting Global Health
- Advancing Entrepreneurship, Trade and Economic Opportunity
- Fostering Science, Technology and Innovation
- Supporting a Sustainable Planet
- Pursuing Grand Challenges

USAID/India works with local partners to provide solar-powered lighting to rural households, promoting utilization and development of renewable energy sources. USAID / INDIA

Nearly 7,000 participants from 155 countries logged into the event during the three days, 57 percent of whom were from outside the United States and 47 percent were under age 35. The gender of participants was balanced over the entire event 51 percent female/49 percent male; however certain forums attracted very different gender profiles. For example, the Women and Girls forum enjoyed 71 percent female participation whereas the Entrepreneurship forum was 62 percent male and the Health forum was evenly split.

A full report of the event and transcripts of each forum are available at *http://www.globalpulse2010.gov/*.

PROGRAM PERFORMANCE

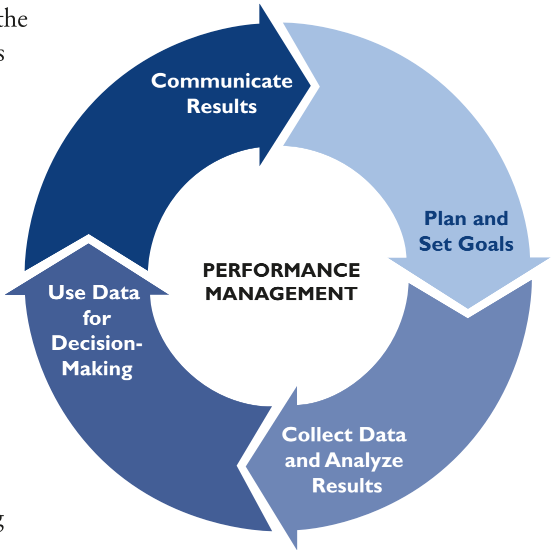
STRATEGIC DIRECTIONS

Over the past 49 years, USAID has helped reduce poverty for millions of people and put countries on the path to prosperity. Today, the Agency is poised to build on its legacy as one of the world's premiere development agencies and make new progress by implementing the President's U.S. Global Development Policy, which focuses on sustainable development outcomes that place a premium on broad-based economic growth, democratic governance, game-changing innovations, and sustainable systems for meeting basic human needs.

With the support of Secretary of State Hillary Rodham Clinton, and as highlighted in the Quadrennial Diplomacy and Development Review, the discipline and practice of development will be elevated by this Administration; USAID is at the forefront of this effort. Building on a strong foundation, USAID Administrator Rajiv Shah recently announced reforms in seven priority areas to strengthen the Agency's capacity to achieve high-impact development and make smart use of limited resources. The USAID Forward initiative encompasses procurement reform, talent management, rebuilding policy capacity, strengthening monitoring and evaluation, rebuilding budget management, innovation, and science and technology.

PERFORMANCE MANAGEMENT

Performance management represents the commitment of USAID to increase its accountability for delivering effective 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.



At USAID, the tools of assessing, learning, and sharing are interrelated through the concept of performance management. USAID missions and offices are responsible for establishing performance management plans and

Pakistan's Tarbela Dam is the largest earth-filled dam in the world. USAID is providing grant funding to local organizations to upgrade the hydro power station. PHOTO: USAID/PAKISTAN

BUILDING LOCAL DEVELOPMENT LEADERSHIP – A NEW MODEL IN PAKISTAN

Under a new strategy for Pakistan, USAID designed a set of programs to deliver assistance in partnership with the Pakistani Government, NGOs, and the private sector according to their priorities. These high-impact investments are being implemented primarily through Pakistani institutions, and will address looming water shortages, enhance agricultural output, promote exports, and alleviate the economy-draining power crisis.

In January 2010, USAID unveiled a signature energy project, a $16.5 million upgrade of the Tarbela hydroelectric power plant in the North West Frontier Province, which contains the largest reservoir formed by an earthen dam in the world. Grant funding for the project at Tarbela was provided to the Ministry of Water and Power, and is being implemented through the Pakistan Water and Power Development Authority. For more information: *http://www.usaid.gov/pk/newsroom/newsletter/DevelopmentsIssue1.pdf* targets to measure progress toward intended objectives. They are also responsible for reporting key indicators in their annual performance reports. Performance management is crucial for informing decisions on funding, program development, and implementation.

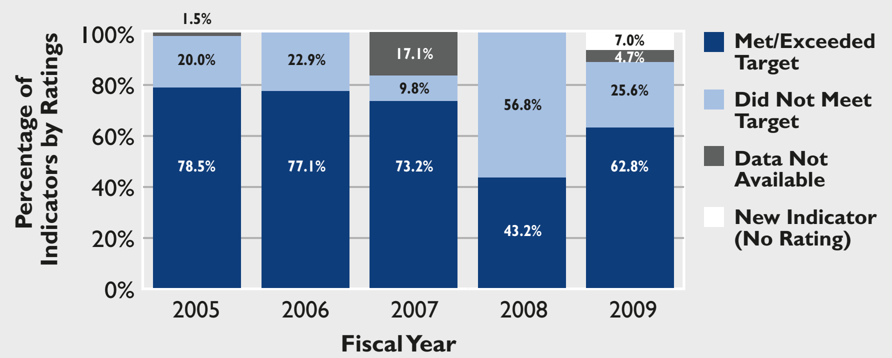
A good performance target is ambitious, optimistic, and achievable. USAID follows a multi-step process to determine targets examining the baseline value before U.S. Government intervention, historical trends and level of progress, expert judgment from technical authorities, research findings and empirical evidence, accomplishments of programs with similar characteristics elsewhere, customer expectations, and planned progress from the baseline for what will be accomplished over a five-year period with anticipated funds.

PERFORMANCE INDICATORS AND TRENDS

See table starting on page 19 for a set of approximately 40 representative indicators that will illustrate USAID contributions to U.S. foreign assistance in FY 2010, along with their performance trends from 2005-2009. These indicators were chosen to reflect major areas of U.S. Government funding, earmarks, initiatives, foreign policy priorities, and High Priority Performance Goals. Since FY 2010, results for these indicators will not be available until December 2010, USAID will report them in the APR, which will be published in conjunction with the *FY 2012 Congressional Budget Justification* next spring. A smaller subset of these indicators will also be published in February 2011 in the joint *FY 2010 USAID-Department of State Summary of Performance and Financial Information*.

The chart above depicts USAID's reported annual performance for the last five years. The number of representative indicators has varied from 35 to 65 with changing

TRENDS IN USAID PERFORMANCE 2005-2009



Sources: Addendum to the *FY 2005 USAID Performance and Accountability Report*; *FY 2006 USAID Performance and Accountability Report*; *FY 2007 Annual Performance Report*; *FY 2008 Annual Performance Report*; *FY 2009 Annual Performance Report*. Note: USAID has reported performance jointly with the Department of State since FY 2007. This chart includes indicators measuring results attributable solely to USAID or jointly to USAID and the Department of State. It excludes indicators measuring results achieved solely by the Department of State.

Agency goals and priorities. Overall, the Agency has maintained a high record of meeting or exceeding its performance targets with the exception of 2008, when results, particularly in the strategic goal area of Promoting Economic Growth and Prosperity, were adversely affected by the global financial crisis.

DATA QUALITY

Data are only useful for decision-making if it is of high quality. As indicated in USAID's Automated Directive System Chapter 203.3.5, (*http://www.usaid.gov/policy/ads/200/203.pdf*), USAID missions and offices are required to conduct data quality assessments for all performance data reported to Washington to verify the quality of their 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 goes through the most rigorous USAID assessments to ensure that they meet quality standards. 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

In FY 2009, 742 evaluations were conducted by USAID operating units, which informed the development of FY 2010 operational plans and budgets. Approximately 183 evaluations were initially planned for FY 2010. A summary of actual evaluation activities conducted will be reported in the operating units' FY 2010 Performance Plans and Reports.

In addition to continued support for evaluation actions put into place in 2009, including an active USAID Evaluation Interest Group and work with the Organization for Economic Cooperation and Development's Development Assistance Committee Evaluation Network, USAID made significant organizational changes to strengthen how it manages and applies evaluation findings for programmatic and budgetary decisions.

In June 2010, USAID established a Bureau of Policy, Planning, and Learning (PPL), which includes a new Office of Learning, Evaluation, and Research (LER). LER will play a key role in improving evaluation at the Agency, and will support the revitalization of USAID as a premier learning organization that is innovative, evidence-based, and results-oriented. Several steps have been launched in 2010 to achieve this:

- First, USAID is developing a new evaluation policy that will—among other things—define key terms, establish clear protocols for when evaluations are appropriate, provide methodological guidance and quality standards, and promote a more independent evaluation process that results in the application of findings for policy and programmatic decision-making.
- Next, to connect practitioners and researchers while encouraging the use of evidence in decision-making, the Agency is hosting a series of evidence summits around particular development issues. In September 2010, the Agency hosted its first evidence summit around issues of counterinsurgency and counterterrorism. USAID is also revitalizing its evaluation training course and creating additional materials to equip Agency staff with the requisite knowledge, tools, and skills necessary to manage evaluation activities effectively.
- Also, USAID is working with its interagency partners to establish a standardized set of evaluation frameworks that can be applied to the Agency's high priority investments, including the Global Health and the Feed the Future Initiatives, as well as its priority countries.

HIGH PRIORITY PERFORMANCE GOALS

USAID and the Department of State developed joint High Priority Performance Goals (HPPG) in 2009 which meet the Office of Management and Budget's (OMB) criteria as high priorities for the agencies and the President; relevant to the public; requiring interagency coordination; in the implementation phase (that is, have an existing funding stream and congressional authorization); and will show measurable results in 12 to 24 months (by the end of FY 2011). The table below displays the current goal statements. USAID contributes to all except the global security goal. Three of the goals reflect the Feed the Future (*http://www.feedthefuture.gov/*), Global Health (*http://www.usaid.gov/ghi/*), and Global Climate Change (*http://www.usaid.gov/our_work/environment/climate/index.html*) presidential initiatives and all contribute to the joint USAID-State strategic goals. Complete information on all Federal agency HPPGs, as well as quarterly results for FY 2010, are expected to be available on OMB's performance portal in the first quarter of FY 2011 at *http://goals.performance.gov*.

JOINT USAID-STATE HIGH PRIORITY PERFORMANCE GOALS

Theme	Goal Statement
Afghanistan-Pakistan	See Stabilization Strategy, February 2010 *http://www.state.gov/documents/organization/135728.pdf*.
Iraq	A sovereign, stable, and self-reliant Iraq.
Global Health	By 2011, countries receiving health assistance will better address priority health needs of women and children, with progress measured by U.S. Government and UNICEF-collected data and indicators. Longer term, by 2015, the Global Health Initiative aims to reduce mortality of mothers and children under age five, saving millions of lives, avert millions of unintended pregnancies, prevent millions of new HIV infections, and eliminate some neglected tropical diseases.
Climate Change	By the end of 2011, U.S. assistance will have supported the establishment of at least 12 work programs to support the development of Low-Emission Development Strategies (LEDS) that contain concrete actions. This effort will lay the groundwork for at least 20 completed LEDS by the end of 2013 and meaningful reductions in national emissions trajectories through 2020.
Food Security	By 2011, up to five countries will demonstrate the necessary political commitment and implementation capacities to effectively launch implementation of comprehensive food security plans that will track progress toward the country's Millennium Development Goal (MDG) to halve poverty and hunger by 2015.
Democracy, Good Governance and Human Rights	To promote greater adherence to universal standards of human rights, strengthen democratic institutions, and facilitate accountable governance through diplomacy and assistance, by supporting activists in 14 authoritarian and closed societies and by providing training assistance to 120,000 civil society and government officials in 23 priority emerging and consolidating democracies between October 1, 2009 and September 30, 2011.
Global Security – Nuclear Nonproliferation	Improve global controls to prevent the spread of nuclear weapons and enable the secure, peaceful use of nuclear energy.
Management – Building Civilian Capacity	Strengthen the civilian capacity of the Department of State and USAID to conduct diplomacy and development activities in support of the Nation's foreign policy goals by strategic management of personnel, effective skills training, and targeted hiring.

AIDING SURVIVORS OF GENDER-BASED VIOLENCE IN THE DRC

Late one night, Justine* and her husband woke to find an intruder dressed in military clothing standing over them armed with a knife and gun. After tying up her husband and looting what he could, the attacker dragged Justine out into the darkness and raped her.

After two days, Justine's husband persuaded her to go to the Kamandi health center nearby, part of a USAID initiative in the Democratic Republic of Congo (DRC) that provided more than $2.7 million to the country for emergency medical services. A nurse treated Justine at no cost. Without the health center, Justine would have had to walk three hours to a hospital for initial treatment and four weeks of required follow-up visits—a distance great enough to discourage many women from seeking treatment.

The initiative was rolled out in response to a surge of violence in October 2008 in North Kivu province that displaced about 250,000 people. A key component is providing assistance to survivors of gender-based violence (GBV). "Since the project started, women can come to the local health center just like anyone else to seek medical assistance. We've seen a big increase in women presenting themselves much earlier, which means better recovery," Nurse Katungu said.

In addition to the physical and psychological trauma it inflicts, GBV leaves women vulnerable to unwanted pregnancies, miscarriages, HIV/AIDS, and other sexually transmitted diseases. Prompt medical treatment within 72 hours following an attack can reduce many of the health risks GBV survivors may suffer.

GBV survivors are often ostracized by their communities, causing them to avoid treatment for fear of losing their jobs, their families, or their place in society. The health centers ensure confidentiality by providing treatment

Psychosocial worker with USAID-funded International Rescue Committee, helps rape survivors in South Kivu. USAID supports more than 90 NGOs in DRC—most in the east of the country—that provides services to rape survivors.

USAID / ANGELA RUCKER

services in clinics that address a variety of medical needs, allowing affected women to seek treatment without being identified as a GBV survivor.

Highlighting Gender at USAID

Promoting gender equality and empowering women and girls is central to USAID's approach to development. Gender, as a crosscutting issue, is reinforced in U.S. strategy for meeting the Millennium Development Goals (MDGs) issued in July which states: "Investing in and empowering women and girls is one of the smartest investments we can make." In order to target these investments to maximize their impact on women, USAID has renewed its commitment to incorporating gender analysis into strategy development and to addressing gender issues in program design, implementation, and evaluation. For more information on USAID's commitment to gender equality, visit the Women in Development website at *http://www.usaid.gov/our_work/cross-cutting_programs/wid/*.

**Not her real name.*

ILLUSTRATIVE ACCOMPLISHMENTS

Below are illustrative USAID accomplishments for FY 2010 in each of the five strategic goals articulated in the joint USAID-State Strategic Plan (*http://www.usaid.gov/performance/stratplan*.

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.

Enhancing Stability: Farmers Switch from Poppy to Licit Cash Crops

Afghanistan's plains and fertile valleys have yielded many kinds of crop—but one crop has repeatedly caused the country and its people immeasurable harm: poppy. Farmers often turned to poppy cultivation because the opium produced from poppy brought more revenue than ordinary crops. However, opium revenue also brings instability and threatens the country's security. Farmers said that if they had a viable alternative, they would grow other crops. USAID responded by helping the Afghan Government in its newly established poppy eradication campaign.

Local Afghan farmers partake in the 2010 national wheat seed distribution provided by the USAID-funded Afghanistan Vouchers for Increased Production in Agriculture (AVIPA) program.

Working together with Afghanistan's agriculture ministry, USAID broadcast radio announcements about a program where farmers receive vouchers for vegetable or wheat seed and fertilizer, as well as technical assistance for one harvest season. Farming cooperatives interested in participating in the program were identified and received vouchers—in time for the crucial spring planting season in 2010. Once crops are harvested and sold, the farmers will repay the value of the seed and fertilizer to a fund that will be used for community development projects.

"Farmers are happy to see the Government of Afghanistan delivering upon its promise to provide some assistance to farmers in connection with poppy eradication," said Haji Khairullah, district police commander. Complete eradication may be some time away, but the USAID program demonstrates that there is support among Afghan farmers to make the dangers and instability of poppy cultivation history.

To date, as a result of USAID/Afghanistan's alternative development programs, 555,000 farmers across all 34 provinces received 40,000 metric tons of fertilizer; more than 375,000 farmers in the east, south, and north have received both vegetable seeds and fertilizer; and more than $17 million in sales have been generated from the vegetable seed program.

LINKING ACTIVITIES TO OUTCOMES

The decrease in hectares of poppy planted by farmers that results from activities such as this contributes toward the annual performance report indicator on counternarcotics, "Hectares of alternative crops targeted by U.S. programs under cultivation." It also contributes to the **HPPG on Afghanistan** by strengthening host country capacity to effectively provide services to citizens and enhance the long-term sustainability of development efforts. Development and acceptance of alternative crops contributes to stability not only in Afghanistan but globally.

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 the broader U.S. 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 and its partners seek to promote freedom and strengthen effective democracies by assisting countries to move along a continuum toward democratic consolidation. USAID achieves these objectives by providing assistance in the following areas: rule of law and human rights, good governance, political competition and consensus-building, and civil society.

Female Judges Gain Ground in Jordan

Judge Ihsan Barakat, the first female judge to head an appeals court in Jordan, has seen a sea change in her profession in recent years. Although women have long served as lawyers, they have only served as judges since 1996. Today, 45 of the country's 750 judges are women, and this number is expected to increase to 140 by 2011.

The growth in the number of female judges can be traced to the Jordanian Government's strong support for women's participation in the legal profession, as well as ongoing support from donors. In late 2006, USAID helped the Jordanian judiciary establish a streamlined, merit-based judicial appointment system to replace the old system, which was cumbersome and inefficient. Over the past year, the number of women admitted to the Judicial Institute of Jordan (JIJ), the center where all judges are trained, increased from three percent to 65 percent of total admissions.

"Women have been able to prove themselves as judges," said Judge Barakat. "They are efficient, serious, and resistant to corruption. With the newcomers, the overall performance of the judiciary will be enhanced, and I fully expect that women will obtain even higher positions in the near future."

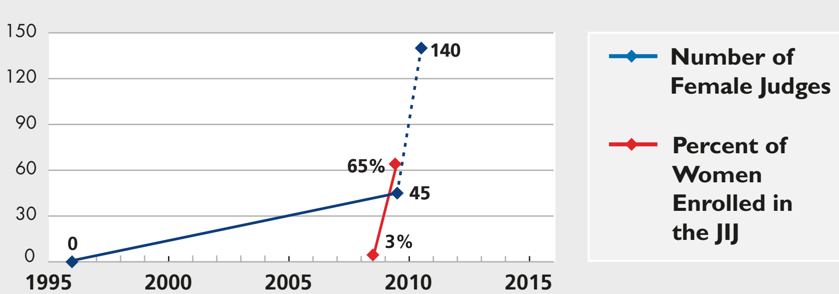
Judge Rateb Wazani, the chief justice of Jordan, said the new admissions policy at the JIJ will increase the percentage of women sitting as judges from the current level of five percent to 15 percent of all judges in just three years.

This advancement toward gender equality on the bench is complemented by two other USAID programs. The Woman-to-Woman mentoring program, established with the Jordanian judiciary, pairs 25 female law students with sitting female

Judge Nawal AlJohari manages her court cases at the Amman First Instance Court.

judges to support them as they prepare for their future positions as lawyers and judges in the male-dominated judiciary. The Future Judges program, an initiative of King Abdullah II and the Ministry of Justice, recruits top students for careers in the justice sector. The USAID-developed gender-neutral recruitment process and administration system has resulted in women making up more than 50 percent of the program's 100 admissions each year.

WOMEN IN JORDAN'S JUSTICE SECTOR



Source: USAID FrontLines June 2010, *http://www.usaid.gov/press/frontlines/fl_jun10/p07_jordan100613.html*

LINKING ACTIVITIES TO OUTCOMES

Judicial training activities such as this contribute to the annual performance report indicator "Number of justice sector personnel trained with U.S. assistance" and to the **HPPG on Democracy, Good Governance and Human Rights** in which the U.S. Government aims to provide training assistance to 120,000 civil society and government officials in 23 priority emerging and consolidating democracies. Training and education improve the capacity and sustainability of civil and criminal justice sector personnel.

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 the United States'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.

Innovation, Science, and Technology Lead to Breakthroughs in HIV Prevention

For almost 25 years, USAID has been on the frontlines of the HIV/AIDS epidemic. The Agency's development programs have been cutting-edge, and have long put women at the center of programming. Prevention of mother-to-child transmission, male circumcision, counseling and testing, nutrition, and HIV vaccine research are just some of the comprehensive array of HIV/AIDS prevention, care, and treatment programs administered through USAID.

This year in a triumph for cutting-edge research and development: a USAID-funded clinical trial in South Africa provided the first evidence that use of a vaginal gel, or microbicide, containing an antiretroviral drug known as tenofovir can prevent HIV infection in women (see photo on page 49).

In the trial, tenofovir gel administered topically before and after sexual activity provided moderate protection in women at high risk of HIV infection. At the end of the study, researchers found that the use of one percent tenofovir gel by 889 women at high risk of HIV infection in Durban, South Africa proved the method to be 39 percent effective in reducing a woman's risk of becoming HIV infected. The gel could be a unique HIV prevention tool for women who are not able to negotiate other HIV prevention methods. This new discovery puts the power of protection against HIV transmission in the hands of the woman and can ultimately save millions of lives.

LINKING ACTIVITIES TO OUTCOMES

Research and development activities such as this contribute to the annual performance report indicator "Estimated number of HIV infections prevented." This scientific breakthrough also supports the **HPPG on Global Health** and the U.S. Government's **Global Health Initiative** goal to support the prevention of more than 12 million new HIV infections.

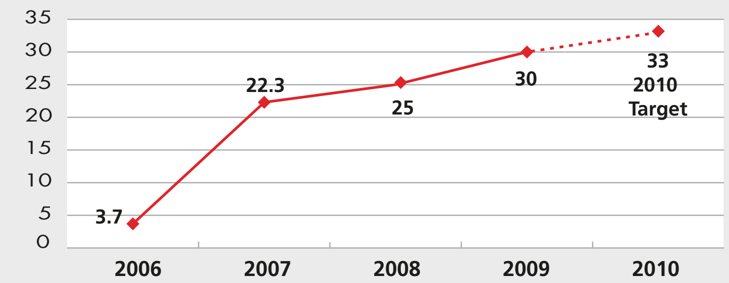
A clinic in Vulindlela, South Africa, participates in the ground-breaking USAID-funded study for a microbicide to reduce transmission of HIV in women.

Educating the Community for Successful Malaria Interventions

Mrs. Rawuda, the mother of three children, lives in Sokoru District, Oromia Regional State, Ethiopia. She is one of nearly 95,600 people who have been trained and have participated in community conversations on malaria prevention and control, organized by the Ethiopian Fayyaa Integrated Development Association (FIDA). "Even though I had a bed net at home, we were not using it because I did not believe that sleeping under the net would protect us from being infected by malaria," Mrs. Rawuda said. "Now that I have learned about the use of nets, my children and I started to use it correctly and consistently."

Since 2005, more than 20 million insecticide-treated nets have been distributed free of charge to prevent and control malaria in Ethiopia. However, the initiative was compromised by low net use; about a third of households that owned nets did not use them. This year, in order to increase the impact of bed net distribution efforts, FIDA's community-level education activities focused on the use of nets and early diagnosis and

NUMBER OF PEOPLE (MILLIONS) PROTECTED AGAINST MALARIA WITH A PREVENTION MEASURE IN PRESIDENT'S MALARIA INITIATIVE COUNTRIES



Source: Refer to the chart on Representative Performance Indicators and Trends, p. 19-20.

LINKING ACTIVITIES TO OUTCOMES

Community malaria prevention activities such as these contribute to the annual report indicator "Number of people protected against malaria with a prevention method in President's Malaria Initiative (PMI) countries" and contribute to the **HPPG on Global Health** as well as the **Global Health Initiative** goal of reducing the burden of malaria by 50 percent for 450 million people, representing 70 percent of the at-risk population in Africa. The strong trend illustrated here is expected to continue.

treatment of malaria. Training is also provided for religious and community leaders in order to mobilize the community to implement malaria prevention and control efforts.

Improving Access to Education for Girls in Sudan

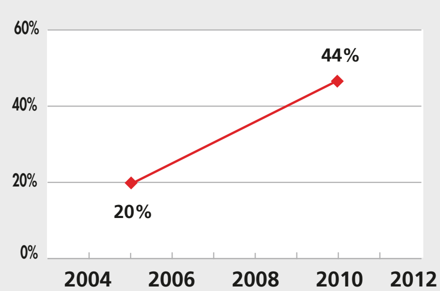
Following more than two decades of civil war, southern Sudan has one of the lowest literacy rates in the world. When the Comprehensive Peace Agreement was signed in 2005, school enrollment in southern Sudan was at 20 percent and the illiteracy rate was 85 percent. Five years later, with significant support from USAID, enrollment has more than doubled to 44 percent. USAID-funded educational programs support approximately 10 percent of children in school, 47 percent of whom are female. The areas in Sudan's north-south border zone also suffered greatly during the war, including Blue Nile state, bordering Ethiopia. Girls have been disproportionately affected by the war, with lower rates of literacy and school attendance than boys.

This year in the Blue Nile town of Kurmuk, USAID opened the Granville-Abbas Girls' Secondary School, named in honor of John Granville, an American diplomat who worked on democracy programs for USAID in Sudan, and his Sudanese colleague Abdelrahman Abbas Rahama. They were assassinated in Khartoum on January 1, 2008.

The school includes three sets of classrooms, a library, theater, cafeteria, dormitories, and teachers' offices and can accommodate 120 female students. A USAID-supported learning center attached to the school provides students and their teachers with Internet access, computer training, and other student-teacher resources. The school is part of USAID efforts to expedite the delivery of critical peace dividends to contested areas of Sudan as well as to increase Sudan's capacity to provide quality primary and secondary education, especially to girls by working through and with State Ministries of Education. Blue Nile State Governor, Malik Agar, said at the school's opening that a friend asked him to explain five methods of eliminating poverty and achieving the Millennium Development Goals (MDG). His response was "There is only one: educate the woman."

A two-part video of the school dedication ceremony and tribute to Granville and Rahama can be viewed at *http://blog.usaid.gov/2010/09/improving-access-to-education-for-girls-in-sudan/*.

PERCENT OF SCHOOL AGE CHILDREN ENROLLED IN SOUTHERN SUDAN



Source: FY 2009 Performance Plan and Report for Sudan.

LINKING ACTIVITIES TO OUTCOMES

Education opportunities such as this contribute indirectly to improved performance in the annual performance report indicator "Primary net enrollment rate." Increasing the proportion of female students enrolled in school in Sudan improves women's long-term earning potential and ability to participate in the economy.

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.

K'iche' maya man from Sololá proudly shows a sample of his snow pea harvest.
PHOTO: USA D/GUATEMALA/SONIA DOM NGUEZ

Growing Quality Crops to Feed the Future and Reduce Rural Poverty

Agricultural diversification—the change from growing only basic grains for family consumption to growing a diverse group of crops sold in national and international markets—is the story of thousands of farmers in the Guatemalan Highlands that has increased incomes, jobs, and opportunity, transforming hundreds of thousands of lives.

Following the 1996 peace accord and a decade of investments in agriculture, USAID is now promoting the growth of an entrepreneurial agricultural sector among underserved populations. With this support, small-scale rural farmers are becoming producers of premium products and turning cooperatives into sustainable small businesses.

Like many rural groups with few resources, Samajelá Taq Winaq Group in Zaragoza, Chimaltenango produced only strawberries, corn, and beans and was forced to sell products to middle-men who paid prices scarcely above production costs. After joining a USAID-supported market alliance, the Samajelá Group received training to improve farming and adopt better post-harvest techniques, diversify from traditional to market crops, increase productivity, and market harvests more effectively. In addition to strawberries, corn, and beans, group members now produce a variety of lettuces, cauliflower, and cabbage for domestic consumption and international export.

These new products are grown for sale, complying with quality standards needed to access international markets. Samajelá has increased its work force by 166 percent— 45 percent of whom are women. As the type and volume of produce sold in formal markets grows, higher and more consistent income is leading to increases in education, health, and food security for the original six Samajelá farmer families as well as for surrounding communities that provide additional day laborers.

LINKING ACTIVITIES TO OUTCOMES

Agricultural activities such as this contribute to the annual performance report indicator "number of rural households benefiting directly from U.S. interventions in agriculture" and contribute to the **HPPG on Food Security**. Replicating the success is also one of the priorities identified in Guatemala's Implementation Plan for **Feed the Future**, the President's plan to address global food insecurity. Increasing sustainable market-led growth for small and rural farmers contributes to an increase in rural incomes and a reduction in the prevalence of poverty.

Global Climate Change

As Secretary of State Clinton stated: "USAID already has been a leader in advancing climate, clean energy, and

LINKING ACTIVITIES TO OUTCOMES

Climate change activities such as this contribute to the annual performance report indicator "Quantity of greenhouse gas emissions reduced or sequestered as a result of U.S. Government assistance" and support the **HPPG on Global Climate Change** as well as the President's **Global Climate Change Initiative**. USAID has elected to focus its near-term efforts on the development of Low Emissions Development Strategies (LEDS), which are a critical underpinning of future successes in reducing greenhouse gas emissions. The development of local government policies on air quality and traffic such as the one described here could be a component of a country's LEDS.

conservation activities in the developing world, drawing the clear and important link between solving the climate problem and promoting sustainable development globally."

Addressing the causes and effects of climate change has been a key focus of USAID's development assistance for over a decade. USAID has funded environmental programs that have reduced growth in greenhouse gas emissions while promoting energy efficiency, forest conservation, biodiversity, and other development goals. This 'multiple benefits' approach to climate change helps developing countries achieve broad-based economic development without sacrificing environmental protection. Active in more than 40 developing countries, the program integrates climate change into USAID's development assistance activities.

USAID places particular emphasis on partnerships with the private sector and on working with local and national authorities, communities, and non-governmental organizations (NGO) to create alliances that build on the relative strengths of each. Bringing together a diverse range of stakeholders helps avoid unnecessary duplication and lays the foundation for a sustained, integrated approach.

In Costa Rica, USAID's Central America and Mexico Regional Environmental Program supported the development of a network of air-quality monitoring stations to aid local governments in making more informed environmental policies. Monitoring provides the information governments need to form initiatives to reduce air pollution in critical areas. For example, a vehicle restriction program instituted this year in San Jose limits the number of vehicles allowed on the road Monday through Friday on a rotating basis by license plate number. Drivers who disregard the restrictions may be fined. The impact of the program has been to reduce traffic congestion and has improved local air quality. Brief videos about this and other initiatives under the Regional Environmental Program can be viewed here: *http://www.caftadrenvironment.com/content/*.

GLOBAL DEVELOPMENT ALLIANCE – PARTNERING WITH THE PRIVATE SECTOR TO ACHIEVE DEVELOPMENT RESULTS

"...We will look at doing things in more innovative ways, often with the private sector—private companies or private foundations—to really bring a higher level of innovation to the area of development and to bring that creativity and risk taking that often does lead to some of the most important breakthroughs on behalf of the world's poorest populations."

– USAID Administrator Rajiv Shah

Since the Global Development Alliance approach was first conceived at USAID in 2001, it has led to more than 900 alliances formed with more than 1,700 distinct partners, leveraging billions in combined public-private sector resources.

Alliances in Action: Improving Incomes from Cocoa

Indonesia is the world's third largest producer of cocoa, with about 70 percent of that cocoa originating in Sulawesi. On this large, lush island to the east of Java, cocoa production is a way of life for many smallholder farmers. However, the Indonesian cocoa industry is beset with challenges. One challenge is the poor quality of cocoa beans. Farmers often sell their cocoa at below market rates to the local debt collector to pay off debts which gives them little reason to produce the higher-quality beans that international companies demand. A second major challenge is the shipping system, which relies on informal payments and inconsistent export taxes. A third challenge has been the presence of the cocoa pod borer

In the Pirang District of South Sulawesi, Indonesia, a woman scoops cocoa beans that will be weighed and graded for quality at a cocoa trading station as part of the Amarta Sulawesi Kakao Alliance.

PHOTO: USA D/ LORIN KAVANAUG-ULKU

and other pests, which can reduce yields by 60 percent.

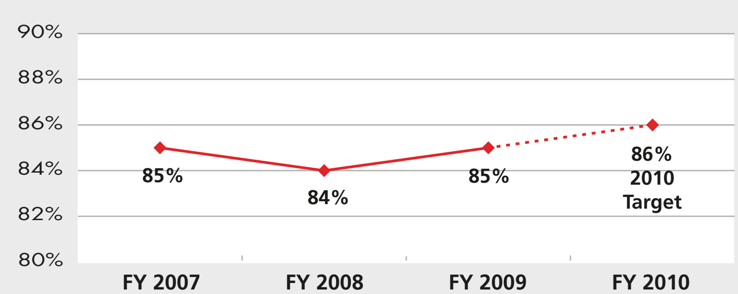
Through the AMARTA Sulawesi Kakao Alliance (ASKA), USAID, Blommer Chocolate Company, and Olam International work with the Indonesian Government to promote the Sulawesi's cocoa industry. By providing training in pest and disease control technologies and cocoa best management practices, the alliance is helping to improve farm productivity and increase the incomes of rural cocoa farmers. In addition, partners provide farmers with information on the cocoa grading process so that farmers can command higher prices at local buying units for their crops. To date, the alliance has provided more than 20,000 farmers with knowledge and training in cocoa production and access to local cocoa buying stations that pay premium prices for high-quality cocoa. Farmers who have gone through the training program are benefiting from increased cocoa yields and income of up to 75 percent.

A worker moves plywood past a mural depicting transitional shelters at a USAID partner t-shelter production site. PHOTO: USAID/KENDRA HELMER

STRATEGIC GOAL ON PROVIDING HUMANITARIAN ASSISTANCE

The United States's commitment to humanitarian assistance demonstrates America's compassion for victims of natural disasters, armed conflict, forced migration, persecution, human rights violations, widespread health and food insecurity, and other threats. It requires an urgent response to emergencies, concerted effort to address hunger and protracted crises, and planning to build the necessary capacity to prevent and mitigate the effects of conflict and disasters. 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 social services. USAID achieves these objectives by providing assistance in the following areas: providing protection, assistance, and solutions; preventing and mitigating disasters; and promoting orderly and humane means for migration management.

PERCENT OF TARGETED DISASTER-AFFECTED HOUSEHOLDS PROVIDED WITH BASIC INPUTS FOR SURVIVAL, RECOVERY, RESTORATION OF PRODUCTIVE CAPACITY



Source: Refer to the chart on Representative Performance Indicators and Trends, p. 19-20.

Recovery in the Wake of an Earthquake

The earthquake in Haiti on January 12, 2010 killed an estimated 230,000 people and affected approximately three million others, including roughly 1.5 million people displaced from their homes. Over the intervening months, USAID led the U.S. Government's efforts to provide safe drinking water, food, shelter, household items, and health care. Through September 24, 2010, USAID programmed $662.7 million in humanitarian funding out of the U.S. Government's $1.14 billion in Haiti earthquake aid.

USAID's Office of U.S. Foreign Disaster Assistance (OFDA) built 5,855 transitional shelters (t-shelters), which should house nearly 30,000 individuals. T-shelters are a semi-permanent housing solution designed to replace emergency tent shelters and built to withstand hurricane force winds, seismic risks, and heavy rainfall. Even before the earthquake destroyed much of Carrefour, a densely populated municipality just west of Port-au-Prince, many families lived in shelters averaging 28 square feet. The new t-shelters are nearly double the size (46 square feet) and are designed to house up to five family members. To prioritize beneficiaries, USAID works with the community to identify the most vulnerable people, including women-headed households, the elderly, and disabled.

Shelter is just one component of U.S. efforts to restore a sense of normalcy and productive capacity to earthquake survivors. In the face of overwhelming needs for reconstruction and food production, USAID is also funding a variety of cash-for-work programs. In Haiti's Central Plateau, for example, OFDA-funded partners provide livelihood opportunities for 2,000 people per week. These projects give a member of each household 30 days of employment on a community-selected project geared at improving infrastructure for agricultural production, such as rehabilitating roads, farmland, or irrigation systems. Some have used their income and skills developed from the programs to start more sustainable small businesses.

LINKING ACTIVITIES TO OUTCOMES

Humanitarian assistance activities such as these contribute to the annual performance report indicator "Percent of targeted disaster-affected households provided with basic inputs for survival, recovery, or restoration of productive capacity." In the short-term, they provide some stability for disaster-affected individuals and contribute to the long-term reconstruction of the country and recovery of income.

HARNESSING INNOVATION TO ACHIEVE THE MILLENNIUM DEVELOPMENT GOALS

During the September 2010, United Nations (UN) General Assembly meetings in New York, USAID co-hosted a forum with the New York Academy of Sciences to highlight the use of science and technology (S&T) to solve some of the greatest development problems of this century. S&T has transformative power and is critical to meeting the Millennium Development Goals (MDG). Engineers, researchers, and development experts gathered for an interactive science fair to demonstrate their work on innovations that can improve lives and livelihoods throughout the developing world. The science fair highlighted potentially game changing innovations from more than 20 entrepreneurs from the United States and abroad in the areas of health, water, agriculture, environment, energy, and information technology. Some of their solutions include the Jaipur Knee, a root hydration system that delivers clean water from any source; a technology to generate energy from dirt; and a pedal-powered phone charger.

Since its inception in 1961, USAID has proudly been a driver of innovation. This focus is now entering a renaissance phase, with an Administrator who has declared science, technology and innovation a priority and a newly named S&T advisor leading the charge toward solving the great development challenges of this century. New technologies alone will not be a silver bullet for development. USAID is working to ensure that its implementation, distribution, and communication networks with partner countries are strategically coordinated at all levels. Still, science, technology, and innovation can help leapfrog development problems that can otherwise take generations to tackle. New and innovative solutions can bridge the divide between the public and private sectors and help bypass obstacles previously considered insurmountable. They also can help USAID change the way it does business with the more than 80 nations where the Agency works.

For more information on USAID innovations, see the report *Breakthroughs at USAID: A Publication for the UN General Assembly.*

Harvard University students developed a microbial fuel cell, or dirt-powered battery, capable of powering LED lights or charging cell phones. USAID

USAID 2010 REPRESENTATIVE INDICATORS AND PERFORMANCE TRENDS BY STRATEGIC GOALS[1]

ACHIEVING PEACE AND SECURITY

Representative Performance Indicator	FY 2006 Results	FY 2007 Results	FY 2008 Results	FY 2009 Results	FY 2010 Target	FY 2011 Target	Data Note #*
Hectares of Alternative Crops targeted by U.S. Government Programs under Cultivation	201,955	85,110	229,996	201,989	109,457	166,100	2,3,4
Number of People Trained in Conflict Mitigation/Resolution Skills with U.S. Assistance	N/A	17,965	12,578	92,601	19,074	62,340	4,5

GOVERNING JUSTLY AND DEMOCRATICALLY

Representative Performance Indicator	FY 2006 Results	FY 2007 Results	FY 2008 Results	FY 2009 Results	FY 2010 Target	FY 2011 Target	Data Note #*
Number of Justice Sector Personnel Who Received U.S. Government Training	N/A	110,041	56,001	68,392	43,577	43,831	4,6
Number of U.S. Government-Assisted Courts with Improved Case Management	N/A	350	351	337	220	109	4,7,8
Number of Domestic Election Observers Trained with U.S. Government Assistance	N/A	53,258	24,629	48,686	128,705	54,933	4,9
Number of U.S. Government-Assisted Political Parties Implementing Programs to Increase the Number of Candidates and Members Who are Women, Youth and from Marginalized Groups	N/A	127	130	172	191	100	4,10
Number of U.S. Government-Assisted Civil Society Organizations that Engage in Advocacy and Watchdog Functions	N/A	1,039	1,315	1,395	889	559	4,11
Europe Non-Governmental Organization Sustainability Index	3.8	3.8	3.7	3.7	3.5	3.5	12,13
Eurasia Non-Governmental Organization Sustainability Index	4.6	4.6	4.6	4.6	4.4	4.4	13,14

INVESTING IN PEOPLE

Representative Performance Indicator	FY 2006 Results	FY 2007 Results	FY 2008 Results	FY 2009 Results	FY 2010 Target	FY 2011 Target	Data Note #*
Number of People Receiving HIV/AIDS Treatment	822,000	1.3M	2.0M	2.5M	TBD	TBD	15 ,16
Number of People Receiving HIV/AIDS Care and Support	4.4M	6.6M	9.7M	11.0M	TBD	TBD	15 ,17
Average Tuberculosis Treatment Success Rate (TBS) in USAID Priority Countries	N/A	N/A	80%	82%	83%	84%	18,19,20
Average Tuberculosis Case Detection Rate (TBD) in USAID Priority Countries	N/A	N/A	55%	58%	59%	60%	19,20,21
Number of People Protected Against Malaria with a Prevention Measure in President's Malaria Initiative Countries	3.7M	22.3M	25.0M	30.0M	33.0M	38.0M	4,22
Number of Treatments Delivered to Control Neglected Tropical Diseases	N/A	36.0M	57.0M	75.0M	200.0M	217.0M	23,24,25
Percentage of Children with DPT 3 Coverage	59.0%	59.6%	60.2%	61.0%	61.6%	62.3%	20,26
Percentage of Live Births Attended by Skilled Birth Attendants	44.9%	45.7%	46.7%	47.9%	48.9%	50.9%	20,26
Average Modern Contraceptive Prevalence Rate (MCPR)	N/A	N/A	26.40	27.3%	28.3%	29.3%	20,27,28
Average Percentage of Births Spaced Three or More Years Apart	N/A	N/A	44.80%	45.60%	46.00%	46.40%	20,29,30
Average Percentage of Women Aged 20-24 Who Had a First Birth Before Age 18	N/A	N/A	23.80%	23.90%	23.60%	23.30%	20,31,32
Number of People in Target Areas with Access to Improved Drinking Water Sources	N/A	2.1M	3.0M	7.8M	5.5M	5.5M	4,33
Percentage of Children Underweight under Age Five	N/A	N/A	N/A	29	TBD	TBD	20,58,59

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

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

(continued on next page)

USAID 2010 REPRESENTATIVE INDICATORS AND PERFORMANCE TRENDS BY STRATEGIC GOALS[1]

(continued)

INVESTING IN PEOPLE *(continued)*

Representative Performance Indicator	FY 2006 Results	FY 2007 Results	FY 2008 Results	FY 2009 Results	FY 2010 Target	FY 2011 Target	Data Note #*
Percentage of Women Age 15-49 with Anemia	N/A	N/A	N/A	46.9	TBD	TBD	20,59,60
Primary Net Enrollment Rate for a Sample of Countries Receiving Basic Education Funds	72%	76%	78%	79%	80%	81%	34,35,36
Number of People Benefiting from U.S. Social Services and Assistance	N/A	1.8M	5.3M	6.4M	5.7M	4.5M	4,37

PROMOTING ECONOMIC GROWTH AND PROSPERITY

Representative Performance Indicator	FY 2006 Results	FY 2007 Results	FY 2008 Results	FY 2009 Results	FY 2010 Target	FY 2011 Target	Data Note #*
Time Necessary to Comply with Procedures Required to Export/ Import Goods (days)	N/A	N/A	78	78	76	74	38,39,40
Credit to Private Sector as a Percent of GDP	54.40%	57.70%	55.30%	60.70%	61.00%	61.60%	40,41
Number of People with Increased Access to Modern Energy Services	N/A	1.87M	371,409	4.43M	3.01M	177,333	4,8,42
Number of People with Access to Internet Service	N/A	6.55M	1.5M	531,398	701,800	20,000	4,8,42
Number of People Benefiting from U.S. Government-Sponsored Transportation Infrastructure Projects	N/A	1.77M	68,758	304,565	754,377	825,172	4,8,42
Number of Rural Households Benefiting Directly from U.S. Interventions in Agriculture	N/A	1.88M	3.42M	2.08M	2.27M	2.46M	4,43
Percent Change in Value of International Exports of Targeted Agricultural Commodities Due to U.S. Assistance	N/A	41.10%	63.30%	70.40%	19.09%	17.78%	4,44
Number of Commercial Laws Put into Place that Fall in the 11 Core Legal Categories for a Healthy Business Environment	N/A	41	30	11	26	3	4,45
Percent of U.S. Government-Assisted Microfinance Institutions that have Reached Operational Sustainability	71%	69%	74%	86%	70%	70%	4,46
Quantity of Greenhouse Gas Emissions Reduced or Sequestered (metric tons)	129M	180M	142M (est.)	120M	133M	133M	47,48
Number of Hectares of Biological Significance and Natural Resource under Improved Management as a Result of U.S. Government Assistance	N/A	121.61M	126M	104.6M	86.8M	92.7M	4,49

PROVIDING HUMANITARIAN ASSISTANCE

Representative Performance Indicator	FY 2006 Results	FY 2007 Results	FY 2008 Results	FY 2009 Results	FY 2010 Target	FY 2011 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	23%	41%	34%	25%	35%	40%	50,51
Percent of Targeted Beneficiaries Assisted by Protection and Solution Activities Funded by USAID (Discontinued Indicator)	N/A	70%	77%	85%	86%	N/A	52,53
Percentage of OFDA-Funded Non-Governmental Organization Projects that Mainstream Protection	N/A	N/A	N/A	26%	30%	35%	61,62,63
Percent of Planned Emergency Food Aid Beneficiaries Reached by USAID's Office of Food for Peace Programs	84%	86%	92%	93%	93%	93%	54,55
Percent of Targeted Disaster-Affected Households Provided with Basic Inputs for Survival, Recovery or Restoration of Productive Capacity	N/A	85%	84%	85%	86%	90%	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.

OVERVIEW OF FINANCIAL POSITION

Preparing the Agency's financial statements creates the opportunity 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 eighth 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.

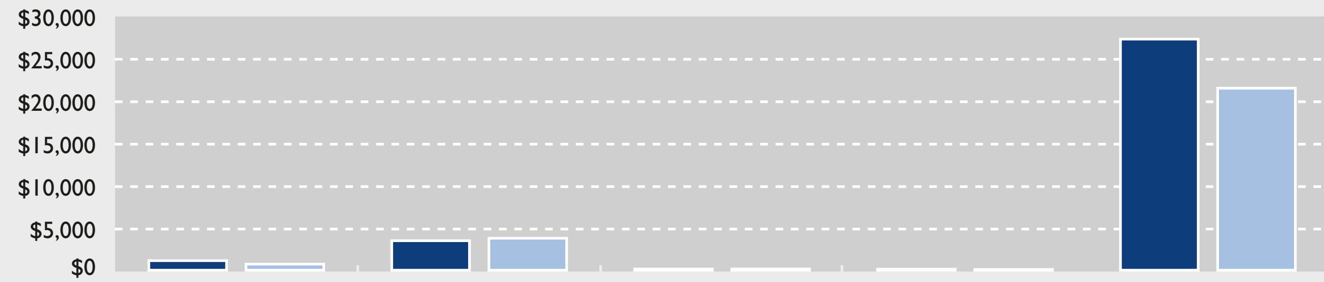
CHANGES IN FINANCIAL POSITION IN FY 2010

(In Thousands)

Net Financial Condition	2010	2009	% Change in Financial Position
Fund Balance with Treasury	$ 27,221,485	$ 21,437,709	27%
Direct Loans and Loan Guarantees, Net	3,472,065	3,762,680	-8%
Accounts Receivable, Net	121,321	84,874	43%
Cash and Other Monetary Assets, Advances and Other Assets	1,122,149	712,668	57%
PP&E, Net and Inventory, Net	133,450	140,505	-5%
Total Assets	**$32,070,470**	**$26,138,436**	23%
Debt and Liability for Capital Transfers to the General Fund of the Treasury	3,680,664	3,945,582	-7%
Accounts Payable	2,112,820	1,836,631	15%
Loan Guarantee Liability	2,265,591	2,283,273	-1%
Other Liabilities	1,129,537	603,085	87%
Total Liabilities	**$ 9,188,612**	**$ 8,668,571**	6%
Unexpended Appropriations	21,108,712	16,464,124	28%
Cumulative Results of Operations	1,773,146	1,005,741	76%
Net Position	22,881,858	17,469,865	31%
Net Cost	**$10,406,296**	**$11,015,751**	-6%
Budgetary Resources	**$24,957,025**	**$18,961,887**	32%

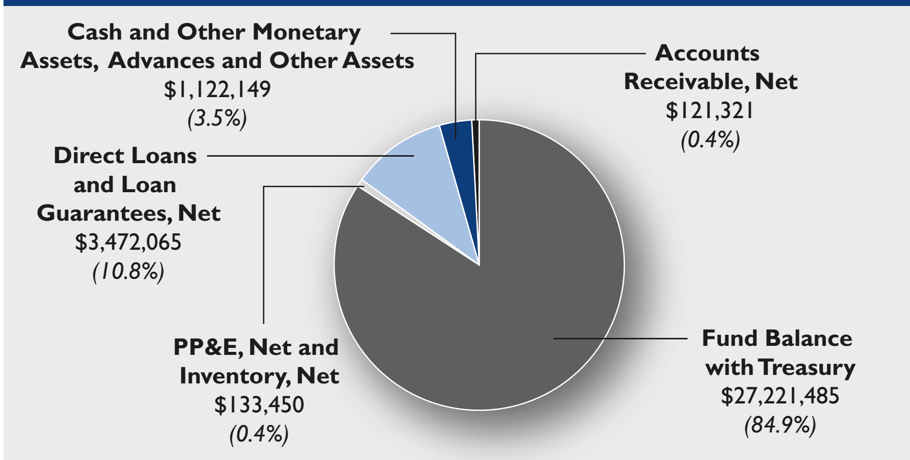
A summary of USAID's major financial activities in FY 2010 and FY 2009 is presented in the table above. This table represents the resources available for use (assets) to pay obligations (liabilities) and the amounts that comprise the difference (net position). The net cost represents the gross cost of operating USAID's lines of business less earned revenue. Budgetary resources represent funds available to the Agency to incur obligations. The summary includes an explanation of significant fluctuations on each of USAID's financial statements.

ASSETS COMPARISON *(In Thousands)*



	Cash and Other Monetary Assets, Advances and Other Assets	Direct Loans and Loans Guaranteees, Net	PP&E, Net and Inventory, Net	Accounts Receivable, Net	Fund Balance with Treasury
FY 2010	$ 1,122,149	$ 3,472,065	$ 133,450	$ 121,321	$27,221,485
FY 2009	$ 712,668	$ 3,762,680	$ 140,505	$ 84,874	$21,437,709

FY 2010 TOTAL ASSETS: $32,089,165 *(In Thousands)*



BALANCE SHEET SUMMARY

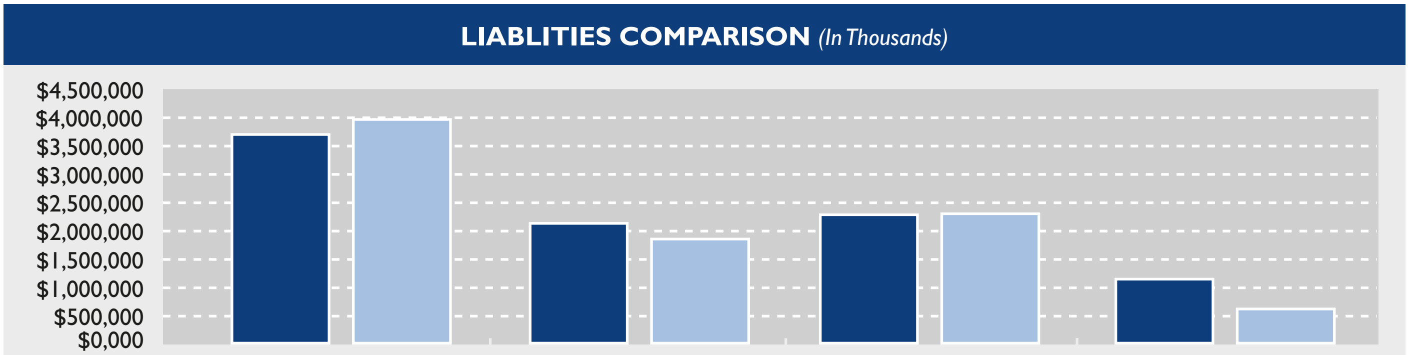
ASSETS – WHAT WE OWN AND MANAGE

The total assets were $32.1 billion as of September 30, 2010. This represents an increase of $6.0 billion (or 23 percent) over the previous year's total assets of $26.1 billion. 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 85 percent and 11 percent of USAID's current period assets, respectively.
The Fund Balance with Treasury consists of funding available through the U.S. Department of Treasury's accounts that are accessible by the Agency to pay the Agency's obligations incurred. USAID's Fund Balance with Treasury increased by $5.8 billion (27 percent) primarily because Congress appropriated $4 billion more to USAID in 2010 than in 2009. Appropriations for the Economic Support Fund increased by approximately $1.7 Billion. Appropriations for the Funds for Development Assistance, International Disaster Assistance, Operating Expenses and the Global AIDS Efforts all increased by $300 to $500 million. Funds are often obligated in the same year in which they are appropriated but usually not disbursed. That is why large appropriation increases will cause Fund Balance with Treasury to increase in the year in which USAID receives them.

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 ensure that these agencies report on allocations provided to the Agency.

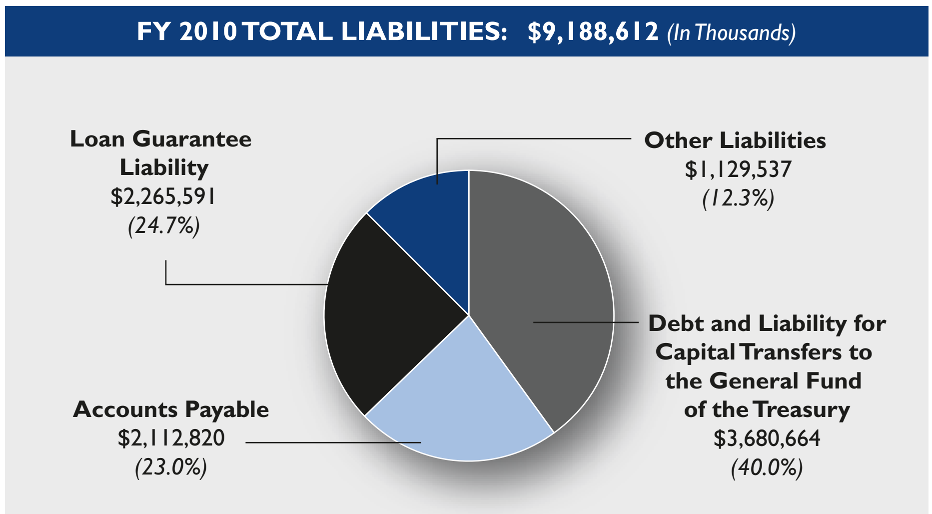
LIABILITIES – WHAT WE OWE

The Consolidated Balance Sheet reflects total liabilities of $9.2 billion, of which $3.7 billion or 40 percent, is Debt and Liability for Capital Transfers to the General Fund of the Treasury as presented in the chart shown. These liabilities represent funds borrowed from the U.S. Treasury to carry out the Agency's Federal Credit Reform program activities and net liquidating account equity. Total liabilities increased by $520 million or 6 percent compared to FY 2009.



	Debt and Liability for Capital Transfers to the General Fund of the Treasury	Accounts Payable	Loan Guarantee Liability	Other Liabilities
FY 2010	$3,680,664	$ 2,112,820	$ 2,265,591	$ 1,129,537
FY 2009	$3,945,582	$ 1,836,631	$ 2,283,273	$ 603,085

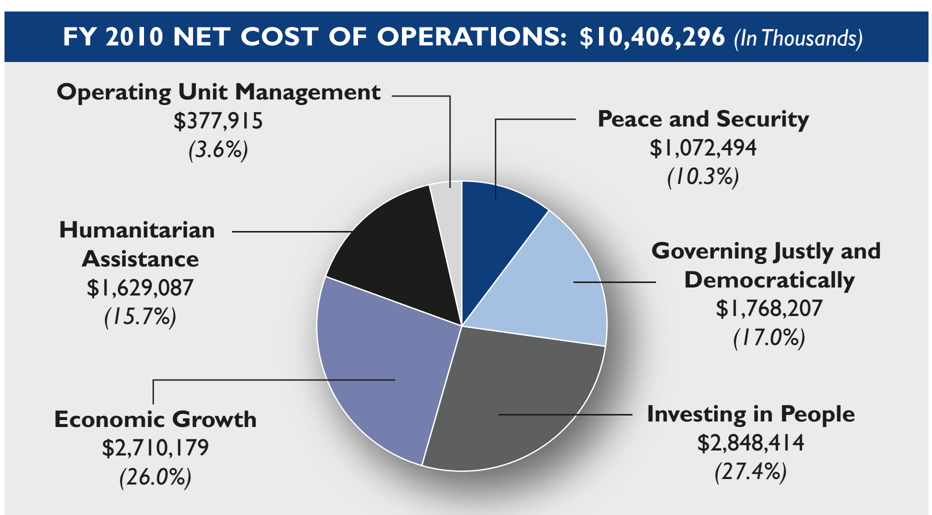
ENDING NET POSITION – WHAT WE HAVE DONE OVER TIME



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 $5.4 billion or 31 percent, and is mainly due to an increase of appropriations received. The remaining variance is due to FY 2009 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

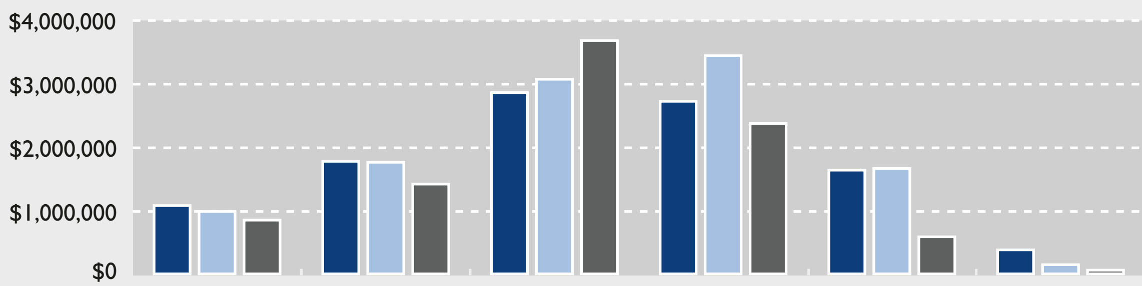


The results of operations are reported in the Consolidated Statement of Net Cost and the Consolidated Statement of Changes in Net Position. The Consolidated Statement of Net Cost represents the cost (net of earned revenues) of operating the Agency's six objectives. These objectives are consistent with the State-USAID Strategic Planning Framework. Two objectives, Economic Growth and Investing in People, represent the largest investments at 26 percent and 27 percent of the net cost of operations, respectively. The corresponding chart shows the total net cost incurred to carry out each of the Agency's objectives.

For FY 2010 and FY 2009, USAID's net cost of operations totaled $10.4 billion and $11.0 billion, respectively. Net costs of operations decreased $609 million or 6 percent compared to last year. Net cost decreases in the Economic Growth and in the Investing in People objectives were partially offset by increases in other program objectives. The net cost decrease of $914 million in the Economic Growth objective was caused by a return in FY 2010 of cash transfers for economic support to normal levels. They were unusually high in 2009 because of urgent needs related to reconstruction efforts in war-torn areas. The net costs in the Investing in People objective decreased by $210 million. This was partially due to some re-focusing of our programs.

Major elements of net cost are broken out below. This chart compares the major elements of net cost by year starting with FY 2008 and going through FY 2010. In addition, the financial reporting of the disbursement of American Recovery and Reinvestment Act (ARRA) of 2009 funds by the Agency has comported with statutory mandates and OMB requirements. Monitoring of internal controls provides assurance that funds are properly accounted for and reported. The Agency has developed a series of reports to allow internal tracking of activities under the Act.

MAJOR ELEMENTS OF NET COST COMPARISON OVER TIME *(In Thousands)*



OBJECTIVES	Peace and Security	Governing Justly and Democratically	Investing in People	Economic Growth	Humanitarian Assistance	Operating Unit Management
FY 2010	$ 1,072,494	$ 1,768,207	$ 2,848,414	$ 2,710,179	$ 1,629,087	$ 377,915
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 2010 NET COST PROGRAM AREAS

(In Thousands)

OBJECTIVE	PROGRAM AREA	TOTAL
Peace & Security	Counterterrorism	$ 17,102
	Combating Weapons of Mass Destruction (WMD)	65,007
	Stabilization Operations and Security Sector Reform	51,214
	Counternarcotics	423,216
	Transnational Crime	17,885
	Conflict Mitigation and Reconciliation	498,070
Peace & Security Total		1,072,494
Governing Justly & Democratically	Rule of Law and Human Rights	181,222
	Good Governance	934,338
	Political Competition and Consensus-Building	314,442
	Civil Society	338,205
Governing Justly & Democratically Total		1,768,207
Investing in People	Health	1,271,054
	Education	871,321
	Social and Economic Services and Protection for Vulnerable Populations	706,039
Investing in People Total		2,848,414
Economic Growth	Macroeconomic Foundation for Growth	267,386
	Trade and Investment	151,017
	Financial Sector	109,438
	Infrastructure	698,504
	Agriculture	656,250
	Private Sector Competitiveness	350,686
	Economic Opportunity	180,453
	Environment	296,445
Economic Growth Total		2,710,179
Humanitarian Assistance	Protection, Assistance and Solutions	1,318,621
	Disaster Readiness	283,960
	Migration Management	26,506
Humanitarian Assistance Total		1,629,087
Operating Unit Management	Crosscutting Management and Staffing	50,041
	Program Design and Learning	49,500
	Administration and Oversight	278,374
Operating Unit Management Total		377,915
Total Net Cost of Operations		$ 10,406,296

BUDGETARY RESOURCES

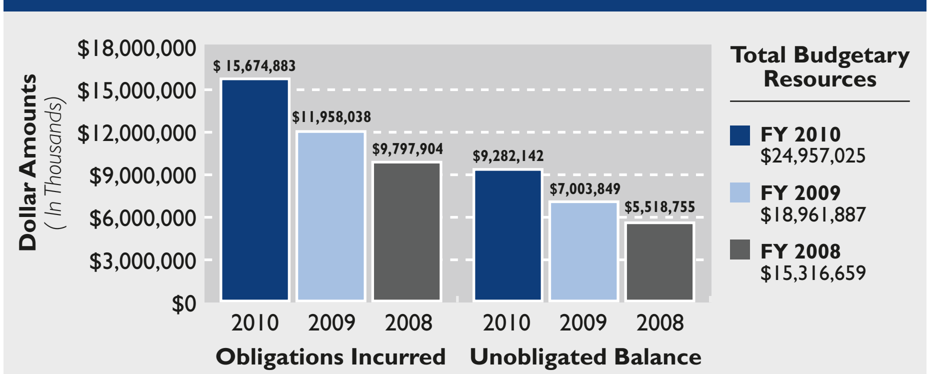
OUR FUNDS

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 by Congress for USAID's use. Budgetary Resources consist of the resources available to USAID at the beginning of the year, plus the appropriations received, spending authority from offsetting collections, and other budgetary resources received during the year. For FY 2010, the Agency received $25.0 billion in cumulative budgetary resources, of which, by the end of FY 2010, it had obligated $15.7 billion and left unobligated $9.3 billion.

OBLIGATIONS AND OUTLAYS

The Status of Budgetary Resources table compares obligations incurred and unobligated balances at year end for FY 2010, FY 2009, and FY 2008. Net outlays reflect disbursements net of offsetting collections and distributed offsetting receipts. USAID recorded total net outlays of $9.6 billion during the current fiscal year, and these outlays were disbursed timely according to contracted terms. Budgetary resources increased $6.0 billion or 32 percent, from FY 2009, while net outlays increased $153 million or two percent.

STATUS OF BUDGETARY RESOURCES FY 2010, FY 2009, AND FY 2008



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 2010 – 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 is able to provide a qualified statement of assurance that the internal controls and financial management systems meet the objectives of FMFIA, with the exception of one material weakness. The details of the exception are provided in Exhibit A.

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, 2010 was operating effectively and no material weaknesses were found in the design or operation of the internal operational 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 identified one material weakness in its internal control over financial reporting as of June 30, 2010. Other than the exception noted in Exhibit A, the internal controls were operating effectively and no other material weaknesses were found in the design or operation of the internal control over financial reporting.

USAID also conducted reviews of its financial management systems in accordance with OMB Circular A-127, Financial Management Systems. Based on the results of these reviews, USAID can provide reasonable assurance that its financial management systems substantially comply with the requirements of the Federal Financial Management Improvement Act (FFMIA) as of September 30, 2010.

Rajiv Shah
Administrator
November 15, 2010

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, provide an annual FMFIA assurance statement on whether USAID has met this requirement. USAID, in keeping with the Administration's increased transparency and accountability requirements, expanded its internal control assessment efforts during the year to respond to recent legislation and regulatory requirements.

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, which meets at least two times a year, is normally chaired by the deputy administrator and is composed of USAID executive level managers. Information from annual certification statements provided by mission directors, assistant administrators, and independent office directors serves as the fundamental 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. No material weaknesses were identified.

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. The result of the evaluation identified one material weakness and forms the basis for USAID's qualified statement of assurance, considering the exception explicitly noted.

Internal control over financial reporting should assure the safeguarding of assets from waste, loss, unauthorized use, and 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 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. These 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 key business processes, 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 2010 Appendix A review focused primarily on high-risk and medium-risk key business processes with additional qualitative reviews. The key businesses processes are:

- Financial Reporting
- Accounts Payable
- Accruals (high)
- Fund Balance with Treasury (high)
- Credit Programs (medium)
- Advances and Pre-Payments (medium)
- Budget (medium)
- Obligations (medium)
- Contracts (medium)
- Payroll (medium);

The qualitative reviews included:

- Expanded Object Class Codes
- Sensitive Payments
- Post Differentials
- Premium Class Travel
- Surveys (Chief Financial Officer (CFO) Customer Service, WebTA, and ICASS [International Cooperative Administrative Support Services])

OMB A-123 reviews were conducted at 10 USAID overseas field missions. The selection of overseas field missions to participate in on-site testing was performed in accordance with the guidelines established by GAO. The 10 overseas field missions visited were:

Colombia	Zambia
Madagascar	Cambodia
Ethiopia	Nairobi/East Africa
Georgia	Kosovo
Nigeria	Liberia

Several control deficiencies were identified as part of the A-123 assessment. The review identified one material weakness concerning large unreconciled differences with the U.S. Treasury and its Fund Balance with Treasury Account and three significant deficiencies related to advances, obligations, and loans receivable. Regarding the material weakness, the Agency continued to maintain outstanding suspense items that were aged beyond the 60 days limit required by the Department of the Treasury. USAID continued 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. These differences occurred because USAID frequently recorded third party payments in its general ledger in appropriations that were different from the appropriations in which the U.S. Treasury recorded the identical payments. Corrective actions are addressed at Exhibit A.

Improving the Management of Government Charge Card Programs

Appendix B, *Improving the Management of Government Charge Card Programs* requires Federal agencies to maintain internal controls that reduce the risk of fraud, waste, and error in government charge card programs. Appendix B "prescribes policies and procedures to agencies regarding how to maintain internal controls that reduce the risk of fraud, waste, and error in government charge card programs." Appendix B also aims to "maximize benefits to the Federal Government when using government charge cards to pay for goods and services in support of official Federal missions."

USAID management performs a review of various aspects of cardholder activity in order to monitor controls and compliance, including objectives such as:

- Only authorized and trained employees are provided a charge card;
- Card account management is appropriate when a cardholder transfers within the Agency or separates from the Agency;
- All charges are accurate, authorized, and are for legitimate business purposes;
- Payments are made properly and promptly to maximize card rebates;
- Cardholders and supervisors reconcile card charges to identify errors and/or misuse;
- Erroneous charges or unauthorized purchases identified after payment are recaptured from the vendor or employee; and
- Management monitors activity and appropriate reports to identify delinquency, misuse, or abuse.

In order to communicate government charge card programs, activity, and the monitoring thereof, management in accordance with Appendix B of OMB Circular A-123 submits periodic reports to OMB including:

- Monthly Assessment Team Tracking
- Quarterly Data Reporting
- Annual Narrative Reporting
- Credit Card Management Plan

Requirements for Effective Measurement and Remediation of Improper Payments

Appendix C, Parts I, II, and III, *Requirements for Effective Measurement and Remediation of Improper Payments* are aimed at improving the integrity of the government's payments and the efficiency of its programs and activities, including the Improper Payments Information Act (IPIA) of 2002 (P.L. 107-300), and section 831 of the Defense Authorization Act for FY 2002 (P.L. 107-107, codified at 31 U.S.C. §§ 3561-3567), also known as the Recovery Auditing Act. Appendix C, Parts I and II require agencies to review all programs and activities they administer and identify those which may be susceptible to significant erroneous payments. Further, agencies are required to report on their recovery auditing activities annually in the appropriate section of the IPIA portion of its Agency Financial Report (AFR), as required by OMB Circular A-136. Significant components of Appendix C, Part III include:

- Determining the programs subject to Executive Order 13520, Reducing Improper Payments (i.e., high priority programs);
- Submitting to the agency's Inspector General (IG) and the Council of Inspectors General on Integrity and Efficiency (CIGIE), and making available to the public, a quarterly report on any high-dollar overpayments identified by the agency; and
- Establishing procedures to identify entities with outstanding improper payments.

To comply with IPIA and Appendix C guidance, the Agency:

1. Reviewed all program and activities and identified those which were susceptible to significant erroneous payments;
2. Obtained a statistically valid estimate of the annual amount of improper payments in programs and activities;
3. Implemented a plan to reduce erroneous payments; and

4. Reported estimates of the annual amount of improper payments in programs and activities and progress in reducing them.

Additionally, the Agency prepared and submitted the required quarterly high-dollar overpayment reports to OMB and the Agency's IG, as applicable, to comply with Executive Order 13520 for FY 2010.

Conducting Acquisition Assessments under OMB Circular A-123

Conducting Acquisition Assessments under OMB Circular A-123 requires agencies to conduct entity level internal control reviews of the acquisition function; continuously monitor and improve the effectiveness of internal control associated with their programs; integrate assessment efforts with existing agency internal control processes and practices to ensure the coordinated establishment, assessment, and correction of internal controls for acquisition; and use the OMB developed template for acquisition and program management reviews to standardize the assessment approach.

Conducting Acquisition Assessments under OMB Circular A-123 enhances the quality of entity level acquisition reviews, consistent with standardization and integration guiding principles. USAID remains committed to leverage existing resources by implementing an integrated management approach to internal control that focuses equally on the financial, program, operational, and administrative functional areas of the Agency, including acquisition.

Reporting on the results of the assessment in accordance with existing Agency internal control directives does not give rise to the disclosure of findings. However, management is aware of challenges, for which corrective actions have been designed and tracked and assessed, as appropriate.

American Recovery and Reinvestment Act

The American Recovery and Reinvestment Act (ARRA or Recovery Act) of 2009 commonly referred to as the Recovery Act, provided economic stimulus funding intended to create jobs and promote investment and consumer spending during the recession. The Agency used its ARRA funding to enhance its information technology (IT) systems to include co-location of backup information management facilities. In an effort to align overall Agency plans with the goals of the Recovery Act, USAID management will complete the rollout of its Global Acquisition and Assistance System (GLAAS) that will provide the ability to process transactions worldwide. Investing in GLAAS serves two fundamental functions: expansion of E-Government initiative and Agency business modernization. GLAAS will maximize interoperability and minimize redundancy through integration with a host of internal and external systems. OMB issued updated implementing guidance for the Recovery Act on April 3, 2009. This document transmitted government-wide guidance for carrying out programs and activities enacted in the Recovery Act and required agencies to establish greater transparency and accountability in reporting. New controls include:

- Weekly Financial and Activity Reporting
- ARRA Obligations and Outlays Reporting
- National Environmental Policy Act (NEPA) Compliance Reporting
- Major Communication Reporting
- Funding Notification Reporting
- Agency and Program Performance Reporting

The new provisions of the updated implementing guidance for the Recovery Act include risk management. This is the Agency's management tool to assess and mitigate events that might adversely impact the goals of the Recovery Act, the program which is funded by the Recovery Act, and the Agency as a whole. The Agency's risk management plan, which presents a risk management strategy, risk framework, risk analysis and assessment, risk mitigation, and risk reporting, continues to guide the proactive risk management approach employed as part of the overall management and monitoring of the activities under the Recovery Act.

Open Government – Framework for the Quality of Federal Spending Information

In the Memorandum on Transparency and Open Government, issued on January 21, 2009, the President instructed the Director of OMB to issue an Open Government Directive. Responding to that instruction, Open Government Directive M-10-06 was issued on December 8, 2009, which directs executive departments and agencies to take specific actions to implement the principles of transparency, participation, and collaboration set forth in the President's Memorandum. The directive called for the improvement of the quality of government information available to the public that conforms to OMB guidance on information quality. The directive required agencies to be accountable for the quality of Federal spending information publicly disseminated through such public venues such as Recovery.gov and USASpending.gov and to work to improve the quality and integrity of that information.

The framework ensures information on Federal spending is objective and of high quality, covering the following five sections; Governance, Risk Assessment, General Governing Principles and Control Activities, Communications, and Monitoring.

Accordingly, the Agency's Data Quality Plan sets forth the current and planned processes that implement and are consistent with the directive and framework. For almost five decades, USAID has been providing foreign assistance and humanitarian relief around the world. As such, USAID is a recognized leader in international development and has amassed a wealth of knowledge to assist a world in need. The Agency has a responsibility to share this knowledge, including spending data with the general public, broader U.S. Government, international donors, implementing partners, host countries, and beneficiaries—all with the objective of addressing development needs.

This is being done on a regular basis across the worldwide USAID organization. With missions in more than 80 countries, USAID personnel must also be able to learn from each other and their partners so that impact can be increased. To do so, the full extent of the Agency's own knowledge must be made available in a way it can easily be shared without borders across countries and development sectors. For the Agency, quality is an encompassing term comprising utility, objectivity, and integrity. USAID takes pride in the quality of its Federal spending information and is committed to disseminating information that meets the Agency's standards for objectivity, integrity, and utility.

Management will continue to channel focused efforts to reconcile current monthly transactions with the U.S. Treasury and to identify, track, resolve, and eliminate suspense items older than 60 days by end of FY 2011. 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, to include deficiencies, vulnerabilities, and risks, have been communicated to responsible and affected process owners for remediation. The Agency continues to work diligently on resolving internal control related issues. Corrective actions are in place to manage and resolve the most significant issues and USAID management will continue to monitor progress of corrective actions toward remedying control deficiencies identified and related risks.

FMFIA Material Weakness

EXHIBIT A – FMFIA MATERIAL WEAKNESS	
Deficiency	**USAID Continues to Have Large Unreconciled Differences with the U.S. Treasury and its Fund Balance with Treasury Account.** 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 due to the difficulty in resolving historical differences and USAID 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 (1) complexity of transactions, (2) legacy differences from prior years, (3) untimely posting of Intragovernmental Payment and Collection (IPAC) transactions, and (4) unreconciled third party transactions.
Actions Taken	During FY 2010, USAID continued to improve and address its suspense clearing process by enhancing the reconciling systems and implanting new reconciling processes. The improvements consisted of the following: • Enhanced the Cash Reconciliation Tool (CART) to match outstanding payroll items; • Enhanced features of CART to automate preparation of Standard Form (SF) 224 data to the U.S. Treasury and automate generation of 1,081 expenditure transfers between appropriations; • Updated Universal Report so it contains all cumulative matched items from CART and can be easily generated from CART system; • Implemented Agency-wide suspense clearing tool where all suspense items are located in central database and matched universally using CART tool; • Improved controls to ensure IPACs sent worldwide are posted in financial system; • Developed a matrix to monitor status and progress of reconciliation by comparing cash balances in Phoenix against cash balances at the U.S. Treasury; • Matched 89 percent of the offsetting suspense items posted by headquarters; • Began researching and analyzing individual appropriations (starting with oldest appropriations) in effort to clear historical Fund Balance with Treasury differences; and • Implemented improved procedures for recording and reconciling third party payments made by the Department of State and reported to USAID on the SF 1221. Implemented the use of CART tool to match Phoenix financial management system postings with U.S. Disbursing Office (USDO) vouchers.
Actions Remaining and Expected Completion Date	Management will increase staff support and continue to work toward elimination of suspense items older than 60 days by end of FY 2011. **Target Completion Date:** September 30, 2011

FMFIA Significant Deficiencies

In keeping with the Agency's core concept of increasing transparency, USAID is voluntarily disclosing its most significant deficiencies and continues to monitor the progress of corrective actions.

FMFIA SIGNIFICANT DEFICIENCIES AND CORRECTIVE ACTION PLANS	
OPERATIONS	
Deficiency	**Limited Ability to Implement and Monitor Activities in High Threat Environments (HTE).** Security conditions have either hindered program accomplishment or have the potential to create implementation problems. In Afghanistan and Pakistan, USAID personnel cannot travel outside the capital to project sites without the Regional Security Officer's (RSO) approval due to the risk of being targeted by insurgents. Similarly, in Sudan, travel outside the main cities requires RSO approval due to highway banditry and intermittent clashes with armed groups. Extremely high staff turnover and staff shortages at the mission in Sudan and implementing partner offices, lack of local human capacity, and difficult conditions for transportation and logistics have also hindered implementation and monitoring of USAID projects in Sudan. In Iraq, USAID has difficulty recruiting or retaining Iraqi professionals because of the threat of violence and bombings that have increased with the drawdown of U.S. troops. Violence also makes counterparts reluctant to visit USAID staff and many key counterparts do not welcome visits from USAID staff because of the resulting attention. USAID's oversight of its programs is also complicated by widespread corruption in HTEs.
Actions Taken	**Policy.** In Washington, a Policy Task Team was established to develop Agency policy on counterinsurgency, combating terrorism, and combating violent extremism. USAID hosted the "Development to Counterinsurgency" Evidence Summit in September to explore evidence concerning development HTEs. The Agency provided input to the Quadrennial Diplomacy and Development Review (QDDR) Task Force on issues faced in response to complex emergencies. In USAID/Sudan, an Emergency Action Committee was established. A Personal Recovery Plan and standard operating procedures have been developed for security, medical emergency, and communications for five of the state capitals in southern Sudan. USAID has a full-time Task Force (TF) 2010 representative who briefs the Coordinating Director for Development and Economic Affairs (CDDEA), chairs the USAID Working Group for Reform of the Construction Sector (WG RoCS,) and is responsible for ensuring close coordination with other U.S. Government entities. Since early 2010, USAID/Afghanistan has focused on improving procurement in the construction sector, one of its largest areas of effort. To this end, USAID's WG RoCS has made a number of recommendations in line with the U.S. Government's Afghan First policy, counter-insurgency strategy, and general anti-corruption efforts. These recommendations include actions to improve the contracting process, build the capacity of smaller Afghan firms to bid on and carry out USAID construction contracts, and improve outreach to both Afghan and American publics in order to promote better understanding of the principles, processes, and objectives of USAID procurement. Another priority area of USAID's contracting reform is improving the flow of information between USAID and other agencies and organizations across the U.S. Government and International Security Assistance Force (ISAF). For example, one of the recommendations of the WG RoCS is that USAID use the Joint Contingency Contracting System (JCCS) already employed by the Department of Defense to vet Afghan firms. By vetting firms through this system, USAID would be able to ensure that the firms have the capabilities needed to execute U.S. Government contracts, as well as verify that these firms do not have connections to terrorist organizations, insurgents, or corrupt actors. The WG RoCS paper also recommended linking the USAID/JCCS database with other U.S. Government databases, such as the Combined Information Data Network Exchange (CIDNE) system used by the U.S. military. **Monitoring and Evaluation (M&E).** A Policy Task Team on Evaluation was formed. Recommendations on the M&E web portal were completed and are being incorporated into design. USAID/Afghanistan and USAID/Pakistan require Contract/Agreement Officer Technical Representatives to conduct site visits to verify the progress of activities. Where security concerns make this difficult, USAID engages third-party monitoring contractors to perform concurrent monitoring to ensure that program objectives are being met and reported results are validated.

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FMFIA SIGNIFICANT DEFICIENCIES AND CORRECTIVE ACTION PLANS *(continued)*	
OPERATIONS *(continued)*	
Actions Taken *(continued)*	**Recruitment, Retention, and Training.** Thirty-six active Civilian Response Corps (CRC-A) personnel were hired and 100 standby (CRC-S) personnel are ready to be deployed. USAID continues to review CRC essential tasks and competencies. Recommendations on the redesign of the "Programming in Conflict Environments" training are being incorporated. The "Conflict 102: Analysis and Programming" course trained 50 officers in June and October. **Staff Care.** An Agency Staff Care Coordinator was appointed. Review of available staff care services is ongoing. **Security.** The Agency's Partner Security Liaison Officer (PSLO) positions have been designed and filled in Afghanistan and Pakistan. Recruitment/selection is underway at USAID/Mexico for a PSLO. Designated officer liaisons have been established and are responsible for collecting the information for the Emergency Locator System for inclusion in the database. The RSO in USAID/Sudan has increased from one assistant RSO position to include one senior RSO and two assistant RSO positions.
Actions Remaining and Expected Completion Date	Establish an Agency Coordinating Committee on Reconstruction & Stabilization. Identify and share M&E best practices and tools for the Agency. Implement recommendations of the QDDR and Agency policy documents relevant to HTEs. Communicate best practices and levels of risk with Washington and mission staff. In consultation with the Office of Security, designate posts as HTEs and educate staff. Respond to Agency Staff Care Coordinator recommendations. USAID/Afghanistan maintains that the TF 2010 process may have positive results on its monitoring weakness through sharing information about its contractors with forensic auditors, communicating information about its own anti-corruption efforts in contracting to other members of the TF team, and taking part in meetings with the ISAF, the U.S. Embassy, and other U.S. Government agencies. Both USAID/Afghanistan and USAID/Pakistan look forward to applying TF 2010 findings to its own contracting practices and policies. The Agency expects to benefit greatly from the effort, particularly as it moves to working increasingly with Afghan implementers, such as construction and security contractors, to ensure that USAID resources are not misused. It should also be noted that, prior to the formation of TF 2010, USAID was working to minimize corruption in its contracting in Afghanistan. **Target Completion Date:** September 30, 2011
Deficiency	**Enterprise Architecture (EA): Human Resource Information Systems.** USAID's FY 2009 *Agency Financial Report* identified deficiencies in USAID's EA program and staffing. While the EA staffing and operational policy concerns have been resolved, one subsidiary issue and significant deficiency that the Agency continues to work to resolve relates to USAID's human resources (HR) information systems. The current personnel/payroll system for USAID is built on the 30-year-old U.S. Department of Agriculture (USDA) National Finance Center (NFC) platform, supplemented by over 20 stand-alone applications. This has made the integration of information and reporting very challenging. In some areas, personnel data has to be re-entered from one system to another. Not only is this inefficient, it results in errors. For example, Payroll has seen a significant increase in requests from employees concerning the accuracy of pay and deductions. When employees assigned overseas are moved from one location to another, delays in recording the new duty station can result in overpayments or underpayments of differentials and other allowances. Both overpayments and underpayments are a significant negative factor for employee morale, drive additional manual workload, and increase the potential loss of government funds.
Actions Taken	Pursuant to the Office of Personnel Management (OPM) and OMB mandates, USAID is in the process of migrating to one or more of the OPM-approved HR Line of Business (HR-LOB) Shared Service Providers. This new HR information system will cover employees from recruitment to retirement, streamline and improve the accuracy of all human resources processes, and drive improvements in the culture of the Office of Human Resources (OHR).
Actions Remaining and Expected Completion Date	The Agency's goal is to complete the migration to a new HR-LOB in 2012. The process steps include: a needs assessment on HR information technology (IT) needs and current status; a comparison of available service providers against requirements in order to select a provider; training on the new IT system for HR, Administrative Management Services, and other users; and migration/launch of the new HR IT system.

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FMFIA SIGNIFICANT DEFICIENCIES AND CORRECTIVE ACTION PLANS *(continued)*	
INTERNAL CONTROL OVER FINANCIAL REPORTING (OMB CIRCULAR A-123, APPENDIX A)	
Deficiency	**Advances: Large Amount of Outstanding Advances Aged Over 90 Days.** USAID continues to have a large amount of outstanding advances aged over 90 days. As of June 2010, we noted 435 transactions totaling $61 million that are aged over 90 days. It was disclosed that Phoenix is not displaying accurate outstanding advance amounts due to reference code not being applied to refund when posted after liquidation, therefore, offsetting entry is not being reflected in system.
Actions Taken	Management implemented a process to review and analyze aged outstanding advances to determine the root cause, financial management system impact, and the necessary actions for liquidation and/or correction.
Actions Remaining and Expected Completion Date	Management will continue to review aged outstanding advances to determine the accurate outstanding advance amount recorded in Phoenix. In addition, management will initiate follow-up actions on aged outstanding advances. **Target Completion Date:** July 30, 2011
Deficiency	**Obligations: Backlog of Incomplete Closeout and Deobligation Activities.** A significant amount of program funds will be lost to the Agency unless aggressive steps are taken to address the backlog of contractor audits and the insufficient funding of closeout and deobligation activities. The Agency's Office of Acquisition and Assistance's contract closeout process as well as required annual audits by the Defense Contract Audit Agency (DCAA) have been historically under-funded because of the limited availability of operating expense funds. This under-funding has led to a backlog of awards awaiting closeout and deobligation of residual funds. Specifically, as of July 2010, the Chief Financial Officer (CFO) management initiated close-out actions, which instructed personnel to review and validate dormant obligations totaling $13 million in operating expenses and $252 million in program funds for potential deobligation.
Actions Taken	During FY 2010, management initiated close-out actions that include issuing action memoranda in January, February, and July instructing personnel to review, validate, and deobligate dormant obligations as appropriate.
Actions Remaining and Expected Completion Date	Management will continue to review and monitor dormant obligations to identify candidates for deobligations in accordance with applicable regulatory guidance. In addition, management is seeking additional funding and resources to perform required DCAA audits and to address backlog contract closeout process. **Target Completion Date:** September 30, 2011
Deficiency	**Credit Program: USAID's Reconciliation of Loans Receivable is Not Adequate and Does Not Resolve Differences Between USAID and Its Loan Services Provider.** 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 service provider (Midland Loan Services). Management continues to resolve interface and reconcilement process and noted an absolute difference of $151 million with Midland vs. Phoenix.
Actions Taken	During FY 2010, USAID's Office of the CFO made significant progress investigating and resolving reconciliation differences. The progressive steps consisted of the following: • Working closely with service provider Midland Loan Services to develop a consolidated reconciliation report; • Developing a Microsoft Access database tool to ensure proper posting into Phoenix in the data interface process in order to facilitate the monthly reconciliation of Midland credit program loan activities; • Developing and implementing procedures to reconcile loan activity maintained in accounting system with records maintained by loan servicer; and • Performing necessary research of past debt restructuring reconciliations which significantly reduce identified differences from prior year.
Actions Remaining and Expected Completion Date	Management will continue to complete past debt restructuring reconciliations. **Target Completion Date:** June 30, 2013

FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT (FFMIA) COMPLIANCE ASSESSMENT

The FFMIA was designed to improve 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

USAID has a robust portfolio of financial management systems and tools that help Agency staff effectively manage taxpayer funds. All accounting transactions at USAID are processed in a single, worldwide financial management system called Phoenix. Worldwide deployment of Phoenix in 2006 enabled USAID to improve financial operations by automating processes, allowing for necessary controls, and enabling the Agency to share standard data that is entered only once. The system enforces standard processes and workflow, helps identify improper payments, allows for data reconciliation, and reduces the opportunity for errors.

GOALS AND THE SUPPORTING FINANCIAL SYSTEM STRATEGIES

USAID's financial systems framework continues to evolve in support of ongoing efforts to improve financial management and Agency operations. The target financial systems framework will be a suite of interconnected systems and tools that enable users to efficiently process transactions, provide useful and reliable information for decision-making, and easily reconfigure to align with changing needs and organizational structures at the Agency. The target financial systems framework will support the Agency's financial management goals, including:

Alignment with U.S. Government Initiatives

As the Federal Government takes on new initiatives to improve financial management, USAID is updating its systems and processes accordingly, to improve coordination with other Federal agencies and compliance with new standards. USAID has recently adopted standards set forth by the Government-wide Modernization Act, and has updated its software to accommodate the Common Government-wide Accounting Classification and reflect the new Treasury Account Symbols.

Open Government

In recognition of the Federal Government's increased emphasis on information transparency, enhancements to financial reporting and data validation will not only increase the efficiency of Agency financial management, but also support Open Government initiative, benefiting external stakeholders such as the U.S. public. For example, the "Where Does USAID's Money Go?" report on the USAID website makes publicly available the top countries, vendors, and program areas that are funded by USAID.

Worldwide Operations

USAID's workforce consists of a diverse group of employees from around the world. Although the leadership in the Office of the Chief Financial Officer (CFO) is stationed in USAID headquarters, the CFO encourages innovation in the overseas missions, and helps Agency staff in the field leverage and scale solutions that can improve financial management around the world.

Workforce Development

USAID is currently undertaking a Development Leadership Initiative to significantly increase the Agency's workforce, including financial personnel. USAID is supporting staff development by providing resources, training, and ongoing support. In addition to providing technical education for foreign assistance staff, USAID holds training around the world to teach its employees about financial management, internal controls, acquisition and assistance management, and other topics that help them effectively manage U.S. Government funds.

FINANCIAL MANAGEMENT SYSTEMS FRAMEWORK

The Phoenix accounting system is at the core of USAID's financial systems framework. In June 2010, USAID completed a major software upgrade to the Phoenix system, enabling the Agency to improve financial operations, meet new security requirements, comply with evolving Federal regulations, and interface more effectively with other Agency business systems. The upgrade also allowed for the addition of a new ePayroll module that will streamline and standardize payroll processing at the Agency. In addition to Phoenix, the Agency has implemented a suite of systems and tools that contribute to effective financial management.

GLAAS manages awards throughout the acquisition and assistance lifecycle, including reporting and administration. The GLAAS and Phoenix systems are integrated so that procurement and financial data can be exchanged on a real-time basis, enabling efficient and accurate funds control validation for procurement actions. GLAAS, which has replaced the legacy New Management System (NMS), is continuing to deploy overseas, and will be operational in all USAID missions worldwide in 2011.

The Agency's time and attendance system, webTA, is the timekeeping system of record for some categories of USAID employees. The webTA user base was expanded to include personal services contractors (PSC) in FY 2010, and will next be rolled out to the USAID's foreign service national (FSN) staff, a large component of the Agency workforce.

The E2 travel management tool coordinates approval, payment, and management of travel expenses. An interface is currently being developed between E2 and Phoenix to improve the accuracy and efficiency of travel accounting.

These systems are complemented by tools that help financial management staff in the field with their planning and accounting. A budget tracking tool developed by USAID/Peru, called OpsMaster, integrates program budget planning data with financial management information. OpsMaster is currently being upgraded and deployed to all USAID locations worldwide. The Cash Reconciliation Tool, or CART, is an automated tool that helps financial management staff reconcile Agency posted transactions with the Department of Treasury and U.S. Disbursing Offices (USDO) transactions. The tool, developed by USAID/Egypt, includes controls to prevent Statement of Differences. And a field support application called FS-AID helps program management staff plan and manage requirements for technical support agreements that are centrally managed from USAID headquarters.

OTHER MANAGEMENT INFORMATION, INITIATIVES, AND ISSUES

IMPLEMENTING THE RECOVERY ACT

Pursuant to Division A, Title XI of the Recovery Act, USAID received $38 million for IT systems, where appropriate, to increase efficiencies and eliminate redundancies, to include co-location of backup information management facilities. USAID is using Recovery Act funds to complete the rollout of 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 progress toward the completion and deployment of GLAAS. USAID released GLAAS 3.2 in December 2009 to provide critical functionality for headquarters offices and overseas missions. GLAAS 3.3 was released in August 2010 to accommodate changes necessary to maintain an interface with the updated version of USAID's financial management system, Phoenix. From October 2009 through March 2010, USAID completed deployment of GLAAS to all 21 headquarters bureaus and offices requiring access. This accomplishment was followed by GLAAS deployments to an additional 22 missions from November 2009 through July 2010: November 2009 – Africa Region (Ethiopia); March 2010 – Latin America and Caribbean Region (Barbados, Dominican Republic, El Salvador, Guatemala, Guyana, Honduras, Jamaica, Mexico, Nicaragua, and Panama); and July 2010 – Asia Region (Bangladesh, India, Indonesia, Central Asia Republics (Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan), Mongolia, Philippines, and Sri Lanka). These deployments raised the total number of overseas missions with GLAAS access to 42, representing more than 50 percent of USAID missions.

The deployments completed through July 2010 enabled the Agency to significantly increase the use of GLAAS for managing acquisitions and assistance projects. During FY 2010, USAID obligated $3.1 billion through GLAAS, reflecting a more than 177 percent increase over the amount obligated during FY 2009. 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 three significant deficiencies were identified in the FY 2010 Independent Auditor's Report. The following table lists the material weakness and significant deficiencies as well as planned actions to resolve them.

SUMMARY OF INDEPENDENT AUDITOR'S REPORT FINDINGS FY 2010		
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)	USAID will focus on eliminating legacy differences, correcting the HHS crosswalk, and clearing items from the suspense accounts within 60 days.	September 30, 2011
Significant Deficiency	**Planned Corrective Actions**	**Target Completion Date**
USAID's Process to Reconcile Loans Receivable Is Not Effective and Does Not Resolve Differences in a Timely Manner (Repeat Finding)	USAID will continue to work with the service provider to investigate and resolve differences. The Office of the CFO will complete new debt restructuring reconciliations within the timeframe described above by training additional personnel, but it will take estimated two and a half more years to complete past debt restructuring reconciliations.	June 30, 2013
USAID's Process to Monitor and Account for Property, Plant, and Equipment Is Not Effective	USAID will institute processes to improve the internal control procedures regarding property, plant and equipment.	June 30, 2011
Intragovernmental Transactions Remain Unreconciled (Repeat Finding)	The Office of the CFO has implemented corrective actions related to audit recommendations issued under the GMRA audit reports for FYs 2005-2009. 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.	September 30, 2015

PROGRESS MADE ON ISSUES FROM THE FY 2009 FINANCIAL STATEMENT AUDIT

USAID has taken extensive and aggressive actions during FY 2010 to address the material weakness and significant deficiencies identified in the FY 2009 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 Treasury Account with the U.S. Treasury and Resolve Reconciling Items in a Timely Manner (Repeat Finding)	USAID has successfully reconciled current year transactions but did not significantly reduce the backlog of historical differences. USAID significantly improved its control systems and procedures during FY 2010. These include improved controls over suspense account items and third party payments as well as improved analytical reports. The Agency expects to make significant reductions in the backlog of old differences during FY 2011.	Target Completion Date: September 30, 2011
Significant Deficiency	**Corrective Actions**	**Date Closed or 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 has developed and implemented procedures to conduct a thorough reconciliation of the outstanding loan balances. In order to perform monthly reconciliations, a database tool was developed to ensure proper posting into Phoenix in the data interface process.	Closed: September 30, 2010
USAID's Accrual Reporting System Does Not Record Accrued Expenses Accurately	USAID rectified 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.	Closed: August 12, 2010
Intragovernmental Transactions Remain Unreconciled (Repeat Finding)	USAID's continuous search for consistent accounting practices between agencies has been showing improvements and it has been able to identify 99.7 percent of intragovernmental differences.	Target Completion Date: September 30, 2015

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 2010, USAID received 496 audit reports; 438 of these reports covered financial audits of contractors and recipients, and 58 covered Agency programs or operations. The Agency closed 706 audit recommendations. Of these, 334 were from audits performed by the OIG staff and 372 were from financial audits of contractors or grant recipients. USAID took final action on recommendations with $5.3 million in disallowed costs, and $9.7 million was put to better use during the fiscal year.

At the end of FY 2010, there were 756 open audit recommendations. Of these, 46 were more than a year old. Fourteen of the 46 were under formal administrative or judicial appeal with the Agency's procurement executive or the Civilian Board of Contract Appeals (CBCA). The remaining 32, or 4.2 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 with no management decision. This was in relation to an audit of the adequacy of USAID's anti-terrorism vetting procedures.

The 32 audit recommendations that were over one year old included 15 recommendations requiring collection of funds from contractors and recipients, and 17 requiring improvements in Agency programs and operations. The latter were tied to an audit of USAID's E2 Solutions Travel System; an audit of USAID's Management of Real Property; Agency-contracted audits of USAID resources by the African Centre for the Constructive Resolution Disputes (ACCORD), K-Rep Development Agency, Engender Health's Management, Abt Associates Inc., and The Louis Berger Group Inc.; recipient-contracted audits of USAID agreements with Hope Worldwide South Africa, Tearfund, and Veterinaires San Frontieres; an audit of USAID/Southern Africa's audit management program; and an audit of the adequacy of USAID's anti-terrorism vetting procedures.

The charts below show that USAID made management decisions to act on 249 audit recommendations with management efficiencies (funds put to better use) and planned recoveries (collection of disallowed costs) totaling more than $213.4 million. In addition, final action was completed for 198 audit recommendations representing $14.9 million in cost savings. Note: The data in these charts do not include procedural (non-monetary) audit recommendations. The ending balance is determined by adding management decisions (decisions made on an appropriate course of action) to the beginning balance and subtracting final actions (closed audit recommendations).

MANAGEMENT ACTION ON RECOMMENDATION THAT FUNDS BE PUT TO BETTER USE

	Recommendations	Dollar Value ($000)
Beginning balance 10/1/2009	12	$ 10,805
Management decisions during the fiscal year	1	57
Final action	4	9,684
Recommendations implemented	4	9,684
Recommendations not implemented	0	-
Ending Balance 9/30/2010	9	$ 1,178

MANAGEMENT ACTION ON AUDITS WITH DISALLOWED COSTS

	Recommendations	Dollar Value ($000)
Beginning balance 10/1/2009	174	$ 171,819
Management decisions during the fiscal year	248	213,366
Final action	194	5,250
Collections/Offsets/Other	192	4,943
Write-offs	2	307
Ending Balance 9/30/2010	228	$ 379,935

FEDERAL REAL PROPERTY INITIATIVE

Pursuant to the Federal Real Property Initiative, USAID designated a 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.

ATTRACTING AND MOTIVATING TOP TALENT

Attracting and Motivating Top Talent is one of six performance management strategies identified by the Federal Chief Performance Officer for implementing the President's Accountable Government Initiative (*http://www.whitehouse.gov/the-press-office/2010/09/14/presidential-memorandum-accountable-government-initiative*). As mentioned in the Agency Head Message, talent management is one of seven USAID Forward reforms. Like many Federal agencies, USAID has an aging workforce and is beginning now to prepare for the expected retirement of many of its senior level executives in the foreign and civil service in the decade ahead. At the same time, USAID is also in the midst of a rebuilding effort—the Development Leadership Initiative—that began in FY 2008 and has even more impetus as a result of the President's stated goal to establish USAID as the premiere development agency. Consistent with the Office of Personnel Management directives, USAID has streamlined its civil service hiring process. To ensure a diverse workforce, USAID has expanded its recruitment efforts and outreach to populations of Americans underrepresented in our workforce, including establishing a portal to increase veteran hiring. Efficient and responsive human resources (HR) services and support, including employee assistance and wellness programs, improvements to performance feedback and appraisal processes, and improving the effectiveness of leadership and technical training and development programs, are all vital to USAID's ability to retain and motivate top talent. Efforts in FY 2011 will emphasize progress on all these fronts and an overall strengthening of USAID's HR staff and processes supporting employees to do the best work they have ever done, and make USAID a "best place, best people" organization

ELIMINATING IMPROPER PAYMENTS

The Improper Payments Information Act (IPIA) of 2002, as implemented by OMB Circular A-123, Appendix C, *Requirements for Effective Measurement and Remediation of Improper Payments*, requires Federal agencies to review their programs and activities annually, identify programs that may be susceptible to significant improper payments, perform testing of programs considered high risk, and develop and implement corrective action plans for high risk programs. In addition, the Defense Authorization Act for FY 2002 (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." Further, during July 2010, Congress passed the Improper Payments Elimination and Recovery Act (IPERA) which is designed to cut waste, fraud, and abuse due to improper payments by Federal Government agencies.

In FY 2010, 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 in this report.

Financial Section

***(Above)* Mujeeb Arez, the popular Afghan actor and host of the "On the Road" TV series, interacts with engineers in front of Unit 3 of Kajaki hydroelectric dam, refurbished by USAID in 2009 to provide reliable power to Helmand Province. The popular USAID-funded reality show, which showcases Afghan diversity to local audiences and highlights development progress, will enter its second season in late 2010.**

PHOTO: LBG / BV

***(Preceding page)* Workers haul debris caused by the January 2010 earthquake as part of a USAID-funded cash-for-work rubble-removal project in downtown Port-au-Prince, Haiti. Because nearly 90 percent of the debris is recyclable, USAID funded a site where it can be dumped, broken up, and sorted for reuse.**

PHOTO: KIMBERLY FLOWERS / USAID

A MESSAGE FROM THE CHIEF FINANCIAL OFFICER

The U.S. Agency for International Development (USAID) has continued its high standard of financial management and reporting during FY 2010. We are proud to have earned our eighth consecutive unqualified audit opinion. 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, 2010 and 2009; and its net cost, net position, and budgetary resources are in conformity with generally accepted accounting principles (GAAP). The Agency's excellence in financial management continues to be a collaborative effort among all USAID managers and employees.

The Agency Financial Report (AFR) for FY 2010 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.

Major initiatives in FY 2010 include:

- The Office of the Chief Financial Officer (CFO) has assumed a leading role in the Administrator's Implementation and Procurement Reform initiative, one of seven reform areas that collectively comprise the USAID Forward agenda. We are spearheading the first objective which aims to strengthen partner country capacity to improve aid effectiveness and sustainability, as a result of risk-based decision-making. USAID direct assistance to partner country governments has diminished from approximately 56 percent of assistance funding 20 years ago to less than 5 percent today. In that period of time, the Agency lost significant institutional memory regarding how to program direct assistance with partner governments. Going forward, USAID intends to expand direct assistance to host governments where there is demonstrated capacity and commitment to account for USAID funding in a responsible manner. To support

David D. Ostermeyer

this effort, the Office of the CFO is developing a risk assessment tool which is being piloted in five countries to inform USAID mission managers on the public financial management systems in place to account for USAID and other donor funds. The goal is to develop and deploy the tool Agency-wide as part of the larger Agency reform effort, and to promote increased engagement with host governments and other donors on governance and transparency issues. The initiative is undertaken with Aid Effectiveness principles in mind (Paris Declaration and Accra Agenda for Action). The target is to expand direct assistance to 20 percent over the next five years with engagement in 50 countries.

- As part of an ongoing effort to improve financial management, USAID has been working to modernize the technology that helps Agency staff manage taxpayer funds. In June 2010, USAID completed a significant software upgrade to the Agency's financial management system, Phoenix. The upgrade has enabled the Agency to improve financial operations, meet new security requirements, comply with evolving Federal regulations, and interface more effectively with other business systems. We will continue to take advantage of the improved software capabilities and make incremental improvements to the financial system and reports in FY 2011.

As noted last year, USAID has made positive improvements in reconciling differences between the Agency's Fund Balance and its cash balance reported by the U.S. Treasury. While the OIG acknowledged continued progress by USAID, they continued to classify this finding as a material weakness for 2010. Significant factors contributing to our material weakness were our inability to fully resolve legacy differences caused by third-party payments, and to reconcile transactions in our suspense account. To improve our capabilities in these areas, in July 2009, we added functionality to our new Cash Reconciliation Tool (CART) to clear transactions in two suspense accounts. In 2010, we expanded the capabilities of this tool from matching U.S. Treasury transactions in two suspense accounts to include matching transactions in four suspense accounts, payroll transactions from the National Finance Center, and credit card transactions. This tool now contains all uncleared suspense transactions since FY 2000. With limited exceptions, USAID now uses CART worldwide to reconcile cash and to track suspense items. Beginning in 2010, CART was modified for most missions and offices so that only transactions one month old or less can be temporarily posted to suspense. Transactions that are older than one month and not yet posted to Phoenix, are now visible to headquarters by causing a Treasury Statement of Difference Report.

Additional improvements to resolve fund balance differences made in 2010 included the expansion of a fund balance reconciliation team. This team focuses on reconciling current fiscal year transactions between the general ledger and Treasury, preventing new differences from being created, via practice of previously and newly-implemented internal controls, and researching and correcting historical differences. We improved our reconciliation tools by creating a monthly cash difference worksheet that compares data from Treasury and our accounting system, Phoenix, to report differences by Treasury symbol and by disbursement category, and to provide transaction-level detail for quick analysis. In addition, we developed a reconciliation tool and worksheet that allows us, on a monthly basis, to reconcile payments made by the Department of Health and Human Services (HHS) with Phoenix. This information is used to calculate a monthly adjustment to correct differences caused by HHS.

These improvements allowed us to generally reconcile current year activities and prevent an increase of our Fund Balance with Treasury differences for 2010. However, we recognize that there is substantial work to resolve large differences that arose in prior years. It is our intention to resolve these legacy transactions during FY 2011.

During FY 2010, the Office of the CFO assessed the effectiveness of the Agency's internal control over financial reporting. This review was based on the requirements of Office of Management and Budget (OMB) Circular A-123, Appendix A, *Management's Responsibility for Internal Control*. Our evaluation found one material weakness concerning a large fund balance with the U.S. Treasury and three significant deficiencies related to loans receivable, advances, and obligations. The Office of the CFO also leads the overall OMB Circular A-123 compliance effort, which identified two significant deficiencies: (1) limited ability to implement and monitor activities in high threat environments and (2) Office of Human Resources (OHR) enterprise architecture.

I am pleased to confirm that both the Agency and auditors noted no issues affecting substantial compliance with the Federal Managers' Financial Integrity Act (FMFIA) or the Federal Financial Management Improvement Act (FFMIA).

USAID is committed to minimizing the risk of making erroneous or improper payments to contractors, grantees, and customers. This year, we intensified efforts to reduce payment errors by focusing and reporting on high-dollar overpayments. Executive Order 13520, Reducing Improper Payments, defines a high-dollar overpayment as any payment that is in excess of 50 percent of the correct amount of the intended payment under the following circumstances:

1. Where a payment to an individual exceeds $5,000 as a single payment or in cumulative payments; and
2. Where a payment to an entity exceeds $25,000 as a single payment or in cumulative payments.

During the third and fourth quarters of FY 2010, USAID identified high dollar overpayments totaling $660,324.96 and prepared a positive high-dollar overpayment report that was submitted to the Agency's IG, the Council of Inspectors General on Integrity and Efficiency (CIGIE), and OMB and made the report available to the public. To comply with the executive order, USAID's high-dollar overpayment report:

1. listed all identified high-dollar improper payments;
2. described whether each high-dollar improper payment was made to an entity or individual, and city and state where that entity or individual was located;
3. identified the program area responsible for each high-dollar payment error;
4. described actions the Agency has taken or plans to take to recover the high-dollar improper payments; and
5. described actions the Agency will make to prevent improper payments from occurring in the future.

As of September 30, 2010, the Agency had fully recovered all of the identified high-dollar improper payments.

While we are pleased with our FY 2010 accomplishments, we will strive to improve all aspects of financial performance and to maintain higher financial management standards in FY 2011.

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 continues to expand assistance through the use of host country contracting, we will continue to pursue more effective financial system assessment tools.

David D. Ostermeyer
Chief Financial Officer
November 15, 2010

FINANCIAL SECTION

Independent Auditor's Report

***(Above)* Pakistanis displaced by summer floods arrive with their belongings at a makeshift camp in Mehmood Kot in Punjab province on August 26, 2010.**

PHOTO: ARIF ALI / AFP

***(Preceding page)* Research scientists from the Centre for Aids Programme Research in South Africa pose in Durban in July 2010 following the announcement of USAID-sponsored trial results confirming that 1% Tenofovir vaginal gel can significantly reduce a woman's risk of being infected with HIV.**

PHOTO: RAJESH JANTILAL / POOL / AFP

Office of Inspector General

November 12, 2010

MEMORANDUM

TO: David D. Ostermeyer, Chief Financial Officer

FROM: for Joseph Farinella, AIG/A

SUBJECT: Audit of USAID's Financial Statements for Fiscal Years 2010 and 2009

The Office of Inspector General (OIG) is transmitting its report on the *Audit of USAID's Financial Statements for Fiscal Years 2010 and 2009*. 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 the Treasury by November 15, 2010. In accordance with fiscal year 2010 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 2010 and 2009. 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 receivables; (2) accounting for and reporting property, plant, and equipment; 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.

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 extended to us during the audit. The OIG is looking forward to working with you on our audit of the fiscal year 2011 financial statements.

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

CONTENTS

SUMMARY OF RESULTS

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, 2010, and 2009; and its net cost, net position, and budgetary resources for the years then ended, in conformity with generally accepted accounting principles.

This audit identified one deficiency in internal control that the audit team considered to be a material weakness, related to USAID's process to reconcile its Fund Balance with the U.S. Treasury. The audit also identified three deficiencies in internal control that the audit team considered to be significant deficiencies, related to the following aspects of USAID's financial management process to:

- Reconcile loans receivable
- Account for property, plant, and equipment
- Reconcile intragovernmental transactions

This audit identified 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 the tests required by Section 803(a) of the Federal Financial Management Improvement Act of 1996, Public Law 104-208.

I

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, 2010, USAID reported total budgetary resources of approximately $25 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 annually. Pursuant to this act, for fiscal year (FY) 2010, 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 2010 and 2009?

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, 2010, and 2009, and for the years then ended.

In accordance with *Government Auditing Standards*, the OIG has also issued reports, dated November 12, 2010, on its consideration of USAID's internal control over financial reporting and on its 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 the independent auditor's report.

INDEPENDENT AUDITOR'S REPORT ON USAID'S FINANCIAL STATEMENTS

We have audited the accompanying consolidated balance sheets of USAID as of September 30, 2010, and 2009, 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, 2010, and 2009. 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 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*. 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 these 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 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, 2010, and 2009, and for the years then ended.

Management's Discussion and Analysis and Required Supplementary Information sections are not required parts 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 12, 2010, 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 12, 2010

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REPORT ON INTERNAL CONTROL

We have audited the consolidated balance sheets of USAID as of September 30, 2010, and 2009. 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, 2010, and 2009, and have issued our report thereon dated November 12, 2010. 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, 2010 and 2009, 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. Accordingly, 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 that presents 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 is important enough to merit attention by those charged with governance. We consider the following deficiencies to be significant deficiencies in USAID's internal control:

- USAID's process to reconcile loans receivable is not effective and does not resolve differences in a timely manner.
- USAID's process to account for and accurately report property, plant, and

equipment is not effective.

- USAID's intragovernmental transactions remain unreconciled.

Management's Discussion and Analysis and Required Supplementary Information sections are not required parts 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's management in a separate letter dated November 15, 2010.

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, 2010, these differences totaled approximately $64 million net ($894 million absolute value). USAID recorded adjustments of $64 million at the end of fiscal year (FY) 2010 to ensure that the Fund Balance with Treasury account agreed with the balance reported on Treasury's Form 2108, Year End Closing Statement. These differences persist because USAID and its missions did not consistently perform monthly reconciliations of its Fund Balance with Treasury account and research and resolve reconciling items in accordance with Treasury Financial Manual (TFM) Volume 1, Part 2-5100. In addition, Treasury frequently recorded payments made by the Department of Health and Human Services (HHS), on behalf of USAID, in appropriations that were different than the appropriations in which USAID recorded the identical payments. This occurred because USAID did not provide an updated appropriations crosswalk to HHS in a timely manner.

Additionally, our audit revealed that USAID recorded transactions that could not be readily identified in its suspense accounts, but did not research and resolve these items within the 60 days requirement established by Treasury. USAID acknowledged that it did not meet this requirement in its annual certification to Treasury for the period ending September 30, 2010, and committed to do so by the end of FY 2011. During FY 2010, USAID directed its efforts at improving its newly developed fund balance reconciliation tool[1] to ensure that the information uploaded to the reconciliation tool was accurate. Since the implementation of the reconciliation tool, USAID has made some progress to identify, track, and reconcile differences between Phoenix and Treasury and to research and properly record transactions that were previously recorded in its suspense accounts.

[1] The Cash Reconciliation Tool captures and compiles information on disbursements and collections as reflected in Phoenix, and as reported by Treasury. The tool offsets matched items against each other, suggests other items for matching, provides a window for free search and match, and produces consolidated monthly and cumulative cash reconciliation reports.

Treasury's reconciliation procedures state that an agency may not arbitrarily adjust its Fund Balance with Treasury account, and may do so only after clearly establishing the causes for any errors and properly correcting those errors. USAID Chief Financial Officer (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. TFM Volume I, Bulletin No. 2007-07, *Suspense "F" Account Discontinuance and Waiver Policy*, states that, effective February 28, 2009, all suspense accounts must have balances no more than 60 days old for agencies with approved waivers.

In our prior year's audit,[2] we recommended that USAID CFO intensify its efforts to reconcile monthly transactions with Treasury and identify, track, and resolve legacy differences recorded in the suspense accounts and in other appropriation accounts. We recognize that this will be an ongoing effort, and will continue to monitor USAID's progress during future audits. Therefore, we are making the following recommendation:

> *Recommendation No 1: We recommend that the Chief Financial Officer (a) provide changes in its crosswalk to the Department of Health and Human Services in a timely manner to ensure that the Department of Health and Human Services charges all third-party transactions to appropriate appropriations; and (b) research and resolve all suspense items within the time stipulated by Treasury.*

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 audit 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 its Enterprise Loan System (ELS) and generates a monthly report of loan transactions that is uploaded into Phoenix through an interface to ensure that the ELS information agrees with the Phoenix information. This interface is necessary to record accounting information in Phoenix for the loans that are recorded and maintained in Midland's ELS. Our audit identified approximately $44 million in USAID's loan transactions that were not accurately recorded in the Phoenix accounting system.

Although USAID has made improvements in investigating and resolving these differences, large unreconciled differences between the two systems still exist. 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

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[2] *Report on the Audit of USAID's Financial Statements for Fiscal Years 2009 and 2008* (November 13, 2009), p. 9. http://www.usaid.gov/oig/public/fy09rpts/0-000-10-001-c.pdf.

and also, some transactions recorded in ELS are not captured by Phoenix during the interface process. In addition, differences result from posting errors due to timing differences in debt restructurings and inadequate documentation to identify the transactions that may require adjustments before they are recorded in Phoenix. USAID recorded an adjustment of $44 million to bring Phoenix into agreement with the 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. Statements of Federal Financial Accounting Standards, Technical Release Number 6, *Preparing Estimates for Direct Loan and Loan Guarantee Subsidies under the Federal Credit Reform Act*, requires that the Agency maintain an audit trail from individual transactions in the subsidiary ledger to the general ledger.

In our prior year's audit,[3] we recommended that USAID's CFO 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 borrowers. USAID's CFO has developed and implemented procedures but has not yet completed a thorough reconciliation. Because USAID continues to have large unreconciled differences between its Phoenix accounting system and the Midland ELS, we are making the following recommendation:

> *Recommendation No. 2: We recommend that the Chief Financial Officer (a) intensify efforts to reconcile loan balances with Midland's ELS, (b) ensure that all transactions transmitted to Phoenix via the interface are properly posted to Phoenix, and (c) complete debt restructuring reconciliations within 90 days after Midland records debt restructurings in ELS.*

USAID's Process to Account for and Accurately Report Property, Plant, and Equipment Is Not Effective

USAID does not maintain an accurate listing of Property, Plant, and Equipment (PP&E), nor adequate documentation to support PP&E recorded in its general ledger. During our audit of PP&E we found that USAID does not maintain accurate general ledger account balances for the PP&E reported in its financial statements. Specifically, our audit revealed that of 78 items that were tested to determine their value, 41 did not have adequate documentation to support the value recorded in the general ledger. In addition, of 73 items that were tested to determine their status, 40 did not have adequate documentation to demonstrate whether they were in use, disposed of, missing, or damaged. Also, some PP&E items were assigned to one geographic location but the records reflected another location while some items could not be located. Additionally, several items that were previously disposed of were included on USAID's current capitalized asset listing. For example, three assets valued at $166,200 were sold or destroyed but remained on USAID's PP&E records.

Our audit of USAID's PP&E account balances also disclosed that the general ledger account balances were not periodically analyzed and agreed to the PP&E listing. We

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[3] *Report on the Audit of USAID's Financial Statements for Fiscal Years 2009 and 2008*, p. 9, November 13, 2009, http://www.usaid.gov/oig/public/fy09rpts/0-000-10-001-c.pdf.

also found that USAID lacked procedures to perform and document its annual reconciliation of the PP&E account balances recorded by its Financial Management Division with those reported by its Overseas Management Division. These conditions occurred because USAID does not (1) follow its established policies and procedures to ensure that complete supporting documentation is maintained for PP&E items recorded in its general ledger, (2) reconcile its PP&E account balances on an annual basis to ensure that the related assets accounted for by its Financial Management Division corresponds to the asset information maintained by its Overseas Management Division, and (3) review its PP&E listing to ensure that all additions and dispositions are accounted for accurately and in a timely manner.

OMB Circular A-123, *Management's Responsibility for Internal Controls*, dated December 31, 2004 states that the reliability of financial reporting requires management to provide the assertion that documentation exist for all transactions and other significant events and is readily available for examination. Additionally, OMB A-136, *Financial Reporting Requirements*, dated September 29, 2010, states that periodic analyses, reconciliations, or comparisons of data should be included as a part of the regular duties of financial management offices. Because of the internal control deficiencies noted above, we are making the following recommendation:

> *Recommendation No. 3: We recommend that the Chief Financial Officer develop and implement procedures to ensure that (a) adequate supporting documentation is maintained for all purchases, transfers, and dispositions of property, plant, and equipment; (b) communication between USAID's Overseas Management Division and Financial Management Division is maintained to ensure that all the equipment are reconciled annually; and (c) disposed property and equipment are removed from its financial records in a timely manner.*

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 (Treasury) reported a net difference of $2.9 billion in intragovernmental transactions between USAID and other Federal agencies. Of this amount, USAID was required to reconcile $124 million in accordance with OMB Circular A-136, *Financial Reporting Requirements*, and Treasury's *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,[4] represent differences identified by Treasury between USAID's records and those of its Federal trading partners that exceed $50 million or the assurance threshold that is determined by Treasury. In its third and fourth quarter material difference reports, Treasury reported some differences greater than $50 million totaling approximately $124 million. Although USAID has increased its efforts to resolve unreconciled amounts, significant differences still exist, including the $124 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.

[4] The Material Differences/Status Disposition Certification Report allows agencies to identify differences with trading partners by reciprocal categories that are greater than or equal to a respective reconciliation assurance level.

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

Although approximately $2.8 billion of the $2.9 billion of net differences reported between USAID and the 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 transactions in a previous audit report[5] 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.

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 12, 2010

[5] *Report on the Audit of USAID's Financial Statements for Fiscal Years 2009 and 2008* (November 13, 2009), p. 9. http://www.usaid.gov/oig/public/fy09rpts/0-000-10-001-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, 2010, and 2009. 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, 2010, and 2009, 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 Office of Management and Budget (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 2010, USAID monitored key business processes and followed up on recommendations made in prior years. For FY 2010, USAID, in its Management Assurance Report to the President and Congress, identified and reported one material weakness concerning a large fund balance difference with the U.S. Department of Treasury, as well as the following significant deficiencies:

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- Loans receivable reconciliation
- Advance and pre-payments
- Unliquidated obligations

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. During our tests, nothing came to our attention to cause us to believe that USAID did not substantially comply with the 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 property, plant, and equipment
- 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 12, 2010

EVALUATION OF MANAGEMENT COMMENTS

We have received USAID's management comments on the findings and recommendations included in the 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 the finding and noted that the auditors acknowledged that progress has been made in reconciliation of current transactions with the implementation of the fund balance reconciliation tool. USAID management also commented that the CFO will focus in fiscal year (FY) 2011 on eliminating legacy differences, correcting the Department of Health and Human Services crosswalk, and resolving all items recorded in the suspense accounts within 60 days. The target completion date is September 30, 2011. We have reached a management decision on this recommendation and will review USAID's implementation of this recommendation during our FY 2011 Government Management Reform Act (GMRA) audit.

USAID management agreed to implement recommendation no. 2 and promised to continue to work with the service provider to investigate and resolve loan balance differences. USAID management also commented that the CFO will complete new debt restructuring reconciliations within the recommended 90-day timeframe by training additional personnel. USAID management further commented that it will take an estimated 2 years to complete past debt restructuring reconciliations. The target completion date is June 30, 2013. We have reached a management decision on this recommendation and will review USAID's implementation of this recommendation during our FY 2011 GMRA audit.

USAID management agreed to implement recommendation no. 3 and commented that it will institute processes to improve the internal control procedures regarding property, plant, and equipment. The target completion date is June 30, 2011. We have reached a management decision on this recommendation and will review USAID's implementation of this recommendation during our FY 2011 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 the 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 (OMB) 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, 2010, and 2009. 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 $330 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 Phoenix financial management systems updates, its posting models effectiveness, and its budget module postings to the general ledger 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.

Our review disclosed that USAID implemented a systems upgrade in June 2010 However, this upgrade did not affect USAID's compliance with FFMIA. In addition, we requested and obtained a memorandum from the Office of the Chief Financial Officer certifying that FY 2010 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. Therefore, we concluded that our review found no instances of substantial noncompliance with any of the three FFMIA section 803(a) requirements.

Appendix III
Page 1 of 2

MANAGEMENT COMMENTS

USAID
FROM THE AMERICAN PEOPLE

November 12, 2010

MEMORANDUM

TO: AIG, Joseph Farinella

FROM: M/CFO, David D. Ostermeyer

SUBJECT: Management Response to Draft Independent Auditor's Report on USAID's Financial Statements for Fiscal Years 2010 and 2009 (Report No. 0-000-11-001-C)

Thank you for your draft report on the *Audit of USAID's Financial Statements for Fiscal Years 2010 and 2009* and for the professionalism and dedication exhibited by your staff throughout this entire process.

Fiscal Year (FY) 2010 was another significant year for federal financial management at USAID. 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 the Chief Financial Officer (a) provide changes in its crosswalk to the Department of Health and Human Services in a timely manner to ensure that the Department of Health and Human Services charges all third-party transactions to appropriate appropriations; and (b) research and resolve all suspense items within the time stipulated by Treasury.

Management Decision: We accept the finding and note the auditor's acknowledgement that progress has been made in the reconciliation of current transactions with the implementation of the fund balance reconciliation tool. The CFO will focus on eliminating legacy differences, correcting the HHS crosswalk, and clearing items from the suspense accounts within 60 days.

Target completion date: September 30, 2011

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

Recommendation: No. 2: We recommend that the Chief Financial Officer (a) intensify efforts to reconcile loan balances with Midland's ELS; (b) ensure that all transactions transmitted to Phoenix via the interface are properly posted to Phoenix; and (c) complete debt restructuring reconciliations within 90 days after Midland records debt restructurings in ELS.

Management Decision: We agree to implement the recommendation and will continue to work with the service provider to investigate and resolve differences. We will complete new debt restructuring reconciliations within the timeframe described above by training additional personnel, but it will take an estimated two and a half more years to complete past debt restructuring reconciliations.
Target completion date: June 30, 2013

Significant Deficiency: USAID's Process to Account for and Accurately Report Property, Plant, and Equipment Is Not Effective

Recommendation No. 3: We recommend that the Chief Financial Officer develop and implement procedures to ensure that: (a) adequate supporting documentation is maintained for all purchases, transfers, and disposals of property, plant and equipment; (b) communication between USAID's Overseas Management Division and Financial Management Division is maintained to ensure that all the equipment are reconciled annually; and (c) disposed property and equipment is removed from its financial records in a timely manner.

Management Decision: We agree to implement the recommendation. We will institute processes to improve the internal control procedures regarding property, plant and equipment.

Target completion date: June 30, 2011

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 2005-2009. 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 YEARS 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 2009 Findings and Recommendations

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.

Status: The Chief Financial Officer (CFO) noted that USAID will focus in FY 2010 on eliminating legacy differences caused by transactions made by third-party payment service providers on USAID's behalf. Target completion date: September 30, 2011.

Recommendation No. 2: We recommend that USAID 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.

Status: The Chief Financial Officer noted that USAID will make significant progress in investigating and resolving differences. Target completion date of September 30, 2010 has been achieved.

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.

Status: The Chief Financial Officer noted that its contractor for Phoenix, CGI, has begun to develop a modification to the payment adjustment script that will eliminate this weakness. He noted that the current plan is to have the enhanced script included with the Momentum 6.3.1 release in June 2010. Therefore, the FY 2010 Q3 accruals will be adjusted completely and accurately for all payments made during the accrual cycle. Target completion was achieved on August 12, 2010.

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 of September 30, 2010, has been achieved.

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.

Status of 2005 Findings and Recommendations

In FY 2005 audit report, the OIG recommended that USAID's Chief Financial Officer directs the 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 its reconciliation process and eliminate the differences.

FINANCIAL SECTION

Financial Statements and Notes

***(Above)* Afghan women sort pomegranates in Kabul on December 7, 2009, at the USAID-supported Omaid Bahar Fruit Processing Company, Afghanistan's first juice factory.**

PHOTO: SHAH MARAI / AFP

***(Preceding page)* A farmer in Mozambique boosts her yield by growing a disease-resistant variety of cassava which was developed with USAID support.**

PHOTO: 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 2009 have been included.

USAID's principal financial statements and additional information for FY 2010 and FY 2009 consist of the following:

The **Consolidated Balance Sheet,** which presents as of September 30, 2010 and 2009 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 2009 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, 2010 and 2009. 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, Suborganization Program Costs/Program Cost by Segment, 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, 2010 and 2009. The components of net position are separately displayed in two sections, 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 2010 and FY 2009, the status of these resources at year-end, the change in obligated balance during FY 2010 and FY 2009 and outlays of budgetary resources for the years ended September 30, 2010 and 2009. Information in this statement is reported on the budgetary basis of accounting. Comparative data for FY 2009 are included.

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 2009 Note data may have been restated or recast to enable comparability with the FY 2010 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 Net Cost of Operations to Budget, 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, 2010 and 2009 (In Thousands)

	2010	2009
ASSETS:		
Intragovernmental:		
Fund Balance with Treasury (Notes 2 and 15)	$ 27,221,485	$ 21,437,709
Accounts Receivable (Note 3)	220	220
Other Assets (Note 4)	67,653	12,014
Total Intragovernmental	27,289,358	21,449,943
Cash and Other Monetary Assets (Note 5)	265,375	322,851
Accounts Receivable, Net (Note 3)	121,101	84,654
Direct Loans and Loan Guarantees, Net (Note 6)	3,472,065	3,762,680
Inventory and Related Property, Net (Note 7)	16,394	22,711
General Property, Plant, and Equipment, Net (Notes 8 and 9)	117,056	117,794
Advances (Note 4)	789,121	377,803
Total Assets	**$ 32,070,470**	**$ 26,138,436**
LIABILITIES:		
Intragovernmental:		
Accounts Payable (Notes 10 and 15)	$ 37,773	$ 2,552
Debt (Note 11)	478,280	477,381
Liability for Capital Transfers to the General Fund of the Treasury (Note 11)	3,202,384	3,468,201
Other Liabilities (Note 12)	667,713	67,735
Total Intragovernmental	4,386,150	4,015,869
Accounts Payable (Note 10)	2,075,047	1,834,079
Loan Guarantee Liability (Note 6)	2,265,591	2,283,273
Federal Employee and Veteran's Benefits (Note 13)	26,035	26,885
Other Liabilities (Notes 10, 12, and 13)	435,789	507,155
Total Liabilities	**9,188,612**	**8,667,261**
Commitments and Contingencies (Note 14)	–	1,310
NET POSITION:		
Unexpended Appropriations	21,108,712	16,464,124
Cumulative Results of Operations	1,773,146	1,005,741
Total Net Position (Note 15)	**$ 22,881,858**	**$ 17,469,865**
Total Liabilities and Net Position	**$ 32,070,470**	**$ 26,138,436**

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENT OF NET COST

For the Years Ended September 30, 2010 and 2009
(In Thousands)

OBJECTIVES	2010	2009
Peace and Security:		
Gross Costs	$ 1,079,389	$ 983,269
Less: Earned Revenue	(6,895)	(3,631)
Net Program Costs	1,072,494	979,638
Governing Justly and Democratically:		
Gross Costs	1,792,493	1,759,735
Less: Earned Revenue	(24,286)	(5,969)
Net Program Costs	1,768,207	1,753,766
Investing in People:		
Gross Costs	3,162,339	3,466,346
Less: Earned Revenue	(313,925)	(408,333)
Net Program Costs	2,848,414	3,058,013
Economic Growth:		
Gross Costs	2,913,573	4,418,757
Less: Earned Revenue	(203,394)	(794,252)
Net Program Costs	2,710,179	3,624,505
Humanitarian Assistance:		
Gross Costs	1,637,038	1,460,372
Less: Earned Revenue	(7,951)	(4,718)
Net Program Costs	1,629,087	1,455,654
Operating Unit Management:		
Gross Costs	381,361	145,198
Less: Earned Revenue	(3,446)	(1,023)
Net Program Costs	377,915	144,175
Net Cost of Operations (Notes 16 and 17)	**$ 10,406,296**	**$ 11,015,751**

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

For the Years Ended September 30, 2010 and 2009
(In Thousands)

	2010 Consolidated Total	2009 Consolidated Total
Cumulative Results of Operations:		
Beginning Balances	$ 1,005,741	$ 1,002,391
Beginning Balances, as Adjusted	1,005,741	1,002,391
Budgetary Financing Sources:		
Appropriations Used	11,080,790	10,796,496
Donations and Forfeitures of Cash and Cash Equivalents	83,066	76,897
Transfers-in/out without Reimbursement	10	132,445
Other Financing Sources (Non-Exchange):		
Imputed Financing	9,835	13,263
Total Financing Sources	11,173,701	11,019,101
Net Cost of Operations	(10,406,296)	(11,015,751)
Net Change	767,405	3,350
Cumulative Results of Operations:	1,773,146	1,005,741
Unexpended Appropriations:		
Beginning Balance	16,464,124	14,982,084
Beginning Balance, as Adjusted	16,464,124	14,982,084
Budgetary Financing Sources:		
Appropriations Received	15,786,352	12,187,744
Appropriations Transferred in/out	94,900	121,792
Other Adjustments	(155,874)	(31,000)
Appropriations Used	(11,080,790)	(10,796,496)
Total Budgetary Financing Sources	4,644,588	1,482,040
Total Unexpended Appropriations	21,108,712	16,464,124
Net Position	**$ 22,881,858**	**$ 17,469,865**

The accompanying notes are an integral part of these statements.

COMBINED STATEMENT OF BUDGETARY RESOURCES

For the Years Ended September 30, 2010 and 2009
(In Thousands)

	2010		2009	
	Budgetary	Non-Budgetary Credit Reform	Budgetary	Non-Budgetary Credit Reform
Budgetary Resources:				
Unobligated Balance, Brought Forward, October 1	$ 5,360,402	$ 1,643,447	$ 3,908,007	$ 1,616,689
Recoveries of Prior Year Unpaid Obligations	676,857	–	391,919	28
Budget Authority:				
Appropriations	15,855,309	–	12,263,857	1
Borrowing Authority (Note 11)	–	900	–	13
Spending Authority from Offsetting Collections:				
Earned:				
Collected	706,108	800,209	1,020,840	216,823
Change in Receivables from Federal Sources	(174)	–	(2,703)	–
Change in Unfilled Customer Orders:				
Advance Received	460,853	–	–	–
Without Advance from Federal Sources	(2,633)	–	8,373	(35)
Subtotal	17,019,463	801,109	13,290,367	216,802
Nonexpenditure Transfers, Net, Anticipated and Actual	(109,472)	(54)	154,587	–
Permanently Not Available	(434,727)	–	(616,512)	–
Total Budgetary Resources	**$ 22,512,523**	**$ 2,444,502**	**$ 17,128,368**	**$ 1,833,519**
Status of Budgetary Resources:				
Obligations Incurred (Note 18):				
Direct	$ 15,431,921	$ 59,921	$ 11,323,163	$ 190,089
Reimbursable	183,041	–	444,804	(18)
Subtotal	15,614,962	59,921	11,767,967	190,071
Unobligated Balance:				
Apportioned (Note 2)	6,013,474	30,939	4,148,492	3,514
Subtotal	6,013,474	30,939	4,148,492	3,514
Unobligated Balance Not Available (Note 2)	884,087	2,353,642	1,211,909	1,639,934
Total Status of Budgetary Resources (Note 18)	**$ 22,512,523**	**$ 2,444,502**	**$ 17,128,368**	**$ 1,833,519**

(continued on next page)

COMBINED STATEMENT OF BUDGETARY RESOURCES *(continued)*

For the Years Ended September 30, 2010 and 2009
(In Thousands)

	2010		2009	
	Budgetary	Non-Budgetary Credit Reform	Budgetary	Non-Budgetary Credit Reform
Change in Obligated Balance:				
Obligated Balance, Net				
Unpaid Obligations, Brought Forward, October 1	$ 14,422,096	$ (640)	$ 13,725,579	$ (695)
Less: Uncollected Customer Payments from Federal Sources, Brought Forward, October 1	(27,714)	35	(22,044)	–
Total Unpaid Obligated Balance, Net (Note 18)	14,394,382	(605)	13,703,535	(695)
Obligations Incurred Net (+/-)	15,614,962	59,921	11,767,967	190,071
Less: Gross Outlays	(11,435,590)	(62,033)	(10,679,531)	(189,988)
Less: Recoveries of Prior Year Unpaid Obligations, Actual	(676,857)	–	(391,919)	(28)
Change in Uncollected Customer Payments from Federal Sources (+/-)	2,806	–	(5,670)	35
Obligated Balance, Net, End of Period				
Unpaid Obligations	17,924,611	(2,751)	14,422,096	(640)
Less: Uncollected Customer Payments from Federal Sources	(24,908)	34	(27,714)	35
Total, Unpaid Obligated Balance, Net, End of Period	$ 17,899,703	$ (2,717)	14,394,382	(605)
Net Outlays:				
Gross Outlays	11,435,590	62,033	10,679,531	189,988
Less: Offsetting Receipts	(1,166,959)	(800,209)	(1,020,840)	(216,823)
Less: Distributed Offsetting Receipts (Note 18)	71,742	–	(182,729)	–
Net Outlays	**$10,340,373**	**$ (738,176)**	**$ 9,475,962**	**$ (26,835)**

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 setting authority 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 to maximize 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 Assistance for Europe, Eurasia, and Central Asia; Civilian Stabilization Initiative; Capital Investment Fund; Economic Support Fund; Development Assistance; International Disaster Assistance; Global Health and Child Survival; Complex Crisis Fund; Transition Initiatives; and Direct and Guaranteed Loan Programs. This classification is consistent with the Budget of the United States.

Assistance for Europe, Eurasia, and Central Asia

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

This account provides funds for a program of assistance to the independent states that emerged from the former Soviet Union. These funds support the 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. Funds appropriated in prior years under the headings "Independent States of the Former Soviet Union" and "Assistance for Eastern Europe and the Baltic States" have been made available under the heading of Assistance for Europe, Eurasia, and Central Asia since FY 2009.

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.

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, opportunity, and supports initiatives intended to stabilize population growth, protect the environment and foster increased democratic participation in developing countries. The program is concentrated in those areas in which the United States has special expertise and which promise the greatest opportunity for the poor to better their lives.

International Disaster Assistance

Funds for the International Disaster Assistance Program provide relief, rehabilitation, and reconstruction assistance to foreign countries struck by disasters such as famine, floods, hurricanes and earthquakes. The program also provides assistance in disaster preparedness, and prevention and mitigation; providing emergency commodities and services for immediate healthcare and nutrition. Additionally, this fund supports the capability to provide timely emergency response to disasters worldwide.

Global Health and Child Survival

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

Complex Crisis Fund

This fund provides for necessary expenses to carry out the provisions of the Foreign Assistance Act of 1961 to enable USAID to support programs and activities to prevent or respond to emerging or unforeseen complex crises overseas.

Transition Initiatives

This fund provides for humanitarian programs that provide post-conflict assistance to victims of both natural and man-made disasters. 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 the Foreign Assistance Act, 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 authorized 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. Borrowing was completed under the program during FY 1999, with approximately $9.2 billion being guaranteed, of which $7.8 billion is currently outstanding. Guarantees were made by USAID on behalf of the U.S Government.

In FY 2003, Congress authorized a second Israeli Loan Guarantee Program of up to $9.0 billion to support Israel's comprehensive economic program to overcome economic difficulties and create conditions for higher and sustainable growth. $4.1 billion has been borrowed under this program, of which the entire $4.1 billion is currently outstanding.

- ***Development Credit Authority***

  The first obligations for USAID's Development Credit Authority (DCA) were made in FY 1999. The DCA allows missions and other offices to use loans and loan guarantees to achieve their development objectives when it can be shown that (1) the project generates enough revenue to cover the debt service including USAID fees, (2) there is at least 50% risk-sharing with a private-sector institution, and (3) the DCA guarantee addresses a financial market failure in-country and does not "crowd-out" private sector lending. The 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 a special fund, revolving funds, trust funds, deposit funds, a 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) amounts 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 for 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.

The "Consolidated Appropriations Act, 2010" signed into law as P.L. 111-117 provides to USAID extended authority to obligate funds. USAID's appropriations have consistently provided essentially similar authority. It is commonly known as "511/517" authority, a name that is based on references to the previous appropriations acts. Under this authority funds shall remain available for obligation for an extended period if such funds are initially obligated within their initial period of availability.

E. REVENUES AND OTHER FINANCING SOURCES

USAID receives the majority of its funding through congressional appropriations —annual, multi-year, and no-year 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 (CCC), the Executive Office of the President, the Department of State, and Millennium Challenge Corporation (MCC).

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 are 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 based on a historical analysis of collectability.

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 United States 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, 2010 and 2009 consisted of the following:

FUND BALANCE WITH TREASURY
(In Thousands)

Fund Balance	2010	2009
Trust Funds	$ 83,825	$ 50,238
Revolving Funds	5,245,751	4,328,092
Appropriated Funds	21,936,849	16,927,098
Other Funds	(44,940)	132,281
Total	$ 27,221,485	$ 21,437,709
Status of Fund Balance with Treasury	**2010**	**2009**
Unobligated Balance		
Available	$ 6,044,413	$ 4,152,006
Unavailable	3,237,729	2,851,843
Obligated and Other Balances Not Yet Disbursed (Net)	17,939,343	14,433,860
Total	$ 27,221,485	$ 21,437,709

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 Combined 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 Combined Statement of Budgetary Resources the expired fund balance is included in Unobligated Balances Not Available.

The FY 2010 Fund Balance with Treasury in the "Other" category is reported as $44.9M abnormal (credit balance). This abnormal balance is due to transactions posted into Suspense accounts that were not applied to the applicable appropriations as of the end of the accounting period. Once all transactions are cleared from the Suspense accounts, this category will have a net zero balance.

NOTE 3. ACCOUNTS RECEIVABLE, NET

The primary components of USAID's accounts receivable as of September 30, 2010 and 2009 are as follows:

ACCOUNTS RECEIVABLE, NET (In Thousands)	Receivable Gross	Allowance Accounts	Receivable Net 2010	Receivable Net 2009
Intragovernmental				
Appropriation Reimbursements from Federal Agencies	$ 587	$ N/A	$ 587	$ 761
Accounts Receivable from Federal Agencies	73,489	N/A	73,489	616,309
Less Intra-Agency Receivables	(73,856)	N/A	(73,856)	(616,850)
Total Intragovernmental Account Receivables	220	N/A	220	220
Accounts Receivable to the Public	136,882	(15,781)	121,101	84,654
Total Receivables	$ 137,102	$ (15,781)	$ 121,321	$ 84,874

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

All other entity accounts receivable consist of amounts managed by missions or USAID/Washington. These receivables consist of overdue advances, unrecovered advances, and audit findings. The allowance for these receivables is calculated based on a historical analysis of collectability. 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, 2010 and 2009 consisted of the following:

ADVANCES (In Thousands)	2010	2009
Intragovernmental		
Advances to Federal Agencies	$ 67,653	$ 12,014
Total Intragovernmental	67,653	12,014
Advances to Contractors/Grantees	555,135	310,343
Advances to Host Country Governments and Institutions	231,411	59,136
Advances, Other	2,575	8,324
Total with the Public	789,121	377,803
Total Other Assets	$ 856,774	$ 389,817

FY 2010 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. Advances to Contractors/Grantees are amounts that USAID pays to them to cover their immediate cash needs related to program implementation until they submit expense reports to USAID and USAID records those expenses.

NOTE 5. CASH AND OTHER MONETARY ASSETS

Cash and Other Monetary Assets as of September 30, 2010 and 2009 are as follows:

CASH AND OTHER MONETARY ASSETS
(In Thousands)

Cash and Other Monetary Assets	2010	2009
Imprest Fund-Headquarters	$ 5	$ 5
UE and Micro and Small Enterprise Fund Cash w/Fiscal Agent	50	50
Foreign Currencies	265,320	322,796
Total Cash and Other Monetary Assets	$ 265,375	$ 322,851

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 thousand in FY 2010 and FY 2009. These imprest funds are not included in USAID's Consolidated Balance Sheet.

Foreign Currencies are related to Foreign Currency Trust Funds and this totaled $265.3 million in FY 2010 and $322.8 million in FY 2009. 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)

	2010	2009
Net Direct Loans Obligated Prior to 1992 (Allowance for Loss Method)	$ 3,007,169	$ 3,314,440
Net Direct Loans Obligated After 1991 (Present Value Method)	255,287	288,912
Defaulted Guaranteed Loans from Pre-1992 Guarantees (Allowance for Loss Method)	209,609	159,328
Total Loans Receivable, Net as reported on the Balance Sheet	$ 3,472,065	$ 3,762,680

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, 2010:				
Direct Loans	$ 3,654,136	$ 321,079	$ (968,046)	$ 3,007,169
MSED	29	32	(61)	–
Total	$ 3,654,165	$ 321,111	$ (968,107)	$ 3,007,169
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

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, 2010:				
Direct Loans	$ 985,163	$ 13,518	$ (798,927)	$ 199,754
UE - Subrogated Claims	38,580	5,124	12,012	55,716
MSED	150	(150)	(183)	(183)
Total	$ 1,023,893	$ 18,492	$ (787,098)	$ 255,287
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

TOTAL AMOUNT OF DIRECT LOANS DISBURSED (In Thousands)		
Direct Loan Programs	2010	2009
Direct Loans	$ 4,639,299	$ 4,991,805
UE - Subrogated Claims	38,580	42,000
MSED	179	179
Total	$ 4,678,058	$ 5,033,984

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

(In Thousands)

	2010				2009			
	Direct Loan	UE - Sub. Claims	MSED	Total	Direct Loan	UE - Sub. Claims	MSED	Total
Beginning Balance, Changes, and Ending Balance								
Beginning Balance of the Subsidy Cost Allowance	$ 800,470	$ (5,480)	$ 333	$ 795,323	$ 861,084	$ –	$ 357	$ 861,441
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	–	–	–	–	–	–	–	–
(B) Fees Received	–	–	–	–	–	–	–	–
(C) Foreclosed Property Acquired	–	–	–	–	–	–	–	–
(D) Loans Written Off	–	–	–	–	–	–	–	–
(E) Subsidy Allowance Amortization	(21,896)	–	–	(21,896)	(169,266)	–	–	(169,266)
(F) Other	20,353	(6,532)	(150)	13,671	108,652	(5,480)	(24)	103,148
Ending Balance of the Subsidy Cost Allowance Before Reestimates	$ 798,927	$(12,012)	$ 183	$ 787,098	$ 800,470	$ (5,480)	$ 333	$ 795,323
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	$ 798,927	$(12,012)	$ 183	$ 787,098	$ 800,470	$ (5,480)	$ 333	$ 795,323

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): 2010				
UE	$ 235,268	$ 84,719	$ (110,378)	$ 209,609
Total	$ 235,268	$ 84,719	$ (110,378)	$ 209,609
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 POST-1991 GUARANTEES

In 2010, the UE Program experienced $3.8 million in defaults on payments.

In 2009, the UE Program experienced $3.7 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 (2010):		
UE	$ 909,509	$ 909,509
MSED	14,760	7,380
Israel	11,928,719	11,928,719
DCA	243,313	102,399
Egypt	1,250,000	1,250,000
Total	$ 14,346,301	$ 14,198,007
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
New Guaranteed Loans Disbursed (2010):		
DCA	$ 37,676	$ 18,838
Total	$ 37,676	$ 18,838
New Guaranteed Loans Disbursed (2009):		
DCA	$ 40,006	$ 18,730
Total	$ 40,006	$ 18,730

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, 2010:			
UE	$ 64,869	$ 137,074	$ 201,943
MSED	–	(649)	(649)
Israel	–	1,856,214	1,856,214
DCA	–	15,035	15,035
Egypt	–	193,048	193,048
Total	$ 64,869	$ 2,200,722	$ 2,265,591
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

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 (2010):					
DCA	$ –	$ 1,728	$ –	$ –	$ 1,728
Total	$ –	$ 1,728	$ –	$ –	$ 1,728
Subsidy Expense for New Loan Guarantees (2009):					
DCA	$ –	$ 3,571	$ –	$ –	$ 3,571
Total	$ –	$ 3,571	$ –	$ –	$ 3,571

(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 (2010):				
UE	$ –	$ –	$ –	$ –
Israel	–	–	32,812	32,812
Egypt	–	–	5,737	5,737
Total	$ –	$ –	$ 38,549	$ 38,549
Modifications and Reestimates (2009):				
UE	$ –	$ –	$ 5,256	$ 5,256
Israel	–	–	282,969	282,969
Egypt	–	–	–	–
Total	$ –	$ –	$ 288,225	$ 288,225

TOTAL LOAN GUARANTEE SUBSIDY EXPENSE

(In Thousands)

Loan Guarantee Programs	2010	2009
DCA	$ 1,728	$ 626
UE	–	5,256
MSED	–	–
Israel	32,812	282,969
Egypt	5,737	–
Total	$ 40,277	$ 288,851

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	–	4.76%	–	–	4.76%

SCHEDULE FOR RECONCILING LOAN GUARANTEE LIABILITY BALANCES

(In Thousands)

(Post-1991 Loan Guarantees)	DCA	MSED	UE	Israel	Egypt	Total
2010						
Beginning Balance, Changes, and Ending Balance						
Beginning Balance of the Loan Guarantee Liability	$ 34,071	$ 693	$ 154,794	$ 1,824,892	$ 178,029	$2,192,479
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	1,728	–	–	–	–	1,728
Total of the Above Subsidy Expense Components	1,728	–	–	–	–	1,728
Adjustments:						–
(A) Loan Guarantee Modifications	–	–	–	–	–	–
(B) Fees Received	1,618	3	1,379	–	–	3,000
(C) Interest Supplements Paid	–	–	–	–	–	–
(D) Foreclosed Property and Loans Acquired	–	–	–	–	–	–
(E) Claim Payments to Lenders	–	–	(2,169)	–	–	(2,169)
(F) Interest Accumulation on the Liability Balance	–	–	6,124	115,791	7,637	129,552
(G) Other	(13,884)	(1,345)	(12,460)	–	–	(27,689)
Ending Balance of the Loan Guarantee Liability Before Reestimates	23,533	(649)	147,668	1,940,683	185,666	2,296,901
Add or Subtract Subsidy Reestimates by Component:						
(A) Interest Rate Reestimate	–	–	–	–	–	–
(B) Technical/Default Reestimate	(8,498)	–	(10,594)	(84,469)	7,382	(96,179)
Total of the Above Reestimate Components	(8,498)	–	(10,594)	(84,469)	7,382	(96,179)
Ending Balance of the Loan Guarantee Liability	$ 15,035	$ (649)	$ 137,074	$ 1,856,214	$ 193,048	$2,200,722
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	3,571	–	–	–	–	3,571
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

ADMINISTRATIVE EXPENSE *(In Thousands)*		
Loan Programs	**2010**	**2009**
DCA	$ 10,519	$ 10,632
Total	$ 10,519	$ 10,632

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. Nine countries are in violation of Section 620q of the Foreign Assistance Act (FAA), owing $17.4 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 $403.7 million that is more than one year delinquent. Outstanding direct loans receivable for countries in violation of Section 620q totaled $15.3 million. Outstanding direct loans receivable for countries in violation of the Brooke Amendment totaled $375.1 million.

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

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 2011.

NOTE 7. INVENTORY AND RELATED PROPERTY, NET

USAID's Inventory and Related Property, Net is comprised of Operating Materials and Supplies. Operating Materials and Supplies as of September 30, 2010 and 2009 are as follows:

INVENTORY AND RELATED PROPERTY *(In Thousands)*		
	2010	**2009**
Items Held for Use		
Office Supplies	$ 5,117	$ 4,565
Items Held in Reserve for Future Use		
Disaster Assistance Materials and Supplies	3,300	11,473
Birth Control Supplies	7,977	6,673
Total Inventory and Related Property	$ 16,394	$ 22,711

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, 2010 and 2009 are as follows:

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

	Useful Life	Cost	Accumulated Depreciation	Net Book Value 2010	Net Book Value 2009
The components of PP&E as of September 30, 2010 are as follows:					
Classes of Fixed Assets					
Equipment	3 to 5 years	$ 95,172	$ (83,600)	$ 11,572	$ 16,759
Buildings, Improvements, and Renovations	20 years	103,112	(49,756)	53,356	48,465
Land and Land Rights	N/A	9,178	N/A	9,178	8,800
Assets Under Capital Lease (Note 9)		13,442	(9,665)	3,777	4,473
Construction in Progress	N/A	–	–	–	–
Internal Use Software	3 to 5 years	98,597	(59,424)	39,173	39,296
Total PP&E		$ 319,501	$ (202,445)	$ 117,056	$ 117,794

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, Automatic Data Processing (ADP) hardware, vehicles and copiers located at the overseas field missions. Note 9 discusses USAID leases.

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, 2010 Leases consisted of the following:

LEASES
(In Thousands)

Entity as Lessee

Capital Leases:	**2010**	**2009**
Summary of Assets Under Capital Lease:		
Buildings	$ 13,442	$ 13,442
Accumulated Depreciation	(9,665)	(8,969)
Net Assest under Capital Leases	$ 3,777	$ 4,473

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

Future Payments Due: **Fiscal Year**	**2010** **Future Costs**	**2009** **Future Costs**
2010	$ –	$ 3,015
2011	390	390
2012	–	–
2013	2,375	2,375
2014	2,375	2,375
2015	1,170	1,170
After 5 Years	–	–
Net Capital Lease Liability (Note 12)	$ 6,310	$ 9,325
Lease Liabilities Covered by Budgetary Resources	$ 6,310	$ 9,325

Operating Leases:

Future Payments Due: **Fiscal Year**	**2010** **Future Costs**	**2009** **Future Costs**
2010	$ –	$ 66,972
2011	82,567	61,840
2012	78,876	56,527
2013	67,254	54,887
2014	63,146	60,132
2015	67,823	–
After 5 Years	167,993	194,632
Total Future Lease Payments	$ 527,659	$ 494,991

Operating lease payments total $528 million in future lease payments, $258 million is for the USAID headquarters in Washington, D.C. The current lease agreements are for approximately 802,417 sq. feet and with expiration dates of FY 2013, FY 2015, and FY 2020. The lessor, General Services Administartion (GSA), charges commercial rates for USAID's occupancy. Lease payments for FY 2010 and FY 2009 amounted to $48.2 million and $44 million, respectively.

NOTE 10. LIABILITIES COVERED AND NOT COVERED BY BUDGETARY RESOURCES

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

Liabilities not covered by budgetary resources include accrued unfunded annual leave and 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, workers' 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, 2010 and 2009 liabilities covered and not covered by budgetary resources were as follows:

LIABILITIES COVERED AND NOT COVERED BY BUDGETARY RESOURCES

(In Thousands)

	2010	2009
Intragovernmental		
Accounts Payable	$ 37,773	$ 2,532
Disbursements in Transit	–	20
Total Intragovernmental	37,773	2,552
Accounts Payable	2,063,359	1,806,648
Disbursements in Transit	11,688	27,431
Total with the Public	2,075,047	1,834,079
Total Other	6,898,606	6,609,662
Total Liabilities Covered by Budgetary Resources	$ 9,011,426	$ 8,446,293
Liabilities Not Covered by Budgetary Resources		
Accrued Annual Leave	$ 44,361	$ 73,411
FSN Separation Pay Liability	305	6,638
Total Accrued Unfunded Annual Leave and Separation Pay	44,666	80,049
Accrued Unfunded Workers Compensation Benefits (Note 13)	67,650	50,125
Debt - Contingent Liabilities for Loan Guarantees	64,870	90,794
Total Liabilities Not Covered by Budgetary Resources	177,186	220,968
Total Liabilities	$ 9,188,612	$ 8,667,261

NOTE 11. DEBT

USAID Intragovernmental Debt as of September 30, 2010 and 2009 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	2009 Beginning Balance	Net Borrowing	2009 Ending Balance	Net Borrowing	2010 Ending Balance
Direct Loan	$ 477,300	$ (4)	$ 477,296	900	$ 478,195
DCA	72	$ 13	85	–	85
Total Treasury Debt	$ 477,372	$ 9	$ 477,381	900	$ 478,280

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 2010, no accrued interest was included in the Direct Loan balance. The ending FY 2010 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 $3.2 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, 2010 and 2009 Other Liabilities consisted of the following:

OTHER LIABILITIES (In Thousands)		
	2010	2009
Intragovernmental		
IPAC Suspense	$ (10,050)	$ (2,411)
Unfunded FECA Liability	10,005	9,871
Credit Program	178,302	35,476
Custodial Liability	7,424	10,252
Other	482,032	14,548
Total Intragovernmental	$ 667,713	$ 67,735
Accrued Funded Payroll and Leave (Note 13)	41,615	23,240
Unfunded Leave (Note 10)	44,666	80,049
Advances From Others	2,485	1,690
Deferred Credits	19,071	16,160
Foreign Currency Trust Fund	266,465	323,942
Capital Lease Liability (Note 9)	6,310	9,325
Custodial Liability	–	–
Other Liabilities	55,177	52,749
Total Liabilities With the Public	$ 435,789	$ 507,155
Total Other Liabilities	$ 1,103,502	$ 574,890

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 provisions for workers' compensation benefits payable, as of September 30, 2010 and 2009 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 2010, USAID's total FECA liability was $67.6 million, comprised of unpaid FECA billings for $26.0 million and estimated future FECA costs of $41.6 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 assumptions 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)

	2010	2009
Liabilities Not Covered by Budgetary Resources		
Future Workers' Compensation Benefits	$ 26,035	$ 26,885
Accrued Funded Payroll and Leave (Note 12)	41,615	23,240
Total Accrued Unfunded Workers' Compensation Benefits	$ 67,650	$ 50,125

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, 2010 a total of nine cases were pending.

Six cases have been designated as reasonably possible, a total of $19.5 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.
- The fourth case involves a contractor who entered into a fixed price contract for the construction of a road but contends that it was not told of differing site conditions, in particular, swampy areas, and therefore, the Agency owes it an equitable adjustment. The estimated loss is $2.0 million.
- The fifth case is a claim for damages suffered allegedly as a result of USAID-caused delay in relation to the delivery and off-loading of grain at the Port of Djibouti. Filings to date with the Board of Contract Appeals have not quantified damages; however, in pre-litigation correspondence with the Agency the contractor identified $1.5 million in damages.
- USAID has been notified of a sixth case with a potential loss of $5.0 million. Further case details are not currently available.

The three remaining cases have a remote likelihood of an unfavorable outcome.

During FY 2010 there were two settlements.

- The first case was settled in the second quarter and was originally identified as a probable loss of $1.3 million. This case involves a contractor who seeks costs that were incurred by one of its subcontractors; however USAID disputes those costs as unsubstantiated. The settlement was for $51,000.
- The second case was settled in the second quarter and was originally identified as a reasonably possible

loss of $1.6 million. The case was an appeal of the government's decision to disallow cost which had allegedly been incurred by the appellant. The appellant requested that the Board enter a judgment that the Government is not entitled to disallow and demand repayment of the costs at issue. The settlement was for $0.

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, 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	
	2010	**2009**
Fund Balance With Treasury	$ 15,862	$ 34,379
Total Assets	**15,862**	**34,379**
Accounts Payable	5,624	2,908
Total Liabilities	**5,624**	**2,908**
Unexpended Appropriations	10,238	31,471
Cumulative Results of Operations	–	–
Total Net Position	**10,238**	**31,471**
Total Liabilities and Net Position	**$ 15,862**	**$ 34,379**
	Status of Recovery Act Funds	
Total Budgetary Resources	**$ 17,948**	**$ 38,000**
Obligated Balance	17,948	20,060
Unobligated Balance	–	17,940
Total Status of Budgetary Resources	**$ 17,948**	**$ 38,000**
Total, Unpaid Obligated Balance, Net, End of Period	15,854	16,439
Net Outlays	**$ 18,517**	**$ 3,621**

In February, 2009, Congress passed the American Recovery and Reinvestment Act of 2009 (Recovery Act) 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 Act 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 balances for each line item in this footnote are included in the cumulative balances presented in their respective financial statements.

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, 2010. These objectives are consistent with the State/USAID's 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, 2010 and 2009
(In Thousands)

Objective	Africa	Asia	DCHA	EGAT	Europe & Eurasia	Global Health	Latin America & Caribbean	Middle East	2010 Total	2009 Total
Peace and Security										
Intragovernmental Costs	$ 2,882	$ 11,312	$ 4,109	$ 1,663	$ 6,912	$ –	$ 7,543	$ 1,712	$ 36,133	$ 27,748
Public Costs	53,178	457,809	144,329	9,397	130,451	–	182,499	65,593	1,043,256	955,521
Total Program Costs	56,060	469,121	148,438	11,060	137,363	–	190,042	67,305	1,079,389	983,269
Intragovernmental Earned Revenue	(417)	(1,873)	(687)	(146)	(1,224)	–	(1,136)	(297)	(5,780)	(2,605)
Public Earned Revenue	(80)	(362)	(133)	(28)	(236)	–	(219)	(57)	(1,115)	(1,026)
Total Earned Revenue	(497)	(2,235)	(820)	(174)	(1,460)	–	(1,355)	(354)	(6,895)	(3,631)
Net Program Costs	**55,563**	**466,886**	**147,618**	**10,886**	**135,903**	**–**	**188,687**	**66,951**	**1,072,494**	**979,638**
Governing Justly and Democratically										
Intragovernmental Costs	11,856	16,790	3,870	843	8,741	–	6,538	11,042	59,680	41,105
Public Costs	249,070	623,282	93,219	2,856	175,930	–	144,833	443,623	1,732,813	1,718,630
Total Program Costs	260,926	640,072	97,089	3,699	184,671	–	151,371	454,665	1,792,493	1,759,735
Intragovernmental Earned Revenue	(1,755)	(2,935)	(629)	(57)	(1,384)	–	(13,982)	(1,703)	(22,445)	(4,283)
Public Earned Revenue	(339)	(567)	(122)	(11)	(267)	–	(206)	(329)	(1,841)	(1,686)
Total Earned Revenue	(2,094)	(3,502)	(751)	(68)	(1,651)	–	(14,188)	(2,032)	(24,286)	(5,969)
Net Program Costs	**258,832**	**636,570**	**96,338**	**3,631**	**183,020**	**–**	**137,183**	**452,633**	**1,768,207**	**1,753,766**
Investing in People										
Intragovernmental Costs	118,685	31,852	3,131	1,988	6,167	12,676	13,598	13,098	201,195	147,075
Public Costs	797,088	911,396	71,522	135,785	69,707	312,702	157,939	505,005	2,961,144	3,319,271
Total Program Costs	915,773	943,248	74,653	137,773	75,874	325,378	171,537	518,103	3,162,339	3,466,346
Intragovernmental Earned Revenue	(20,268)	(4,649)	(476)	(57,511)	(577)	(123,033)	(1,920)	(1,940)	(210,374)	(387,120)
Public Earned Revenue	(3,915)	(898)	(92)	(97,296)	(111)	(493)	(371)	(375)	(103,551)	(21,213)
Total Earned Revenue	(24,183)	(5,547)	(568)	(154,807)	(688)	(123,526)	(2,291)	(2,315)	(313,925)	(408,333)
Net Program Costs	**891,590**	**937,701**	**74,085**	**(17,034)**	**75,186**	**201,852**	**169,246**	**515,788**	**2,848,414**	**3,058,013**

(continued on next page)

INTRAGOVERNMENTAL COSTS AND EXCHANGE REVENUE BY RESPONSIBILITY SEGMENT

For the Years Ended September 30, 2010 and 2009
(In Thousands)

Objective	Africa	Asia	DCHA	EGAT	Europe & Eurasia	Global Health	Latin America & Caribbean	Middle East	2010 Total	2009 Total
Economic Growth										
Intragovernmental Costs	26,006	32,660	9	46,982	6,419	–	25,393	18,476	155,945	164,184
Public Costs	455,190	975,322	140	278,265	175,155	–	216,930	656,626	2,757,628	4,254,573
Total Program Costs	481,196	1,007,982	149	325,247	181,574	–	242,323	675,102	2,913,573	4,418,757
Intragovernmental Earned Revenue	(3,314)	(3,896)	(2)	(96,175)	(1,131)	–	(1,383)	(3,028)	(108,929)	(156,160)
Public Earned Revenue	(640)	(752)	–	(93,278)	(219)	–	996	(572)	(94,465)	(638,092)
Total Earned Revenue	(3,954)	(4,648)	(2)	(189,453)	(1,350)	–	(387)	(3,600)	(203,394)	(794,252)
Net Program Costs	**477,242**	**1,003,334**	**147**	**135,794**	**180,224**	**–**	**241,936**	**671,502**	**2,710,179**	**3,624,505**
Humanitarian Assistance										
Intragovernmental Costs	784	4,616	105,160	–	212	–	1,943	7,700	120,415	52,551
Public Costs	2,119	217,034	994,272	191,802	4,985	–	49,392	57,019	1,516,623	1,407,821
Total Program Costs	2,903	221,650	1,099,432	191,802	5,197	–	51,335	64,719	1,637,038	1,460,372
Intragovernmental Earned Revenue	(18)	(827)	(5,197)	–	(37)	–	(349)	(236)	(6,664)	(3,384)
Public Earned Revenue	(3)	(160)	(1,004)	–	(7)	–	(67)	(46)	(1,287)	(1,334)
Total Earned Revenue	(21)	(987)	(6,201)	–	(44)	–	(416)	(282)	(7,951)	(4,718)
Net Program Costs	**2,882**	**220,663**	**1,093,231**	**191,802**	**5,153**	**–**	**50,919**	**64,437**	**1,629,087**	**1,455,654**
Operating Unit Management										
Intragovernmental Costs	18,837	27,618	21,200	20,473	10,230	–	6,407	1,919	106,684	26,444
Public Costs	49,794	49,189	65,049	38,129	32,381	–	25,995	14,140	274,677	118,754
Total Program Costs	68,631	76,807	86,249	58,602	42,611	–	32,402	16,059	381,361	145,198
Intragovernmental Earned Revenue	(544)	(281)	(448)	(1,122)	(257)	–	(196)	(40)	(2,888)	(868)
Public Earned Revenue	(105)	(54)	(87)	(216)	(50)	–	(38)	(8)	(558)	(155)
Total Earned Revenue	(649)	(335)	(535)	(1,338)	(307)	–	(234)	(48)	(3,446)	(1,023)
Net Program Costs	**67,982**	**76,472**	**85,714**	**57,264**	**42,304**	**–**	**32,168**	**16,011**	**377,915**	**144,175**
Net Cost of Operations	**$1,754,091**	**$3,341,626**	**$1,497,133**	**$382,343**	**$ 621,790**	**$ 201,852**	**$ 820,139**	**$ 1,787,322**	**$10,406,296**	**$11,015,751**

NOTE 17. SUBORGANIZATION PROGRAM COSTS/PROGRAM COSTS BY SEGMENT

The Suborganization Program Costs/ Program Costs by 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's 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 2010 Consolidated Statement of Net Cost major responsiblitiy segments are (i) the Geographic Bureaus and (ii) the Technical Bureaus. The Geographic Bureaus include: Africa (AFR); Asia; Middle East (ME); Latin America and Caribbean (LAC); and Europe and Eurasia (E&E). Technical Bureaus are referred to as 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, 2010
(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	$ 12,508	$ 332	$ 12	$ –	$ –	$ –	$ –	$ 4,393	$ 17,245
Less: Exchange Revenues	(118)	(1)	–	–	–	–	–	(24)	(143)
Net Program Costs	12,390	331	12	–	–	–	–	4,369	17,102
Combating Weapons of Mass Destruction (WMD)									
Gross Costs	–	–	12	–	65,720	–	–	–	65,732
Less: Exchange Revenues	–	–	–	–	(725)	–	–	–	(725)
Net Program Costs	–	–	12	–	64,995	–	–	–	65,007
Stabilization Operations and Security Sector Reform									
Gross Costs	9,487	1,774	532	–	1,123	–	35,268	3,379	51,563
Less: Exchange Revenues	(88)	(10)	(4)	–	(9)	–	(211)	(27)	(349)
Net Program Costs	9,399	1,764	528	–	1,114	–	35,057	3,352	51,214
Counter-Narcotics									
Gross Costs	24	279,550	12	–	97	–	146,021	2	425,706
Less: Exchange Revenues	–	(1,384)	–	–	(1)	–	(1,105)	–	(2,490)
Net Program Costs	24	278,166	12	–	96	–	144,916	2	423,216
Transnational Crime									
Gross Costs	150	7,919	12	1,592	3,927	–	1,361	3,052	18,013
Less: Exchange Revenues	–	(39)	–	(35)	(30)	–	(10)	(14)	(128)
Net Program Costs	150	7,880	12	1,557	3,897	–	1,351	3,038	17,885
Conflict Mitigation and Reconciliation									
Gross Costs	33,891	179,546	147,858	9,468	66,496	–	7,392	56,479	501,130
Less: Exchange Revenues	(291)	(801)	(816)	(139)	(695)	–	(29)	(289)	(3,060)
Net Program Costs	33,600	178,745	147,042	9,329	65,801	–	7,363	56,190	498,070
Total Peace & Security	**55,563**	**466,886**	**147,618**	**10,886**	**135,903**	**–**	**188,687**	**66,951**	**1,072,494**
Governing Justly and Democratically									
Rule of Law and Human Rights									
Gross Costs	19,055	35,361	3,944	2,276	34,079	–	68,976	31,808	195,499
Less: Exchange Revenues	(188)	(166)	(54)	(45)	(289)	–	(13,389)	(146)	(14,277)
Net Program Costs	18,867	35,195	3,890	2,231	33,790	–	55,587	31,662	181,222

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SCHEDULE OF COSTS BY RESPONSIBILITY SEGMENT *(continued)*

For the Year Ended September 30, 2010

(In Thousands)

Objective	Africa	Asia	DCHA	EGAT	Europe & Eurasia	Global Health	Latin America & Caribbean	Middle East	Consolidated Total
Good Governance									
Gross Costs	97,640	414,102	66,012	908	47,112	–	51,387	263,113	940,274
Less: Exchange Revenues	(811)	(2,531)	(447)	(13)	(448)	–	(556)	(1,130)	(5,936)
Net Program Costs	96,829	411,571	65,565	895	46,664	–	50,831	261,983	934,338
Political Competition and Consensus-Building									
Gross Costs	112,747	136,976	9,907	–	29,699	–	13,237	13,900	316,466
Less: Exchange Revenues	(864)	(534)	(112)	–	(258)	–	(95)	(161)	(2,024)
Net Program Costs	111,883	136,442	9,795	–	29,441	–	13,142	13,739	314,442
Civil Society									
Gross Costs	31,484	53,633	17,226	515	73,781	–	17,771	145,844	340,254
Less: Exchange Revenues	(231)	(271)	(138)	(10)	(656)	–	(148)	(595)	(2,049)
Net Program Costs	31,253	53,362	17,088	505	73,125	–	17,623	145,249	338,205
Total Governing Justly and Democratically	**258,832**	**636,570**	**96,338**	**3,631**	**183,020**	**–**	**137,183**	**452,633**	**1,768,207**
Investing in People									
Health									
Gross Costs	576,352	203,756	26,172	11,876	50,213	325,378	44,780	182,785	1,421,312
Less: Exchange Revenues	(21,360)	(2,380)	(167)	(274)	(497)	(123,526)	(1,325)	(729)	(150,258)
Net Program Costs	554,992	201,376	26,005	11,602	49,716	201,852	43,455	182,056	1,271,054
Education									
Gross Costs	283,783	357,240	20,325	19,638	18,724	–	62,483	114,461	876,654
Less: Exchange Revenues	(2,412)	(1,440)	(151)	(288)	(142)	–	(440)	(460)	(5,333)
Net Program Costs	281,371	355,800	20,174	19,350	18,582	–	62,043	114,001	871,321
Social and Economic Services and Protection for Vulnerable Populations									
Gross Costs	55,638	382,252	28,156	106,259	6,937	–	64,274	220,857	864,373
Less: Exchange Revenues	(411)	(1,727)	(250)	(154,245)	(49)	–	(526)	(1,126)	(158,334)
Net Program Costs	55,227	380,525	27,906	(47,986)	6,888	–	63,748	219,731	706,039
Total Investing in People	**891,590**	**937,701**	**74,085**	**(17,034)**	**75,186**	**201,852**	**169,246**	**515,788**	**2,848,414**
Economic Growth									
Macroeconomic Foundation for Growth									
Gross Costs	4,029	31,680	23	72,119	36,189	–	15,212	216,144	375,396
Less: Exchange Revenues	(5)	(160)	(2)	(105,905)	(202)	–	(90)	(1,646)	(108,010)
Net Program Costs	4,024	31,520	21	(33,786)	35,987	–	15,122	214,498	267,386
Trade and Investment									
Gross Costs	36,719	39,567	18	3,270	4,477	–	32,049	35,894	151,994
Less: Exchange Revenues	(340)	(172)	–	(51)	(34)	–	(244)	(136)	(977)
Net Program Costs	36,379	39,395	18	3,219	4,443	–	31,805	35,758	151,017
Financial Sector									
Gross Costs	12,700	19,894	18	35,647	15,059	–	951	104,418	188,687
Less: Exchange Revenues	(107)	(75)	–	(78,619)	(119)	–	(9)	(320)	(79,249)
Net Program Costs	12,593	19,819	18	(42,972)	14,940	–	942	104,098	109,438
Infrastructure									
Gross Costs	86,273	476,982	18	8,719	30,858	–	9,489	89,794	702,133
Less: Exchange Revenues	(575)	(2,189)	–	(198)	(254)	–	(81)	(332)	(3,629)
Net Program Costs	85,698	474,793	18	8,521	30,604	–	9,408	89,462	698,504
Agriculture									
Gross Costs	225,238	179,976	18	127,711	19,927	–	40,397	69,452	662,719
Less: Exchange Revenues	(1,913)	(827)	–	(2,986)	(165)	–	(253)	(325)	(6,469)
Net Program Costs	223,325	179,149	18	124,725	19,762	–	40,144	69,127	656,250

(continued on next page)

SCHEDULE OF COSTS BY RESPONSIBILITY SEGMENT *(continued)*

For the Year Ended September 30, 2010

(In Thousands)

Objective	Africa	Asia	DCHA	EGAT	Europe & Eurasia	Global Health	Latin America & Caribbean	Middle East	Consolidated Total
Private Sector Competitiveness									
Gross Costs	30,647	151,906	18	9,392	68,018	–	41,974	50,971	352,926
Less: Exchange Revenues	(276)	(710)	–	(193)	(512)	–	(293)	(256)	(2,240)
Net Program Costs	30,371	151,196	18	9,199	67,506	–	41,681	50,715	350,686
Economic Opportunity									
Gross Costs	15,337	53,268	18	27,752	6,428	–	9,208	68,706	180,717
Less: Exchange Revenues	(149)	(260)	–	(626)	(59)	–	1,209	(379)	(264)
Net Program Costs	15,188	53,008	18	27,126	6,369	–	10,417	68,327	180,453
Environment									
Gross Costs	70,253	54,709	18	40,637	618	–	93,043	39,723	299,001
Less: Exchange Revenues	(589)	(255)	–	(875)	(5)	–	(626)	(206)	(2,556)
Net Program Costs	69,664	54,454	18	39,762	613	–	92,417	39,517	296,445
Total Economic Growth	**477,242**	**1,003,334**	**147**	**135,794**	**180,224**	**–**	**241,936**	**671,502**	**2,710,179**
Humanitarian Assistance									
Protection, Assistance and Solutions									
Gross Costs	80	194,306	1,047,512	–	4,318	–	14,775	64,717	1,325,708
Less: Exchange Revenues	(1)	(830)	(5,820)	–	(36)	–	(118)	(282)	(7,087)
Net Program Costs	79	193,476	1,041,692	–	4,282	–	14,657	64,435	1,318,621
Disaster Readiness									
Gross Costs	2,823	1,318	51,902	191,802	260	–	36,560	2	284,667
Less: Exchange Revenues	(20)	(6)	(381)	–	(2)	–	(298)	–	(707)
Net Program Costs	2,803	1,312	51,521	191,802	258	–	36,262	2	283,960
Migration Management									
Gross Costs	–	26,026	18	–	619	–	–	–	26,663
Less: Exchange Revenues	–	(151)	–	–	(6)	–	–	–	(157)
Net Program Costs	–	25,875	18	–	613	–	–	–	26,506
Total Humanitarian Assistance	**2,882**	**220,663**	**1,093,231**	**191,802**	**5,153**	**–**	**50,919**	**64,437**	**1,629,087**
Operating Unit Management									
Cross-cutting Management and Staffing									
Gross Costs	12,237	19,970	3,488	573	10,180	–	1,137	2,852	50,437
Less: Exchange Revenues	(147)	(117)	(27)	(11)	(89)	–	(9)	4	(396)
Net Program Costs	12,090	19,853	3,461	562	10,091	–	1,128	2,856	50,041
Program Design and Learning									
Gross Costs	11,905	7,173	2,837	15,854	3,396	–	2,578	6,326	50,069
Less: Exchange Revenues	(89)	(42)	(18)	(355)	(23)	–	(18)	(24)	(569)
Net Program Costs	11,816	7,131	2,819	15,499	3,373	–	2,560	6,302	49,500
Administration and Oversight									
Gross Costs	44,489	49,664	79,924	42,175	29,035	–	28,687	6,881	280,855
Less: Exchange Revenues	(413)	(176)	(490)	(972)	(195)	–	(207)	(28)	(2,481)
Net Program Costs	44,076	49,488	79,434	41,203	28,840	–	28,480	6,853	278,374
Total Operating Unit Management	**67,982**	**76,472**	**85,714**	**57,264**	**42,304**	**–**	**32,168**	**16,011**	**377,915**
Net Cost of Operations	**$1,754,091**	**$3,341,626**	**$1,497,133**	**$ 382,343**	**$ 621,790**	**$ 201,852**	**$ 820,139**	**$1,787,322**	**$10,406,296**

NOTE 18. STATEMENT OF BUDGETARY RESOURCES

The Combined Statement of Budgetary Resources presents information about total budgetary resources available to USAID and the status of those resources, as of September 30, 2010 and 2009.

USAID's total budgetary resources were $24.9 and $19.0 billion for the years ended September 30, 2010 and 2009, respectively.

A. Apportionment Categories of Obligations Incurred:

APPORTIONMENT CATEGORIES OF OBLIGATIONS INCURRED
(In Thousands)

	2010	2009
Category A, Direct	$ 1,335,392	$ 1,048,679
Category B, Direct	14,156,447	10,464,573
Category A, Reimbursable	56,747	16,911
Category B, Reimbursable	126,297	427,875
Total	$ 15,674,883	$ 11,958,038

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

The Agency had $900 thousand in borrowing authority in FY 2010. The Agency did not have borrowing authority in FY 2009. 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 is authorized permanent indefinite authority for Federal Credit Reform Program appropriations for subsidy reestimates and Federal Credit Reform Act of 1990. At year-end FY 2010, there is $2.59 billion in availablity related to Federal Credit Reform Program and Liquidating appropriations.

D. Legal Arrangements Affecting the Use of Unobligated Balances:

The "Consolidated Appropriations Act, 2010" signed into law as P.L. 111-117 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. Unpaid Obligations:

Unpaid Obligations for the periods ended September 30, 2010 and 2009 were $17.9 and $14.4 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 Resources for FY 2010 and the President's Budget submission for FY 2010. The President's Budget with actual numbers for 2010 has not yet been published. USAID expects no material difference between the President's Budget "actual" column and the FY 2010 reported results when the budget becomes available in February 2011.

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

(In Thousands)

FY 2010	Budgetary Resources	Obligations	Offsetting Receipts	Net Outlays
Combined Statement of Budgetary Resources	$ 24,957,025	$ 15,674,883	$ 71,742	$ 9,530,455
Difference #1: Funds Reported by Other Federal Entities	6,968,746	6,369,549	–	4,252,304
Difference #2: Child Activity Reported by USAID	–	–	–	–
Difference #3: Reported in the SBR but excluded from SF-133s	(118,409)	(152,916)	–	(86,834)
Difference #4: Parent/Chid Reporting Differences	13,468	13,792	–	(44,921)
Difference #5: Reporting Difference between the SBR and SF-133s	(36,601)	(18,244)	–	24,679
Difference #6: Credit Financing and Suspense	(329,818)	–	–	–
Budget of the U.S. Government	$ 31,454,411	$ 21,887,064	$ 71,742	$ 13,675,683

NOTE 19. RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET

USAID presents the Consolidated 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 Combined 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, 2010 and 2009
(In Thousands)

	2010	2009
Resources Used to Finance Actvities:		
Budgetary Resources Obligated		
Obligations Incurred	$ 15,674,883	$ 11,958,038
Spending authority from offsetting collections	(1,506,317)	(1,237,663)
Change in Unfilled Customer Orders	(458,220)	(8,338)
Downward Adjustments of Obligations	(676,857)	(391,947)
Offsetting Receipts	(71,742)	182,729
Net Obligations	12,961,747	10,502,819
Other resources used to finance activities	9,835	13,263
Resources Used to Finance Activities	12,971,582	10,516,082
Resources Used to Finance items not part of net cost of operations	(3,194,175)	99,154
Total Resources Used to Finance Net Cost of Operations	9,777,407	10,615,236
Components of the Net Cost of Operations:		
Components of Net Cost of Operations that will require or generate resources in future periods	515,508	313,001
Components of Net Cost of Operations that will not require or generate resources	113,381	87,514
Net Cost of Operations	$ 10,406,296	$ 11,015,751

FINANCIAL SECTION

REQUIRED SUPPLEMENTARY INFORMATION

(Above) **Iraqis count votes at the Independent High Electoral Commission (IHEC) headquarters in Baghdad on March 12, 2010, following the country's second general elections since the U.S.-led invasion in 2003. With assistance from the USAID Elections Support Program, the IHEC successfully administered five major electoral events between 2004 and the March elections.**

PHOTO: AHMAD AL-RUBAYE / AFP

(Preceding page) **Team ARV Swallows, one of Zimbabwe's 16 all-female soccer teams comprised of HIV-positive women, practices in Epworth on June 28, 2010. USAID supports a wide range of HIV/AIDS programs in Zimbabwe, implemented as part of the U.S. President's Emergency Plan for AIDS Relief.**

PHOTO: DESMOND KWANDE / AFP

STATEMENT OF BUDGETARY RESOURCES

REQUIRED SUPPLEMENTARY INFORMATION: COMBINING SCHEDULE OF BUDGETARY RESOURCES

For the period ended September 30, 2010

(In Thousands)

	Recovery Act	Operating	Program							Credit-Financing	Other	Parent Fund	Combined Total
	302	1000	305	1010	1021	1035	1037	1093	1095				
Budgetary Resources:													
Unobligated Balance, Brought Forward, October 1	$ 17,940	$ 285,923	$ 30,000	$ 20,386	$ 546,392	$ 310,344	$ 2,445,976	$ 107,963	$ 76,136	$1,643,447	$1,353,548	$ 165,794	$ 7,003,849
Recoveries of Prior Year Unpaid Obligations	8	35,434	–	17,281	93,226	66,183	174,434	27,380	91,619	–	37,877	133,415	676,857
Budget Authority:													–
Appropriation	–	1,388,800	30,000	–	2,520,000	1,305,000	8,844,000	–	–	–	1,767,509	–	15,855,309
Borrowing Authority	–	–	–	–	–	–	–	–	–	900	–	–	900
Spending Authority from Offsetting Collections:													–
Earned:													–
Collected	–	47,379	–	–	5,135	192	114,865	–	–	800,209	536,836	1,701	1,506,317
Change in Receivables from Federal Sources	–	–	–	–	–	–	–	–	–	–	–	(174)	(174)
Change in Unfilled Customer Orders:													
Advance Received	–	–	–	–	–	–	–	–	–	–	460,853	–	460,853
Without Advance from Federal Sources	–	4,311	–	–	119	–	2,445	–	–	–	(9,508)	–	(2,633)
Subtotal	–	1,440,490	30,000	–	2,525,254	1,305,192	8,961,310	–	–	801,109	2,755,690	1,527	17,820,572
Nonexpenditure Transfers, Net, Anticipated and Actual	–	2,376	–	856	(59,951)	2,531	(953,231)	(621)	6	(54)	(29,753)	928,315	(109,526)
Permanently Not Available	–	(5)	(30,000)	558	3,196	1,934	93,878	8,534	(15,059)	–	(497,763)	–	(434,727)
Total Budgetary Resources	$ 17,948	$1,764,218	$ 30,000	$ 39,081	$ 3,108,117	$1,686,184	$10,722,367	$ 143,256	$ 152,702	$2,444,502	$3,619,599	$1,229,051	$ 24,957,025
Status of Budgetary Resources:													
Obligations Incurred:													
Direct	$ 17,940	$1,270,292	$ 21,465	$ 14,160	$ 2,424,970	$1,278,877	$ 6,767,020	$ 120,593	$ 132,390	$ 59,921	$2,705,143	$ 679,071	$ 15,491,842
Reimbursible	–	51,688	–	–	5,255	192	117,311	–	–	–	8,595	–	183,041
Subtotal	17,940	1,321,980	21,465	14,160	2,430,225	1,279,069	6,884,331	120,593	132,390	59,921	2,713,738	679,071	15,674,883
Unobligated Balance:													–
Apportioned	–	132,505	8,535	22,348	612,910	193,748	3,838,140	20,456	10,782	30,939	783,990	390,060	6,044,413
Subtotal	–	132,505	8,535	22,348	612,910	193,748	3,838,140	20,456	10,782	30,939	783,990	390,060	6,044,413
Unobligated Balance Not Available	8	309,733	–	2,573	64,982	213,367	(104)	2,207	9,530	2,353,642	121,871	159,920	3,237,729
Total, Status of Budgetary Resources	$ 17,948	$1,764,218	$ 30,000	$ 39,081	$ 3,108,117	$1,686,184	$10,722,367	$ 143,256	$ 152,702	$2,444,502	$3,619,599	$1,229,051	$ 24,957,025

(continued on next page)

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

For the period ended September 30, 2010

(In Thousands)

	Recovery Act	Operating	Program							Credit-Financing	Other	Parent Fund	Combined Total
	302	1000	305	1010	1021	1035	1037	1093	1095				
Change in Obligated Balance:													
Obligated Balance, Net													
Unpaid Obligations, Brought Forward, October 1	$ 16,439	$ 395,890	$ –	$ 139,905	$ 3,095,591	$ 770,840	$ 7,809,204	$ 246,211	$ 347,363	$ (639)	$ 853,928	$ 746,724	$ 14,421,456
Less: Uncollected Customer Payments from Federal Sources, Brought Forward, October 1	–	(6,074)	–	(35)	(2,271)	(205)	(1,871)	(38)	(1,006)	35	(15,678)	(536)	(27,679)
Total Unpaid Obligated Balance, Net	16,439	389,816	–	139,870	3,093,320	770,635	7,807,333	246,173	346,357	(604)	838,250	746,188	14,393,777
Obligations Incurred Net (+/-)	17,940	1,321,982	21,463	14,160	2,430,223	1,279,069	6,884,331	120,592	132,394	59,921	2,713,734	679,074	15,674,883
Less: Gross Outlays	(18,516)	(1,033,214)	(7,824)	(131,056)	(1,805,077)	(875,780)	(4,913,925)	(229,903)	(148,099)	(62,033)	(1,647,627)	(624,569)	(11,497,623)
Less: Recoveries of Prior Year Unpaid Obligations, Actual	(9)	(35,433)	–	(17,281)	(93,226)	(66,183)	(174,434)	(27,380)	(91,619)	–	(37,877)	(133,415)	(676,857)
Change in Uncollected Customer Payments from Federal Sources (+/-)	–	(4,311)	–	–	(119)	–	(2,445)	–	–	–	9,507	174	2,806
Obligated Balance, Net, End of Period													
Unpaid Obligations	15,854	649,225	13,640	5,728	3,627,510	1,107,946	9,605,176	109,520	240,039	(2,751)	1,882,158	667,815	17,921,860
Less: Uncollected Customer Payments from Federal Sources	–	(10,385)	(1)	(35)	(2,389)	(205)	(4,316)	(38)	(1,006)	35	(6,171)	(363)	(24,874)
Total, Unpaid Obligated Balance, Net, End of Period	15,854	638,840	13,639	5,693	3,625,121	1,107,741	9,600,860	109,482	239,033	(2,716)	1,875,987	667,452	17,896,986
Net Outlays:													
Gross Outlays	18,517	1,033,212	7,825	131,055	1,805,078	875,781	4,913,925	229,906	148,095	62,033	1,647,628	624,568	11,497,623
Less: Offsetting Receipts	–	(47,379)	–	–	(5,135)	(192)	(114,865)	–	–	(800,209)	(997,687)	(1,701)	(1,967,168)
Less: Distributed Offsetting Receipts	–	–	–	–	–	–	–	–	–	71,742	–	–	71,742
Net Outlays	$ 18,517	$ 985,833	$ 7,825	$ 131,055	$ 1,799,943	$ 875,589	$ 4,799,060	$ 229,906	$ 148,095	$ (666,434)	$ 649,941	$ 622,867	$ 9,602,197

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
1015 Complex Crisis Fund
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

1010 Special Assistance Initiatives
1021 Development Assistance
1027 Transition Initiatives
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

ALLOCATIONS FROM OTHER AGENCIES

1000 Operating Expenses of USAID
1014 Africa Development Assistance
1030 Global HIV/AIDS Initiative-Appropriations Carry Over
1031 Global Health and Child Survival
1096 International Organizations and Programs

Other Accompanying Information

(Above) **A Vietnamese girl with cerebral palsy rides a modified wheelchair out into her community. As part of the Inclusion of Vietnamese with Disabilities project, her school, in Ninh Binh province, receives USAID-sponsored training on how best to cater to the needs of the disabled.**

PHOTO: RICHARD NYBERG / USAID

(Preceding page) **Farmers in Kimahuri, Kenya tend to newly planted trees. USAID provides small stipends to smallholder and subsistence farmers as an incentive to plant trees in an effort to combat global warming.**

PHOTO: TONY KARUMBA / AFP

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 five areas:

- Working in Critical Priority Countries and Disaster 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 challenge. 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

OCT 15 2010

MEMORANDUM FOR THE ADMINISTRATOR

FROM: Donald A. Gambatesa
Inspector General

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

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

The Reports Consolidation Act of 2000 (Public Law 106-531) requires that agency performance and accountability reports include a statement prepared by each agency's Inspector General that summarizes what the Inspector General considers to be the most serious management and performance challenges facing the agency and an assessment of the agency's progress in addressing those challenges. Our statement for inclusion in USAID's fiscal year 2010 Agency Financial Report is attached.

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

Attachment

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

Fiscal Year 2010

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

- Working in Critical Priority Countries and Disaster Areas[1]
- Managing for Results
- Acquisition and Assistance
- Human Capital Management
- Information Technology Management

Working in Critical Priority Countries and Disaster Areas

USAID continues to face enormous challenges in implementing its program and activities in Afghanistan, Pakistan, Iraq, Sudan, and Haiti. Security concerns, weakness in governance, and corruption are persistent problems. Moreover, as USAID seeks to provide more of its assistance directly to host country institutions to help build capacity at the national, provincial, and local levels, potential questions concerning accountability over those funds may arise.

USAID also faces additional challenges in providing emergency assistance to Pakistanis affected by the flooding that began in July 2010 and to Haitians affected by the devastating earthquake of January 2010. Challenges include delivering assistance when travel routes and other infrastructure are nonexistent, destroyed or severely damaged; planning and delivering assistance rapidly; and, providing adequate controls over large sums of cash and commodities given to a large number of beneficiaries.

Afghanistan and Pakistan. The greatest challenge to carrying out development programs in Afghanistan and Pakistan is the high-threat environment 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 areas can be prohibited for long periods of time, and personnel implementing these projects are at risk of being targeted by insurgents.

Monitoring the progress of USAID programs in these countries has become more and more difficult as funding is directed 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. OIG's performance audit work in Afghanistan and Pakistan has reported that security conditions have either hindered

[1] This challenge was renamed from "Working in Conflict Areas"

program accomplishment or had the potential to create implementation problems. OIG audits also identified trends in inadequate contract oversight or activities management.

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; and, the host governments' inability to consistently maintain and sustain completed projects.

An additional challenge for USAID is managing and mitigating the increased risk of the U.S. Government's (USG) strategy of increasingly providing assistance to host country institutions in Afghanistan and Pakistan at national, provincial, and local levels. For example, USAID has entered into agreements to provide the Afghan Ministries of Public Health and Finance $236 million and $60 million, respectively. USAID signed a $174 million cash transfer agreement with the Government of Pakistan that will be used, among other things, to help build the capacity of educational institutions and increase educational opportunities for Pakistanis in vulnerable areas.

While World Bank indicators addressing a variety of governmental policies and institutions, such as public sector management and the quality of public administration, indicate that Pakistan's government institutions are more advanced than those in Afghanistan, this significant increase in USAID assistance funds provided directly to these governments poses a heightened risk in both countries. Moreover, the fact that USAID's programs in Afghanistan and Pakistan are implemented in environments of pervasive corruption makes that risk even greater. In 2009, the Transparency International's "Corruption Perception Index", which measures the perceived level of public sector corruption, ranked Afghanistan 179 and Pakistan 139 out of 180 countries (with 180 being perceived as the most corrupt). In addition, a number of scandals implicating Afghan officials in corruption have recently been publicized.

To mitigate the increased risk of providing assistance directly to host government institutions, USAID is performing pre-award assessments to determine whether those institutions can properly administer the assistance.

The OIG has taken steps to address the above concerns. The OIG recently opened offices in Kabul and Islamabad and plans to audit the above-mentioned agreements with the Governments of Afghanistan and Pakistan in FY 2011. Moreover, in Pakistan, the OIG and has signed a Memorandum of Understanding with the country's Supreme Audit Institution (SAI) that establishes a framework for the SAI conducting financial audits of USAID funds awarded to Government organizations. The OIG has also provided audit training to Pakistan Auditor General staff on several occasions. The Pakistan Auditor General is coordinating with the OIG in planning audits of funds provided to the Pakistan Ministry of Economic Affairs and Statistics, the Ministry of Finance, and the Higher Education Commission.

The OIG has had a number of meetings with Afghanistan's Control and Audit Office, its Supreme Audit Institution. Unlike Pakistan, this organization does not have the capacity to conduct audits of USAID funds provided to Government organizations. At this time, it lacks the skills, resources, and independence from the Executive Branch of the Afghan Government.

Iraq. The precarious security situation in Iraq continues to place severe limitations on USAID/Iraq's ability to implement and monitor its development activities. With President Obama's announcement of the end of combat operations on August 31, 2010, and the drawdown of most U.S. troops, the security of USAID staff will increasingly depend on private security contractors. Bombings and sectarian violence have recently increased. 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. 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.

OIG performance audits in Iraq have reported that security conditions have either hindered program accomplishment or had the potential to create implementation problems. OIG audits have also identified trends in inadequate contract oversight or activities management.

Oversight of USAID programs is also complicated by widespread corruption. In 2009, Transparency International's "Corruption Perception Index" ranked Iraq 176 out of 180 countries. USAID/OIG audits and investigations have identified corrupt schemes that have hindered program accomplishments.

Sudan. USAID's assistance to Sudan is focused on forging a definitive end to conflict, human rights abuses, and genocide in Darfur, and peaceful implementation of the 2005 Comprehensive Peace Agreement (CPA), which brought an end to a civil war between Northern and Southern Sudan that had raged for 22 years. Since the CPA was signed, 2 million displaced people have returned to their communities in southern Sudan. However, a lack of basic infrastructure and institutional capacity impedes economic and social progress in the south. A referendum is scheduled for 2011 in which Southern Sudanese will vote on whether to form an independent country or remain united with Northern Sudan. In addition, more than 2.7 million people have also been driven from their homes in Darfur, where conflict and insecurity persist.

Such conflict and insecurity impacts USAID's efforts to implement its programs throughout Sudan. Approval of the embassy Regional Security Officer is generally required for travel outside the main cities of Khartoum and Juba due to highway banditry and intermittent clashes with the Lord's Resistance Army, an armed group based in Uganda. Extremely high staff turnover and staff shortages at the USAID mission and implementing partner offices, lack of local human capacity, and difficult conditions for transportation and logistics have also hindered implementation and monitoring of USAID projects in Sudan.

USAID's oversight of its programs is also complicated by widespread corruption in the country. Sudan was ranked as one of the most corrupt countries (176 out of 180 – tied with Iraq) in Transparency International's 2009 "Corruption and Perception Index."

In FY 2011, OIG plans to audit USAID's progress in providing humanitarian assistance in Sudan and follow up on a previous audit of road construction from the Southern capital of Juba to Nimule, a city immediately north of the border with Uganda.

Haiti. On January 12, 2010, a magnitude 7.0 earthquake struck southern Haiti. The earthquake caused extensive damage to homes, apartments, roads, and other infrastructure in Port-au-Prince and other areas of the country. As a result of this devastation, millions of individuals required emergency shelter and supplies. Relief agencies estimated that there were nearly 2.1 million Internally Displaced Persons.

USAID is faced with many obstacles in its relief and reconstruction efforts, including (1) planning and implementing activities quickly to deliver basic food, shelter, health care services, (2) delivering assistance when travel routes and other infrastructure are destroyed or severely damaged, and (3) providing adequate controls over large sums of cash and commodities. OIG is working to establish a satellite office in Haiti staffed by two auditors and plans to conduct seven audits in Haiti in FY 2011 to review USAID's relief and reconstruction activities.

USAID has taken steps to address monitoring in critical priority countries and disaster areas. For example, the Agency issued guidance on alternative approaches to monitoring in high threat environments. The Agency stated that it has established monitoring and evaluation contracts in Afghanistan and Iraq to independently verify program implementation. USAID also established the Office of Civilian Response (OCR) to strengthen its capability to deploy sufficient numbers of trained officers in a timely manner to support USG reconstruction and stabilization activities abroad. OCR has 52 active members within USAID who can be deployed. The Agency developed several courses to build knowledge and skills in the civilian response corps to operate in complex environments. The OIG will continue to provide oversight over the Agency programs to determine if the actions taken by the Agency are effective.

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 issues that threaten the interests of the United States and other countries. USAID faces challenges in ensuring that these programs achieve planned results.

Assistance Planning. OIG audits frequently identify weaknesses in planning that can impair the effectiveness of USAID programs. In 21 of the audits OIG conducted in FY 2010 we found:

- Program performance indicators and targets were not established, were not updated, or were not very closely related to USAID activities (17 cases).
- Performance targets in performance management plans, contracts and grants, and annual work plans were inconsistent or not appropriate (6 cases).
- Performance indicators were not adequately defined, or data collection procedures were not uniform among partners (4 cases).

These deficiencies make it difficult for program implementers—USAID, host governments, contractors and grantees—to track progress towards and achieve program objectives and results.

Results Reporting. Results achieved by USAID-financed programs are reported mainly through annual performance reports that are submitted by USAID operating units to the State Department's Office of the Director of U.S. Foreign Assistance. Information is also made available to external stakeholders such as OMB, Congress, and the public.

OIG audits have identified inaccurate or unsupported reported results. In 23 of the audit reports OIG issued in FY 2010, we noted that data reported by USAID operating units or their partners were misstated, not supported, or not validated. To illustrate, one audit report disclosed that USAID implementing partners overstated numbers of beneficiaries assisted from activities in Iraq as follows:

- 262,482 individuals reportedly benefited from medical supplies that were purchased to treat only 100 victims of a specific attack.
- 22 individuals attended a 5-day mental health course, yet 1.5 million were reported as beneficiaries.
- 123,000 were reported as benefitting from water and well activities that did not produce potable water.
- 280,000 were reported as benefitting from $14,246 spent to rehabilitate a morgue.

USAID has taken action to address weaknesses in planning and results reporting, including (1) developing a training workshop "Managing for Results" and training over 200 individuals in planning and performance management as of September 2010, (2) establishing the Bureau for Policy, Planning, and Learning to support the Agency's efforts to manage for results, and (3) enhancing strategic planning at the mission level by requiring country-level plans. OIG audits in FY 2011 will review USAID efforts in this area.

Acquisition and Assistance

USAID faces several challenges as discussed below:

Strategic Procurement Reforms. USAID faces a major challenge in implementing procurement reforms. Current strategies emphasize the importance of using country systems and strengthening local capacity and host country institutions. USAID has formed a Procurement Reform Group to explore ways to make significant changes in how USAID's assistance is designed and delivered to build local capacity. The group will propose reforms to increase competition, broaden its partner base, strengthen host country financial, management and procurement systems, and strengthen local civil society and private sector capacity to improve aid effectiveness and sustainability.

It is crucial that USAID set up appropriate mechanisms to ensure that host country and other local systems provide accountability over U.S. government funds before the funds are provided to host country institutions. OIG will assist USAID in these efforts, as requested, and audit funds provided to host government organizations.

Global Acquisition and Assistance System. To help plan, execute, and manage its worldwide procurement actions, USAID has been implementing the Global Acquisition and Assistance System (GLAAS). The system is intended to improve accountability and modernize and streamline the Agency's acquisition and assistance process.

The on-going multi-year implementation and world wide deployment of GLAAS is a challenge not only because of resource constraints, but also for its scale of deployment to end-users in multiple countries world wide.

As part of the American Recovery and Reinvestment Act of 2009, USAID received $38 million in funding that is being used to supplement the funding of the GLAAS project. USAID is actively working to address management challenges in the following areas:

- Meeting the system deployment plan and schedule.
- Improving earned value management processes.[2]
- Developing a comprehensive disaster recovery plan.

On-going audit work on GLAAS revealed deficiencies in Agency documentation to support earned value and progress reviews. These concerns were shared with the Agency's GLAAS project team.

The OIG is monitoring the risk management processes associated with deploying GLAAS and plans to conduct a post system implementation review of the system once it has been fully deployed in late FY 2011.

[2] Processes to monitor project progress both in terms of schedule and cost.

Performance-Based Contracting. 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) describe the requirements in terms of results rather than the methods of performing the work; (2) use measurable performance standards (i.e., in terms of quality, timeliness, quantity) and quality assurance surveillance plans; and (3) include positive and negative performance incentives where appropriate.

OIG audits over the past four years have reported that USAID has not incorporated all of the FAR requirements for performance-based contracting in all 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.

USAID stated that it has taken or plans to take several actions in response to this challenge, including (1) creating and filling a performance-based contracting position in the Office of Acquisitions and Assistance, (2) developing performance based contracting templates for the procurement of technical assistance, commodities, training, and evaluation services, and (3) establishing review panels at missions and in Washington to oversee compliance with applicable regulations.

USAID also stated that performance-based contracting has been incorporated, in part, into a larger Agency-wide procurement reform initiative. Action items related to greater emphasis on the use of performance-based methodologies will be part of the procurement reform efforts in FY 2011.

Cost Reimbursement Contracts. 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 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 16.301-3 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. Cost-reimbursement contracts places a heavy burden on USAID operating units to provide the monitoring necessary to reasonably ensure that American taxpayer funds are efficiently and effectively used. Moreover, this method is more difficult to use to ensure that the desired outcomes are achieved.

In response to this challenge, USAID has hired 43 Foreign Service Offices to work in the area of acquisition and assistance and established a policy to report to Congress the use of high-risk contracts prior to solicitation, including cost-reimbursement contracts. In addition, USAID plans to (1) establish high risk acquisition performance indicators, (2) issue new policies to ensure that contracting officers sufficiently justify the choice of contracting instrument, and (3) create a permanent contract review board to ensure appropriate instrument selection and pricing arrangements.

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 requirements throughout the world. The demands of working in high-threat areas in Afghanistan, Pakistan, and Iraq have further compounded USAID's human capital challenges.

Since 2003, the Government Accountability Office (GAO) has undertaken several reviews of USAID's human capital management and identified improvements needed in workforce planning. In its most recent report,[3] GAO noted that USAID faced some workforce gaps and vacancies. GAO reported that mission officials cited various factors that contributed to vacancies, such as recruiting difficulties and the need for staff to be posted in higher priority countries, such as Iraq and Afghanistan. According to mission officials, it is not uncommon for positions to remain vacant for a lengthy period. During such periods, mission staff may assume multiple responsibilities and additional workload. Workforce gaps and heavy workload may limit mission staff's ability to travel to the field to monitor and evaluate the implementation of projects.

Furthermore, GAO noted that USAID's 5-year workforce plan for fiscal years 2009 through 2013 discusses the agency's challenges and the steps it has taken and plans to take to strengthen its workforce. However, GAO concluded that the plan lacks several key elements as follows:

- The plan generally does not include a major portion of USAID's workforce—U.S. and foreign national personal services contractors.
- The plan is not comprehensive in its analysis of workforce and competency gaps and the staffing levels that the agency requires to meet its program needs and goals.

[3] "Foreign Assistance: USAID Needs to Improve Its Strategic Planning to Address Current and Future Workforce Needs," Report GAO-10-496 June 30, 2010.

- USAID has not fully met its Foreign Service hiring targets nor developed plans for how it will meet its hiring goals, and it has not planned the required overseas training assignments for all new hires to help ensure that missions have the necessary resources and mentors.

Despite additional improvements that are needed, USAID stated that it has made significant progress in its human capital management. Some actions taken and planned are as follows:

- USAID institutionalized the workforce planning process and continues to refine its workforce planning process and has adjusted the consolidated workforce planning model to add institutional support contractors.

- USAID met its first and second quarter of FY 2010 Development Leadership Initiative hiring targets totaling 53 new hires.

- USAID is developing a Human Resources Information System with reliable data on staffing. USAID's goal is to create an integrated platform that supports world-wide workforce analyses, hiring and deployment, and budget formulation. USAID stated that this will take several years to complete.

- USAID plans to rebuild its internal technical capacity and rebalance the workforce. Specifically, USAID plans to (1) prioritize recruitment of technical staff with a focus on key initiative areas such as global health and food security, as well as science and technology, democracy and governance and entrepreneurship; and (2) prioritize the recruitment and retention of contracting officers.

OIG's FY 2011 plan includes a review of USAID efforts to re-build expertise within its workforce.

Information Technology Management

USAID continues to face challenges in integrating and coordinating the government-wide initiative for implementing Homeland Security Presidential Directive 12[4] (HSPD-12). Additionally, USAID could be facing a significant management challenges should USAID and the Department of State decide to consolidate their information technology infrastructures and services on a world wide basis.

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[4] HSPD-12 required the development and agency implementation of a mandatory, Government wide 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 (e.g., direct hire, Personal Service Contractors, or employees on "loan" from other Federal agencies).

- In regard to the HSPD-12 initiative, the OIG reported[5] that USAID lacked the resources needed to carry out this government-wide initiative. Although USAID has since established vetting processing and enabled domestic physical access capabilities in support of HSPD-12, USAID has yet to implement HSPD-12's capabilities to access USAID information systems. Future challenges in this area include tailoring an implementation plan for USAID/Washington and overseas posts.

- During fiscal year 2010 USAID and the Department of State consolidated their IT personnel and infrastructure in Afghanistan and transitioned USAID personnel to the Department of State's network, OpenNet. Pending the results of a USAID study on the impact of such consolidation, USAID and the Department of State may decide to further integrate their IT infrastructures. Likely future challenges in this area include coordinating information and system security, providing high quality customer service, performing effective backup and contingency planning, integrating personnel systems (including Foreign Service Nationals), and ensuring that USAID applications such as financial and related systems continue to function during any transition.

The OIG intends to monitor the development of these initiatives and may amend its annual plan as resources permit to initiate audit work in any one of these areas.

[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 2010 MANAGEMENT AND PERFORMANCE CHALLENGES	
WORKING IN CRITICAL PRIORITY COUNTRIES AND DISASTER AREAS	
Challenge	**Programmatic Assistance Implementation.** Security concerns, weakness in governance, and corruption are persistent problems as USAID implements its program and activates in Afghanistan, Pakistan, Iraq, Sudan, and Haiti. Additional challenges in providing emergency assistance to Pakistanis and Haitians affected by the flooding and earthquake, respectively, include delivering assistance when travel routes and other infrastructures are nonexistent, destroyed, or severely damaged; planning and delivering assistance rapidly; and providing adequate controls over large sums of cash and commodities given to a large number of beneficiaries.
Actions Taken	**Policy.** In Washington, a Policy Task Team was established to develop Agency policy on counterinsurgency, combating terrorism, and combating violent extremism. USAID hosted the "Development to Counterinsurgency" Evidence Summit in September to explore evidence concerning development programming in high threat environments (HTE). The Agency provided input to the Quadrennial Diplomacy and Development Review (QDDR) Task Force on issues faced in response to complex emergencies. In USAID/Sudan, an Emergency Action Committee was established. A Personal Recovery Plan and standard operating procedures have been developed for security, medical emergency, and communications for five of the state capitals in southern Sudan. USAID has a full-time Task Force (TF) 2010 representative who briefs the Coordinating Director for Development and Economic Affairs (CDDEA), chairs the USAID Working Group for Reform of the Construction Sector (WG RoCS), and is responsible for ensuring close coordination with other U.S. Government entities. Since early 2010, USAID/Afghanistan has focused on improving procurement in the construction sector, one of its largest areas of effort. To this end, USAID's WG RoCS has made a number of recommendations in line with the U.S. Government's Afghan First policy, counter-insurgency strategy, and general anti-corruption efforts. These recommendations include actions to improve the contracting process, build the capacity of smaller Afghan firms to bid on and carry out USAID construction contracts, and improve outreach to both Afghan and American publics in order to promote better understanding of the principles, processes, and objectives of USAID procurement. Another priority area of USAID's contracting reform is improving the flow of information between USAID and other agencies and organizations across the U.S. Government and International Security Assistance Force (ISAF). For example, one of the recommendations of the WG RoCS is that USAID use the Joint Contingency Contracting System (JCCS) already employed by the Department of Defense to vet Afghan firms. By vetting firms through this system, USAID would be able to ensure that the firms have the capabilities needed to execute U.S. Government contracts, as well as verify that these firms do not have connections to terrorist organizations, insurgents, or corrupt actors. The WG RoCS paper also recommended linking the USAID/JCCS database with other U.S. Government databases, such as the Combined Information Data Network Exchange (CIDNE) system used by the U.S. military. **Monitoring and Evaluation (M&E).** A Policy Task Team on Evaluation was formed. Recommendations on the M&E web portal were completed and are being incorporated into design. USAID/Afghanistan and USAID/Pakistan require Contract/Agreement Officer Technical Representatives to conduct site visits to verify the progress of activities. Where security concerns make this difficult, USAID engages third-party monitoring contractors to perform concurrent monitoring to ensure that program objectives are being met and reported results are validated. USAID led an interagency review of the U.S. Government response to the Haiti earthquake. The review captured lessons from the first five months of the response and focused on three broad areas: internal U.S. Government coordination; partner coordination; and response effectiveness. Findings will be used to strengthen future U.S. Government responses to humanitarian crises overseas. USAID/Haiti has allocated $12 million in supplemental resources for activities related to program planning, design, implementation, and M&E. These resources will enable USAID to establish an independent M&E unit within the mission, staffed with specialists who will collect data on program performance, design evaluations, and use data to assess program progress and impact. Rigorous assessments and thorough data collection and analysis will be integrated into the design and management of USAID programs in Haiti.

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WORKING IN CRITICAL PRIORITY COUNTRIES AND DISASTER AREAS *(continued)*

Actions Taken *(continued)*	**Recruitment, Retention, and Training.** Thirty-six active Civilian Response Corps (CRC-A) personnel were hired and 100 standby (CRC-S) personnel are ready to be deployed. USAID continues to review CRC essential tasks and competencies. Recommendations on the redesign of the "Programming in Conflict Environments" training are being incorporated. The "Conflict 102: Analysis and Programming" course trained 50 officers in June and October. **Staff Care.** An Agency Staff Care Coordinator was appointed. Review of available staff care services is ongoing. **Security.** The Agency's Partner Security Liaison Officer (PSLO) positions have been designed and filled in Afghanistan and Pakistan. Recruitment/selection is underway at USAID/Mexico for a PSLO. Designated officer liaisons have been established and are responsible for collecting the information for the Emergency Locator System for inclusion in the database. The Regional Security Office (RSO) in USAID/Sudan has increased from one assistant RSO position to include one senior RSO and two assistant RSO positions. **Planning and Delivering Assistance Rapidly.** Following the January 12 earthquake in Haiti, USAID immediately established the Office of the Response Coordinator to augment the mission's capacity to provide humanitarian aid and ensure effective coordination with the government of Haiti and donors. To ensure an ability to deliver assistance rapidly, USAID's Office of U.S. Foreign Disaster Assistance (OFDA) prepositioned supplies, including hygiene kits, water containers, and blankets for 20,000 families in Haiti. Additional OFDA emergency relief supplies are stored in Miami for immediate delivery and deployment.
Actions Remaining	Establish Agency Coordinating Committee on Reconstruction & Stabilization. Identify and share M&E best practices and tools for the Agency. Implement recommendations of the QDDR and Agency policy documents relevant to HTEs. Communicate best practices and levels of risk with Washington and mission staff. In consultation with the Office of Security, designate posts as HTEs and educate staff. Respond to Agency Staff Care Coordinator recommendations. USAID/Afghanistan maintains that the TF 2010 process may have positive results on its monitoring weakness through sharing information about its contractors with forensic auditors, communicating information about its own anti-corruption efforts in contracting to other members of the TF team, and taking part in meetings with the ISAF, the U.S. Embassy, and other U.S. Government agencies. Both USAID/Afghanistan and USAID/Pakistan look forward to applying TF 2010 findings to its own contracting practices and policies. The Agency expects to benefit greatly from the effort, particularly as it moves to working increasingly with Afghan implementers, such as construction and security contractors, to ensure that USAID resources are not misused. It should also be noted that, prior to the formation of TF 2010, USAID was working to minimize corruption in its contracting in Afghanistan. One of USAID/Haiti's highest priorities is to recruit a sufficient number of staff in order to effectively plan and implement the large-scale reconstruction and development program. USAID/Haiti is in the process of doubling the number of American employees.

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FY 2010 MANAGEMENT AND PERFORMANCE CHALLENGES *(continued)*	
MANAGING FOR RESULTS	
Challenge	**Assistance Planning.** The Office of Inspector General (OIG) identified the following weaknesses in planning that can impair the effectiveness of USAID programs: (1) program performance indicators and targets were not established, updated, or very closely related to USAID activities; (2) performance targets in performance management plans, contracts and grants, and annual work plans were inconsistent or not appropriate; and (3) performance indicators were not adequately defined, or data collection procedures were not uniform amount partners. These deficiencies make it difficult for program implementers—USAID, host governments, contractors, and grantees—to track progress toward and achieve program objectives and results.
Actions Taken	The Agency continued its efforts to build Agency capacity in planning and performance management by delivering four additional Managing for Results (MfR) workshops in FY 2010. Over 200 people have participated in the workshops to date and have improved their MfR skills, including target setting, data quality, and performance management plan development. The Management Bureau's Office of Management Policy, Budget and Performance also piloted a new workshop called the Training of Technical Advisors (TOTA) in MfR. The TOTA workshop targets Agency staff tasked with providing technical assistance to the field and teaches facilitation skills for results framework development and indicator selection. In June 2010, the Administrator established the Bureau for Policy, Planning, and Learning, which will lead USAID's efforts on enhanced monitoring and evaluation processes.
Actions Remaining	Additional training is planned in Washington and regional hubs in FY 2011 to continue staff skill building in planning, performance management (including modules on indicator definition and data quality assessment (DQA)), project design, and evaluation. Training will be emphasized for new Foreign Service Officers under the Development Leadership Initiative. In addition, a primary component of Agency guidance on the new Country Development Cooperation Strategy (CDCS) emphasizes the development of indicators and targets directly measuring Development Objectives. CDCSs are planned for approximately 24 countries and/or regional missions by June 2011. Together, these efforts will effect widespread improvement in the quality of Agency planning, project design and performance management processes, assisting program implementers, USAID, and host countries to consistently track progress toward achievement of program goals and expected results.
Challenge	**Results Reporting.** The OIG noted that data reported by USAID operating units or their partners were misstated, not supported, or not validated. For example, an audit report disclosed that USAID implementing partners overstated numbers of beneficiaries assisted from activities in Iraq.
Actions Taken	USAID's OFDA in Iraq (OFDA/Iraq) has developed step-by-step guidance for counting individual program beneficiaries. The guidance provides checklists and a decision tree to guide implementing partners through the process of tabulating individual beneficiaries while avoiding double-counting. Draft OFDA DQA step-by-step guidance has also been prepared. USAID's Middle East Bureau Iraq Office (ME/Iraq) has also taken steps to improve planning and results reporting, including: (1) hiring a full-time program impact advisor; and (2) developing a mission-based system for integrating and strengthening program design, monitoring, analysis, and evaluation of program impact.
Actions Remaining	OFDA/Iraq will follow up to ensure the guidance on counting beneficiaries has been disseminated and implemented as intended and will document the results. Based on those findings, additional steps may need to be undertaken to address potential overlap or double-counting across implementing partners. OFDA is also planning to test the DQA guidance prior to implementation. ME/Iraq plans to test and implement its mission-based system for integrating and strengthening program design, monitoring, analysis, and evaluation of program impact.

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FY 2009 MANAGEMENT AND PERFORMANCE CHALLENGES *(continued)*	
ACQUISITION AND ASSISTANCE	
Challenge	**Implementing Strategic Procurement Reforms.** Current strategies emphasize the importance of using country systems and strengthening local capacity and host country institutions. It is crucial that USAID set up appropriate mechanisms to ensure that host country and other local systems provide accountability over U.S. Government funds before the funds are provided to host country institutions.
Actions Taken	USAID has formed a Procurement Reform Group to explore ways to make significant changes in how USAID's assistance is designed and delivered to build local capacity.
Actions Remaining	The group will propose reforms to increase competition; broaden its partner base; strengthen host country financial, management, and procurement systems; and strengthen local civil society and private sector capacity to improve aid effectiveness and sustainability.
Challenge	**Deploying a Global Acquisition and Assistance System (GLAAS).** The ongoing multiyear implementation and worldwide deployment of a modern and streamlined acquisition and assistance (A&A) system is a challenge not only because of resource constraints, but also for its scale of deployment to end-users in multiple countries worldwide. USAID is actively working to address management challenges in the following areas: (1) meeting the system deployment plan and schedule, (2) improving earned value management (EVM) processes, and (3) developing a comprehensive disaster recovery plan. Ongoing audit work revealed deficiencies in Agency documentation to support earned values and progress reviews.
Actions Taken	The GLAAS project is currently on schedule and is expected to be completed with deployment to all missions that manage A&A activities by June 2011. There are missions that may require special handling due to events beyond the Agency's control, e.g., Haiti. EVM processes are currently being evaluated to determine where process improvements can be made to ensure accurate reporting. A comprehensive recovery plan has been executed for GLAAS and is currently in effect.
Actions Remaining	No actions remain on the GLAAS disaster recovery plan. The EVM process is being evaluated to determine where adjustments may be required for GLAAS. The GLAAS deployment plan and schedule are managed and adjusted as necessary based on Agency priorities. GLAAS will continuously monitor earned value and the schedule through completion of the project (September 2011).
Challenge	**Using Performance-Based Contracting.** OIG audits have reported that USAID has not incorporated all of the Federal Acquisition Regulation (FAR) requirements for performance-based contracting in all 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	In light of the various initiatives related to procurement reform, efforts needed to be coordinated among crosscutting themes and the resources devoted to end of fiscal year obligations. The time line for implementation of performance-based objectives is in the process of being reviewed and revised. Meetings to discuss coordination, identification, and responsibilities for all the procurement reform initiatives which include, in part, elements of performance-based contracting have been initiated.
Actions Remaining	Action items related to greater emphasis and use of performance-based methodologies will be part of the procurement reform efforts in FY 2011.

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FY 2009 MANAGEMENT AND PERFORMANCE CHALLENGES *(continued)*	
ACQUISITION AND ASSISTANCE *(continued)*	
Challenge	**Monitoring Cost-Reimbursement Contracts.** USAID commonly uses cost-reimbursement contracts which allow for payment of allowable incurred costs. However, these types of contracts place a heavy burden on USAID operating units to provide the monitoring necessary to reasonably ensure that U.S. taxpayer funds are efficiently and effectively spent. Moreover, this method is more difficult to use to ensure that the desired outcomes are achieved.
Actions Taken	In addition to increasing its acquisition workforce and providing additional training, it is now USAID policy to report to Congress the use of high-risk contracts prior to solicitation, including time and material-type indefinite quantity contracts. Cost-reimbursement contracts are considered to be a type of high-risk contract.
Actions Remaining	USAID informed the Office of Management and Budget (OMB) of its intent to manage and monitor the use of high-risk contracting in several ways, including: (1) establishment of high-risk acquisition performance indicators, (2) creation of a "Board of Acquisition and Assistance Reform," (3) issuance of new policies to ensure that Contracting Officers sufficiently justify the choice of contracting instrument, and (4) creation of a permanent contract review board to ensure appropriate instrument selection and pricing arrangements. The indicator established for cost-reimbursement contracts is "percentage of dollars obligated to cost-reimbursement contracts using FY 2008 obligations to reach a target decrease of 10 percent by FY 2011.
HUMAN CAPITAL MANAGEMENT	
Challenge	**Workforce Planning.** USAID needs to continue to rebuild expertise within its workforce.
Actions Taken	USAID continues to refine its workforce planning process. In FY 2010, USAID expanded the model to cover all types of staff and adjusted the Consolidated Workforce Planning Model (CWPM) to add institutional support contractors. USAID now has a comprehensive, automated Competency Management System (CMS), including an electronic Individual Development Plan that will enable individuals to assess their competencies against job requirements and identify gaps that can be matched to training, thus facilitating career development. CMS now covers foreign service and part of civil service. Consistent with the Government Accountability Office (GAO) audit recommendations, USAID is developing a five-year Tactical Plan that will lay out the process for deciding how the Agency will incrementally move from where it is today to where it needs to be in the future. USAID is developing a Human Resources Information System (HRIS) with reliable data on staffing that supports worldwide workforce analyses, hiring and deployment, and budget formulation.
Actions Remaining	USAID will continue all aspects of its strategic and workforce plans, according to strategic direction, including adjusting CWPM to better reflect the new initiatives of this administration. The CMS will be completed for civil service employees in FY 2011 and for foreign service national (FSN) employees in FY 2013. Given technical system requirements, the need for training users, and the resources available, USAID's goal is to have the complete CMS operational by FY 2013. The five-year Tactical Plan will need to be updated on an annual basis given the evolving nature of the work. Roll out of the web tool for the CWPM to the field in the winter of 2011 will ensure mission managers and senior headquarters staff understand and contribute to further refinements of the CWPM and to updates to the Tactical Plan for the phased growth in overseas presence and the deployment of newly-hired staff. The migration of U.S. direct-hire staff to a more modern Shared Service Center is expected to be completed by the end of FY 2013. HRIS will take several years to complete and will be accomplished as part of USAID's efforts to comply with the Office of Personnel Management guidance and regulations on migration to Shared Service Centers. In the interim, USAID has improved the reliability and interoperability of three systems currently used to track workforce data: web-Pass, NFC, and webTA. 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. Although USAID has since established vetting processing and enabled domestic physical access capabilities in support of HSPD-12, USAID has yet to implement HSPD-12's capabilities to access USAID information systems. Future challenges in this area include tailoring an implementation plan for USAID/Washington and overseas posts.
Actions Taken	Funding has been identified which will allow USAID to begin planning and engineering a solution for logical access controls.
Actions Remaining	Full compliance for physical access controls overseas is contingent on Department of State implementation. Toward logical access controls, USAID will use existing funding to begin planning and designing an approach within the overall enterprise architecture (EA) framework being developed and will inform and interface with system planning/architecture efforts as they move forward. This is expected to be a phased project, extending out over multiple fiscal years. At this time, the Agency is funded to begin defining requirements and planning a solution to meet HSPD-12 requirements. Output of this effort will include an overall phased schedule and budget and identifying additional required funding.
Challenge	**Consolidation of USAID and the Department of State's IT infrastructures and Services.** Should USAID and the Department of State decide to integrate their IT infrastructures and services on a worldwide basis, USAID could be facing significant management challenges, including (1) coordinating information and system security, (2) providing high quality customer service, (3) performing effective backup and contingency planning, (4) integrating personnel systems (including FSNs), and (5) ensuring that USAID applications such as financial and related systems continue to function during any transition.
Actions Taken	During FY 2010, USAID and the Department of State consolidated their IT personnel and infrastructure in Afghanistan and transitioned USAID personnel to the Department of State's network, OpenNet.
Actions Remaining	Pending the results of a USAID study on the impact of such consolidation, USAID and the Department of State may decide to further integrate their IT infrastructures.

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 a qualified Federal Managers' Financial Integrity Act (FMFIA) Assurance Statement with one management-identified internal control material weakness and no nonconformances 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: Qualified

Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
USAID Continues to Have Large Unreconciled Differences with the U.S. Treasury and its Fund Balance with Treasury Account	0	1	0	0	0	1
Total Material Weaknesses	**0**	**1**	**0**	**0**	**0**	**1**

(continued on next page)

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

Effectiveness of Internal Control over Operations (FMFIA § 2)

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 requires Federal agencies to review their programs and activities annually, identify programs that may be susceptible to significant improper payments, perform testing of programs considered high risk, and develop and implement corrective action plans for high risk programs. The Office of Management and Budget (OMB) Circular A-123, Appendix C, *Requirements for Effective Measurement and Remediation of Improper Payments, Part I*, provides requirements for identification and reporting. OMB Circular A-136 revised Financial Reporting Requirements, provides the final reporting tables for IPIA, Improper Payment Reduction Outlook and Recovery Auditing Efforts (Results). During July 2010, Congress passed the Improper Payments Elimination and Recovery Act (IPERA) which is designed to cut waste, fraud, and abuse due to improper payments by Federal Government agencies.

USAID is dedicated to reducing fraud, waste, and abuse by adequately reviewing and reporting programs susceptible to improper payments in accordance with IPIA and OMB Circular A-123. 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. 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, Part I 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 percent 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 guidance 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 considered 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, payments that are for the incorrect amount, and any payments that do not account for credits for applicable discounts. 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 process for complying with the IPIA and OMB Circular A-123 Appendix C Part I consists of four steps:

1. Identify all programs and activities;
2. Perform a detailed risk assessment of all programs identified in the first step, for potential indicators of significant improper payments;
3. Perform statistical sample testing of payments of all programs and activities to determine those which are 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 the12-month reporting period July 1, 2009 through June 30, 2010.

IPIA REPORTING DETAILS

I. RISK FACTORS AND RISK ASSESSMENT

In FY 2010, the Office of the CFO implemented its IPIA program review and risk assessment strategy by extracting the Agency's worldwide disbursement data files from its financial system, Phoenix, from July 1, 2009 to June 30, 2010. The Office of the CFO identified programs that are significantly susceptible to improper payments in compliance with the IPIA and OMB Circular A-123, Appendix C, through the results of the risk assessment. The Agency's risk assessment methodology consisted of weighing, scoring, and rating each of USAID's 27 programs based on risk factors, probability, impact of risk, and by assigning a risk 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;
- Degree of maturity or stability;
- FY 2010 budgeted costs for each program; and
- Critical Priority Country (CPC) program payments.

Based on the results of applying the aforementioned risk factors, the Office of the CFO populated a risk matrix with qualitative data and risk conditions for each program. 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 erroneous payments. As a result, no program met the OMB significant erroneous payments threshold defined as annual erroneous payments in the program exceeding both 2.5 percent of program payments and $10 million. However, based on the risk assessment results, the Office of the CFO deemed Good Governance, Health, Education, and Infrastructure as programs susceptible to significant erroneous payments due to the additional aforementioned risk factors and management knowledge. Risk assessment results for each program can be found in Table 2.

II. STATISTICAL SAMPLING

The objective of sampling the four mentioned programs for the period July 1, 2009 through June 30, 2010 was to select:

- A statistically random sample of sufficient size to yield an estimate with a 90 percent confidence interval of plus or minus 2.5 percentage points around the estimate of the percentage of erroneous payments;
- A sample from all the items that compose the population so that each item has an opportunity for selection; and
- 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

Table 1. ANALYSIS OF SAMPLES BY PROGRAM AREA
($ in Millions)

Code	Description	Samples Selected	Total Accounting Lines	Total Dollar Amount
A08	Good Governance	517	19,191	$ 869
A11	Health	690	92,723	4,836
A12	Education	436	22,185	776
A17	Infrastructure	253	10,017	601
	Totals	**1,896**[(a)]	**144,116**	**$ 7,082**

(a) In summary, the Agency tested 1,848 samples above the required minimum total of 48 to meet the precision requirements specified in Part I of OMB Circular A-123 Appendix C.

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 formula provided in Part I of OMB Circular A-123 Appendix C. Results produced a minimum of 12 samples (or 12 accounting lines) for each program or a minimum total of 48 samples (or 48 accounting lines), which meets the precision requirements specified in Part I of OMB Circular A-123 Appendix C.

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

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 can be found in Table 1.

III. CORRECTIVE ACTION PLAN

USAID has rated seven of its 27 programs as moderately (medium) susceptible to improper payments due to the high-dollar value of these programs. The seven identified programs are (1) Protection, Assistance, and Solutions; (2) Good Governance; (3) Environment; (4) Trade and Investment; (5) Agriculture; (6) Infrastructure; and (7) 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 IPIA, Part I of OMB Circular A-123 Appendix C, and Agency policies and governing agreements. These efforts ensure that the error rate for these programs continues to be less than OMB's significant erroneous payments error rate of 2.5 percent. The Agency has revamped its internal controls by developing strict guidelines and procedures 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 the program's 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 programs are often high profile with large-dollar values and are located in high threat environments where travel to project 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, including internal and external clients, and USAID missions and bureaus, as a tool to monitor their programs 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 identification, sampling, testing, and implementation of the necessary internal controls. In addition, ongoing training is provided to staff for meeting the President's goal of eliminating improper payments. Additionally, work objectives related to eliminating improper payments have been incorporated in relevant Cash Management and Payment (CMP) Division staff 2010 work plans to ensure compliance with IPIA and Part I of A-123 Appendix C.

Interest Payments

In FY 2010, program payments included approximately $40,000 in late payment interest. In comparison with FY 2009, 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 the improper payment under the Agency's programs and activities. For the FY 2010 IPIA reporting period, the Agency reported total returned payments of $36 million. To reduce the number of Treasury returned payments, the Agency requires 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 2010 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 programs and programs with material cash outlays 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 accrual accounting concepts and generally accepted accounting principles (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 have been identified, 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 2010 reporting period. Table 3 reflects improper payment reduction outlooks for FY 2009 through FY 2013.

Table 2. TOTAL RISK ASSESSED, ACCOUNTING LINES, AND DISBURSEMENTS FOR FY 2010

Program Areas	Risk Assessed	Accounting Lines	Disbursements (*$ in Millions*)
A01 – Counterterrorism	Low	791	$ 15
A02 – Combating Weapons of Mass Destruction (WMD)	Low	99	39
A03 – Stabilization Operations and Security Sector Reform	Low	1,955	49
A04 – Counternarcotics	Low	4,246	419
A05 – Transnational Crime	Low	3,967	14
A06 – Conflict Mitigation and Reconciliation	Low	13,055	310
A07 – Rule of Law and Human Rights	Low	9,852	169
A08 – Good Governance	Medium	19,191	869
A09 – Political Competition and Consensus Building	Low	13,300	376
A10 – Civil Society	Low	17,252	282
A11 – Health	High	92,723	4,836
A12 – Education	High	22,185	776
A13 – Social and Economic Services and Protection for Vulnerable Populations	Low	5,525	718
A14 – Macroeconomic Foundation for Growth	Low	5,482	381
A15 – Trade and Investment	Medium	11,440	132
A16 – Financial Sector	Low	6,033	468
A17 – Infrastructure	Medium	10,017	601
A18 – Agriculture	Medium	17,916	464
A19 – Private Sector Competitiveness	Low	13,455	299
A20 – Economic Opportunity	Low	7,277	206
A21 – Environment	Medium	15,741	251
A22 – Protection, Assistance, and Solutions	Medium	20,478	2,213
A23 – Disaster Readiness	Low	3,327	75
A24 – Migration Management	Low	35	17
A25 – Crosscutting Management and Staffing	Medium	84,609	197
A26 – Program Design and Learning	Low	2,019	19
A27 – Administration and Oversight	Low	54,029	135
Totals		**455,999**	**$ 14,330**

Table 3. IMPROPER PAYMENT (IP) REDUCTION OUTLOOK

(In Millions)

	Prior Year (2009)		
Program	**PY Outlays**	**PY IP %**	**PY IP $**
Programs	$ 13,467	0.28%[a]	$ 38

	Current Year (2010)		
Program Areas	**CY Outlays**	**CY IP %[b]**	**CY IP $[b]**
A01 – Counterterrorism	$ 15	0.0000%	$ 0.00
A02 – Combating Weapons of Mass Destruction (WMD)	39	0.0000%	0.00
A03 – Stabilization Operations and Security Sector Reform	49	0.0000%	0.00
A04 – Counternarcotics	419	0.0095%	0.04
A05 – Transnational Crime	14	0.0000%	0.00
A06 – Conflict Mitigation and Reconciliation	310	0.3548%	1.10
A07 – Rule of Law and Human Rights	169	0.4320%	0.73
A08 – Good Governance	869	0.1841%	1.60
A09 – Political Competition and Consensus Building	376	0.0160%	0.06
A10 – Civil Society	282	0.0709%	0.20
A11 – Health	4,836	0.1241%	6.00
A12 – Education	776	0.1933%	1.50
A13 – Social and Economic Services and Protection for Vulnerable Populations	718	0.0042%	0.03
A14 – Macroeconomic Foundation for Growth	381	0.0971%	0.37
A15 – Trade and Investment	132	0.0758%	0.10
A16 – Financial Sector	468	0.8419%	3.94
A17 – Infrastructure	601	0.0882%	0.53
A18 – Agriculture	464	0.2306%	1.07
A19 – Private Sector Competitiveness	299	0.0602%	0.18
A20 – Economic Opportunity	206	2.2573%	4.65
A21 – Environment	251	0.0319%	0.08
A22 – Protection, Assistance, and Solutions	2,213	0.3854%	8.53
A23 – Disaster Readiness	75	0.0933%	0.07
A24 – Migration Management	17	0.0000%	0.00
A25 – Crosscutting Management and Staffing	197	0.4670%	0.92
A26 – Program Design and Learning	19	0.8947%	0.17
A27 – Administration and Oversight	135	0.0963%	0.13
Fiscal Year Total	**$ 14,330**	**0.2233%[a]**	**$ 32.00**

	2011			2012			2013		
Program	**(CY+1) Outlays[c]**	**(CY+1) IP %[c]**	**(CY+1) IP $**	**(CY+2) Outlays**	**(CY+2) IP %**	**(CY+2) IP $**	**(CY+3) Outlays**	**(CY+3) IP %**	**(CY+3) IP $**
Programs	$ 15,047	0.16%	$ 24	$ 15,799	0.10%	$ 16	$ 16,589	0.04%	$ 7

(a) The improper payment rates of 0.28 percent and 0.22 percent for all programs for FY 2009 and FY 2010, respectively, were calculated by dividing total improper payments by total outlays for each fiscal year.

(b) The improper payment error rate for each program for FY 2010 was calculated by dividing the improper payment amount by the outlays.

(c) An improper payment rate reduction of 0.06 percent is estimated for FY 2011, FY 2012, and FY 2013. A growth rate of five percent is estimated for FY 2011, FY 2012, and FY 2013 outlays. The estimates are based on historical data.

Source of Data:

- Total Disbursements from July 1, 2009 through June 30, 2010 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 new contracts exceeding $2 billion during FY 2010. Contract payments represented approximately 30 percent of Agency-wide payments for the Recovery Auditing FY 2010 reporting period (July 1, 2009 through June 30, 2010). 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 implemented 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 and Office of the CFO staff, 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 Office of the CFO personnel. 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.

Office of the CFO personnel traveled to 10 field missions across four regional bureaus and performed tests of contracts and contract payments. The Office of the CFO staff also performed substantial testing at the Washington headquarters. In addition, the Office of the CFO 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:

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 PYs	Amounts Recovered PYs	Cumulative Amounts Identified for Recovery (CY+PYs)	Cumulative Amounts Recovered (CY+PYs)
Office of Chief Financial Officer	$ 4,267	$ 416	$ 32	$ 32	$100	$100	$132	$132
Office of Inspector General	$24,955	$24,955	$186	$186	$ 67	$ 67	$253	$253

- 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 contractors 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*, incorporated a review of prepayment and payment controls under the accounts payable business process. These review efforts were leveraged in the overall review of improper payments under IPIA and Recovery Auditing. 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 union 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 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, 2009 through June 30, 2010, by accounting line.
- The actual amount reviewed and reported represents the total dollar value of disbursements by accounting line selected for internal and independent testing.

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 non-profit 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 non-profit 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 accounting firms which are reviewed by the respective USAID Regional Inspector General (RIG) overseas. All USAID commercial vendor contracts with incurred-cost submissions are subject to an annual Defense Contract Audit Agency (DCAA) audit. The Agency's procurement office also reviews the OIG recommendations for ongoing audits to ensure payments to recipients are accurate and proper. The OIG tracks audit review activities in the Consolidated Audit Compliance System (CACS) while the Office of the CFO reviews and calculates the improper payment rate for these programs. In FY 2010, the cumulative audited amount recorded in CACS totaled $25 billion of which $186 million was identified as excess billing and was fully recovered during FY 2010.

In the event that amounts identified for recovery are not fully recovered, 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.

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, payments of allowance to personal service contractors after the discontinuance of 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 ($40,000) 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; and

6. Periodic reviews of processed payments.

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 missions. The vendor information is downloaded from CCR into the Agency's financial system, Phoenix, through an interface module thereby keeping the vendor information in the Agency's financial system current. The Agency has also 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 process and the implementation of the OMB Circular A-123, *Management's Responsibility for Internal Control* revised Appendix A requirements continue to ensure that the Agency's internal control over financial reporting and systems are well documented, sufficiently tested, and properly assessed. In turn, improved internal controls enhance safeguards against improper payments, fraud, and waste and better ensure that the Agency's resources continue to be used effectively and efficiently to meet the intended program objectives. 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 internal operations within USAID that may be vulnerable to risk. The A-123 team will continue to monitor internal controls throughout FY 2011 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 of 1982 (FMFIA), the Federal Financial Management Improvement Act of 1996 (FFMIA), and the IPIA;

  2. Enhance the Agency's internal financial controls; and

  3. Resolve financial management issues in a more efficient and timely manner.

- With contractor support, the Office of the CFO has developed 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 contains 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 Circular A-123 Appendix C and the Government Accountability Office (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 programs;
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.

- The Office of the CFO 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 FY 2010 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 of interest payments;
  - Degree of maturity or stability;
  - FY 2010 budgeted costs for each program; and
  - CPC program payments.

Each of USAID's 27 programs 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 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 Annual Financial Report (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. In April 2007, OMB upgraded USAID to "green" for "current status" on the Improved Financial Performance section of the President's Management Agenda (PMA).

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 started 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

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 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.

Documentum/Agency Secure Image and Storage Tracking System (ASIST)

In 2010, USAID implemented Documentum/ASIST which is the Agency's standard application for electronic document management. The transition to ASIST was an ideal time to develop an effective risk management and internal control system for implementing an efficient paperless payment environment. This system is capable of providing global access to stored documents using the Agency's web-based information network. The final phase of the workflow process was implemented in September 2010. The system streamlines the voucher payment process and helps mitigate the risk of improper payments.

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
  - 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;
  - The contract team provided the Agency sample transactions based on their independent review and analysis of the program 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 2011 PLANNED ACTIVITIES

During FY 2011, USAID will take the following actions to minimize the risk of improper payments:

- Continue using independent contractor assistance to perform risk assessments of appropriate programs and classes of contracts and review samples transactions/accounting lines for identifying improper payments, including overpayments to contractors;
- Perform quarterly IPIA and Recovery Auditing test of transactions; the contractors have developed instructional guidelines and workbooks with test steps for mission personnel;
- Continue using contractors to perform on-site IPIA testing of transactions for improper payments at selected overseas field missions annually;
- Develop guidelines for performing monthly reviews of returned and cancelled 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) **Ethnic Uzbek refugees cross the Kyrgyz-Uzbek border on their way back to Kyrgyzstan near the village of Vlksm, 20 kilometers outside Osh on June 18, 2010, days after violent ethnic clashes drove many from their homes. USAID humanitarian programs continue to work to address critical gaps in assistance, such as insufficient hygiene and sanitation facilities for conflict-affected families.**

PHOTO: VIKTOR DRACHEV / AFP

(Preceding page)Palestinian girls learn at a summer camp. USAID works with the Palestinian Ministry of Education to increase retention rates and develop the capacity of local management and planning.

PHOTO: NIDAL HASSAN / 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 2009 Performance Reports 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 2009 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. Please note that the FY 2009 target was established based on the above-identified operating units. However, the FY 2009 results and rating are based on the inclusion of the following operating units that also reported on this indicator: The Democratic Republic of Congo, Iraq, and Timor-Leste.

6. Data Source: FY 2009 Performance Reports from Albania, Angola, Armenia, Azerbaijan, Bolivia, Bosnia and Herzegovina, Cambodia, 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. Please note that the FY 2009 target was established based on the above-identified operating units. However, the FY 2009 Results and Rating are based on the inclusion of the following operating units that now also report on this indicator: Libya and Montenegro.

7. Data Source: FY 2009 Performance Reports from Afghanistan, Angola, Bolivia, Bosnia and Herzegovina, Cambodia, Colombia, Democratic Republic of 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 2009 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. Please note that the FY 2009 target was established based on the above-identified operating units. However, the FY 2009 Results and Ratings are based on the inclusion of the following operating units that now also report on this indicator: Haiti, Honduras, Iraq, Lebanon, Malawi, and Namibia.

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 the 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 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 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 Congo, Ethiopia, Ghana, Guatemala, Haiti, India, Indonesia, Kenya, Liberia, Madagascar, 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 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 comes 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: FY 2008 Performance Reports from Armenia, Bangladesh, Belarus, Bolivia, Burkina Faso, Colombia, Democratic Republic of Congo, Ghana, Haiti, Honduras, Liberia, Madagascar, Malawi, Russia, Rwanda, West Bank and Gaza, and Africa Regional (USAID), 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 FY 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 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 (CO2) 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 CO2 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 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.

58. Targets will be determined based on a set of nutrition priority countries within the Global Hunger and Food Security Initiative and will be available in March 2010.

59. Data Source: Demographic Health Surveys, RHS, and Census Bureau (for population weights) for nutrition priority countries based on the following list of Global Health Initiative and Global Hunger and Food Security Initiative priority countries: Bangladesh, Cambodia, Ethiopia, Ghana, Guatemala (RHS), Haiti, India (Uttar Pradesh), Kenya, Liberia, Malawi (Multiple Indicator Cluster Survey), Mali, Mozambique, Nepal, Niger (Nutrition Survey 2008), Nigeria, Rwanda, Senegal, Tanzania, Uganda, and Zambia. All calculations are based on comparisons to the new WHO growth standard.

60. Data Source: Demographic Health Surveys, Micronutrient Initiative, and Census Bureau (for population weights) for nutrition priority countries based on the following list of Global Health Initiative and Global Hunger and Food Security Initiative priority countries: Bangladesh, Cambodia, Ethiopia, Ghana, Guatemala, Haiti, India, Kenya, Liberia, Malawi, Mali, Mozambique, Nepal, Niger, Nigeria, Rwanda, Senegal, Tanzania, Uganda, and Zambia. Data for Bangladesh, Kenya, and Nigeria are from the Micronutrient Initiative. Data are not available for Guatemala, Liberia, Mozambique, and Zambia.

61. Data Source: OFDA proposal tracking systems (abacus) and field monitoring reports as available.

62. 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 (TAG). Starting in FY 2010, OFDA will be undertaking improved field/program monitoring that will include ongoing DQAs.

63. Note that projects funded through a transfer to USAID missions, UN agencies, or organizations (for which there is no tracking of whether or not the project includes project mainstreaming) have been omitted from the denominator since they are not represented in the numerator.

APPENDIX B. ABBREVIATIONS AND ACRONYMS

A&A	Acquisition and Assistance
ACCORD	African Centre for the Constructive Resolution Disputes
ADP	Automated Data Processing
ADS	Automated Directives System
AFR	Africa Bureau
AFR	Agency Financial Report
AFRICOM	U.S. Africa Command
AICPA	American Institute of Certified Public Accountants
AIM	Analysis, Information Management and Communication
AMP	Asset Management Plan
APC	Audit, Performance and Compliance
APR	Annual Performance Report
ARRA	American Recovery and Reinvestment Act
ASIA	Asia Bureau
ASKA	AMARTA Sulawesi Kakao Alliance
AVIPA	Afghanistan Vouchers for Production in Agriculture
BRM	Bureau and Resource Management
CACS	Consolidated Audit Compliance System
CAM	Contract Audit Management
CAPRISA	Center for the AIDS Program of Research in South Africa
CART	Cash Reconciliation Tool
CBCA	Civilian Board of Contract Appeals
CBJ	Congressional Budget Justification
CCC	Commodity Credit Corporation
CCR	Central Contractor Registration
CDC	Centers for Disease Control
CDCS	Country Development Cooperation Strategy
CDDEA	Coordinating Director for Development and Economic Affairs
CE-DAT	Complex Emergencies Database
CFO	Chief Financial Officer
CIDNE	Combined Information Data Network Exchange
CIF	Capital Investment Fund
CIGIE	Council of Inspector Generals on Integrity and Efficiency
CMP	Cash Management and Payment Division
CMS	Competency Management System
CO2	Carbon Dioxide
COTR	Contracting Officer Technical Representative
CPA	Certified Public Accountant
CPA	Comprehensive Peace Agreement
CPC	Critical Priority Country
CRA	Credit Reform Act
CRC-A	Civilian Response Corps (Active)
CRC-S	Civilian Response Corps (Standby)

CWPM	Consolidated Workforce Planning Model
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
DOL	Department of Labor
DQA	Data Quality Assessments
DRC	Democratic Republic of Congo
E&E	Europe and Eurasia Bureau
EA	Enterprise Architecture
EGAT	Economic Growth, Agriculture, and Trade Bureau
ES	Executive Secretariat
ES	Executive Secretariat
ESF	Economic Support Fund
EVM	Earned Value Management
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
FIDA	Ethiopian Fayyaa Integrated Development Association
FMFIA	Federal Manager's Financial Integrity Act
FPDS-NG	Federal Procurement Data System – Next Generation
FSN	Foreign Service National
FSN	Foreign Service National
FSO	Foreign Service Officer
FY	Fiscal Year
GAAP	Generally Accepted Accounting Principles
GAM	Global Acute Malnutrition
GAO	Government Accountability Office
GBV	Gender-Based Violence
GC	General Counsel
GCC	Global Climate Change
GDP	Gross Domestic Product
GH	Global Health Bureau
GHFSI	Global Hunger and Food Security Initiative
GHI	Global Hunger Initiative
GLAAS	Global Acquisition and Assistance System
GMRA	Government Management Reform Act
GSA	General Services Administration,
HHS	Department of Health and Human Services
HIV/AIDS	Human Immune Deficiency Virus/Acquired Immune Deficiency Syndrome
HPPG	High Priority Performance Goals
HR	Human Resources
HR-LOB	HR-Line of Business
HRIS	Human Resources Information System
HSPD	Homeland Security Presidential Directive
HTE	High Threat Environment

ICASS	International Cooperative Administrative Support Services
IG	Inspector General
IHEC	Independent High Electoral Commission
IPAC	Intragovernmental Payment and Collection
IPERA	Improper Payments Elimination and Reporting Act
IPIA	Improper Payments Information Act
ISAF	International Security Assistance Force
IT	Information Technology
JCCS	Joint Contingency Contracting System
LAC	Latin America and the Caribbean Bureau
LEDS	Low-Emission Development Strategies
LER	Learning, Evaluation and Research
LPA	Legislative and Public Affairs
M	Management Bureau
M&E	Monitoring and Evaluation
MACS	Mission Accounting and Control system
MCC	Millennium Challenge Corporation
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
MDG	Millennium Development Goal
ME	Middle East Bureau
MFI	Micro Finance Institutions
MfR	Managing for Results
MICS	Multiple Indicator Cluster Survey
MOV	Maintenance of Value
MSED	Micro and Small Enterprise Development
N.I.S.	Newly Independent States
NEPA	National Environmental Policy Act
NFC	National Finance Center
NGO	Non-Governmental Organization
NGOSI	Non-Government Organizations Sustainability Index
NICS	Nutrition Information in Crisis situations
NMS	New Management System
OAA	Office of Acquisition and Assistance
OAPA	Office of Afghanistan and Pakistan Affairs
OBO	Overseas Building Operations Bureau
OCR	Office of Civilian Response
OCRD	Office of Civil Rights and Diversity
ODP	Office of Development Partners
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
PAR	Performance and Accountability Report
PMA	President's Management Agenda
PMI	President's Malaria Initiative
PP&E	Property, Plant and Equipment
PPL	Planning, Policy and Learning

PSC	Personal Services Contractor
PSLO	Partner Security Liaison Officer
PY	Prior Year
QDDR	Quadrennial Diplomacy and Development Review
RCA	Recipient-Contracted Audit
RHS	Demographic and Reproductive Health Survey
RIG	Regional Inspector General
RSO	Regional Security Officer
S&T	Science & Technology
SAI	Supreme Audit Institutions
SBR	Statement of Budgetary Resources
SEC	Office of Security
SEED	Support for East European Democracy
SF	Standard Form
SFFAS	Statement of Federal Finanacial Accounting Standard
SMART	Standardized Monitoring and Assessment of Relief and Transition
TAG	Technical Advisory Group
TBD	Tuberculosis Case Detection Rate
TBS	Tuberculosis Treatment Success Rate
TF	Task Force
TIC	Trusted Internet Connection
TOTA	Training of Technical Advisors
U.S.	United States
U.S.C.	United States Code
UE	Urban and Environmental
UIS	UNESCO Institute for Statistics
UN	United Nations
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
USAFRICOM	U.S. Africa Command
USAID	U.S. Agency for International Development
USDA	U.S. Department of Agriculture
USDH	U.S. Direct Hire
USDO	U.S. Disbursing Office
USG	U.S. Government
USPSC	U.S. Personal Services Contractor
USSGL	U.S. Standard General Ledger
WFS	Washington Financial Services
WG RoCS	Working Group for Reform of the Construction Sector
WHO	World Health Organization
WMD	Weapons of Mass Destruction

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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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