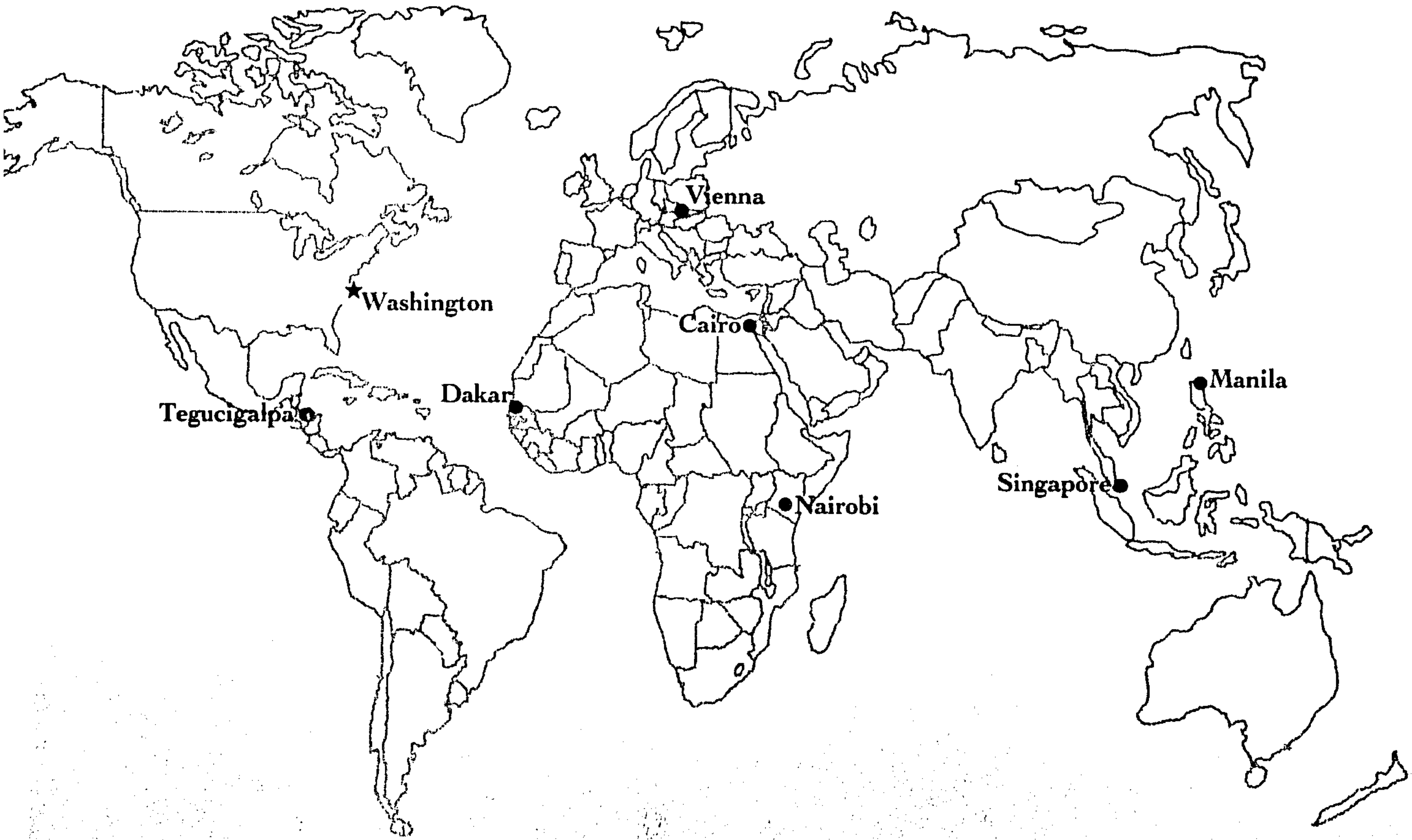
Financial Audits

AUDIT OF THE PRIVATE SECTOR INVESTMENT PROGRAM'S FISCAL YEAR 1991 ANNUAL FINANCIAL STATEMENT UNDER THE CFOs ACT OF 1990

Report No. 0-000-92-002
July 31, 1992



INSPECTOR GENERAL

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

Agency for International Development
Washington, D.C. 20523

July 31, 1992

Assistant Inspector General
for Audit

MEMORANDUM FOR AA/FA, Richard A. Ames
AA/PRE, Ralph S. Blackman

FROM: AIG/A, John P. Competello

SUBJECT: Audit Report on A.I.D.'s Private Sector Investment Programs for Fiscal Year 1991

The Office of the Inspector General in conjunction with the Certified Public Accounting firm of Price Waterhouse has completed the audit of A.I.D.'s Private Sector Investment Programs for Fiscal Year 1991. This report is being transmitted to you for your action.

In preparing the report we reviewed your comments on a previously submitted draft report. A summation of your comments has been included in the Executive Summary and after the appropriate audit objectives. Your comments are presented in their entirety in Appendix VII.

Your comments stated that you were in general agreement with the 11 recommendations in the report and that you intended to include a plan to address and resolve the issues in the Chief Financial Officer's five-year plan to be submitted to OMB by the end of August. However, as of July 31, 1992 the 11 recommendations are open and unresolved. In addition to submitting your plan to OMB, please respond to my office within 30 days, indicating actions taken to implement the recommendations.

We appreciate the cooperation and courtesies extended to my staff and Price Waterhouse during the audit.

AUDIT OF THE PRIVATE SECTOR INVESTMENT PROGRAM'S FISCAL YEAR 1991 ANNUAL FINANCIAL STATEMENT UNDER THE CFOs ACT OF 1990

Audit Report No. 0-000-92-002
July 31, 1992

EXECUTIVE SUMMARY

Background

The Agency for International Development's (A.I.D.) Office of Investment, in the Bureau for Private Enterprise administers the Private Sector Investment Program (PSIP). The purpose of the Program is to promote private sector activity in developing countries, primarily through increasing credit to small scale businesses and cooperatives.

The PSIP financial statements include the costs of the Private Sector Revolving Fund as well as costs incurred by other A.I.D. components that are related to the PSIP's objectives.

The PSIP uses principally loan guaranties to meet its objectives, however direct loans are utilized where a guaranty alone would not mobilize credit. As of September 30, 1991 the Program had $89 million of committed loan guaranties and $13.8 million (net of bad debt allowance) of direct loans outstanding.

The PSIP also operates a bank training program which supplements the loan guaranties. The bank training program provides training to intermediary financial institutions in handling small business loans and provides training to small businesses on improving their knowledge of financial management techniques.

Pursuant to the provisions of the Chief Financial Officer's (CFOs) Act of 1990, the PSIP is required to prepare an Annual Financial Statement, which includes the presentation of certain program and financial performance information, beginning in fiscal year 1991. The Office of the Inspector General is required to audit these Annual Financial Statements. To fulfill our responsibility, we contracted with the independent certified public accounting firm of Price Waterhouse to perform, under our general oversight, the financial audit for FY 1991. In addition, we performed certain audit procedures concerning the presentation of management performance information required by the Office of Management and Budget. (See page 1.) This report presents the results of the audit.

Audit Objectives

We contracted with the certified public accounting firm of Price Waterhouse to audit, under our general oversight, the fiscal year 1991 financial statements of the Private Sector Investment Program in accordance with generally accepted auditing standards, Government Auditing Standards, and Office of Management and Budget (OMB) Bulletin 91-14, "Audit Requirements for Federal Financial Statements".

The audit objectives were to determine whether: the financial statements of the PSIP presented fairly the financial position, results of operations, reconciliation to budget and cash flows (see page 5); the internal control structure was adequate (see page 5); and A.I.D.'s PSIP management had complied with laws and regulations for those transactions and events that may have a material effect on the financial statements (see page 10).

Additionally, the Office of the Inspector General for Financial Audits performed certain audit procedures to answer these questions:

-- Did the Private Sector Investment Program's fiscal year 1991 Annual Financial Statement comply with program performance reporting guidance contained in OMB Bulletin No. 91-15, "Guidance on Form and Content on FY 1991 Activity", and OMB's February 5, 1992 guidance, "Financial Statements and Performance Measures"? (See page 11.)

-- Did the Private Sector Investment Program's fiscal year 1991 Annual Financial Statement comply with financial performance reporting guidance contained in OMB Bulletin No. 91-15, "Guidance on Form and Content on FY 1991 Activity", and OMB's February 5, 1992 guidance, "Financial Statements and Performance Measures"? (See page 17.)

The audit field work was conducted from March 1992 through July 1992. Appendix I contains a complete discussion of the scope and methodology for this audit.

Summary of Audit

Price Waterhouse was unable to, and did not express an opinion on the financial statements, and we concur. The accounting records maintained by the PSIP were inadequate and could not account for complete Program costs. The PSIP did not have an adequate internal control structure. The audit disclosed five internal control reportable conditions that were also classified as material weaknesses. The audit disclosed two instances of material noncompliance with laws and regulations pertaining to the Debt Collection Act of 1982 and the Federal Managers' Financial Integrity Act of 1982. The PSIP's Annual Financial Statement did not fully comply with OMB program and financial performance reporting guidance. (See Audit Findings section below.)

The audit disclosed several notable issues:

- The accounting system did not accumulate the total cost of operating the PSIP. The costs which were not accumulated in the accounting system included intra-agency overhead allocations and Development Assistance Funds disbursed by other A.I.D. components on behalf of the PSIP. However, Price Waterhouse was unable to determine if the costs identified as not being accumulated were all inclusive. (See page 6.)

- Monitoring of program participants was insufficient; this affected participant compliance with contractual agreements as well as the attainment of project objectives by management. (See page 7.)

- The lack of adequate policies and procedures was prevalent in many areas, as evidenced by the internal control weaknesses (see pages 5 through 9). The CFOs Act of 1990 envisions the enhancement of financial management systems and controls, and improving financial reporting practices and the reliability of generated financial information. In light of the challenges presented by the CFOs legislation, it is imperative that management maintain an accounting and financial management system that provides timely, accurate and relevant information. Toward this end, Financial Management/Loan Management and PSIP management must make the elimination of material internal control weaknesses a priority. This may very well require deployment of additional staff to focus on the problem areas and meet the demands of the CFOs Act. We also believe that the Agency should include the PSIP as a material weakness in the 1992 Federal Managers' Financial Integrity Act (FMFIA) report. (See page 8.)

Audit Findings

Disclaimer of Opinion

Price Waterhouse was unable to, and did not express an opinion on the financial statements, and we concur. The accounting records and systems maintained by the PSIP were inadequate and unable to account for the Program's operations. This resulted in insufficient evidence to support accounting transactions. In particular, all program overhead and direct costs have not been accumulated and reported in the financial records since the inception of the program. Price Waterhouse was unable to apply alternative auditing procedures to satisfy themselves regarding the transactions affecting the accounts, and automated systems were inadequate to facilitate audit testing. (See page 5.)

Internal Controls

The PSIP did not have an adequate internal control structure. The audit disclosed five reportable conditions that were also classified as material weaknesses. As defined by generally accepted auditing standards, a material weakness is a reportable condition in which the design or operation of specific elements of the internal control structure did not reduce to a relatively low level, the risk that errors or irregularities, in amounts that would be material to the financial statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. The material weaknesses pertained to the following: (1) the accounting records and financial statements did not reflect the total costs of operating the PSIP, (2) Financial/Loan Management did not maintain a general ledger over the PSIP operations, (3) program and financial policies and procedures were not adequately formalized and documented, (4) monitoring of program participants was insufficient, and (5) financial controls over claims processed against A.I.D. for loan-backed guaranty projects were inadequate. In addition, the Agency did not include the PSIP as a material weakness in its Federal Managers Financial Integrity Act report. (See pages 5 through 9.)

Compliance with Laws and Regulations

The audit disclosed two instances of material noncompliance with laws and regulations pertaining to the Debt Collection Act of 1982 with respect to the billing and collection of accounts receivable, and the Federal Managers' Financial Integrity

Act of 1982 with respect to the establishment of internal controls and reporting of material internal control weaknesses . (See page 10.)

OMB Financial and Program Performance Reporting Guidance

The PSIP's Annual Financial Statement did not fully comply with OMB's program and financial performance reporting guidance. Specifically, the review disclosed that (1) the PSIP Annual Financial Statement did not present the extent to which the program achieved its goals and objectives, (2) the program performance information that was provided in the 1991 statement was not adequately supported or always accurate, and (3) the Overview did not present any financial performance information. Fiscal year 1991 was the first year that the PSIP was required to present program and financial performance information in an Annual Financial Statement; PSIP management recognizes the need to develop performance measures in future years that will provide a more complete presentation of the PSIP's financial and program results, measured against appropriate goals and objectives. (See pages 11 through 19.)

Summary of Recommendations

This report includes seven recommendations for action by the Associate Administrator for Finance and Administration, and four recommendations for action by the Assistant Administrator for Private Enterprise. The recommendations for the Associate Administrator for Finance and Administration pertain to: developing proper cost accounting procedures, establishing general ledger accounting, developing general accounting procedures, establishing adequate controls over financial claims for loan-backed guaranties, developing financial performance and management measures/indicators, developing guidance for implementation of the CFOs Act requirements, and including the PSIP as a material weakness in the next FMFIA report. (See pages 6, 7, 8, 9, 14, and 17.) The recommendations for the Assistant Administrator for Private Enterprise concern establishing policies/procedures for recipient monitoring, the development of program performance measures/indicators, and the development of a system to collect performance indicator data. (see pages 7 and 15.)

Management Comments and Our Evaluation

We provided a draft copy of this report to the Chief Financial Officer and the Assistant Administrator for Private Enterprise, as well as various other Financial Management and Private Sector Investment Program officials who were involved in this audit. In commenting on the draft report, management indicated they were in general agreement with our recommendations and that a plan to address and resolve the recommendations will be prepared by the end of August 1992. Appendix VII is a complete text of management's comments to the draft of this report.

Office of the Inspector General

Office of the Inspector General
July 31, 1992

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INTRODUCTION

Background

The Agency for International Development's (A.I.D) Office of Investment, in the Bureau for Private Enterprise administers the Private Sector Investment Program (PSIP). The purpose of the Program is to promote private sector activity in developing countries, primarily through increasing credit to small scale businesses and cooperatives.

The PSIP financial statement includes the Private Sector Revolving Fund as well as costs incurred by other A.I.D. components that are allocable to the PSIP's objectives.

The Revolving Fund was authorized by the International Security and Development Assistance Authorizations Act of 1983, which added Section 108 to the Foreign Assistance Act of 1961, as amended. The enabling legislation provided that Fund loans should support enterprises that:

- will maximize the development impact appropriate to the host country, particularly in employment and the use of appropriate technology,
- provide, primarily to small business enterprises and cooperatives, necessary support and services not otherwise generally available,
- provide capital which is at or near the interest rate generally available in that country's market,
- not provide any more than three million dollars for any one project, and
- not use more than 20 percent of the Revolving Fund's assets in any one country.

The Omnibus Trade and Competitiveness Act of 1988 added Loan Guaranty Authority to the Direct Loan Authority of the revolving Fund. Congress intended that these loan guaranties would mobilize credit in developing country financial markets for private sector growth at a cost less than direct loans. Since the risk associated with lending in the small business sector is shared by A.I.D., private lending institutions operating in developing countries are encouraged to extend more market-rate financing.

The PSIP uses principally loan guaranties to meet its objectives, however direct loans are utilized where a guaranty alone would not mobilize credit. Direct loan projects are used to finance developmentally desirable private sector projects in less developed countries. Loan guaranties are issued in the following areas: export finance, small business loan portfolio, resource mobilization, franchise, and privatization. As of September 30, 1991 the Program had $89 million of committed loan guaranties and $13.8 million (net of bad debt allowance) of direct loans outstanding.

Under a loan guaranty, the PSIP issues loan guaranties, backed by the credit of the U.S., to intermediary financial institutions (banks) to cover up to 50 percent of the principal of covered loans to eligible borrowers. Thus, the issuance of a one million dollar guaranty would mobilize the issuance of at least two million dollars in loans to eligible borrowers.

The PSIP also operates a bank training program which supplements the loan guaranties. The bank training program provides training to intermediary financial institutions in handling small business loans and provides training to small businesses on improving their knowledge of financial management techniques.

The PSIP is managed by the Office of Investment, located in Washington, D.C., within A.I.D.'s Bureau for Private Enterprise. The Loan Management Division in the Office of Financial Management (Financial Management/Loan Management) maintains official A.I.D. accounts and the accounting controls over the assets, liabilities, and capital of the PSIP.

Pursuant to the provisions of the Chief Financial Officer's (CFOs) Act of 1990, the PSIP is required to prepare an Annual Financial Statement, which includes the presentation of certain program and financial performance information, beginning in fiscal year 1991. The Office of the Inspector General is required to audit these Annual Financial Statements. To fulfill our responsibility, we contracted with the independent certified public accounting firm of Price Waterhouse to perform, under our general oversight, the financial audit for FY 1991. In addition, we performed certain audit procedures concerning the presentation of management performance information required by the Office of Management and Budget. Some of the purposes of the CFOs Act are to improve the effectiveness of financial operations in the federal government through statutory provisions aimed at strengthening financial management, enhancing financial management systems and controls, and improving financial reporting practices and the reliability of financial information.

Audit Objectives

We contracted with the certified public accounting firm of Price Waterhouse to audit, under our general oversight, A.I.D.'s PSIP's fiscal year 1991 financial statement to answer the following objectives:

- Did the Private Sector Investment Program's fiscal year 1991 financial statements and the notes to the financial statements present fairly in all material respects the financial position, operations and government equity (deficiency), cash flows, and reconciliation to budget in accordance with applicable accounting standards?

- Did the Private Sector Investment Program have an adequate internal control structure?

- Did the Private Sector Investment Program comply with laws and regulations that could have a direct and material effect on the financial statement and certain other laws and regulations designated by OMB and A.I.D.?

Additionally, the Office of the Inspector General for Financial Audits performed certain audit procedures to answer the following objectives:

- Did the Private Sector Investment Program's fiscal year 1991 Annual Financial Statement comply with program performance reporting guidance contained in OMB Bulletin No. 91-15, "Guidance on Form and Content on FY 1991 Activity", and OMB's February 5, 1992 guidance, "Financial Statements and Performance Measures"?

- Did the Private Sector Investment Program's fiscal year 1991 Annual Financial Statement comply with financial performance reporting guidance contained in OMB Bulletin No. 91-15, "Guidance on Form and Content on FY 1991 Activity", and OMB's February 5, 1992 guidance, "Financial Statements and Performance Measures"?

In answering these objectives, we relied on Price Waterhouse's assessments of internal controls and compliance with laws and regulations. Our audit tests were sufficient to provide reasonable assurance that our answers to the above audit objectives are valid. Furthermore, when we found problem areas, we performed additional work to:

- identify the cause and effect of the problem; and

- make recommendations to correct the condition and cause of the problem.

The audit field work was conducted from March 1992 through July 1992. Appendix I contains a complete discussion of the scope and methodology for this audit.

In commenting on a draft of this report, A.I.D. Management expressed general agreement with the report recommendations. Management indicated that a plan to resolve the recommendations will be included in the Chief Financial Officer's Five-year plan to be presented to OMB by the end of August 1992.

REPORT OF AUDIT FINDINGS

Did the Private Sector Investment Program's fiscal year 1991 financial statements and the notes to the financial statements present fairly in all material respects the financial position, operations and government equity (deficiency), cash flows, and reconciliation to budget in accordance with the applicable accounting standards?

Price Waterhouse was unable to, and did not express an opinion on the financial statement, and we concur. The accounting records and systems maintained by the Private Sector Investment Program (PSIP) were inadequate and unable to account for the Program's operations. This resulted in insufficient evidence to support accounting transactions. In particular, all program overhead and direct costs have not been accumulated and reported in the financial records since the inception of the program. Price Waterhouse was unable to apply alternative auditing procedures to satisfy themselves regarding the transactions affecting the accounts, and automated systems were inadequate to facilitate audit testing (see Appendix III for Price Waterhouse's report).

Did the Private Sector Investment Program have an adequate internal control structure?

The PSIP did not have an adequate internal control structure. The audit disclosed five reportable conditions relating to significant deficiencies in the design or operation of the internal control structure that could adversely affect the organization's ability to record, process, summarize, and support financial data consistent with the assertions of management in the financial statements. The reportable conditions were also classified as material weaknesses. As defined by generally accepted auditing standards, a material weakness is a reportable condition in which the design or operation of specific elements of the internal control structure does not reduce to a relatively low level, the risk that errors or irregularities, in amounts that would be material to the financial statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. (See Price Waterhouse's Report on Internal Controls for details of the material weaknesses and recommendations, Appendix V.) The material weaknesses and our recommendations for corrective action are discussed below:

Total Program Costs not
Recorded or Reported

The accounting records and financial statement did not reflect complete operating costs. Generally accepted accounting principles and GAO's " Policy and Procedures Manual, Title 2 -- Accounting" require proper reporting and matching of costs. All program costs were not recorded because Agency indirect costs have not been allocated to the PSIP nor have all PSIP direct costs been identified. The effect of this was that expenses and appropriations expensed were understated.

> Recommendation No. 1: **We recommend that the Associate Administrator for Finance and Administration, in consultation with the Assistant Administrator for Private Enterprise, establish and implement adequate cost accounting procedures that accumulate and record all Private Sector Investment Program operating costs necessary for producing comprehensive Program financial statements.**

No General Ledger

Financial Management/Loan Management did not maintain a general ledger for the PSIP. OMB Circular A-127 requires that Agencies establish and maintain an adequate accounting system. The GLARS (General Ledger Accounting and Reporting System) was cumbersome and was not updated for three years; financial reporting was accomplished by manual compilation of sundry workpapers. As a result, various compilation errors occurred and management was not able to use the accounting system for analyzing the financial condition of the program.

> Recommendation No. 2: **We recommend that the Associate Administrator for Finance and Administration establish and implement a comprehensive automated general ledger accounting system for the Private Sector Investment Program.**

Policies and Procedures
<u>were Inadequate</u>

Loan Management's and the PSIP's policies and procedures were not formalized and documented. OMB Circular A-127, "Financial Management Systems", and the "GAO Policy and Procedures Manual, Title 2 -- Accounting" require that all Government agencies establish and maintain effective financial management systems that are well documented. This weakness occurred because of poor lines of communication between Program and Financial Management personnel and a fragmented accounting system. The effect of this situation was inaccurate financial reporting.

> **<u>Recommendation No. 3:</u> We recommend that the Associate Administrator for Finance and Administration, in consultation with the Assistant Administrator for Private Enterprise, develop, formalize, document, and publish policies and procedures for Financial Management/Loan Management and continue efforts towards automating the accounting system.**

Participant Monitoring
<u>was Insufficient</u>

Monitoring of Program participants was inadequate. The PSIP relies on much of the data provided by program participants (banks, etc.). Adequate monitoring of participants is essential to ensure compliance with contractual requirements and accurate Program reporting. Inadequate monitoring occurred because of insufficient financial resources and the difficulty of monitoring complex project goals. Accordingly, the reliability of participant supplied reporting is questionable.

> **<u>Recommendation No. 4:</u> We recommend that the Assistant Administrator for Private Enterprise establish participant monitoring procedures that provide for adequate on-site financial and compliance reviews.**

Financial Controls Over
Claims for Loan-Backed
<u>Guaranties were Inadequate</u>

Under some of PSIP's loan-backed guaranties the borrower was allowed to reduce ("set-off") the principal balance of its note by any sub-borrower defaults. This practice should be eliminated in order to gain control over expenditures and so that recorded transactions reflect what actually occurred. This "set-off" procedure was used because it was simpler and quicker for participants to administer. The "set-off" procedure bypassed cash management and obligation controls and the potential existed for the PSIP to unknowingly incur expenditures in excess of obligational and expenditure authority.

<u>Recommendation No. 5</u>: We recommend that Associate Administrator for Finance and Administration establish and implement a method of accounting which will alleviate the effects of the "set-off" procedure on current contracts with borrowers. Additionally, future contracts should require full repayment of the loan by the borrower and cash disbursements by the Private Sector Investment Program in the event of a claim. All future contracts should be cleared through Financial Management before finalizing payment terms.

Material Weaknesses not
Specifically Cited in Federal
<u>Managers' Financial Integrity Act Report</u>

Under the Federal Managers' Financial Integrity Act (31 U.S.C 3512[c]) and Office of Management and Budget (OMB) implementing policies, A.I.D's management is responsible for establishing and maintaining adequate internal controls that reasonably assure:

-- Obligations and costs comply with applicable law.

-- All assets are safeguarded against waste, loss, unauthorized use, and misappropriation.

-- Revenues and expenditures applicable to agency operations are recorded and accounted for properly so that accounts and reliable financial and statistical reports may be prepared and accountability of the assets may be maintained.

Section 3512 (d) of the law requires that the head of each agency prepare an annual report stating whether the agency's internal controls meet these standards and describing any material weaknesses in its internal controls. Within A.I.D., the Management Control Review Committee (MCRC) is responsible for reviewing internal control assessments prepared by A.I.D.'s components and recommending to the Administrator which internal control problems should be reported as material weaknesses.

The Office of Management and Budget (OMB) Circular A-123 defines a material weakness as one which would:

-- significantly impair the fulfillment of an agency component's mission; deprive the public of needed services; violate statutory or regulatory requirements; significantly weaken safeguards against waste, loss, unauthorized use or misappropriation of funds, property, or other assets; or result in a conflict of interest.

An August 3, 1991 memorandum from the OMB states that, since the above factors are judgmental and can be widely interpreted, each material weakness should meet one or more of the following additional criteria:

-- merits the attention of the agency head/senior management, the Executive Office of the President, or the relevant Congressional oversight committee;

-- exists in a major program or activity;

-- could result in the loss of $10 million or more, or 5 percent or more of the resources of a budget line item; or

-- its omission from the report could reflect adversely on the management integrity of the agency.

In our opinion, the internal control weaknesses described in this report collectively meet the definition of a material weakness. Therefore, the Office of the Inspector General believes that the Agency should specifically include the PSIP among the material weaknesses to be reported to the President and the Congress at the end of the current fiscal year under the provisions of the Federal Managers' Financial Integrity Act.

Recommendation No. 6: We recommend that the Associate Administrator for Finance and Administration identify, as a material weakness, the Agency's Private Sector Investment Program among the material weaknesses to be reported at the end of the current fiscal year in the Federal Financial Manager's Integrity Act report.

Did the Private Sector Investment Program comply with laws and regulations that could have a direct and material effect on the financial statements and certain other laws and regulations designated by A.I.D. and OMB?

The audit disclosed that the PSIP did not comply with all laws and regulations that may have directly affected the financial statements and other laws and regulations specified by A.I.D. and OMB. Specifically, the PSIP did not comply with applicable provisions of the Debt Collection Act of 1982 with respect to the billing and the Federal Managers' Financial Integrity Act (FMFIA) of 1982 with respect to the establishment of internal administrative and accounting controls, and reporting material internal control weaknesses in the annual FMFIA reports. These are considered to be material instances of noncompliance.

Price Waterhouse tested for compliance with the following laws:

- Federal Managers' Financial Integrity Act of 1982,
- Section 2151f of the Foreign Assistance Act of 1961, as amended,
- Chief Financial Officers Act of 1990,
- Budget and Accounting Procedures Act of 1950,
- Debt Collection Act of 1982,
- Prompt Payment Act.

Noncompliance: Debt
Collection Act of 1982

Noncompliance with the Debt Collection Act of 1982 resulted from inadequate collection procedures with respect to loan receivable billing and collection. The lack of an automated loan management system contributed to this condition.

Noncompliance: Federal
Managers' Financial Integrity Act

A.I.D. management has not ensured compliance with the requirements of the Federal Managers' Financial Integrity Act (FMFIA) of 1982 to establish internal administrative and accounting controls for the PSIP. Additionally, A.I.D.'s most recent FMFIA report did not reflect the material weaknesses of the PSIP internal control system.

For additional information concerning the noncompliances refer to the Price Waterhouse Report on Compliance with Laws and Regulations (see Appendix VI).

Did the Private Sector Investment Program's fiscal year 1991 Annual Financial Statement comply with program performance reporting guidance contained in OMB Bulletin No. 91-15, "Guidance on Form and Content on FY 1991 Activity", and OMB's February 5, 1992 guidance, "Financial Statements and Performance Measures"?

A.I.D.'s Private Sector Investment Program (PSIP) Annual Financial Statement for 1991 did not fully comply with OMB program performance reporting guidance. The PSIP Annual Financial Statement includes some program descriptive information, however, it does not give a complete and clear picture of the program's performance during fiscal year 1991. Fiscal year 1991 was the first year the PSIP was required to present program performance information in an Annual Financial Statement; PSIP management recognizes the need to develop program performance measures in future years that will provide a more complete presentation of the PSIP's program results, measured against appropriate goals and objectives.

Specifically, the review disclosed that (1) the PSIP Annual Financial Statement did not inform the reader of the extent to which the program achieved its goals and objectives, and (2) the program performance information that was provided in the 1991 Statement was not adequately supported or always accurate.

The following sections discuss these two issues.

A.I.D. Needs to Improve Its Presentation of
Private Sector Investment Program Performance

What is the Purpose of the
Overview and Supplemental Sections?

The purpose of the Overview section of the Annual Financial Statement is to provide readers with a clear and concise understanding of the reporting entity's activities, accomplishments, financial results and condition, problems, and needs. It should tell the reader whether and how well the mission of the reporting entity is being accomplished and what, if anything, needs to be done to improve either program performance or financial performance.

A key section of the Overview is the entity's discussion of program performance. This section should present the significant results achieved by the reporting entity's programs during the past year and compare those results to the entity's mission. According to OMB's February 5, 1992 guidance on "Financial Statements and Performance Measures" this section should include objective, measurable data that disclose the manner in which the entity's program(s) performed. The information in this section is intended to help the reader determine how well the program is performing, including achieving its intended results.

Program Performance information must be meaningful both to those officials with responsibility for an entity's management and operations and to those officials with oversight responsibility. In summary, program performance information is intended to help program managers and others make decisions about program objectives and practices.

Do the Overview and Supplemental Sections
Provide Adequate Program Performance Information?

The Private Sector Investment Program Annual Financial Statement Overview section (see Appendix II) does not adequately describe program performance or link program performance to financial results or conditions. The statement does not provide the reader with the basis for assessing how well the program is performing. The statement does not include a "Supplemental" section.

In order to assess how well a program is performing, one must first identify its objectives and then how best to measure progress toward reaching these objectives.

According to the Annual Financial Statement, the PSIP was authorized in 1983 for the purpose of increasing credit to small private sector enterprises in lesser developed countries. This objective was to be achieved, in part, by introducing innovative financing mechanisms and by assisting local private financial institutions to develop new markets and learn new lending techniques. In 1988, the Congress added Loan Guaranty Authority to the program which enables A.I.D. to issue guarantees to intermediary financial institutions to cover up to 50 percent of the principal amount of eligible loans. A.I.D. charges fees to offset future claims.

The Overview section provides the reader with good background information on how the program has evolved and major factors effecting it since its inception in 1983. In addition, the section provides some information on program outputs. For example, the statement provides:

- Cumulative project data in table format showing number of projects, amounts authorized, and amounts used by type of credit mechanism since the beginning of the program;

- Cumulative authorization data in bar chart format comparing annual authorizations since fiscal year 1984;

- Cumulative project data in table format showing authorization amounts and number of projects by region since the beginning of the program; and

- In table format, fiscal year 1991 commitments and obligations and number of projects by type of credit mechanism.

The Overview section also identifies several categories where the program has had an impact on small private sector enterprises and financial institutions, but does not quantify these impacts.

In our opinion, the program performance information provides the reader with a general overview of program performance, but does not provide the reader with a basis for gauging how well the program is performing on a year to year basis.

Why Didn't A.I.D. Provide Better Program Performance Information?

There are several key reasons why the PSIP's Annual Financial Statement did not provide useful program performance information. First, there was the uncertainty of the level of program performance information that was expected to be presented in the Annual Financial Statement. When the Agency began preparing its Annual Financial Statement in early January, OMB had not issued specific guidance for the Overview and Supplemental Financial and Management information sections. This guidance was not issued until February 5, 1992, only two months before the Annual Financial Statement was to be completed. Agency officials stated they were caught off-guard in regard to the level of performance information expected by OMB.

Second, the Office of Investment had not established initial base line data to measure progress against and had not established specific quantifiable goals or targets which the program planned to achieve, other than generally just using the amounts authorized. In this regard, the Center for Development Information and Evaluation states that there has to be a clear focus as to what the program is to achieve in order to develop meaningful performance indicators.

Third, the Office of Investment does not have an automated data system to report the type of program performance information envisioned by OMB guidance. PSIP performance information is provided periodically by the financial institutions that participate in the program and by A.I.D.-financed contractors.

Fourth, there was little evidence of top A.I.D. management involvement in decisions relating to the content of the Annual Financial Statement and its preparation. OMB Bulletin No. 91-15 requires A.I.D.'s Chief Financial Officer (Associate Administrator for Finance and Administration) to prepare a policy bulletin or guidance memorandum that will guide agency fiscal and management personnel in the preparation of the Annual Financial Statement. The personnel responsible for the preparation of the Statement said they did not receive any written guidance. The limited involvement of top management gave the impression to some that the preparation of the Annual Financial Statement was not a high priority and therefore limited attention was given to its preparation. In addition, there was no attempt made by those responsible for preparing the Statement to contact potential users of the statement for their recommendations on program performance indicators.

Finally, even if the PSIP Annual Financial Statement provided appropriate program performance information, its usefulness in terms of comparing it to the program's financial results would be diminished by the fact that total program costs may not be accurately identified. A.I.D. does not have an integrated accounting system. As a result, all costs related to the PSIP may not be identified and reported.

What is the Effect of Inadequate
Reporting of Program Performance?

Because the PSIP Annual Financial Statement does not provide adequate program performance information the statement has limited value to managers and others interested in the program's administration and impact.

What Can be Done to Improve the Program
Performance Presentation in Future Statements?

In our opinion, the following actions would contribute to improving the program performance presentation in the PSIP financial statement:

Recommendation No. 7: We recommend that the Associate Administrator for Finance and Administration prepare a policy bulletin or guidance memorandum that will guide Agency fiscal and program personnel in the preparation of future Private Sector Investment Program financial statements, and establish responsibilities and timetables. This bulletin or memorandum should include the specific data requirements of OMB Bulletin No. 91-15 with which the Program cannot comply and setting goals for when such data will be available.

Recommendation No. 8: **We recommend that the Assistant Administrator for Private Enterprise establish base line data from which progress and program impact can be measured. Also, quantifiable program targets and objectives should be established as well as timetables for achieving these targets and objectives.**

Recommendation No. 9: **We recommend that the Assistant Administrator for Private Enterprise, in consultation with Annual Financial Statement users and others involved with developing performance measurements such as the Center for Development Information and Evaluation, determine appropriate program performance indicators, both "output" and "outcome" (impact) related, that can be linked to financial results and that provide the reader with a complete and clear picture of the Private Sector Investment Program's performance during the preceding year.**

Recommendation No. 10: **We recommend that the Assistant Administrator for Private Enterprise, once appropriate uniform and program specific indicators have been identified, design and implement an automated data information system and procedures to compile, record, and update the data.**

Support Documentation and Accuracy Issues

What are OMB's Support Documentation Requirements?

Program performance information should be reliable. OMB guidance requires agencies to be able to support program performance claims with adequate support documentation and that they retain this information in a manner suitable for review. Agencies should generally collect and maintain performance data regularly throughout the year to support the management process, not just once a year to satisfy annual financial reporting requirements. To the extent possible, performance data should be made available in an automated format such that reentry of the data is minimized. Data should also be obtained for several previous periods, when possible, so that trends and relationships can be available for analysis. The guidance further states that if adequate support documentation is not available, management should describe why it is not available and its plan for meeting the reporting requirements in future Annual Financial Statements.

Is Program Performance Information
Reliable and Adequately Supported?

We did not perform sufficient tests to comment fully on the reliability of the performance information. We were able to trace selected information presented in the Overview to support documentation maintained in the Office of Investment. However, because the Office of Investment relies on participating financial institutions and contractors for much of its program performance information and because this data is not routinely verified by program staff, we believe that there is a higher than average risk that the data may not be reliable.

Why Is the Program Performance
Information Not Better Supported?

The Investment Office in Washington, D.C. does not have an automated data information system to facilitate the tracking and reporting of program accomplishments. Presently, the Office of Investment relies on the financial institutions for specific program performance data and also on contractors to summarize the results of program activities.

What is the Effect of Inadequately
Supported Program Performance Information?

Program performance information that is not supported by adequate documentation and systems is more likely to be unreliable than information that is supported.

What Can be Done to Improve the Reliability of
Program Performance Information in Future Statements?

In our opinion, the actions specified in recommendation numbers eight, nine and ten (above) would contribute to improving the reliability of the program performance information in the PSIP Annual Financial Statement.

Candidates for Program Performance Measures

Presented below are some potential candidates for program performance measures:

- provide additional data in the Overview on number of Full Time Equivalents (i.e. FS, GS, PSCs and FSNs) who are assigned to the Program at headquarters and/or missions,

- number of delinquent loans compared to the total number of loans outstanding,
- presenting performance information by country,
- characteristics of small businesses served (e.g. type of business, sales, number of employees),
- impacts on borrowers,
- impacts on intermediary financial institutions.

The above measures are suggested as ideas only and we have not made a determination as to whether this data is currently available or analyzed their appropriateness in detail.

Did the Private Sector Investment Program's fiscal year 1991 Annual Financial Statement comply with financial performance reporting guidance contained in OMB Bulletin No. 91-15, "Guidance on Form and Content of FY 1991 Activity", and OMB's February 5, 1992 guidance, "Financial Statements and Performance Measures"?

The PSIP Annual Financial Statement did not comply with OMB financial performance reporting guidance. Applicable OMB financial reporting guidance requires the inclusion of financial performance information in the Overview portion of the Annual Financial Statement. The Annual Financial Statement did not include any financial performance information. The lack of this financial performance data caused the usefulness of the Annual Financial Statement to be diminished.

No Financial Performance
<u>Information Provided</u>

<u>Recommendation No. 11:</u> We recommend that the Associate Administrator for Finance and Administration develop and include financial performance and financial management performance indicators in the fiscal year 1992 Annual Financial Statement.

The PSIP Annual Financial Statement did not comply with OMB financial reporting guidance. OMB Bulletin No. 91-15, dated September 10, 1991, indicates that "the Overview should include a narrative discussion and analysis of the financial condition of the reporting entity. This discussion should present information based on the results of an analytical review of relevant financial and performance data on the programs, activities, and funds that make up the reporting entity" and that in preparing the Overview of the Reporting Entity, agencies should refer to the guidance contained in the March 1991 United States General Accounting Office (GAO) study titled "FINANCIAL REPORTING - Framework for Analyzing Federal Agency Financial Statements". Additionally, OMB's February 5, 1992 guidance reiterates the suggested utilization of the GAO study in presenting the financial performance and indicates that "the Overview of the Reporting Entity should also provide a quick and easy understanding of how the entity is faring financially and, to the extent possible, the future financial implication of the entity's current condition".

The Private Sector Investment Program Annual Financial Statement did not include any financial performance information. There were two reasons why the financial performance information was not presented. First, the cumbersome process of preparing the Annual Financial Statement left little time to prepare the financial performance information. Second, there was the uncertainty of the level of financial performance information that was expected to be presented in the Annual Financial Statement. When the Agency began preparing its Annual Financial Statement in early January, OMB had not issued specific guidance for the Overview and Supplemental Financial and Management Information sections. This guidance was not issued until February 5, 1992, only two months before the Annual Financial Statement was to be completed.

The lack of financial performance information reduced the usefulness of the Annual Financial Statement to the Statement user. The Statement user would not necessarily be able to get a quick and easy understanding of how the entity is faring financially nor the implications of the PSIP's financial condition from the Annual Financial Statement.

Fiscal year 1991 was the first year the PSIP was required to develop and present financial performance information in an Annual Financial Statement. The PSIP management recognize the need to develop financial performance measures in future years that will provide a more complete presentation of the PSIP's financial results.

Due to the material internal control weaknesses disclosed by the audit, including the fact that the financial statement did not reflect complete Program costs, we did not make an attempt to develop financial performance measures/indicators to supplement the Annual Financial Statement.

Candidates for Financial Performance Measures

Presented below are some potential candidates for financial and financial management performance measures:

- percentage of bad debts to total loans outstanding

- payments made and total payments due during the year presented by country

- number of delinquent loans to the total number of loans outstanding

- consider the use of the measures and indicators discussed in OMB's February 5, 1992 guidance

- measurement of the percentage of claims collected and average time to collect

The above measures are suggested as ideas only and we have not made a determination as to whether this data is currently available or analyzed their appropriateness in detail.

SCOPE AND METHODOLOGY

Scope

Pursuant to the provisions of the Chief Financial Officer's (CFOs) Act of 1990, the Office of the Inspector General is required to conduct audits of the Private Sector Investment Program's (PSIP) Annual Financial Statement beginning with the fiscal year 1991 Statement. To fulfill our responsibilities under the Act, the Inspector General/Financial Audits contracted with the certified public accounting firm of Price Waterhouse to perform, under our general oversight, and in accordance with generally accepted auditing standards, Government Auditing Standards, and the requirements of OMB Bulletin No. 91-14, "Audit Requirements for Federal Financial Statements", an audit of the 1991 financial statements. The audit was performed from March 1992 through July 1992 primarily at A.I.D. Headquarters in Washington, D.C. Field Testing was performed at the A.I.D. mission and Intermediary Financial Institutions in Kingston, Jamaica.

In addition, we performed certain audit procedures to determine whether the PSIP's fiscal year 1991 Annual Financial Statement complied with financial and program performance reporting guidance contained in Office of Management and Budget (OMB) Bulletin No. 91-15, "Guidance on Form and Content on FY 1991 Activity", and OMB's February 5, 1992 guidance, "Financial Statements and Performance Measures". Our objective was not to provide an opinion on overall compliance with the CFOs Act, but rather to determine the extent to which applicable OMB guidance was followed in preparing the Annual Financial Statement, and to highlight areas where improvement was desirable and would be of benefit to Annual Financial Statement users. In answering these audit objectives, we relied on Price Waterhouse's assessments of internal controls and compliance with laws and regulations. The audit procedures were limited to assessing the adequacy of financial and program performance information presented in the PSIP's Annual Financial Statement for fiscal year 1991. Our audit tests were sufficient to provide reasonable assurance that our answers to the audit objectives were valid. The field work was performed during May through July 1992 primarily at A.I.D. Headquarters in Washington, D.C.

Methodology

The methodology for each audit objective was follows:

Audit Objectives One through Three

The first three audit objectives were:

- Did the Private Sector Investment Program's fiscal year 1991 financial statements and the notes to the financial statements present fairly in all material respects the financial position, operations and government equity (deficiency), results of operations, cash flows, and reconciliation to budget in accordance with the applicable accounting standards?

- Did the Private Sector Investment Program have an adequate internal control structure?

- Did the Private Sector Investment Program comply with laws and regulations that could have a direct and material effect on the financial statements and certain other laws and regulations designated by OMB and A.I.D.?

In order to achieve these objectives we contracted with the certified public accounting firm of Price Waterhouse to perform the audit, under our general oversight, in accordance with generally accepted auditing standards, Government Auditing Standards and the requirements of OMB Bulletin No. 91-14, "Audit Requirements for Federal Financial Statements." We approved their scope of work, monitored audit progress, accompanied them on some of the site visits, and performed other procedures we considered necessary.

Audit Objective Four

The fourth audit objective was to determine whether the Private Sector Investment Program's fiscal year 1991 Annual Financial Statement complied with program performance reporting guidance contained in OMB Bulletin No. 91-15, "Guidance on Form and Content on FY 1991 Activity", and OMB's February 5, 1992 guidance, "Financial Statements and Performance Measures."

To accomplish the objective, we reviewed the CFOs Act, implementing OMB guidance, and other pertinent materials; analyzed the statement and other applicable program reports and documents; and interviewed A.I.D. officials responsible for the actual preparation of the statement. We also discussed with officials in A.I.D's Center for Development Information and Evaluation Agency efforts to develop program performance indicators. We did not perform sufficient tests to determine the reliability of performance information presented in the Annual Financial Statement.

In addition, we selected key program performance information presented in the statement and assessed the adequacy of supporting documentation. We did not perform end-use checks to verify the accuracy of reported accomplishments, however, we compared the selected information with that reported in the program's annual report to the Congress to see if the program office was consistent in its reporting of performance information.

Audit Objective Five

The fifth audit objective was to determine whether the Private Sector Investment Program's fiscal year 1991 Annual Financial Statement complied with financial performance reporting guidance contained in OMB Bulletin No. 91-15, "Guidance on Form and Content on FY 1991 Activity", and OMB's February 5, 1992 guidance, "Financial Statements and Performance Measures."

To accomplish the objective we reviewed the Annual Financial Statement, the CFOs Act, implementing OMB guidance, and other pertinent materials, and held discussions with those personnel responsible for preparation of the Annual Financial Statement.

AGENCY FOR INTERNATIONAL DEVELOPMENT'S

PRIVATE SECTOR INVESTMENT PROGRAM

September 30, 1991

PRIVATE SECTOR INVESTMENT PROGRAM

PROGRAM OVERVIEW

The Private Sector Investment Program

Recognizing the pivotal role of private enterprise in fostering economic development, in 1983 Congress enacted Section 108 of the Foreign Assistance Act of 1961 to create the Private Sector Investment Program (formerly the Private Sector Revolving Fund). The Private Sector Investment Program was designed to promote private sector activity in developing countries, primarily through increasing credit to small private sector enterprises.

The Private Sector Investment Program (or "PSIP") is administered by the Agency for International Development (A.I.D.). Its programs and activities are managed through A.I.D.'s Bureau for Private Enterprise/Office of Investment.

Legislative Mandate and Mission of the PSIP

The Private Sector Investment Program aims to facilitate development that is sustainable over the long-term and does not require continuous reliance on outside assistance. Its primary focus is on small business development. The PSIP is designed to: 1) stimulate growth and expansion of private enterprise activity in Less Developed Countries (LDCs) by facilitating access to credit; 2) create innovative financing mechanisms to serve as models and assist the private sector development efforts of local USAID Missions; 3) strengthen local. private financial institutions by helping them develop new markets and learn new lending techniques; and 4) involve the United States private sector in the development process.

Moreover, Section 108 (c) (2) of the enabling legislation stipulates that assistance under the Program be provided to those projects which:

- have a demonstration effect;
- are innovative;
- are financially viable;
- maximize development impact; and
- are primarily directed toward small businesses

Summary of PSIP Programs/Facilities and Target Groups

Evolving PSIP Portfolio

The Private Sector Investment Program portfolio continues to evolve to meet the changing needs of the private sector in the developing world. In 1988, under the Omnibus Trade and Competitiveness Act of 1988, Congress added Loan Guarantee

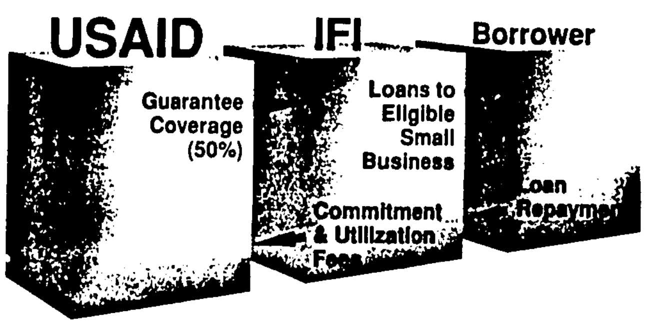
Authority to the Direct Lending Authority of the Investment Program, indicating Congress' intent that guaranties backed by the full faith and credit of the United States Government would henceforth be the primary instrument used by the PSIP to meet its legislatively mandated objectives. As a result, guaranties have become the primary tools of the PSIP. Direct loans continue to be used selectively to finance pilot projects where a guarantee alone is not sufficient to mobilize local sources of capital.

How Guaranties Work

Guaranties backed by the full faith and credit of the U.S. Government effectively allow A.I.D. to assist in mobilizing expanded credit for small businesses. A.I.D. issues guaranties to intermediary financial institutions (IFIs) to cover up to 50% of the principal amount of eligible loans placed under coverage. *(See Diagram 1.)* A $1.0 million guarantee facility will therefore mobilize at least $2.0 million in small business loans.

Fees charged by A.I.D. are used to offset future claims. If a claim occurs, A.I.D.'s ultimate net outlay is reduced by any subsequent recovery from collections on collateral. Guaranties are limited to $3.0 million for any single project.

Diagram 1: How an A.I.D. Guarantee Works



PSIP Programs/Facilities

The Office of Investment has developed a number of innovative guarantee and direct loan facilities to meet the needs of private businesses in developing countries, as described below.

Direct Loan Authority (1983-present)

- **Direct Project Loans** (1983 - present) - used to finance developmentally desirable private sector projects in LDCs.

- **Letters of Credit/Guaranties** (1983-1988) - Direct Loan Authority was also used to secure letters of credit in favor of LDC financial institutions, providing a risk-sharing benefit for small business lending activities. This method of providing guarantee facilities was replaced by full faith and credit Guarantee Authority legislated in fiscal year 1988.

Guarantee Authority (1988 - present)

- **Export Finance (Forfait) Guarantee Program** (1988) - designed to promote LDC capital market development and generate U.S. exports.
- **Small Business Loan Portfolio Guarantee Program** (1989) - encourages privately-owned financial institutions to increase credit (loans, financial leases, overdrafts, letters of credit) to small businesses.
- **Resource Mobilization Guarantee Program** (1989) - redirects liquidity within the economy from companies, pension funds and the insurance industry to the small business sector through the use of a guarantee or loan.
- **Franchise Guarantee Program** (1991) - this new program will assist LDC entrepreneurs in start-up businesses through linkages with U.S. franchises.
- **Privatization Guarantee Program** (1991) - designed to support privatization programs in A.I.D.-assisted countries, this new program is expected to be particularly helpful in countries where the private sectors' perception of risk is high, e.g., where the asset being privatized has been operated unprofitably by the state for an extended period, making the likelihood of its profitability appear uncertain.

Bank Training Program

Supplementing the PSIP's guarantee and direct loan programs is a Bank Training Program. This grant program was designed to complement the loan/guarantee program with a two-fold purpose: 1) to work with intermediary financial institutions in increasing their knowledge of the way loans to small businesses can be evaluated, structured and managed, emphasizing cash-flow based lending techniques versus the traditional LDC bank requirement for high collateral; and 2) to help small business owners improve their financial management techniques, as well as increase their knowledge of how to obtain and repay loans successfully.

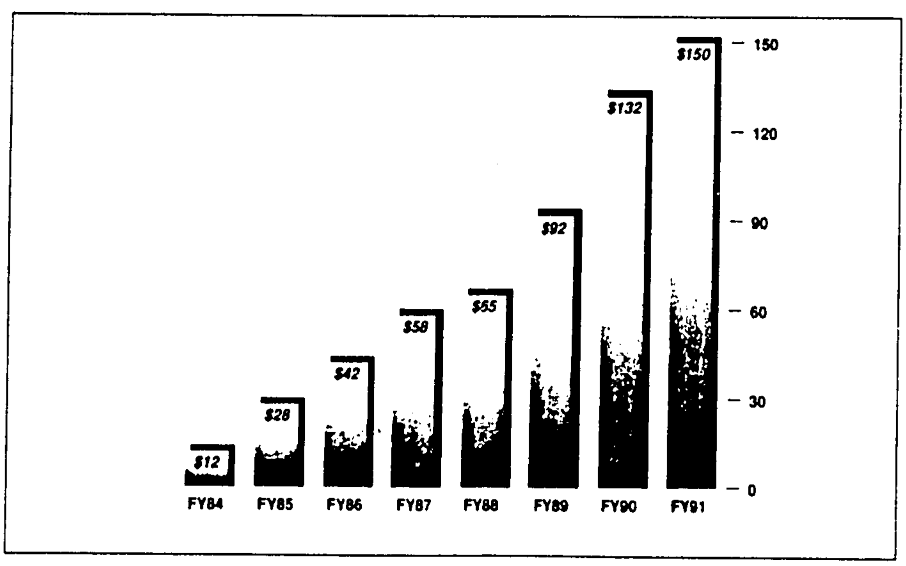
The program data reported in the following overview and analysis does not fully represent program results nor is the data presented all taken from systems designed to report evaluative results. Systems to record, compile and analyze data on program performance are not currently in place. Therefore, the requirement that the Chief Financial Officer develop and maintain an integrated agency accounting and financial management system, including financial reporting and internal controls, which provides for the systematic measurement of performance, cannot be currently met.

Size of PSIP Programs

Chart A - Project Summary*

Project Type	No. of Projects	Authorized Amount ($ millions)	Utilized Amount ($ millions)
Loan Guarantee Authority			
Small Business Loan Portfolio	42	$59.4	$ 4.0
Leasing	4	3.6	0.1
Resource Mobilization	4	6.8	1.2
Privatization	2	13.0	0.0
Forfaiting	4	9.4	0.4
Franchising	1	3.0	0.0
Subtotal - Guaranties	57	$95.2	$ 4.2
Direct Loan Authority			
Letter of Credit/Guaranties	25	33.9	30.8
Direct Loans (Single Projects)	10	15.0	8.5
Direct Loans (Environmental)	3	5.9	0.4
Subtotal - Direct Loans	38	$54.8	$39.7
Total:	**95**	**$150.0**	**$45.4**

Figure A - Growth of the Private Sector Investment Program
($ millions)



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* includes completed projects; net of cancelled/de-obligated projects

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PSIP Management and Portfolio Distribution

The Office of Investment works in conjunction with USAID Missions in all geographical regions, as well as other AID Bureaus and Offices to address the needs of the private sector in developing countries. *See Chart B for Regional Distribution of Portfolio.*

Chart B - Summary by Geographic Region

Region	Total Commitments/ Obligations ($millions)	% of Portfolio	No. of Projects
Africa	$26.0	17	25
Asia	48.1	32	33
Latin America & Caribbean	39.2	26	20
Near East and North Africa	18.9	12	10
Multi Regional/ Country	17.8	13	7
TOTAL	$150	100%	95

Major Source of Funding for the PSIP

Funding for the Private Sector Investment Program began with annual direct appropriations beginning in FY 1984 and ending in FY 1989, which totalled $76.0 million. With the implementation of Credit Reform legislation on October 1, 1991, the Revolving Fund's assets are no longer available for new PSIP activities, and annual subsidy appropriations for estimated net outlays are included in the annual budget process. Operating and other administrative expenses were funded by general A.I.D. appropriation each year.

PROGRAM PERFORMANCE

1991 Operational Summary: Private Sector Support

FY 1991 was a year of change and challenge for the Private Sector Investment Program. Commitments totalling $34.8 million were made for 18 guarantee projects. Obligations totalling $8.5 million were made for 4 direct project loans. Toward the PSIP's primary goal of promoting developing country private enterprise as a means of facilitating sustainable economic development, the following facilities were established:

Chart C - Fiscal Year 1991 Projects by Facility

Project Type	No. of Projects	Amount ($ millions)
Loan Guarantee Authority		
Small Business Loan Portfolio	11*	$11.5*
Resource Mobilization Guaranties	3	4.8
Privatization Guaranties	2	13.0
Forfaiting Guaranties	1	2.5
Franchising	1	3.0
Subtotal - Guaranties	18	$34.8
Direct Loan Authority		
Direct Loans (Single Projects)	3	6.0
Direct Loans (Environmental)	1	2.5
Subtotal - Direct Loans	4	$ 8.5
Total:	**22**	**$43.3**

* includes a $1.0M follow-on project to Sampath Bank, an IFI granted a $1.5M facility in FY 1990

Review of Performance

Impact on Small Scale Enterprises and Financial Institutions

A series of case studies on PSIP activities indicates that program interventions have had an impact on both the small business borrower and the participating financial institutions. While the type and degree of impact varies from project to project, the reviews concluded that A.I.D. guaranties have had the following impact on small private sector enterprises:

- Reduction in collateral requirements
- Increased access/availability of credit
- Increased gross revenue and net income
- Increased export earnings
- Expanded employment (including a significant increase in female employment)

In addition, A.I.D.'s training and guarantee programs have had several important impacts on financial institutions. While the extent of the achievement varies among institutions, results include the following:

- New borrowers brought into formal banking channels
- Increase in number and size of loans to small and medium-scale enterprises
- Increase of branch lending in rural areas
- Increased leverage for banks
- Extended loan terms
- Reduced collateral requirements for small business borrowers

To strengthen the supporting data in these performance impacts and to keep current in the evaluation of the evolving nature of the program, the Office of Investment is upgrading its program and monitoring evaluation system in line with A.I.D.'s Program Performance Information System for Strategic Management (PRISM).

General Program Objectives

Risk Sharing and Institutional Development

In the case of default on a PSIP-guaranteed transaction, the client financial institutions stand to lose at least 50% of the credit that they extended. This high level of risk is intended to result in the financial institutions making prudent credit reviews and lending decisions related to the guaranteed transactions. Further, since banks are using their own funds and A.I.D. is backing the transaction with a guarantee, the hope for result is that the small business lending or other program credit will be continued after the guarantee ends. Thus, PSIP guarantees are promoting self-sustaining and financially viable credit programs in client financial institutions.

Innovation

Several new programs were added during 1991 to meet the changing needs of LDC private sectors, as follows:

The Franchise Guarantee Program helps LDC entrepreneurs finance franchise businesses. The Program is in the "pilot stage"; to date, four U.S. franchisor companies have met the criteria for participation under this facility. A working relationship is being established between PRE/I and A.I.D.'s Bureau for Europe to provide credit assistance and training to their own franchise expansion program.

The Franchise Guarantee Program has met with enthusiasm from the U.S. business community. To date, the Office of Investment has received over 60 preliminary applications from U.S. franchisors, plus an additional 100 inquiries. These franchisors

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represent a wide range of industries, including business services, information technology, real estate, fast food, and personnel placement and services.

The Privatization Guarantee Program provides a 50% guarantee to participating private financial institutions and companies on their loans, bonds, debentures and other debt instruments which finance eligible privatizations and divestitures which have appropriate government concurrence. So far, the program has been established in two countries - Jamaica and Tunisia. A unique feature of the program is that it can be tailored to address specific needs which may vary from country to country.

The Resource Mobilization Guarantee Program was expanded to use Guarantee Authority in FY 1991 and makes several significant contributions to development. One advantage of this facility is that it increases liquidity for banks and other financial institutions without the foreign exchange risks and inflationary implications inherent in cross-border borrowing. It is particularly helpful in high inflation countries with structural adjustment programs which reduce liquidity and have the immediate effect of crowding out the small business sector. The program also broadens financial markets by contributing to wider investment options for participating companies, pension funds and the insurance industry.

Small Business Focus

During FY 1991, several new programs have been developed. Approximately 80% of PSIP facilities focus directly on credit expansion for small business.

Program Performance Issues

Utilization

Participant utilization of PSIP facilities to date is 30.3% of project amounts. In response to this lower than expected level, the Office of Investment has initiated a system of increased project monitoring, discussions on lending practices, and training to increase utilization of portfolio guarantee facilities.

Experience with older, established PSIP facilities demonstrates that financial institutions participating in A.I.D. programs - even after executing the initial agreement and paying a facility fee - frequently require additional encouragement and support to achieve a significant increase in their small business lending activity. Historically, it has taken from two to four years for PSIP guarantee facilities to become actively utilized. Internal bank changes are often required to establish "small business" lending departments, including personnel training and re-assignments, policy and procedure manuals, training and related organizational changes. Therefore, increased funding for technical assistance and Bank Credit Training are required to realize the optimal level of Program utilization.

Credit Reform

In the future, consideration must be given to the effect of the Credit Reform Act of 1990 on the performance of the Investment Program. Due to the elimination of the PSIP's revolving fund structure, funding of new projects utilizing accumulated capital is no longer possible.

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AGENCY FOR INTERNATIONAL DEVELOPMENT
PRIVATE SECTOR INVESTMENT PROGRAM
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
SEPTEMBER 30, 1991
AND
REPORTS OF PRICE WATERHOUSE

3/1

Office of Government Services
1801 K Street, N.W.
Washington, DC 20006
Telephone 202 296 0800

Price Waterhouse

Appendix III

To the Administrator
and the Inspector General
of the U.S. Agency for International Development

Report of Independent Accountants

We were engaged to audit the financial statements of the Private Sector Investment Program of the Agency for International Development (A.I.D.) as of and for the year ended September 30, 1991. These financial statements are the responsibility of A.I.D.'s management.

The Private Sector Investment Program lacks adequate accounting records and automated systems to account for its operations. This has resulted in insufficient evidence to support transactions affecting the accounts. In particular, all program overhead and direct costs of the Private Sector Investment Program have not been recorded and accumulated in underlying financial records since the inception of the program.

Because we were not able to apply alternative auditing procedures to satisfy ourselves regarding substantially all account balances, and because automated systems were inadequate to facilitate audit testing, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the aforementioned financial statements.

We have reviewed the financial information presented in management's "Program Overview" of the Private Sector Investment Program. This information has been presented by management for the purpose of additional analysis. This information has not been audited by us and, accordingly, we do not express our opinion on it. Our review of this information is addressed, however, in the eighth paragraph of our report on compliance with laws and regulations.

We have compiled the accompanying statement of financial position and the related statements of operations and cash flows, the notes to these statements, and the statements of reconciliation of the Private Sector Investment Program of the Agency for International Development as of and for the year ended September 30, 1990. A compilation of the statement of government equity for the year ended September 30, 1990 was not prepared because the supporting documentation was not available. A compilation is limited to presenting in the form of financial statements information that is the representation of management. We have not audited or reviewed the accompanying 1990 financial statements and, accordingly, do not express an opinion or any other form of assurances on them.

Price Waterhouse

Washington, D.C.
July 17, 1992

AGENCY FOR INTERNATIONAL DEVELOPMENT
PRIVATE SECTOR INVESTMENT PROGRAM
STATEMENTS OF FINANCIAL POSITION
FOR THE YEARS ENDED SEPTEMBER 30, 1991 AND 1990

(in U.S. $ Thousands)

	SEPTEMBER 30, 1991	SEPTEMBER 30, 1990 (Unaudited)
ASSETS:		
Fund Balance with the U.S. Treasury (Note 4)	$16,300	$36,931
Fund Balance with A.I.D. (Note 2)	244	64
Investment in U.S. Government Obligations (Note 5)	0	25,565
Loans Receivable, net of allowance for doubtful amounts (Note 6)	13,829	20,462
Interest Receivable, net of allowance for doubtful amounts (Note 7)	375	422
Fees Receivable, net of allowance for doubtful amounts (Note 8)	82	130
Total Assets	$30,830	$83,574
LIABILITIES AND GOVERNMENT EQUITY:		
Claims Payable	$20	$0
Reserve for Claim Losses (Note 9)	1,054	319
Unamortized Origination Fees	136	130
Accrued Annual Leave	47	34
Accounts Payable	244	64
Total Liabilities	1,501	547
Appropriated Capital (Note 10)	22,883	76,000
Cumulative Results of Operations (Note 11)	5,439	6,742
Reserved Capital (Note 11)	1,054	319
Future Funding Requirements (Note 12)	(47)	(34)
Government Equity	29,329	83,027
Commitments and Contigencies (Note 13)		
Total Liabilities and Government Equity	$30,830	$83,574

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

AGENCY FOR INTERNATIONAL DEVELOPMENT
PRIVATE SECTOR INVESTMENT PROGRAM
STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED SEPTEMBER 30, 1991 AND 1990

(in U.S. $ Thousands)

	SEPTEMBER 30, 1991	SEPTEMBER 30, 1990 (Unaudited)
REVENUES AND FINANCING SOURCES:		
Appropriations Expensed	$2,238	$1,689
Interest on Loans	1,609	2,236
Fees	244	171
Interest on Investments (Note 5)	1,984	1,430
Total Revenues and Financing Sources	6,075	5,526
EXPENSES:		
Provisions for Doubtful Amounts (Notes 6, 7, and 8)	3,639	1,310
Provision for Claim Losses (Note 9)	757	319
Salaries	765	853
Contractual Services	735	396
Lender Training Expense	262	0
Operational Travel	57	72
Overhead Expenses	433	403
Other Expenses	8	19
Total Expenses	6,656	3,372
Excess (Deficiency) of Revenues over Expenses before Elimination of Unfunded Expenses	(581)	2,154
Unfunded Expenses (Note 12)	13	34
Excess (Deficiency) of Revenues over Funded Expenses	($568)	$2,188

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

AGENCY FOR INTERNATIONAL DEVELOPMENT
PRIVATE SECTOR INVESTMENT PROGRAM
STATEMENT OF CHANGES IN GOVERNMENT EQUITY
FOR THE YEAR ENDED SEPTEMBER 30, 1991

(In U.S. $ Thousands)
September 30, 1991

	Appropriated Capital	Cumulative Results of Operations	Reserved Capital	Future Funding Requirements	Changes in Government Equity
Government Equity, beginning of year	$76,000	$6,742	$319	($34)	$83,027
Unobligated funds returned to Treasury	(52,178)				(52,178)
Reserved Capital for Outstanding Guarantees		(735)	735		0
Appropriation withdrawn	(939)				(939)
Deficiency of Revenues over Expenses		(568)			(568)
Unfunded Expenses				(13)	(13)
Government Equity, end of year	$22,883	$5,439	$1,054	($47)	$29,329

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

AGENCY FOR INTERNATIONAL DEVELOPMENT
PRIVATE SECTOR INVESTMENT PROGRAM
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 1991 AND 1990

(In U.S. $ Thousands)

	SEPTEMBER 30, 1991	1990 (Unaudited)
Cash Flows from Operating Activities:		
Excess (Deficiency) of Revenue over Expenses	($568)	$2,188
Adjustments to Reconcile Excess (Deficiency) to Net Cash From Operating Activities:		
Provision for Claim Losses	757	319
Provisions for Doubtful Accounts	3,639	1,310
Amortization of Discount on Investments	(1,830)	0
Increase in Unamortized Origination Fees	6	130
Decrease in Interest Receivable, before provision	49	67
Decrease in Fees Receivable, before provision	9	18
Increase in Claims Payable	20	0
Claim Losses Realized	(22)	0
Loan Disbursements	(1,858)	(4,714)
Loan Principal Repayments	4,889	5,896
Net Cash Flows from Operating Activities	5,091	5,214
Cash Flows from Investing Activities:		
Purchase of U.S. Government Obligations	(6,180)	(9,784)
Redemption of U.S. Government Obligations	33,575	0
Net Cash Flows from Investing Activities	27,395	(9,784)
Cash Flows from Financing Activities:		
Unobligated Funds Returned to Treasury	(52,178)	0
Appropriation Withdrawn	(939)	0
Net Cash Flows from Financing Activities	(53,117)	0
Net Increase (Decrease) in Cash	(20,631)	(4,570)
Fund Balance with Treasury, beginning of year	36,931	41,501
Fund Balance with Treasury, end of year	$16,300	$36,931

The increase in Accounts Payable is funded by the increase in the Fund Balance with A.I.D. The increase in the Accrued Annual Leave Liability is funded by the increase in Future Funding Requirements.

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

AGENCY FOR INTERNATIONAL DEVELOPMENT
PRIVATE SECTOR INVESTMENT PROGRAM
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 1991 AND 1990

Note 1. Entity and Mission

Entity

The Private Sector Investment Program (PSIP) is administered by the Agency for International Development (A.I.D.), an agency of the U.S. Government, and operates through: (a) the Private Sector Revolving Fund; (b) funding provided by A.I.D.'s appropriation for Private Sector, Environment, and Energy Development Assistance; (c) funding provided by A.I.D.'s appropriation for Agriculture, Rural Development, and Nutrition; and, (d) funding provided by A.I.D.'s appropriation for operating expenses. The Private Sector Revolving Fund is a statutorily defined government entity -- however, the Private Sector Investment Program, which encompasses the Private Sector Revolving Fund, is not. For the purposes of these financial statements, the Private Sector Investment Program includes the Private Sector Revolving Fund and those transactions incurred by A.I.D. in performing functions in pursuit of the objectives of the Private Sector Investment Program.

Mission

A.I.D. has increased its emphasis on providing U.S. foreign assistance through private-sector channels. In 1983, a Private Sector Revolving Fund was established to promote private-sector led economic growth by providing loans to small businesses and cooperatives in developing countries.

The Revolving Fund was authorized by the International Security and Development Assistance Authorizations Act of 1983, which added Section 108 to the Foreign Assistance Act of 1961, as amended. Provisions of the legislation include that Fund loans should: support enterprises which will maximize the development impact appropriate to the host country, particularly in employment and the use of appropriate technology; provide, primarily to small business enterprises and cooperatives, necessary support and services not otherwise generally available; provide capital which is at or near the interest rate generally available in that country's market; not provide any more than $3 million for any one project; and not use any more than 20 percent of the Revolving Fund's assets in any one country.

The Omnibus Trade and Competitiveness Act of 1988 added Loan Guarantee Authority to the Direct Lending Authority of the Revolving Fund. Congress intended that loan guaranties, backed by the full faith and credit of the U.S. Government, would mobilize credit in developing country financial markets for private sector growth at a cost less than that of issuing direct loans. Since the risk associated with lending in the small business sector is shared by the Private Sector Investment Program, private lending institutions operating in developing countries are encouraged to extend more market-rate financing.

The outstanding guaranties, for which the Private Sector Investment Program is required to maintain a funded reserve of not less than 25 percent, cover 50 percent of the principal of eligible loans placed under coverage. Specifically, for every $1 held in reserve, the Private Sector Investment Program may issue $4 in guaranties, which is intended to result in $8 of local credit being extended.

Note 2. Summary of Significant Accounting Policies

Basis of Accounting

The financial statements are presented in accordance with generally accepted accounting principles (GAAP). Revenues are recognized when earned and expenses are recognized when a liability is incurred. However, due to a lack of information, changes in the government equity accounts for the year ended September 30, 1990 are not disclosed.

Cash Equivalents

Substantially all of the Private Sector Investment Program's receipts and disbursements are processed by the U.S. Treasury which, in effect, maintains the Private Sector Investment Program's bank accounts. For purposes of the Statements of Cash Flows, the Private Sector Investment Program's funds in the U.S. Treasury are considered cash.

Fund Balance with A.I.D.

A.I.D. holds funds with the U.S. Treasury from which it pays Private Sector Investment Program expenses. At year-end, amounts remaining which are obligated by A.I.D. to pay for the Private Sector Investment Program's Accounts Payable are reflected on the statement of financial position as the Fund Balance with A.I.D.

Investment in U.S. Government Obligations

Investments in U.S. Government obligations are reported at cost, net of unamortized premiums or discounts. Premiums or discounts are amortized into interest income over the term of the investment.

Loans Receivable

Loans Receivable consist of direct loans made to developing country borrowers and to U.S. institutions to lend to their clients in developing countries. In addition, loans are made to U.S. institutions, which then issue standby letters-of-credit to banks in developing countries.

Loans receivable are recorded net of an allowance for uncollectible amounts. Loan set-offs occur when the developing country bank draws on the standby letter-of-credit as a result of defaults by their borrowers. In this instance, the amount drawn down on the standby letter-of-credit will not be repaid to the Private Sector Investment Program by the U.S. institutions and the loan receivable is written down by the amount of the set-off.

Reserves for Guaranty Losses

The Reserve for Guaranty Losses provides for losses inherent in the guaranty operation. This reserve is a general reserve, available to absorb losses related to guaranties outstanding, which are off-balance-sheet commitments. The provision for losses on guaranties is based on management's evaluation of the underlying loans. This evaluation encompasses consideration of past A.I.D. experience with developing country loans and economic and political conditions.

Unamortized Origination Fees

Origination fees in excess of direct origination costs are deferred and recognized over the life of the guarantee as an adjustment to fee income.

Claims Payable

Claims Payable are recognized when defaults under Private Sector Investment Program guaranties are reported to management. In most cases claims are a loss to the Private Sector Investment Program because no recoveries are anticipated.

Annual, Sick and Other Leave

Annual Leave is accrued as it is earned and the accrual is relieved as leave is taken. Each year the balance in the accrued annual leave account is adjusted to reflect current pay rates. To the extent 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 unvested leave are expended as taken.

Note 3. Intra-government Transactions

The Private Sector Investment Program is subject to the financial decisions and management controls of A.I.D., which in turn is subject to the financial decisions and management controls of the Office of Management and Budget (OMB). As a result of these relationships, the program's operations may not be conducted nor its financial position reported as they would be if the Private Sector Investment Program were an autonomous entity.

Operating expenses are funded through the general A.I.D. appropriation. Prior to fiscal year 1990, operating expenses were not allocated to the Private Sector Investment Program.

The Private Sector Investment Program provides training in credit management to program participants and their employees. This aspect of the program provides a benefit to other U.S. Government agencies. The Private Sector Investment Program does not receive financial credits for these benefits.

As discussed in Note 14, the Private Sector Investment Program does not account for those aspects of the pension liability, assets, and expenses which are the responsibility of the U.S. Office of Personnel Management and the Federal Retirement Thrift Investment Board.

Note 4. Fund Balance with the U. S. Treasury

Fund Balance with the U. S. Treasury represents undisbursed obligations for the Private Sector Investment Program's account with the U.S. Treasury. Prior to September 30, 1991, the Fund Balance with the U.S. Treasury also included unobligated funds. As of September 30, 1991, all unobligated funds are canceled, and there will be no further appropriations other than the permanent indefinite appropriation for defaults. Accordingly, $52 million of unobligated funds for Private Sector Investment Program was transferred to the U.S. Treasury subsequent to the year end. Because these unobligated funds were no longer available for use by the Private Sector Investment Program, the Fund Balance with the U.S. Treasury and Appropriated Capital have been reduced by this amount at September 30, 1991.

Note 5. Investment in U.S. Government Obligations

All of the investments in U.S. Government obligations held by the Private Sector Investment Program were redeemed on August 29, 1991. The obligations were redeemed at face value and no gain or loss was realized. Investments in U.S. Government obligations were reported at cost, net of unamortized premiums or discounts, and were redeemable at face amount plus accrued interest.

Note 6. Loans Receivable

Loans Receivable represents direct loans to borrowers. Loans are accounted for as receivable when funds are disbursed. Loans receivable is reduced by an allowance for doubtful amounts. The estimate for the allowance for doubtful amounts is based upon past experience, present market conditions, and analyses of outstanding balances. Loans receivable, net of the allowance for doubtful amounts, by geographical area at September 30, 1991 and 1990, consist of the following (in thousands):

	September 30, 1991	September 30, 1990
Africa	$ 4,834	$ 4,897
Asia	8,235	10,518
Latin America & Caribbean	5,740	5,280
Near East	212	1,688
Multi-Regional/Country	120	0
Total Loans Receivable	19,141	22,383
Less: Allowance for Doubtful Accounts	(5,312)	(1,921)
Loans Receivable, net	$13,829	$20,462

Changes to the Allowance for Doubtful Amounts for the years ended September 30, 1991 and 1990, were as follows (in thousands):

	September 30, 1991	September 30, 1990
Allowance, beginning of year	$1,921	$1,163
Provision Charged to Operations	3,602	1,140
Loan Set-offs	(211)	(382)
Allowance, end of year	$5,312	$1,921

Note 7. Interest Receivable

Interest receivable represents accrued interest earned on the loans receivable balance. Interest receivable, net of allowance for doubtful amounts at September 30, 1991 and 1990, was as follows (in thousands):

	September 30, 1991	September 30, 1990
Interest receivable	$ 536	$ 585
Less: Allowance for Doubtful Amounts	(161)	(163)
Interest receivable, net	$ 375	$ 422

Note 8. Fees Receivable

Fees receivable represents accrued fees that have been earned on both direct loan and outstanding guaranty balances, net of allowance for doubtful amounts. Fees receivable at September 30, 1991 and 1990, was as follows (in thousands):

	September 30, 1991	September 30, 1990
Fees Receivable	$128	$137
Less: Allowance for Doubtful Amounts	(46)	(7)
Fees Receivable, net	$ 82	$130

Note 9. Reserve for Claim Losses

A reserve for claim losses has been established to provide for future claims on guaranties. The activity in the reserve for claim losses during fiscal years 1991 and 1990, was as follows (in thousands):

	September 30, 1991	September 30, 1990
Reserve, beginning of year	$ 319	$ 0
Provision charged to operations	757	319
Claim Losses Realized	(22)	0
Reserve, end of year	$1,054	$319

Note 10. Appropriated Capital

Appropriated Capital pertains to the Private Sector Revolving Fund. Since 1984, the revolving fund received funding of $76 million. During fiscal year 1991, due to the liquidation of the Private Sector Investment Program's "M-account" with the U.S. Treasury, $938,750 was withdrawn from the revolving fund. As of September 30, 1991, all unobligated funds were canceled, and all future appropriations will be subject to the Credit Reform requirements. Unobligated funds at September 30, 1991, amounted to $52 million. Because this balance is payable to Treasury subsequent to September 30, 1991, the Private Sector Investment Program's Fund Balance with the U.S. Treasury and appropriated capital were reduced. As of September 30, 1991, appropriated capital in the revolving fund was $23 million.

Note 11. Cumulative Results of Operations and Reserved Capital

Cumulative results of operations for the Private Sector Investment Program includes the revenues and expenses of the Private Sector Revolving Fund since inception. The Private Sector Investment Program is required by its enabling legislation to segregate in the Revolving Fund Account, and hold as a reserve, an amount estimated to be sufficient to cover the expected losses on the loan guaranties outstanding, but in any event no less than 25 percent of outstanding guaranties. The reserve is reflected as a reserved capital balance in the statement of financial position and has been established through a deduction from cumulative results of operations.

Note 12. Unfunded Expenses and Future Funding Requirements

Unfunded expenses of the Private Sector Investment Program are comprised of the increase or decrease for the fiscal year in the accrued annual leave liability. These expenses will be funded through appropriations to A.I.D. in the years the outlays occur, as leave is taken by employees. Future funding requirements comprise the outstanding balance of accrued annual leave at the end of the fiscal year.

Note 13. Commitments and Financial Instruments with Off-Balance Sheet Risk

The Private Sector Investment Program is subject to credit risk for financial instruments not included in its Statement of Financial Position. These financial instruments are guaranties on loans which provide principal and interest protection to lenders in developing countries against risks of lending to borrowers. To mitigate its off-balance sheet risk, the Private Sector Investment Program has indirect collateral supporting up to 100 percent of the guaranty. However, the Private Sector Investment Program's ability to recover on this collateral is uncertain.

The program limits each project guaranty to $3 million and guarantied loans to any one borrower may not exceed 50 percent of the cost of the activity to be financed. The total financial guaranties utilized by the Private Sector Investment Program at September 30, 1991, were $4 million, and guaranties committed, not utilized, at September 30, 1991, were $89 million. The Congressionally-approved limit to guaranties as of September 30, 1991, was $129 million. Outstanding guaranties that management estimates may ultimately result in losses have been reflected as a liability in the Reserve for Claim Losses. In addition, accumulated earnings equal to 25 percent of guaranties outstanding are restricted in a funded Reserved Capital account within Government Equity.

Note 14. Retirement Plan

The Private Sector Investment Program's employees participate in the Civil Service Retirement System (CSRS) or the Federal Employee Retirement System (FERS). Under both plans, the Private Sector Investment Program makes matching contributions.

Although the Private Sector Investment Program funds a portion of employee pension benefits and makes necessary payroll withholdings, it has no liability for future payments to employees under the programs, nor is it responsible for reporting the assets, actuarial data, accumulated plan benefits, or any unfunded pension liability of the retirement plans. Reporting of such amounts is the responsibility of the U.S. Office of Personnel Management and the Federal Retirement Thrift Investment Board. Data regarding actuarial present value of accumulated benefits, assets available for benefits, and unfunded pension liability are not allocated to individual departments and agencies.

Note 15. Subsequent Event -- Credit Reform

The Private Sector Investment Program is subject to the Federal Credit Reform Act of 1990 (PL 101-508), which was effective as of October 1, 1991. The primary objective of Credit Reform is to identify the costs inherent in federal credit programs so that they may be compared more easily with the costs of other federal spending. Consequently, commencing in fiscal year 1992, the program's activities will be funded through direct appropriation and borrowings from Treasury, rather than through retained earnings accumulated over the years. Accordingly, the Private Sector Investment Program's financial presentation of its credit activities will change in 1992 and subsequent years as deficiencies are anticipated in the budget process and funded in advance through appropriations.

Note 16. Reconciliation of Expenses to Budget^ry Outlays

The Private Sector Investment Program's collections exceeded its outlays for fiscal years 1991 and 1990, and thus it had negative outlays for budgetary reporting purposes. The following reconciliation relates expenses reported in the Statements of Operations to negative budgetary outlays for the fiscal years ended September 30, 1991 and 1990, (in thousands):

	September 30, 1991	September 30, 1990
Total Expenses:	$ 6,656	$ 3,372
Adjustments to Total Expenses:		
Loan Disbursements	1,858	4,714
(Increase) in Claim Payable	(20)	0
Expenses not Requiring Outlays	(4,407)	(1,664)
Appropriations Expensed	(2,238)	(1,689)
Net Expenses	1,849	4,733
Less: Collections	(6,940)	(10,277)
Negative Outlays	$(5,091)	$(5,544)

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Appendix V

To the Administrator
and the Inspector General
of the U.S. Agency for International Development

Report of Independent Accountants on Internal Controls

We were engaged to audit the financial statements of the Private Sector Investment Program of the Agency for International Development (A.I.D.) as of and for the year ended September 30, 1991 and have issued our report thereon dated July 17, 1992. In planning and performing our audit of the financial statements of A.I.D.'s Private Sector Investment Program as of and for the year ended September, 30, 1991, we considered its internal control structure. The purposes of this consideration were to: (1) determine our auditing procedures for the purpose of expressing our opinion on the financial statements; and (2) determine whether the internal control structure meets the objectives identified in the following paragraph. This included obtaining an understanding of the internal control structure policies and procedures and assessing the level of control risk relevant to all significant cycles, classes of transactions, or account balances; and for those significant control policies and procedures that have been properly designed and placed in operation, performing sufficient tests to provide reasonable assurance that the controls are effective and working as designed to prevent or detect material errors in the financial statements.

The management of the Private Sector Investment Program is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that obligations and costs are in compliance with applicable laws; funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports in accordance with applicable accounting standards; and to maintain accountability over assets. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures in the following categories: origination of loans and guaranties, cash receipts, loans receivable, investments, purchasing, cash disbursements, salaries and benefits, accounts payable and accrued expenditures, appropriations, project monitoring, and financial statement preparation and reporting.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants and Office of Management and Budget (OMB) Bulletin 91-14. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to ensure that obligations and costs are in compliance with applicable law; funds, property and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports in accordance with applicable accounting standards; and to maintain accountability over the assets.

A material weakness is a reportable condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not disclose all reportable conditions that are also considered to be material weaknesses as defined above.

MATERIAL WEAKNESSES

Since the inception of the program, not all program costs have been reported in the accounting records.

Condition:

Generally accepted accounting principles require that costs be matched with the benefits derived therefrom. However, all the costs associated with the Private Sector Investment Program (PSIP) operations have not been recorded.

The problem is two-fold: (1) indirect costs were not allocated, and (2) direct costs were not specifically identified as costs related to this program. Since disbursements are made by A.I.D. on behalf of PSIP without specific program identification (i.e. an organization code), we are unable to determine whether all costs are recorded. The following instances of unrecorded costs describe some of the factors contributing to this weakness:

(1) Intraagency overhead costs have not been allocated to the Private Sector Investment Program

Allocation is the accounting process of assigning or distributing an amount according to a plan or formula. A cost is allocable if it is assignable to one or more cost objectives on the basis of relative benefits received or other equitable relationship.

A.I.D. did not allocate operating or overhead costs to PSIP in fiscal year 1991. As such, costs incurred were not reported as program costs. One central fund is used to account for expenditures relating to most of A.I.D.'s programs. These costs include direct and indirect costs, such as A.I.D. support costs and general and administrative expenses.

As a result of the audit, an allocation study performed by the A.I.D. Budget Office for fiscal year 1992 was used as a basis for the 1991 and 1990 overhead expenses in the financial statements.

(2) Not all direct costs incurred on behalf of PSIP were recorded in PSIP's underlying accounting records.

Development assistance funds have been disbursed on behalf of PSIP for contracted services. These services include third party evaluations and various feasibility studies. However, the official financial record keepers of PSIP, the Loan Management Division, were not systematically notified of all such expenditures. Therefore, they were not recorded in the underlying financial records/ledgers of the program as expenditures incurred to sustain the program's operations.

We identified contractual services, lender training, and other services of approximately $1 million in 1991 and $400 thousand in 1990 funded by A.I.D. which needed to be reflected in the financial statements for the years ended 1991 and 1990. Most of the funds appeared to be utilized to design projects and to monitor progress of those projects already in existence -- both appropriate and critical functions of PSIP. However, we were unable to ascertain whether these costs were all inclusive since Loan Management did not maintain records reflecting all program-related disbursements and the Agency's systems did not identify disbursements from the central fund by a PSIP organizational code.

Cause:

The Office of Budget did not identify, for 1991 and prior years, PSIP as a revolving fund program which required its accounting information to be maintained separately from that of A.I.D. as a whole.

Additionally, all disbursements are not obligated in Loan Management; rather certain purchase orders are obligated in A.I.D.'s Cash Management Division. Since these disbursements were not reported to Loan Management, the official accountants of the program have not been kept abreast of all program costs. Additionally, because PSIP was not assigned an agency organization code it is extremely difficult to identify all expenditures paid by A.I.D. on behalf of the program for 1991 and earlier years.

Effect:

The financial statements may not accurately reflect the total costs associated with PSIP operations. Since we could not ascertain whether all costs were accumulated, fiscal year 1991 and 1990 appropriations expensed and expenses could be understated. Also, since this reporting practice has occurred from the program's inception, there may have been assets purchased with appropriated funds which are not reflected in the financial statements.

Recommendation:

Responsibility for program accounting functions specific to PSIP should be formalized. Procedures should be documented and reviewed for: (1) segregation of responsibility; (2) elimination of redundancy in program and accounting personnel functions; (3) adequacy of internal controls; (4) responsibility and frequency for issuing management and financial reports; and (5) required clearance on financial commitments. The policies and procedures should be formalized and issued in a handbook so all existing and new personnel impacting the operations of PSIP will be informed of the appropriate procedures. All program financial activity should be processed through Loan Management.

It is necessary to assign an organizational code to PSIP to ensure that all applicable disbursements made from the agency central fund accounts can be captured and reported to Loan Management as program expenditures.

Further, management should reconstruct past direct costs disbursed from the Private Sector Revolving Fund for the purpose of determining whether funds disbursed were expensed rather than being capitalized and reflected in the financial statements.

Loan Management does not maintain a General Ledger Accounting System over PSIP operations.

Condition:

Financial statement preparation involves the summarization, classification, and presentation of financial data derived from general ledger control accounts which accumulate balances from detailed records or subsidiary ledgers used to account for program operations.

However, the Loan Management Division did not maintain a general ledger -- automated or manual -- to account for the financial transactions of PSIP. Three years ago the program ceased using its general ledger because it was obsolete and cumbersome. Financial reporting is accomplished through the manual compilation of numerous sundry workpapers and subsidiary ledgers. This lack of general ledger control renders the program susceptible to errors in financial records and the financial statements, and results in a lack of reliable data with which to manage the program.

Cause:

Systems procurement has been postponed in anticipation of the implementation of the Agency's new integrated financial system.

Effect:

Delays and clerical errors in compiling financial statements occur. Additionally, daily processing functions are delayed due to the time-consuming effort of financial statement reporting. Further, management is unable to utilize system generated reports on a routine basis to analyze the financial condition of the program. Thus, trends, errors, and variances go undetected.

Recommendation:

Loan Management needs to automate the PSIP accounting system. The new general ledger system should interface to the Loan Accounting Information System and a newly developed guaranty portfolio system. It should produce management reports which would facilitate financial analysis of the program as well as performance measurement.

Consideration should be given to developing a separate module on the recently implemented Housing Guaranty Portfolio Management System (HGPMS) to account for PSIP guaranties. Further, consideration should be given to consolidating the general ledger system development with the Housing Guaranty Program, as both processes are currently manual.

In the interim, the manual accounting and reporting system of PSIP should be reassessed. Subsidiary and general ledgers should be maintained, and should encompass all program transactions. Also, management reports should be compiled manually and provided on a periodic basis to aid in the financial management of the program.

Desktop accounting procedures should be developed and formalized to ensure that all necessary functions are performed and that duties are appropriately segregated. This procedural review would also facilitate the examination of the responsibilities associated with the position and the need for additional resources.

Desktop procedures should include the flow of financial information, as follows:

- source documentation/workpapers to subsidiary ledgers;
- subsidiary ledgers to general ledger;
- general ledger to trial balance; and
- trial balance to financial statements.

Program and Financial Management policies and procedures have not been adequately formalized and documented.

Condition:

The organizational structure does not provide for clear reporting relationships between financial and program management. It does not foster assignment of responsibility and accountability for financial decisions and accounting and reporting requirements. Functional responsibilities have not been formally defined or reviewed and procedures have not been adequately documented to ensure an effective and efficient operation. As such, we have identified areas whereby program and financial personnel have duplicated efforts. Specifically, efforts have been redundant in the areas of billing, and direct loan and guaranty portfolio tracking.

We also identified areas where important processes were not taking place because of the lack of communication and management reporting necessary to conduct sufficient financial planning and ensure effective utilization of PSIP's resources. For example, Financial Management does not partake in credit review committee meetings prior to project implementation, nor are they provided with necessary financial data after project implementation. For instance, we have noted occasions in which information regarding the credit worthiness of direct loan projects was not communicated, thus inhibiting the ability to accurately assess loan loss allowances. Also, information pertaining to contract costs was not remitted to, or obtained by, Financial Management for accumulation in the financial records. Consequently, financial information necessary for fiscal planning and fair presentation in the financial statements was incomplete.

Cause:

A lack of documented policies and procedures, and poor lines of communication between program and financial management to facilitate discussions regarding financial aspects of the projects has contributed to the control weakness. Additionally, the information systems are fragmented and incapable of addressing certain aspects of the varying project agreements.

Effect:

A lack of communication and formalized procedures has resulted in a lack of accountability to Financial Management in providing sufficient information to account for and report on the financial condition of the program.

Recommendation:

Policies and procedures should be formalized, documented, and published. The written procedures should be specific and should address the routine functions of personnel from staff levels to management. Procedures should make clear: (1) the responsible party; (2) accountable party (i.e. authorizing official); (3) required frequency of the duty; (4) information systems; and (5) forms, checklists, and reports necessary to facilitate the function and report to management. Procedures should include the flow of all types of documents from and to external parties as well as between financial and program management. The sending party, receiving party, purpose of report, and recordation/reporting process of the information should be documented.

Procedures should be reviewed for adequate controls including segregation of responsibility, and efficiency and effectiveness of tasks.

Additionally, Financial Management should partake in credit risk assessments and financial management compliance reviews of projects. Routine reporting of the credit status of all outstanding projects should be implemented for use by both divisions, and regular meetings should be established to ensure open communications between all key operating and accounting managers of PSIP.

Appendix V

Monitoring of program participants is insufficient. Consequently, program objectives and compliance with project agreements are not fully achieved.

Condition:

Monitoring of worldwide program participants to ensure compliance with contractual agreements and to determine attainment of program objectives is the responsibility of management located in Washington, D.C.

For the most part, A.I.D. relies upon Washington-based monitoring techniques to control the compliance and output of the PSIP participants. On-site financial and compliance reviews of the few program participants examined during the audit had not been conducted by A.I.D.

Our review of two projects revealed the discrepancies noted below which were not apparent to A.I.D. through current monitoring techniques.

(1) Letter of Credit/Guarantees issued under the direct loan authority comprise approximately 70% of the utilized authorizations. Examination of one of these facilities revealed the following:

- Project subloan reports detailing qualifying criteria were not completed by the bank, nor was supporting documentation maintained by the bank to ensure that the recipients had met the A.I.D.-established eligibility criteria.

- All funds disbursed under a "Loan-Backed Guaranty" (direct loan) were not available to LDCs. Specifically, 60% of $1.2 million in funds disbursed by A.I.D. to a U.S. borrower had not resulted in disbursement authorization for its overseas affiliate to originate loans to LDC banks.

- The LDC banks tested were not making the one-for-one matching of the A.I.D. funds or sharing in the program risk as intended and contracted.

- Program funds received by the LDC banks examined had not been fully utilized, and those banks which have utilized funds did not originate subloans within the required time frames.

Appendix V

- For loan-backed guarantees issued under the direct loan authority, A.I.D. reports as "utilized amount" 100% of the loan disbursement to the U.S. borrower, rather than ultimate utilization by the LDC. Consequently, the financial information presented in such reports as the PSIP Program Overview might be misconstrued to represent impact to the LDC. In actuality, the Loan-Backed Guaranty programs have resulted in significantly less utilization by the subborrower than that reported. Specifically, disbursements under one authorization amounted to $1.2 million of the $2 million authorized. Therefore, 61% of the amount authorized was reported as project utilization. However, the ultimate impact to the private sector small businesses in the less developed country was $260 thousand, or 13% of the authorization.

  Further, other direct loans intended to result in lines of credit guaranty have been prepaid by the borrower as a result of underutilization. Although there was virtually no impact to the private sector, the PSIP practice has been to report utilization as 100% since the entire loan was disbursed to the U.S. borrower.

(2) Under Loan Guaranty Authority, which represents 8% of utilized authorizations, A.I.D. entered into a Small Business Loan Portfolio Guaranty with an LDC bank which we reviewed as part of the audit. Our review indicated that the LDC bank's reports submitted to A.I.D. did not agree the bank's financial records. The reports submitted to A.I.D. included qualifying loans which were not recorded in the bank's records.

Cause:

PSIP has insufficient human and financial resources, procedures, and automated systems to adequately monitor the compliance and output of program participants. Additionally, the project complexities have increased the opportunity for control breakdown.

Effect:

Discrepancies go undetected by A.I.D. The project agreements are not adhered to and the impact of the program is not that which was intended. Resources have been expended in developing projects which have a less-than-expected impact in the LDCs. Additionally, information for certain projects concerning utilization is not clearly reported in management and financial reports used to prepare the overview section of the PSIP Annual Financial Statement.

Recommendation:

A.I.D. should assess the procedures, automated systems, and resources necessary to adequately monitor this program. Resources should be made available to perform financial and management compliance reviews either by allocating A.I.D. personnel and travel resources, or by contracting to perform these tasks.

Project complexities associated with innovative schemes, as mandated, cannot be adequately controlled in the current environment, given the inadequate resources and systems. Management has the responsibility to implement adequate controls designed according to the relative complexity of the projects.

Additionally, management should analyze its performance indicators and include the ultimate impact of the projects as a measure of program success. For example, in the Loan-Backed Guaranty project mentioned above, utilization should not only be measured by disbursements to U.S. borrowers or increased liquidity to LDC banks, but by increased loans to private sector small businesses.

Financial controls over claims processed against A.I.D. for Loan-Backed Guaranty projects are inadequate.

Condition:

Under some of the Program's Loan-Backed Guaranty agreements, A.I.D. has contracted with the borrower to allow the borrower to reduce ("set-off") the principal balance of its note by any amount for which the sub-borrower defaults. In this manner, the claim against A.I.D. is promptly discharged. However, the obligation and cash management controls established in A.I.D. and facilitated by the Financial Accounting and Control System (FACS) are bypassed through this "set-off" process. Thus, A.I.D. is vulnerable to unknowingly incurring expenditures in excess of the obligational and expenditure authority approved by the Administrator for this program. Further, the Agency has no authority to expend funds in this manner unless they have been apportioned by OMB. In addition, documentary evidence to support the amount expended -- in this case, "claims loss expense" -- has not been reviewed and approved by a Certifying Officer of the Agency in accordance with its cash management policies and procedures.

Finally, program losses processed in this manner were not recorded on a timely basis, because normal claim loss procedures are bypassed.

Cause:

Agreements were entered into which were not reviewed for compliance with A.I.D.'s financial management requirements. Also, the procedures outlined above were implemented because they are relatively simpler and are quicker for participants to administer, thereby increasing participation in the program.

Effect:

Cash Management policies and procedures, including the Certifying Officer approval process, are bypassed. Additionally, the true costs of the program are not recognized in a timely fashion.

Recommendation:

A.I.D. management should determine a method for accounting for obligations and complying with the U.S. Treasury regulations given the current contract agreements. Alternatively, contracts should be amended to require full repayment of the loan by the borrowers and cash disbursements from A.I.D. to the borrowers in the event of a claim.

Procedures should require Financial Management clearance prior to entering into payment terms with third parties.

****

We also noted other matters involving the internal control structure and its operations that we are reporting to the management of the Private Sector Investment Program of A.I.D. in a separate letter.

This report is intended for the information of the Congress, the A.I.D. Office of the Inspector General, and the management of the Agency for International Development. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Price Waterhouse

Washington, D.C.
July 17, 1992

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1801 K Street, N.W.
Washington, DC 20006

Telephone 202 296 0800

Price Waterhouse

Appendix VI

To the Administrator
and the Inspector General
of the U.S. Agency for International Development

Report of Independent Accountants on Compliance with Laws and Regulations

We were engaged to audit the financial statements of the Private Sector Investment Program of the Agency for International Development (A.I.D.) for the year ended September 30, 1991 and have issued our report thereon dated July 17, 1992.

Compliance with laws and regulations applicable to the Private Sector Investment Program is the responsibility of A.I.D.'s management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we tested compliance with laws and regulations that may directly affect the financial statements and certain other laws and regulations designated by Office of Management and Budget and A.I.D. Applicable laws included: Section 2151f of the Foreign Assistance Act of 1961, as amended; the Chief Financial Officers Act of 1990; the Budget and Accounting Procedures Act of 1950; the Debt Collection Act of 1982; and the Prompt Payment Act. We reviewed management's process for evaluating and reporting on internal control and accounting systems as required by the Federal Managers' Financial Integrity Act (FMFIA) and compared A.I.D.'s most recent FMFIA reports with the evaluation we conducted of the Private Sector Investment Program's internal control system. We also reviewed the program's policies, procedures, and systems for documenting and supporting financial, statistical, and other information presented in the overview of the reporting entity and supplemental financial and management information, entitled "Program Overview". It was not our objective to provide an opinion on overall compliance with such provisions.

Material instances of noncompliance are failures to follow requirements, or violations of prohibitions, contained in laws or regulations that cause us to conclude that the aggregation of the misstatements resulting from those failures or violations is material to the financial statements or the sensitivity of the matter would cause it to be perceived as significant by others. The results of our tests of compliance disclosed the following instances of material noncompliance.

A.I.D. management has not complied with provisions in the Debt Collection Act of 1982 which are applicable to the Private Sector Investment Program with respect to the billing and collection of loans receivable. Inadequate due diligence policies and procedures, coupled with a lack of automation have contributed to management's noncompliance with the Act.

A.I.D. management has not ensured compliance with the requirements of the Federal Managers' Financial Integrity Act of 1982 to establish internal administrative and accounting controls for the Private Sector Investment Program in accordance with standards established by the Comptroller General. Thus, management cannot provide reasonable assurance that: obligations and costs are in compliance with applicable laws; funds, property and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports in accordance with applicable accounting standards; and to maintain accountability over assets.

Further, our review of management's process for evaluating and reporting on internal control and accounting systems as required by the Federal Managers' Financial Integrity Act (FMFIA) revealed that A.I.D.'s most recent FMFIA reports did not reflect material weaknesses in the Private Sector Investment Program's internal control structure. These weaknesses significantly impair the fulfillment of the Private Sector Investment Program's mission, violate statutory requirements of the Debt Collection Act and significantly weaken safeguards against unauthorized use of funds. Accordingly, the material weaknesses meet the criteria set forth by Office of Management and Budget for FMFIA reporting requirements.

We considered these material instances of noncompliance in our decision to disclaim an opinion on the Private Sector Investment Program financial statements for the year ended September 30, 1991.

Our review of the information presented in the "Program Overview" revealed that the Private Sector Investment Program management had not formulated performance indicators for use in measuring and reporting achievement of program objectives. Further, as disclosed by management in the Annual Financial Statement, the financial and performance information that was presented in the "Program Overview" was not derived from adequate systems which document and support the information presented. The agency has initiatives underway to design an integrated financial management system intended to provide for the timely and uniform preparation of financial information and systematic measurement of performance and, accordingly, is complying with the provisions of the Chief Financial Officers Act relating to system-supported performance measures.

As discussed in our report on the financial statements dated July 17, 1992, the scope of our work was not sufficient to enable us to express an opinion on the financial statements for the year ended September 30, 1991. Because the scope of our testing was limited as a result of the Private Sector Investment Program's lack of adequate accounting records and automated systems, we are unable to determine whether all transactions complied in all material respects with the provisions referred to in the second paragraph of this report. Consequently, we are unable to determine, and thus give no assurance that, the Private Sector Investment Program complied in all material respects with those provisions.

This report is intended for the information of the Congress, the A.I.D. Office of the Inspector General, and the management of the Agency for International Development. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Price Waterhouse

Washington, D.C.
July 17, 1992

U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

JUL 24 1992

MEMORANDUM

TO: AIG/A, John Competello

FROM: AA/FA, Richard A. Ames RAA
A-AA/PRE, John L. Wilkinson JW

SUBJECT: Draft Audit on A.I.D.'s Private Sector Investment Programs

We are in general agreement with the recommendations included in the draft audit report. Resolution of the problems will require substantial effort by the Agency and action may be delayed because of other corrective action to resolve problems elsewhere in the Agency, since resources are limited. A plan to address the issues raised and plans to resolve them will be included in the Chief Financial Officer's five-year plan due to OMB by the end of August.

We appreciate the efforts of your staff and that of Price Waterhouse in provision of the first-ever financial audit of the Private Sector Investment Program.

Appendix VIII

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