PD-ABG-283

Financial Audits

AUDIT OF A.I.D.'S DIRECT LOAN PROGRAM'S 1992 ANNUAL FINANCIAL STATEMENT UNDER THE CFOs ACT OF 1990

Report No. 0-000-93-004
June 30, 1993

INSPECTOR GENERAL

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

USAID

U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

*Assistant Inspector General
for Audit*

June 30, 1993

MEMORANDUM

TO: AA/FA, Richard A. Ames

FROM: AIG/A, James B. Durnil

SUBJECT: Audit of A.I.D.'s Direct Loan Program's Fiscal Year 1992 Annual Financial Statement Under the CFOs Act of 1990

The Chief Financial Officers (CFOs) Act of 1990 requires the U.S. Agency for International Development (A.I.D.) to prepare an Annual Financial Statement for the Direct Loan Program. This statement is to include the presentation of program and financial performance information related to the program. The A.I.D. Office of the Inspector General is responsible for auditing the Annual Financial Statement. To fulfill this responsibility, we contracted with the independent certified public accounting firm of Price Waterhouse to perform, under our general oversight, the financial audit for fiscal year 1992. In addition, the A.I.D. Office of Inspector General reviewed the presentation of management performance information required by the Office of Management and Budget (OMB). This report presents the results of the audit.

The audit was made in accordance with the Generally Accepted Government Auditing Standards, established by the Comptroller General of the United States, and OMB Bulletin Number 93-06, "Audit Requirements for Federal Financial Statements." Those standards require the audit to provide reasonable assurance that financial statements are free of material misstatement. The audit included obtaining an understanding of the relevant internal control policies and procedures designed to achieve control objectives; determining that the controls had been placed in operation; and assessing the control risks. The audit also included tests of A.I.D.'s compliance with certain laws and regulations.

The Direct Loan Program consists of direct loans issued by A.I.D. and predecessor agencies, since the inception of U.S. foreign economic assistance in 1948. The Direct Loan Program funds a multitude of economic, technical, and financial projects in 105 countries. A.I.D. currently services about 2000 loans. Funding for the Direct Loan Program's twelve active funds was appropriated by the U.S. Congress. Responsibility for designing, implementing and monitoring programs rests with the A.I.D. Bureaus and Missions.

Financial Statement Audit

The accounting firm of Price Waterhouse was engaged to make an audit of A.I.D.'s Direct Loan Program's fiscal year 1992 Annual Financial Statement. The audit objectives were to determine whether: (1) the Direct Loan Program's financial statements were presented fairly in accordance with generally accepted accounting principles or a comprehensive basis of accounting other than generally accepted accounting principles, (2) the Direct Loan Program had an adequate internal control structure, and (3) the Direct Loan Program complied 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.

Price Waterhouse was unable to express an opinion on the financial statements. The accounting records and systems maintained to account for the Direct Loan Program's operations were inadequate. In particular: (1) general ledger control techniques have been absent for some time; (2) policies and procedures have not been formalized to ensure segregation of duties; (3) cash accounts and loan system balances have not been reconciled for years; and (4) known system logic errors exist in the accounting systems which have not been corrected. As a result of these deficiencies, substantially all balances in the financial statements may be affected. Price Waterhouse was unable to apply alternative auditing procedures to satisfy themselves regarding substantially all account balances, and systems were inadequate to facilitate audit testing.

Price Waterhouse's "Report on Internal Control Structure" identified three material weaknesses[1]. These weaknesses are discussed below and recommendations are made for corrective measures.

Material Weakness No. 1:

"An effective system of checks and balances has not been established by the Loan Management Division for the Direct Loan Program. The general ledger system is not maintained, and sufficient subsidiary records and source documents do not exist."

The Loan Management Division, which is responsible for the accounting and management reporting functions of the Direct Loan Program, has not utilized the general ledger system for several

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[1] See Price Waterhouse's "Report on Internal Control Structure" for the definition of a "material weakness".

years. Activity for FY 1992 and prior was posted to the general ledger as of April 1993. Certain transactions were not captured, while others were not supported by source documents. The Loan Management Division has not established subsidiary ledgers for all general ledger accounts, and where subsidiary ledgers do exist, controls have not been implemented to ensure that only accurate and supportable data is recorded. U.S. Treasury guidance and A.I.D. Handbook 19 require all accounts to be supported by a general ledger which represents the accumulation of all accounting transactions. As a result of the conditions discussed above, the Loan Management Division cannot use general and subsidiary ledgers for generating internal and external reports, or as a basis for preparing the financial statements required under the CFOs Act. (See pp. 3 - 5 of Price Waterhouse's internal control report for further discussion of the material weakness.)

Recommendation No. 1: We recommend that the Associate Administrator for Finance and Administration:

(a) Modify the existing general ledger account structure in accordance with guidelines provided in Treasury Bulletin No. S2-93-01, "Standard General Ledger."

(b) Require that subsidiary ledgers be maintained for all general ledger accounts.

(c) Implement the necessary controls to ensure that all entries to the subsidiary ledgers are accurate and supported by source documents.

(d) Maintain standard general ledger controls, including monthly reconciliation of obligations, accruals, and cash transactions.

<u>Material Weakness No. 2</u>:

"The Direct Loan Program does not have an integrated financial management system. In addition, data entry controls have not been implemented and information in systems is not reconcilable."

The Direct Loan Program's financial management structure is comprised of seven computer systems, two of which are primary. These systems are old, have many deficiencies, and contain data which cannot be reconciled. Management has not corrected the systems problems, in part because a new comprehensive system is being developed that presumably will be a replacement. OMB guidance calls for coherent, timely, and accurate financial management data bases. The absence of effective systems diminishes fund control, compliance with legislation, and accuracy of reports. (See pp. 5 - 8 of Price Waterhouse's internal control report for further discussion of the material weakness.)

Recommendation No. 2: We recommend that the Associate Administrator for Finance and Administration:

(a) Develop a financial management system improvement plan to: (i) address the deficiencies which can be readily resolved in the near term, and (ii) ensure that the most complex data integrity issues and user requirements are considered in the agency's conversion to its integrated accounting system currently being planned for the future.

(b) Review staffing resources, and reassign limited staff as appropriate, to ensure that policies and procedures to reconcile system data on a timely basis can be implemented.

<u>Material Weakness No. 3</u>:

"Formal, comprehensive policies and procedures have not been formulated to ensure that the Direct Loan Program is operated effectively."

Detailed policies and procedures did not exist to ensure that all required control activities are performed. Activities not performed adequately included reconciliations, supervisory approvals for journal entries, deposits of cash, and notices of payments due. This condition exists because the program managers considered the operation of the Direct Loan Program to have a low priority, sufficient staff has not been assigned to the program, and controls have further diminished by management directly assuming certain functions. Guidance from the Office of Management and Budget (OMB) and the U.S. Department of Treasury require effective internal controls. The absence of controls leaves the Direct Loan Program susceptible to mismanagement, possible losses, and inaccurate financial reporting. (See pp. 8 - 11 of Price Waterhouse's internal control report for further discussion of the material weakness.)

Recommendation No. 3: We recommend that the Associate Administrator for Finance and Administration:

(a) Develop a policy and procedures manual which clearly defines the functions that should be performed as part of day-to-day operations of the Direct Loan Program.

(b) Require the Loan Management Division to conduct periodic self assessments which ensure policies and procedures are adequately implemented.

Price Waterhouse's "Report on Compliance with Laws and Regulations" identified management's lack of compliance with 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 weaknesses significantly impair the fulfillment of the Direct Loan Program's mission, violate statutory requirements of the Budget and Accounting Procedures Act of 1950 and the Debt Collection Act of 1982, and significantly weaken safeguards against loss of funds. Price Waterhouse considers these to be material instances of noncompliance[2]. (See Price Waterhouse's "Report on Compliance with Laws and Regulations" for further discussion.)

> **Recommendation No. 4: We recommend that the Associate Administrator for Finance and Administration identify, as a material weakness, the Agency's Direct Loan Program among the material weaknesses to be reported at the end of the current fiscal year in the Federal Managers' Financial Integrity Act Report.**

Assessment of Progress in Developing Performance Measures

The A.I.D. Office of the Inspector General analyzed A.I.D.'s approach to devising performance measures for the Direct Loan Program. Our objective was to determine whether A.I.D. had established a performance measurement system for the Direct Loan Program with an internal control structure that includes an audit trail as to the existence and completeness of performance information captured. Our inquiries were made in the Directorate of Finance and Administration in Washington, D.C. during the period of January through May 1993.

A.I.D. officials advised us that they had not developed performance measures that focus on the programmatic aspects of the Direct Loan Program, since no new loans were executed in FY 1992. A.I.D.'s Overview includes, under the heading of "financial performance", data on three financial indicators, namely (1) current loans as percentage of total portfolio, (2) delinquent loans as percentage of total portfolio, and (3) loan collections compared with current loans receivable. The sources of the data for the three financial indicators are the same systems used for preparation of the FY 1992 financial statements for which a disclaimer is being rendered. Therefore, we are unable to attest to the adequacy of the supporting documentation for the financial performance measures for the Direct Loan program. However, since this report includes recommendations to improve the systems from which financial statements for the Direct Loan program are prepared, we are not making separate recommendations related to the financial performance measures.

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[2] See Price Waterhouse's "Report on Compliance with Laws and Regulations" for the definition of a "material instance of noncompliance".

A.I.D.'s Program Overview on the Direct Loan Program also states, "The Office of Management and Budget (OMB), in an agreement with A.I.D., has accepted the performance measures in this report." According to an A.I.D. official, the basis for this statement is a letter, dated April 20, 1993, from OMB to A.I.D.'s Chief Financial Officer. By way of clarification, we believe it is important to note that OMB's letter characterized the measures for fiscal year 1992 as a "start", and stated it would be important to work to improve "the coverage, relevancy, and usefulness of the measures."

In view of OMB's implicit recognition of the need for additional time to further improve the performance measures, we are not making any recommendations at this time. However, we will continue to monitor A.I.D.'s progress in developing performance measures during our planned audits of the Direct Loan Program for fiscal year 1993 and beyond under the CFOs Act audit requirements.

__Management's Comments and Our Evaluation__

We provided a copy of the draft report to the A.I.D. Associate Administrator for Finance and Administration (A.I.D.'s Chief Financial Officer) and other A.I.D. Financial Management officials who were involved in the audit. These officials indicated they were in general agreement with the conclusions reached and the recommendations.

Management did comment that they do not have the staff to maintain multiple accounting systems on a current basis, nor are they likely to obtain staff. Many of the problems in accounting operations, indeed most of the problems, will only be resolved when new financial systems are available, procedures are written and in place, and adequate staff are trained. Management stated that this process has begun with the addition of three direct-hire staff and three contract personnel. Management's current plan is to complete these actions sometime in 1995. Our recommendations include interim actions that management may wish to consider taking prior to 1995, given the magnitude of the Direct Loan Program and the level of risk identified. (A copy of management's written comments to the draft audit report is attached as Appendix I.)

We appreciate the courtesies and cooperation extended to both the staffs of the A.I.D. Office of Inspector General and Price Waterhouse during the course of this audit. Please advise me within 30 days of any actions planned or taken to close the recommendations.

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Price Waterhouse

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REPORT OF INDEPENDENT ACCOUNTANTS ON INTERNAL CONTROL STRUCTURE

REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE WITH LAWS AND REGULATIONS

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Price Waterhouse

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 Direct Loan Program of the U.S. Agency for International Development (A.I.D.) as of and for the year ended September 30, 1992. These financial statements are the responsibility of A.I.D.'s management.

The Direct Loan Program lacks adequate accounting and operating checks and balances as well as sufficient accounting records and systems to account for its operations. In particular: (1) general ledger control techniques have been absent for sometime; (2) policies and procedures have not been formalized to ensure segregation of duties; (3) cash accounts and loan system balances have not been reconciled for years; and (4) known system logic errors exist in the accounting systems which have not been corrected. As a result of these deficiencies, substantially all balances in the financial statements may be materially affected.

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

Price Waterhouse

June 10, 1993

AGENCY FOR INTERNATIONAL DEVELOPMENT
DIRECT LOAN PROGRAM
STATEMENT OF FINANCIAL POSITION
AS OF SEPTEMBER 30, 1992
(All figures stated in U.S. $ Thousands)

ASSETS:	
Financial Resources:	
Fund Balance with Treasury (Note 2)	$84,428
Foreign Currency (Note 2)	28,494
Accounts Receivable - Non-Federal (Note 3) (Net of $258,027 Allowance)	43,932
Loans Receivable - Non-Federal (Note 4) (Net of $5,177,248 Allowance)	11,151,178
Intragovernmental Items, Federal:	
Accounts Receivable, Net - A.I.D. (Note 3)	67
Total Financial Resources	11,308,099
Total Assets	$11,308,099
LIABILITIES:	
Funded Liabilities:	
Intragovernmental Liabilities:	
Accounts Payable, Treasury (Note 5)	$11,195,110
Accounts Payable, Other Federal Agencies (Note 5)	1,309
Accrued Payroll and Benefits	67
Total Funded Liabilities	11,196,486
Unfunded Liabilities:	
Accrued Leave (Note 6)	37
Total Liabilities	11,196,523
NET POSITION:	
Fund Balances: (Note 7)	
Appropriated Fund Balances	83,119
Foreign Currency Allocation	28,494
Total Fund Balances	111,613
Less Future Funding Requirements	(37)
Net Position	111,576
Total Liabilities and Net Position	$11,308,099

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

AGENCY FOR INTERNATIONAL DEVELOPMENT
DIRECT LOAN PROGRAM
STATEMENT OF OPERATIONS AND CHANGES IN NET POSITION
FOR THE YEAR ENDED SEPTEMBER 30, 1992
(All figures stated in U.S. $ Thousands)

REVENUES AND FINANCING SOURCES	
Appropriations Expensed	$141,595
Interest and Penalties, Non-Federal	483,132
Other Revenues and Financing Sources (Note 8)	11,178
Less: Receipts Transferred to the Treasury	(494,310)
Total Revenues and Financing Sources	141,595
EXPENSES	
Program or Operating Expenses (Note 9)	1,295
Provision for Uncollectable Loans and Interest	140,337
Total Expenses	141,632
Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	(37)
Plus: Unfunded Annual Leave Expense	37
Excess (Shortage) of Revenues and Financing Sources Over Funded Expenses	$0
Net Position, Beginning Balance	$280,093
Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	(37)
Plus (Minus) Non-operating Changes (Note 11)	(168,480)
Net Position, Ending Balance	$111,576

The accompanying notes are an integral part of these financial statements

AGENCY FOR INTERNATIONAL DEVELOPMENT
DIRECT LOAN PROGRAM
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 1992
(All figures stated in U.S. $ Thousands)

CASH PROVIDED BY OPERATING ACTIVITIES

Cash Provided:	
Collection of Long-Term Loans Receivable	$487,881
Interest and Penalties	381,878
Total Cash Provided	869,759
Cash Used:	
Disbursements for Previous Loan Commitments	(126,005)
Net Cash Provided by Operating Activities	743,754
CASH PROVIDED (USED) BY FINANCING ACTIVITIES	
Withdrawals - Dollar Appropriated	(59,073)
Transfer Cash to Treasury	(848,921)
Transfer Cash to Agriculture	(19,040)
Net Cash Provided (Used) by Financing Activities	(927,034)
Net Cash Provided (Used) by Operating and Financing Activities	(183,280)
Fund Balance With Treasury, Beginning	267,708
Fund Balance With Treasury, Ending	$84,428

RECONCILIATION OF EXCESS OF REVENUES AND FINANCING SOURCES OVER FUNDED EXPENSES

Excess of Revenues and Financing Sources Over Funded Expenses	$0
Adjustments to reconcile excess of revenue and financing sources over funded expenses to net cash provided by operating activities:	
Appropriations Expensed	(141,595)
Provision for Uncollectible Loans and Interest	140,337
Receipts Transferred to the Treasury	494,310
Increase in Receivables	(112,432)
Increase in Payables	1,295
Collection of Long-Term Loans Receivable	487,881
Disbursements for Previous Loan Commitments	(126,005)
Unfunded Expenses	(37)
Net Cash Provided by Operating Activities	$743,754

The accompanying notes are an integral part of these financial statements

AGENCY FOR INTERNATIONAL DEVELOPMENT
DIRECT LOAN PROGRAM
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 1992

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity and Its Operations

The Direct Loan Program services all direct loans issued by the Agency for International Development (A.I.D.) and predecessor agencies, since the inception of U.S. foreign economic assistance in 1948. The Foreign Assistance Act of 1961, as amended, and the Public Law 480 further authorize the origination of direct loans to governments and private enterprises operating in less developed countries. The Direct Loan Program funds a multitude of economic, technical, and financial projects in 105 countries. A.I.D. currently services approximately 2000 direct loans.

The funding for the Direct Loan Program's twelve active funds was appropriated by the U.S. Congress. The loan appropriations were apportioned for numerous loans to fund diverse types of projects. Responsibility for designing, implementing and monitoring projects, as prescribed in 28 legislative mandates, rests with the A.I.D. Bureaus and 75 Missions .

Since 1989, Congress has not appropriated funds for direct loans. Funds are fully disbursed in all programs with the exception of the Functional Development Assistance, the Economic Support Fund and the P.L. 480 Section 108 (R) programs. Funds remaining to be disbursed by these programs at September 30, 1992 were approximately $112 million. Substantially all repayments and revenues are remitted to the U.S. Treasury.

B. Basis of Presentation

The financial statements have been prepared to report the financial position and results of operations of the Direct Loan Program, as required by the Chief Financial Officers Act of 1990. They have been prepared from the books and records of the Direct Loan Program in accordance with the form and content for entity financial statements specified by the Office of Management and Budget (OMB) in OMB Bulletin 93-02, *Form and Content of Agency Financial Statements*.

Implementation of OMB Bulletin 93-02 resulted in significant changes in the form and content of the principal statements, which include:

> **Statements of Financial Position** -- Assets are classified as financial and non-financial; liabilities are classified as funded and unfunded; and funds that would be required in the future to liquidate unfunded liabilities are reported as an offset to net position.
>
> **Statements of Operations and Changes in Net Position** -- Expenses incurred are classified and reported by major type of program versus by object classification. The Agency for International Development's major programs are defined along organizational and issue area lines.

C. Basis of Accounting

Transactions are recorded on an accrual accounting basis and a budgetary basis. Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal constraints and controls over the use of federal funds.

D. Cash and Cash Equivalents

The Direct Loan program defines cash and cash equivalents as short-term highly liquid investments with original maturities of three months or less. Substantially all the Direct Loan Program's cash receipts and disbursements are processed by the U.S. Treasury which, in effect, maintains the Direct Loan Program's bank accounts. For purposes of the Statements of Cash Flows, the Direct Loan Program's unrestricted funds in the U.S. Treasury are considered cash.

E. Revenues and Other Financing Sources

The Direct Loan Program receives the funding to support the program through A.I.D. administrative appropriations. The funds may be used for operating and administrative expenditures (salaries and overhead).

Appropriations are recognized as revenues at the time they are used to pay operating and administrative expenses. Other revenues are recognized when earned.

F. Intra-government Transactions

The Direct Loan Program is subject to the financial decision and management controls of A.I.D., which in turn is subject to the financial decision and management controls of the OMB. As a result of these relationships, the Program's operations may not be conducted nor its financial position reported as they would have been if the Direct Loan Program were an autonomous entity.

As discussed in Note 10, the Direct Loan 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.

G. Fund Balance with the U.S. Treasury

Cash receipts and disbursements are processed by the U.S. Treasury. The Fund Balance with U.S. Treasury is appropriated funds that are available to pay current committed loan agreements.

H. Foreign Currency

The Direct Loan Program maintains foreign currency to be used to make additional loan disbursements in foreign countries. Those balances are reported at the U.S. dollar equivalent using the exchange rate in effect on the last day of the reporting period. There are no restrictions on the use or conversions of these currencies. A translation gain or loss is recognized for the change in the valuation of the foreign currency at year end.

I. Accounts Receivable, Non-Federal and Federal

The accounts receivable of the Direct Loan Program are comprised of interest receivable on loans and a federal account receivable due from A.I.D. The federal account receivable arises from money due to the Direct Loan Program from the A.I.D. appropriation for administrative expenses.

J. Loans Receivable

Loans are accounted for as receivable after funds have been disbursed. For loans obligated prior to October 1, 1991, loan principal, interest, and penalties receivable are reduced by an allowance for estimated uncollectible amounts. The allowance is estimated based on past experience, present market conditions, and an analysis of outstanding balances.

K. Accounts Payable, Treasury

Accounts Payable, Treasury is comprised of funds that are due Treasury for the unpaid principal balance (net of allowance), interest collections (net of allowance), and realized gains from foreign currency transactions.

L. Accounts Payable, Other Federal Agencies

The Accounts Payable-Federal represents the amount to be paid by the Direct Loan Program as a result of a loan that is being monitored and serviced for the Department of Agriculture. Principal and interest payments received are paid to the Department of Agriculture upon receipt from the borrower.

M. Accrued Annual Leave

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

N. Comparative Data/Statement of Budget and Actual Expenditures

Comparative data for the prior year are not presented because this is the first year for which financial statements are prepared for the Direct Loan Program activities.

Appropriations for the Direct Loan Program are not separated from other program appropriations of the Agency. A.I.D.'sbudget for the Direct Loan Program is consolidated with other agency programs and is tracked at the appropriation level. Therefore, the Statement of Budget and Actual Expenditures has not been presented in the fiscal year 1992 Direct Loan Program financial statements.

Note 2. Fund Balance with Treasury and Foreign Currency

Fund Balance with Treasury represents undisbursed obligations for the Direct Loan Program's account with the U.S. Treasury. Fund Balance with Treasury includes $1,309,000 which can only be used for PL 480 loan originations. The foreign currency balance is unrestricted.

Fund Balance with Treasury and Foreign Currency:

($ in thousands)

	Available	Restricted	Total
Appropriated Funds	83,119	1,309	84,428
Foreign Currency	$28,494		$28,494

Note 3. Accounts Receivable, Non-Federal and Federal

The accounts receivable of the Direct Loan Program are comprised of interest receivable on loans and a federal account receivable due from A.I.D.

The Accounts Receivable Non-Federal balance of $43,932,000 at September 30, 1992 consists of $301,959,000 less a $258,027,000 allowance for uncollectible accounts. The federal account receivable (intergovernmental items, Federal) arises from money due to the Direct Loan Program from the A.I.D. appropriation for administrative expenses.

Note 4. Loans Receivable, Non-Federal

These direct loans receivable consist entirely of obligations made prior to fiscal year 1992. Substantially all of these loans were disbursed prior to October 1, 1991. At September 30, 1992, approximately $112 million remains to be disbursed for these previous loan commitments. These direct loans are reported net of an allowance for estimated uncollectible loans. In fiscal year 1992, there are no loans that were originated under the Federal Credit Reform Act; therefore, no loans are governed by using the present value of the subsidy costs associated with direct loans in the year the loan was made.

An analysis of loans receivable is provided below:

Loan Program	Loans Receivable - Gross	Loss Allowance	Loans Receivable - Net
($ in thousands)			
Direct Loans	$16,328,426	($5,177,248)	$11,151,178

Changes in the allowance for doubtful accounts for the year ended September 30, 1992 are as follows:

($ in thousands)	
Beginning Balance	$5,221,594
Less Write-offs	(65,104)
Provision for Uncollectible Accounts	20,758
Ending Balance	$5,177,248

Note 5. Other Funded Liabilities

Commencing in fiscal year 1992, the Direct Loan Program's activities are funded through direct appropriations. As a result, unobligated balances are returned to the U.S. Treasury as a miscellaneous receipt. Thus, principal repayments and interest received from borrowers are returnable upon receipt to the U.S. Treasury, and the Department of Agriculture in the case of certain loans financed by that department. The estimated amounts that will be paid to the U.S. Treasury and the Department of Agriculture, which are presented in the Direct Loan Program's financial statements as Funded Liabilities, are noted below:

Other Funded Liabilities ($ in thousands)	Federal
(1) Accounts Payable, Treasury	$11,195,110
(2) Accounts Payable, Other Federal Agencies	1,309
Total	$11,196,419

Note 6. Other Unfunded Liabilities

Unfunded liabilities of the Direct Loan Program are comprised of the increase or decrease in the accrued annual leave liability during the fiscal year. These liabilities will be funded through appropriations to A.I.D. in the years the outlays occur, i.e., as leave is taken by employees.

Note 7. Fund Balances

The Direct Loan Program's Fund Balances are comprised of funds appropriated to the program by the U.S. Congress. The Fund Balance of $111,613 represents unliquidated obligations for loan disbursements at the end of fiscal year 1992.

Note 8. Other Revenue and Financing Sources

The Direct Loan Program has contracted agreements which allow repayments to be made in foreign currency. Realized gains and losses resulting from fluctuations in the currency exchange rates are recognized upon receipt, while unrealized gains and losses are recognized based on changes in the carrying value of foreign currency receivables at year-end. Other revenue for fiscal year 1992 amounted to $11,178,000.

Note 9. Program or Operating Expenses

The expenses that the Direct Loan Program incurred in fiscal year 1992 are appropriated for by Congress through the A.I.D. administrative appropriation authority.

Operating Expenses by Object Classification:

($ in thousands)

Personnel Services and Benefits	$635
Overhead	660
Total Expenses	$1,295

Note 10. Retirement Plan

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

Although the Direct Loan Program funds a portion of employee pension benefits and makes necessary payroll withholding, it has no liability for future payments to employees under the programs, nor is it responsible for reporting the assets, actuarial date, 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 11. Non-operating Changes

The following summarizes the non-operating changes for fiscal year 1992:

($ in thousands)	Foreign Currency	US Dollars	Total
Increases			
(1) Transfers-In:			
Foreign Currency Allocations	$14,921		$14,921
(2) Other Increases:			
Exchange Rate Gains	1,677		1,677
Total Increases	16,598		16,598
Decreases			
Withdrawals		$(59,073)	(59,073)
Disbursements	(2,595)	(123,410)	(126,005)
Total Decreases	(2,595)	(182,483)	(185,078)
Net, Non-Operating Changes	$14,003	$(182,483)	$(168,480)

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Price Waterhouse

To the Administrator
and the Inspector General
of the Agency for International Development

Report of Independent Accountants on Internal Control Structure

We were engaged to audit the financial statements of the Direct Loan Program of the Agency for International Development (A.I.D.) as of and for the year ended September 30, 1992, and have issued our disclaimer report thereon dated June 10, 1993.

In planning and performing our audit of the financial statements of the Direct Loan Program for the year ended September 30, 1992, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

The management of the Direct Loan 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: (1) transactions are properly recorded and accounted for to permit the preparation of reliable financial statements and to maintain accountability over assets; (2) funds, property and other assets are safeguarded against loss from unauthorized use or disposition; and (3) transactions, including those related to obligations and costs, are executed in compliance with (a) laws and regulations that could have a direct and material effect on the Principal statements and (b) any other laws and regulations that the Office of Management and Budget (OMB), entity management, or the Inspector General have identified as being significant for which compliance can be objectively measured and evaluated. 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, cash receipts, loans receivable, cash disbursements, salaries and benefits, accounts payable and accrued expenditures, appropriations, loan monitoring, and financial statement preparation and reporting.

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants and OMB Bulletin 93-06. 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 entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

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 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 reportable conditions disclosed in the remainder of this report are material in nature.

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 necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above.

We also noted matters involving the internal control structure and its operation that we will communicate to management separately.

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, when it becomes a matter of public record.

Price Waterhouse

June 10, 1993

Condition

An effective system of checks and balances has not been established by the Loan Management Division for the Direct Loan Program. The general ledger system is not maintained, and sufficient subsidiary records and source documents do not exist.

The Loan Management Division, which is responsible for the accounting management and reporting functions of the Direct Loan Program (the Program), has not utilized the general ledger system for several years. In fiscal year 1992, the system was used simply to compile the financial statements of the Program at year end, rather than to accumulate transaction data as they occurred and provide summary financial reports to facilitate portfolio management. Activity for fiscal year 1992 and prior was recorded in the general ledger in April 1993. Certain transactions were not captured, while others were not supported by subsidiary records and source documents. For example:

- Not all loan funds disbursed were recorded in the general ledger.
- Fund Balance with Treasury and Interest Income of $111 million and $483 million, respectively could not be supported by detail records.
- Source documents to support many journal entries posted to the September 30, 1992 general ledger balances did not exist or did not provide adequate explanations of the entries. Several of these journal entries amounted to more than $1.8 billion dollars, while numerous other entries were in excess of $100 million each.

Cause

The Loan Management Division has not established subsidiary ledgers for all general ledger accounts. For subsidiary ledgers that do exist, controls have not been implemented to ensure only dat- which are accurate and supported by source documents are entered. Also, manag nent has not required that the general ledger be updated for each accounting period.

In addition, financial statement preparation has not been a priority of the Direct Loan Program due to the lack of external reporting requirements imposed on the Program in the past.

Criteria

The Treasury Financial Manual and A.I.D.'s Handbook 19 require all accounts to be supported by a general ledger which represents, at any point in time, the accumulation of all accounting transactions that affect the accounts. Accumulating entries in the general ledger as they occur ensures that the information obtained from the general ledger is useful for both financial reporting and management decision making purposes.

Effect

The Loan Management Division cannot utilize the general and subsidiary ledgers to:

- produce accurate external reports, which, in addition to A.I.D. Missions, U.S. Embassies, and other Federal agencies, are distributed to the U.S. Senate and financial institutions;

- generate useful internal reports to detect errors and variances in the records, and to determine the reasonableness of its allowances for doubtful receivables; and

- prepare auditable financial statements for compliance with the Chief Financial Officers Act.

In addition, ineffective general ledger maintenance results in an inadequate system of checks and balances to ensure the completeness and accuracy of financial information, and to enhance accountability for transactions and resources.

Recommendation

We recommend that the Associate Administrator for Finance and Administration:

- Modify the existing general ledger account structure in accordance with guidelines provided in Treasury Bulletin Number S2-93-01, *Standard General Ledger.*

- Require that subsidiary ledgers be maintained for all general ledger accounts.

- Implement the necessary controls to ensure that all entries to the subsidiary ledgers are accurate and supported by source documents.

- Maintain standard general ledger controls, including monthly reconciliation of obligations, accruals, cash transactions.

Condition

The Direct Loan Program does not have an integrated financial management system. In addition, data entry controls have not been implemented and information in systems is not reconcilable.

The Direct Loan Program's financial management structure is comprised of seven computer systems. The primary systems used by the Program are the General Ledger Accounting and Reporting System (GLARS) and the Loan Accounting Information System (LAIS). GLARS represents the general ledger, and LAIS is the subsidiary loan system.

Most systems, including the primary systems, are more than 20 years old, and do not provide the functionality required for the proper administration of the Program. In addition, automated interfaces for data transmission have not been implemented, and manual reconciliations or automated data entry controls have not been established to ensure the integrity and timeliness of information entered into the systems. Further, management has not developed a financial management system improvement plan to address each deficiency, as required by OMB.

The combination of the above factors has resulted in reduced functionality and data integrity, and management's inability to obtain reliable reports. More specifically:

Functionality

- Program logic in GLARS and LAIS do not take into consideration all transaction types required to determine foreign currency translation gains and losses and interest accruals.

Data Integrity

- Loans which were rescheduled years ago have not been completely updated in the accounting systems for capitalized interest and collections.

- At September 30, 1992, transactions totalling more than $40 million were not posted to the loans subsidiary ledger.

- The differences between the unliquidated obligation balance (i.e., available fund balance) in the Agency's disbursement system and the loan subsidiary system amounted to $21 million.

- Foreign exchange rates have been inaccurately entered into LAIS and GLARS. Not only are the rates in the two applications different, but they do not agree with the official foreign exchange rates established by U.S. Treasury for use by Federal agencies.

Reliability of Reports

- Delinquent principal and interest balances reported on the status of loans varies in reports generated from the same system. This type of information is relied upon to make decisions regarding the eligibility of recipients for future disbursements, rescheduling terms, and compliance with legislation which prohibits future funding obligations to countries which are delinquent for more than six months (Section 620q).

- Information regarding loan balances differs between reports used internally in the Loan Management Division, and those distributed to external users at other agencies and financial institutions such as the Departments of State and Treasury, and the World Bank.

Cause

The Direct Loan Program's management has not performed an evaluation of the components of its financial management system to identify and correct deficiencies in application program logic.

Automated interfaces among applications do not exist, data entry controls have not been implemented, and reconciliations are not performed.

The combination of the foregoing deficiencies, coupled with inadequate report writing functions, contribute to unreliable financial management information.

It appears as though the inaction of the Program's management to evaluate and implement systems controls is in part related to the anticipation of the Agency's integrated accounting system for which plans are currently underway.

Criteria

As stated in OMB's Circular A-127, *Financial Management Systems*, the Agency financial management system should use cont .porary technology -- including automated data entry and edit, data management, electronic communications between systems, flexible report formats, and controlled access to data bases. The system shall provide for a coherent, timely, and accurate financial management database.

Effect

The effectiveness of financial and managerial decisions is undermined with respect to the following:

- fund control over loan disbursements,
- determination of rescheduling terms,
- compliance with legislation,
- adequacy of loan loss reserves, and
- reporting accurate data to external entities.

In addition, Notices of Payment Due are generated from systems which contain inaccurate foreign currency translation data, and outdated and incomplete information. This results in valuable resources being expended for manual correction of errors, thereby contributing to inefficiencies in operations.

Recommendation

We recommend that the Associate Administrator for Finance and Administration develop a financial management system improvement plan to first, address the deficiencies identified by management and other evaluators which can be readily resolved, and second, ensure that other data integrity issues and user requirements are considered in the agency's conversion to its integrated accounting system currently being planned.

We also recommend that the Associate Administrator for Finance and Administration review staffing resources, and reassign limited staff as appropriate, to ensure that policies and procedures to reconcile system data on a timely basis can be implemented.

Condition

Formal, comprehensive policies and procedures have not been formulated to ensure that the Direct Loan Program is operated effectively.

"Control activities are the policies and procedures that help ensure management directives are carried out. They help ensure that necessary actions are taken to address risks to achievement of entity's objectives. Control activities occur throughout the organization, at all levels and in all functions. They include a range of activities as diverse as approvals, authorizations, verifications, reconciliations, reviews of operating performance, security of assets and segregation of duties."[1]

The management of the Direct Loan Program has not formulated detailed policies and procedures to ensure that all required control activities are performed. We noted a lack of policies and procedures in the following areas:

- Reconciliations of subsidiary records and general ledger control information were not performed timely or completely. For example, we noted 389 loan receipt and disbursement transactions were rejected from the Loan Accounting Information System (LAIS) during September, 1992. Many of the rejected transactions had not been resolved for three months or more.

- Responsibilities for functions are often not assigned on a formal basis, or several individuals are assigned to perform a number of tasks that are incompatible by their nature. For example, a journal voucher must be prepared every time an entry is to be manually posted to the General Ledger Accounting and Reporting System (GLARS). The journal voucher should be approved by the preparer's supervisor to ensure through an independent verification that the entry is valid and correct. However, not all journal vouchers were approved by a person other than the preparer. In

[1] The Committee of Sponsoring Organizations of the Treadway Commission, Internal Control - An Integrated Framework; September 1992.

fact, many journal vouchers were prepared and recorded directly by management. Of the seventeen journal entries we examined, fourteen were not properly approved. This resulted in an erroneous entry of $500 million dollars posted to the general ledger loan balance which had to be reversed at September 30, 1992.

- Financial transactions were not posted to the accounting systems in a timely manner and checks were not deposited promptly. Timely deposits and posting of financial activity must occur to safeguard funds, and to properly reflect balances. We noted, however, that cash receipts that were not wired directly to Treasury, were not deposited immediately upon receipt. Also, cash receipts and disbursements were not posted to LAIS in the proper period. Our audit testing revealed that 53% of the 26 cash receipts examined were not posted into LAIS in the same month in which they were received, and some receipts were posted to the subsidiary records up to four months later.

- Policies relating to the basis of accounting that should be used to properly capture and report the Program's economic activity have not been defined. Certain information such as accrual of interest and concentration of credit risk is unavailable for proper disclosure in the financial statements.

- Notices of Payment Due are not accurately prepared. The Loan Servicing unit performs billing and collection follow-up procedures required to reduce the risk of potential chronic delinquencies. Our testing revealed that balances disclosed on the notices do not correspond to those reflected on the reports generated from the loan subsidiary system.

- The Loan Servicing unit does not perform credit risk reviews to ascertain the adequacy of loss reserves. The methodology for determining the adequacy of allowances for doubtful loans is outdated and suspect.

<u>Cause</u>

The operations of the Direct Loan Program has become a low priority of the Agency since the authorization of new loans has diminished in recent years. Financial Management officials indicated that they have not been allotted sufficient resources to develop detailed policies and procedures.

As a result of resource shortcomings, Loan Management Division Chiefs have taken certain actions which diminish the effectiveness of the internal control process, such as directly assuming responsibility for functions normally assigned to staff and approved by managers.

Criteria

OMB's guidebook on *Financial Management and Accounting Objectives* requires that internal control documentation include policies and procedures, organization charts, manuals, memoranda, flow charts, and related written materials necessary to describe organizational structure, operating procedures, and administrative practices; and to communicate responsibilities and authorities for accomplishing programs and activities.

Further, internal control standards require that financial data be reflected in the records of the correct cycle or period for which processing is performed. Transactions must be promptly recorded if information is to maintain its relevance and value to management in controlling operations and making decisions. Financial management data shall be recorded as soon as practical after the occurrence of the event, and relevant preliminary data shall be made available to managers promptly after the end of the reporting period.

Treasury Financial Manual requires that agencies deposit receipts totaling $1000 or more on the same day received prior to depository cutoff time. Deposits are to be made as close as possible prior to the specified cutoff time to maximize daily deposit amounts. Monies received too late in the day to meet the deposit cutoff time must be deposited the following business day.

OMB's Circular A-127 states that key duties and responsibilities such as initiating, authorizing, performing, processing and reviewing transactions (including issuing or receiving assets, making payments, and reviewing or auditing) should be assigned to different individuals.

Effect

The lack of policies and procedures for the day-to-day administration of the Direct Loan Program results in potential mismanagement of funds collected, possible losses to the U.S. Government, and unreliable information presented in the financial statements and to users of other internal and external reports.

Since all key accounting functions have been concentrated with one manager, who has announced his future retirement, the impact of personnel turnover could be intensified in the near future. Thus, the effect of not having formalized policies and procedures will become much more pronounced.

Recommendation

We recommend that the Associate Administrator for Finance and Administration develop a policies and procedures manual which clearly defines the functions that should be performed as part of day-to-day operations of the Program. The manual should specify the individuals responsible for performing each of the tasks, the frequency of performance, and appropriate supervisory controls.

We also recommend that the Associate Administrator for Finance and Administration require the Loan Management Division to conduct routine self assessments which ensure policies and procedures are adequately implemented.

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

Price Waterhouse

To the Administrator
and the Inspector General
of the Agency for International Development

Report of Independent Accountants on Compliance with Laws and Regulations

We were engaged to audit the financial statements of the Direct Loan Program administered by the Agency for International Development (A.I.D.), as of and for the year ended September 30, 1992, and have issued our disclaimer report thereon dated June 10, 1993.

Compliance with laws and regulations applicable to A.I.D. 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 performed tests of the A.I.D.'s compliance with certain provisions of laws and regulations. Applicable laws included: the Chief Financial Officers Act of 1990; the Budget and Accounting Procedures Act of 1950; the Federal Managers' Financial Integrity Act of 1982; and the Debt Collection Act of 1982. However, our objective was not 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 statutes 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 if 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 material instances of noncompliance.

Our report on the internal control structure of A.I.D.'s Direct Loan Program for the year ended September 30, 1992, dated June 10, 1993, reported several material weaknesses. These material weaknesses indicate management's lack of compliance with the requirements of the Federal Manager's Financial Integrity Act of 1982 to establish internal administrative and accounting controls for the Direct Loan Program in accordance with standards established by the Comptroller General.

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 of the Direct Loan Program's internal control structure.

These weaknesses significantly impair the fulfillment of the Direct Loan Program's mission, violate statutory requirements of the Debt Collection Act and the Budget and Accounting Procedures Act and significantly weaken safeguards against loss of funds. Therefore, the material weaknesses should have been disclosed in the Agency's FMFIA report.

We considered these material instances of noncompliance in our decision to disclaim an opinion on the financial statements of the Direct Loan Program as of September 30, 1992.

As discussed in our report on the financial statements dated June 10, 1993, the scope of our work was not sufficient to enable us to express an opinion of the financial statements for the year ended September 30, 1992. Because the scope of our testing was limited as a result of the Direct Loan Program's lack of adequate accounting records and systems, we are unable to determine whether all transactions were subject to testing for compliance with the provisions referred to in the second paragraph of this report. Consequently, we are unable to determine, and thus give no assurance about the degree to which the Direct Loan Program complied 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 is not intended to limit distribution of this report, when it becomes a matter of public record.

Price Waterhouse

June 10, 1993

AUDIT OF A.I.D.'S
DIRECT LOAN PROGRAM'S
1992 ANNUAL FINANCIAL STATEMENT
UNDER THE CFOs ACT OF 1990

A.I.D. Management's
Program Overview of
the Direct Loan Program

AGENCY FOR INTERNATIONAL DEVELOPMENT
FA/FM/LM FINANCIAL STATEMENTS
FISCAL YEAR 1992

OVERVIEW

AID Direct Loan Programs

The Agency for International Development (AID) administers direct loans as part of the Foreign Assistance Program of the United States of America. These loans are authorized under the Foreign Assistance Acts, various predecessor agency programs, and other foreign assistance legislation. The Loan Management Division (FA/FM/LM) is responsible for the financial management of direct loans. Figure A-1 describes the organizational structure within FA/FM/LM and Figures A-2 and A-3 place FA/FM/LM in a broader agency context.

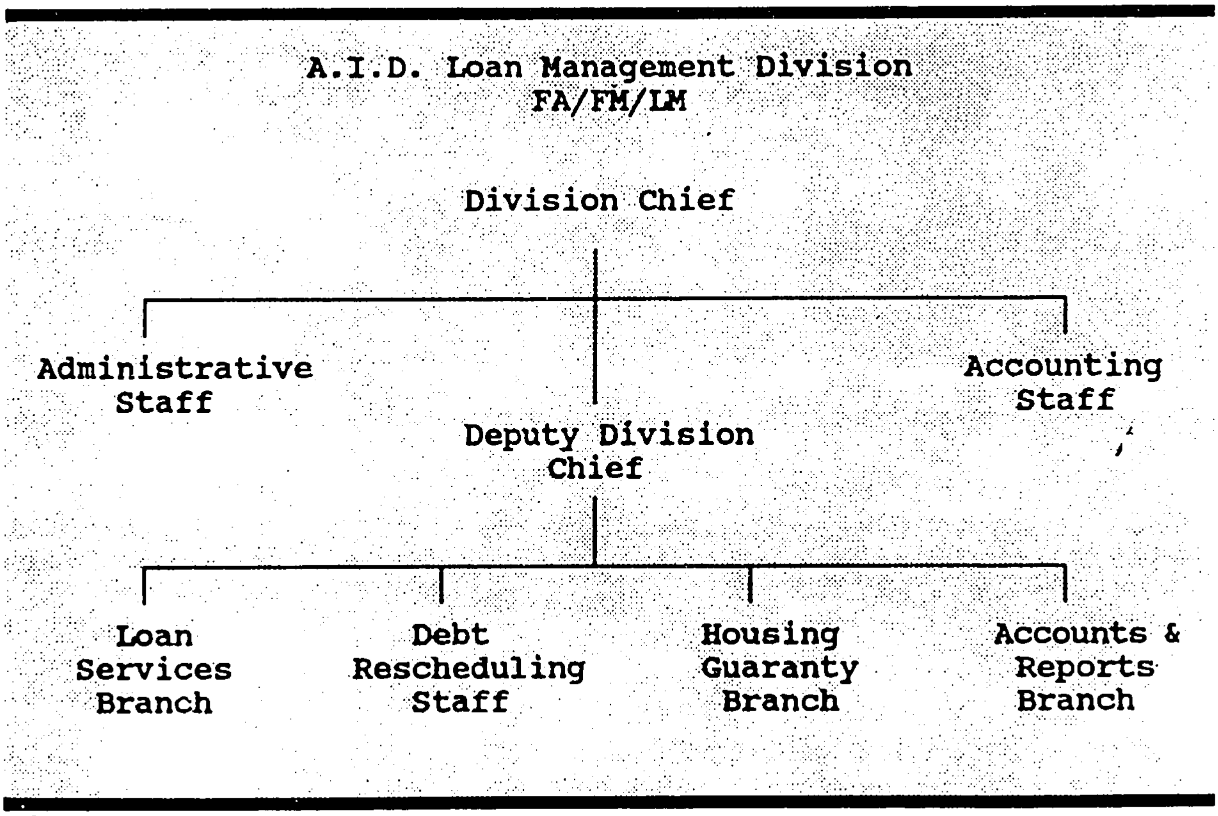

Figure A-1

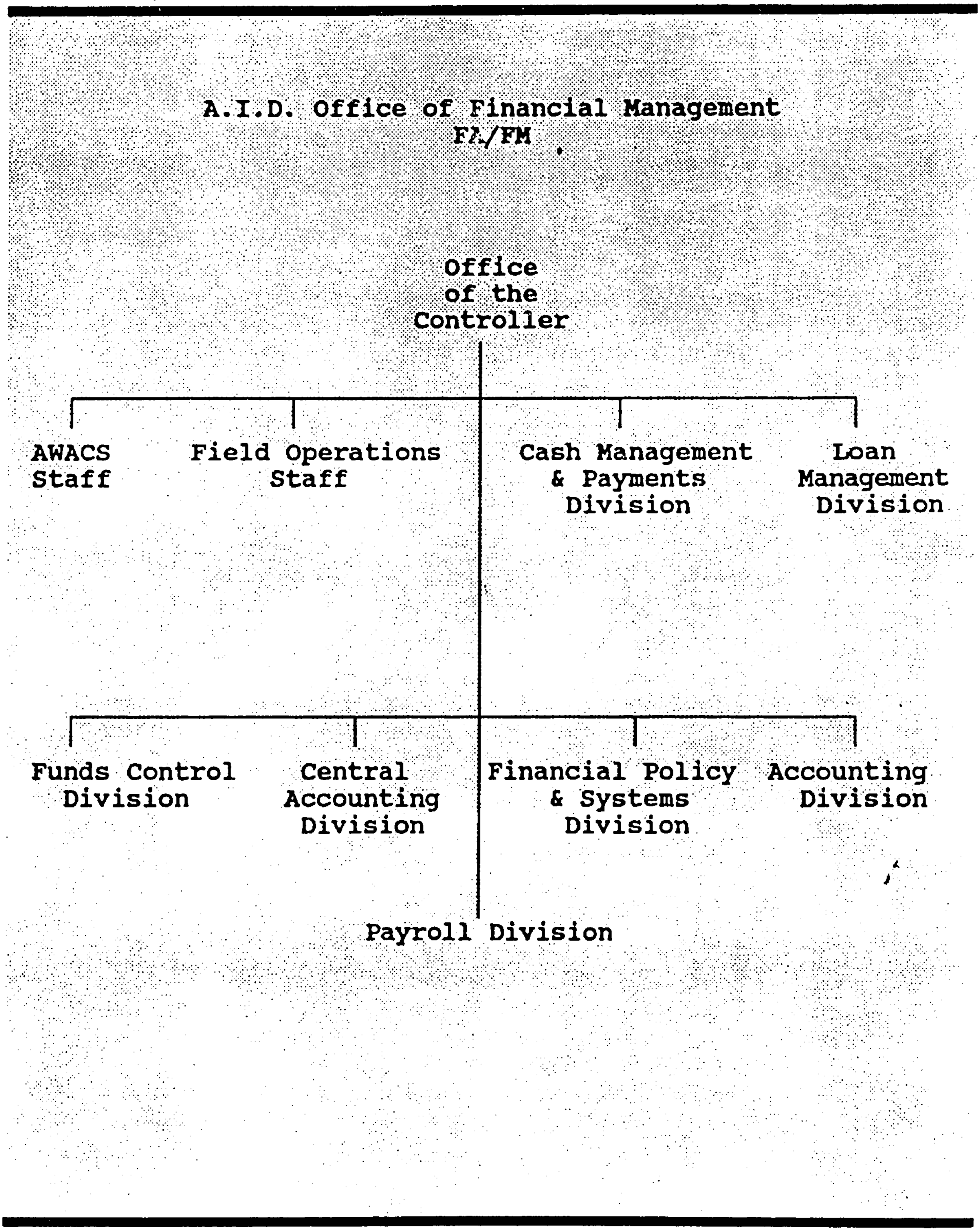
A.I.D. Office of Financial Management
FA/FM
Office of the Controller
AWACS Staff
Field Operations Staff
Cash Management & Payments Division
Loan Management Division
Funds Control Division
Central Accounting Division
Financial Policy & Systems Division
Accounting Division
Payroll Division

Figure A-2

Agency for International Development

Effective as of April 1, 1992. FA/B/SB

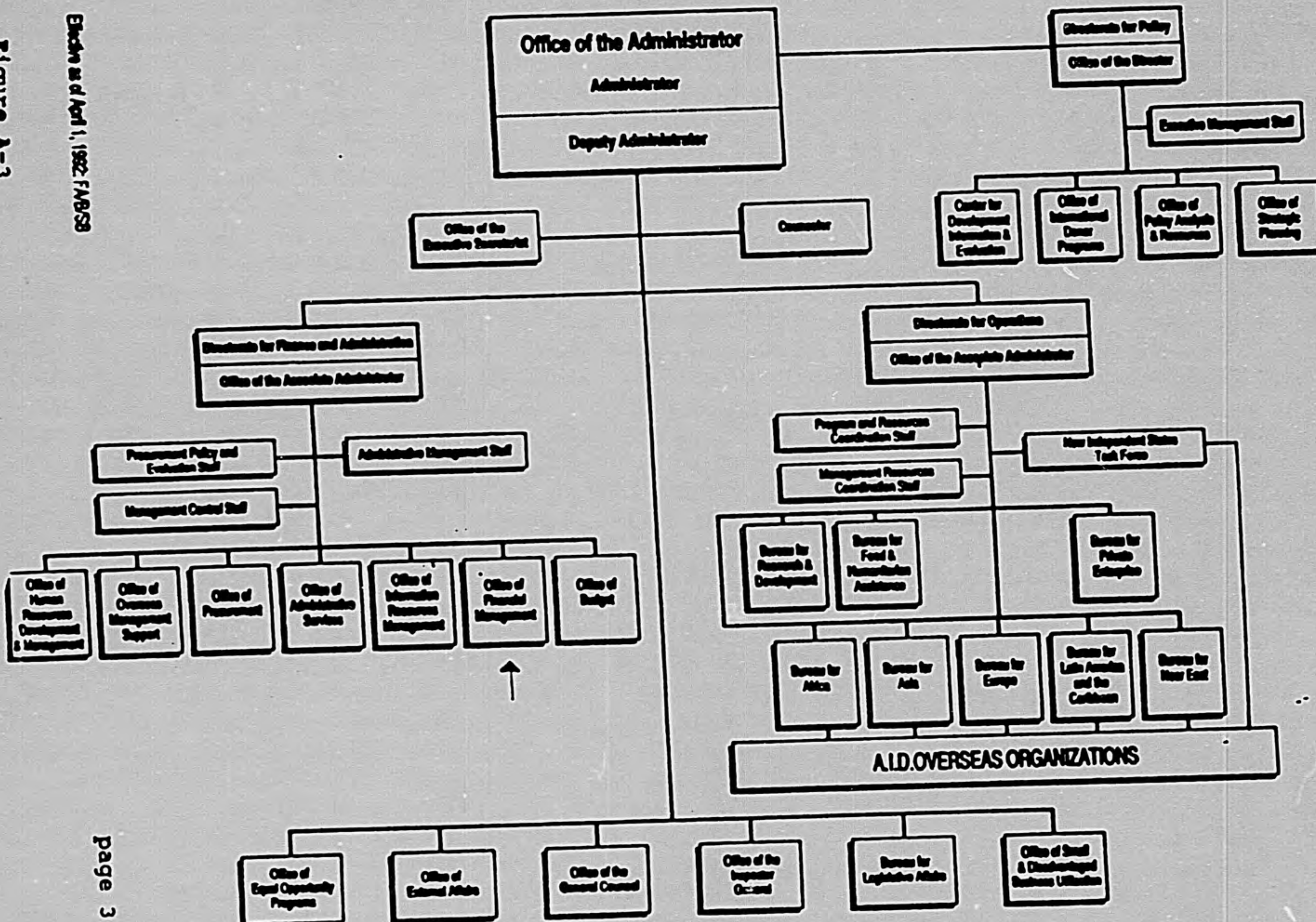

Figure A-3

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This report presents the financial statements of AID Direct Loan Programs for the fiscal year ending September 30, 1992. Financial information for the Housing Guaranty Program and the Private Sector Investment Program (PSIP) of the Bureau for Private Enterprise are not included.

With the exception of P.L. 480 Section 108(Rev.), Private Enterprise Development, no new loans are being executed under any AID Direct Loan Program. In addition, most existing loans are fully disbursed. As a result of the diminishing nature of these loan programs, complete performance information is not available. The Office of Management and Budget (OMB), in an agreement with AID, has accepted the performance measures presented in this report.

AID Direct Loans are issued in either US Dollars or the native (local) currency of the borrower. Local currency loans made with " maintenance of value " (MOV) place the risk of currency devaluation on the borrower, and are recorded by FA/FM/LM in equivalent US Dollars. Loans made without MOV are recorded in local currency, with the risk of devaluation resting with the US Government. Figure A-4 shows the AID Direct Loan Programs and the values of their outstanding loan portfolios.

I. Foreign Assistance Loan Programs

Alliance for Progress

The Alliance for Progress was established by the Charter of Punta del Este, signed August 17, 1961 by all members of the Organization of American States (OAS) except Cuba. The Foreign Assistance Act (FAA) of 1962 [P.L. 87-793] added Title VI to Part I, Chapter 2 of the FAA of 1961 (as amended) to recognize and support the establishment of the Alliance for Progress, and authorized the President to furnish assistance to promote the economic development of countries and areas in Latin America. President Kennedy proposed funding Alliance for Progress programs for a ten year period to foster self-determination and strengthen democratic institutions. A.I.D. was one of several U.S. and international financial institutions which provided funding under the Alliance during this ten-year period. Title VI was repealed by the International Development and Food Assistance Act of 1978 [P.L. 95-424].

The Alliance for Progress was an ambitious program which sought to fight poverty, promote economic growth, provide housing and promote land reform, improve wages and working conditions, decrease illiteracy, build schools, eradicate disease and improve health. A.I.D.'s support included technical assistance, U.S. goods and services available through low-interest loans, and guarantees and investment surveys to support this assistance. The agency's contribution to this program over a ten-year period amounted to around $6 billion, including almost $3.6 billion in loans.

The Alliance for Progress produced mixed results, with unchecked population growth, external debt, and civil strife having a negative impact on performance. However, it was a program that aimed higher than any other peaceful multilateral enterprise in history and was the precursor to the self-help focus of today.

Functional Development Assistance

The Functional Development Assistance Program provided support to developing countries through the use of program accounts. FDA Accounts were added to the FAA of 1961 by Section 2(3) of the Foreign Assistance Act of 1973. Assistance was provided through these accounts in the form of loans and grants made worldwide. Loans ceased being funded through these accounts in Fiscal Year 1989.

Loan assistance was made available under these sections:

> Section 103, Food and Nutrition: to alleviate starvation, hunger, malnutrition and provide basic services to poor people;
>
> Section 104, Population Planning and Health: to increase opportunities and motivation for family planning, reduce population growth, prevent and combat disease, and help improve health services. (Population Planning and Health existed as two separate loan accounts);
>
> Section 105, Education and Human Resource Development: to reduce illiteracy, extend basic education, and increase manpower training in skills related to development. Funds could be used for education, public administration and human resource development;

A.I.D. Direct Loan Programs
FA/FM/LM

[US Dollars]

Direct Loan Program	Outstanding Balance
Alliance for Progress	2,287,356,372
Functional Development Assistance	3,434,110,651
AID Supporting Assistance (ESF) [a]	6,079,975,814
Predecessor Programs	294,555,529
P.L. 480 Loan Programs [b]	182,131,059
P.L. 480 Loan Programs [c]	36,652,242
International Organizations & Programs	41,315,596
AID Fund 15 [d]	58,880,750
Disaster Relief & Rehabilitation	136,635,597
AID Development Loan Fund	3,770,715,393
Total:	16,322,329,003

Figure A-4

Notes

[a] This includes loans issued under the Middle East Special Requirements Fund.
[b] This includes loans issued under P.L. 480 Common Defense, Triangular Trade, and Economic Development.
[c] This includes Loans issued under P.L. 480 Cooley and Private Enterprise Development.
[d] This includes loans issued under the following programs:
- Inter-American Social and Economic Cooperation Program
- AID Contingency Fund
- Assistance to Portugal and Portuguese Colonies
- Trade and Development Agency.

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Section 106, Selected Development Problems: to help solve economic and social development problems in transportation, power, industry, urban development and export development; and

Section 107: Selected Countries and Organizations: to support the general economy of recipient countries and to finance development programs conducted by private or international organizations.

FDA accounts were created with these principles in mind:

-- The development of a country is primarily the responsibility of its people. Assistance should be provided to those countries which take positive steps toward reform. Maximum effort should be made to stimulate the involvement of a country's people in its development through the encouragement of democratic participation in private and local government activities and through institution building.

-- Other countries should be encouraged to increase their contributions on a multilateral basis.

-- Assistance should encourage regional cooperation regarding common problems.

-- The first objective should be to help Less Developed Countries (LDCs) to meet fundamental needs for food, health, home ownership and decent housing, and opportunity to gain basic knowledge and skills. Particular emphasis should be placed on food production and family planning.

-- Assistance should be efficient and economical, and where practicable, should consist of U.S. commodities and services.

-- Agricultural commodities, excess property disposal, and assistance to Intermediary Financial Institutions (IFIs) should complement and be coordinated with assistance.

The six original FDA accounts later were restructured into seven accounts, and in 1992 were consolidated into the Development Program Account and Population Account.

US Trade and Development Agency

A.I.D. continues to provide financial management services for loans issued under the Investor Assistance Program (IAP) of the US Trade and Development Agency (TDA), although it was discontinued because loan assistance did not prove to be cost effective for TDA.

IAP was designed to generate US exports by furnishing assistance to US-owned companies who wished to expand their current business into overseas markets. It provided established, financially sound companies with a maximum reimbursement of 50% of the eligible costs incurred in preparing a feasibility study for expansion. Financing of the actual project was the responsibility of the company. The reimbursement was in the form of a no-interest loan repayable in one lump sum at the end of four years.

By requiring the use of US goods and services in the preparation of the feasibility study, IAP sought to encourage their use in all phases of the expansion project.

AID Development Loan Fund

Under Part I of the Foreign Assistance Act of 1961, the AID Development Loan Fund (DLF) was made a principal tool for supporting growth of less developed countries. The Act stated that funds were to be made available to promote economic development of less developed friendly countries, with emphasis placed upon assisting long range programs designed to develop economic resources and increase productive capacities. Authorization for DLF was repealed by the International Development and Food Assistance Act of 1978 [PL 95-424].

Prior to 1961, the Development Loan Fund was operated as a U.S. government corporation established under the Mutual Security Act of 1957. Loans made during this period are discussed under Predecessor Agency Programs.

AID Security Supporting Assistance

AID Security Supporting Assistance, established as Chapter 4 of Part I of the Foreign Assistance Act of 1961, is currently known as the Economic Support Fund and is now authorized in Chapter 4 of Part II of the same act. This fund was primarily established to promote vital U.S. national security and foreign policy objectives. Funds were made available to countries who agreed to provide military base rights to U.S. forces. It was hoped that this would prevent the absorption of weak nations into the Communist bloc and support economic stability in countries threatened with economic disintegration. Both grant and loan assistance were provided under this program.

Other AID Programs

Inter-American Social and Economic Cooperation Program

The Latin American Development and Chilean Reconstruction Assistance Act of 1960 [P.L. 86-735] authorized funding loans for the Inter-American Social and Economic Cooperation Program. P.L. 87-41 (May 27, 1961) appropriated $500 million for this program, to remain available until expended. It was intended that the funding be used:

-- to develop cooperative programs to foster economic progress for all peoples in Latin America,

-- to expand development of hemispheric trade and price controls, including development of regional cooperation in the American Republics,

-- to stimulate among the peoples of the American Republics a greater interchange of persons, ideas, techniques and educational, scientific and cultural achievements,

-- to support the strengthening of labor unions and improved management-labor relations,

-- to encourage common standards with respect to the rights and responsibilities of private investment, and

-- to support the strengthening of the Organization of American States (OAS).

AID Contingency Fund

The AID Contingency Fund was established in Part I of the Foreign Assistance Act of 1961, although an appropriation was initially made for such a fund in fiscal year 1956. While there is still authority for the President to use funds for contingencies under

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this section, it is limited to no more than $20 million in any given year from funds already appropriated.

In the 1960s, a budget request for this fund routinely was made at the beginning of each fiscal year, in amounts 10 or 20 times the size of the current authority. It was used as a flexible tool in meeting unforeseen needs. Latin America received a large portion of contingency assistance in the 1960s, but support was also provided to emerging governments in Africa and countries in Asia and the Near East. Both grants and loans were made available under Contingency Assistance. Latin America was the major loan beneficiary, obtaining assistance for such purposes as financing foreign exchange and imports.

Assistance to Portugal and Portuguese Colonies

Section 496 was added to the FAA of 1961 by the Foreign Assistance Act of 1974 [P.L. 93-559] to support the Government of Portugal's initiatives in recognition of the rights to independence of Cape Verde, Angola, Mozambique and Guinea-Bissau. This was viewed as a significant advance toward the goal of self-determination for all the peoples of Africa, and funding was authorized for both Portugal and its former colonies. This section was repealed by the International Security and Development Cooperation Act of 1985 [P.L. 99-83].

Middle East Special Requirements Fund

The FAA of 1961 was amended by the Foreign Assistance Act of 1974 [P.L. 93-559] to include a section in Part VI entitled Assistance to the Middle East. This established a Special Requirements Fund as part of an effort to support peace in the area through mutual understanding and to assist nations toward economic progress and political stability.

Part VI of the FAA of 1961 was repealed in 1978, but the authorization of this fund was moved to Part II, Chapter 6 of the act. This section was repealed altogether by the International Security and Development Cooperation Act of 1980 [P.L. 96-533].

Disaster Relief and Rehabilitation International Organizations and Programs

A.I.D. manages loans issued under the Disaster Relief and Rehabilitation Program (FAA of 1961, as amended) and the International Organizations and Programs Fund (FAA of 1961, as amended). No loans currently are being issued under these programs.

II. P.L. 480 Loan Programs.

The Agricultural Trade Development and Assistance Act of 1954 [P.L. 480 Section 104], authorized the President to "enter into agreements with friendly nations or organizations to use foreign currencies, including principal and interest from loan repayments", for the following purposes:

Common Defense

Section 104(c) allowed for the procurement of military equipment, materials, facilities and services for the common defense. It was repealed in 1975 by P.L. 94-161, Section 204(3).

Cooley Loans

Section 104(e) authorized the use of foreign currencies accruing from the sale of agricultural commodities for loans to U.S. firms or affiliates for business development and trade expansion in foreign countries, or to domestic or foreign firms for use in expanding the market for U.S. agricultural commodities. Cooley Loans were used for various purposes throughout the geographic regions in which A.I.D. operated, and were repayable in the foreign currency of disbursement. The amount of loans authorized in relation to funds available varied widely from country to country, and in some cases the funds available lapsed because they were not used within the limited obligation period.

Examples of Cooley Loan financed projects include tire, tube and camelback manufacturing, synthetic rubber manufacturing, house and glass manufacturing, and construction of service stations, a polystyrene plastic plant, and a pulp and paper plant. The Cooley Loan Program produced mixed results, and loan issuance was discontinued. The legislative provision remained until 1990, when Section 104 was rewritten.

Triangular Trade

Section 104(g) authorized loans to promote trade and economic development, to be made through established banking facilities of friendly nations from which the foreign currency was obtained, or other facilities the President deemed appropriate. Strategic materials, services or foreign currencies were allowed to be accepted in payment for such loans. In 1965 the language was changed by P.L. 89-808 to limit their use to the " purchase of goods and services for other friendly countries ". This section was eliminated by amendments made by P.L. 101-624 (November 28,1990).

Economic Development

Section 104(f) was added by P.L. 89-808 (November 11, 1966) and provided that P.L. 480 local currencies could be used to promote multilateral trade and other economic development. It was intended particularly to assist recipient country programs designed to promote or improve food production processing, distribution or marketing in food-deficit countries friendly to the United States. This was to be done using, to the extent practicable, nonprofit voluntary agencies registered with A.I.D.

This section was eliminated by amendments made by P.L. 101-624 (November 28,1990).

Private Enterprise Development

The Food Security Act of 1985 [P.L. 99-198] included a revised version of P.L. 480 Section 108 designed to foster the development of private institutions and infrastructure for the promotion and improvement of the production of food and other related goods and services. This was to be accomplished through agreements made with financial intermediaries to receive loans of foreign currency [generated from the sale of agricultural commodities] which would then be used to make loans, at reasonable rates of interest, to private individuals, cooperatives, corporations or other entities within developing countries. Section 108 also provided that no less than five percent of these funds, to the extent practicable, would be used to finance agricultural technical assistance.

This program is still active. In fiscal year 1991, 8 loans were issued under P.L. 480 Section 108. In fiscal year 1992, however, only one loan was issued.

III. Predecessor Agency Programs.

Development Loan Fund

The Development Loan Fund (DLF) was established under the Mutual Security Act of 1957 [P.L. 84-726] and operated as a U.S. government corporation until 1961, when its charter was rescinded and control of DLF was given to AID. It was intended to assist " on a basis of self-help and mutual cooperation, the efforts of free people to develop their economic resources, increase their productive capabilities and raise their standards of living ". This was to be done through the use of loans, credits, guarantees, or other activities with nations, organizations, or individuals.

Other Predecessor Agency Loans

A.I.D. manages other loans issued by various predecessor agency programs. These loans were authorized under various legislation including:

Economic Cooperation Act of 1948 [P.L. 80-472];

Basic Material Program [P.L. 80-472];

Mutual Defense Assistance Act of 1949 [P.L. 81-329];

Appropriation Act of 1951 [P.L. 81-759];

India Emergency Food Aid Act of 1951 [P.L. 82-48];

Mutual Security Act of 1951 [P.L. 82-165];

Mutual Security Act of 1953 [P.L. 83-118]; and,

Mutual Security Act of 1954 [As Amended].

These older programs have been discontinued, and no new loans are being issued under them. Complete details concerning the nature and purposes of the existing loans issued, including program performance information, is not available.

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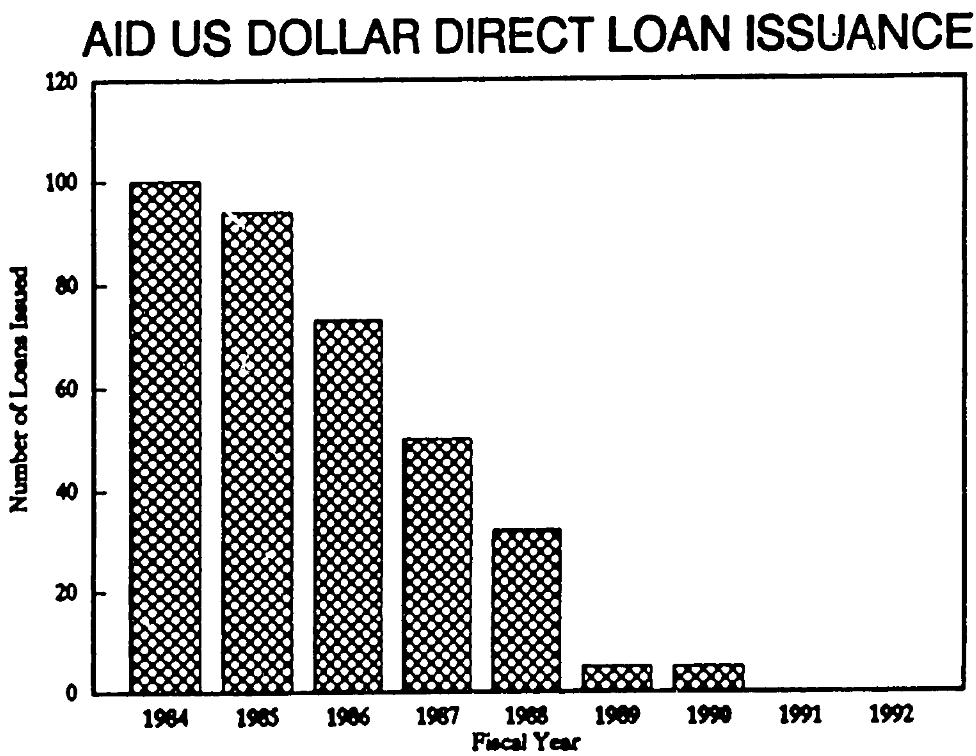
IV. Financial Performance.

The trend in AID foreign assistance programs has been a steady decrease in the use of direct loans as a form of aid. FA/FM/LM loan authorization figures bear this out. For example, in fiscal year 1984, FA/FM/LM reported 100 dollar loans issued totalling $ 825,075,000. By 1990, however, only 5 dollar loans were issued totalling $ 5,019,000. There were no dollar loans authorized and signed in fiscal years 1991 and 1992. The following graph illustrates the decline in dollar loan issuance.



In fiscal year 1991, 8 P.L. 480 local currency loans were issued. In 1992, only 1 P.L. 480 local currency loan was issued.

Financial performance of the direct loan portfolio must be measured and evaluated with the diminishing nature of these programs in mind. In addition, it must be remembered that AID Direct Loans are part of the US Foreign Aid Program, and are issued for political and humanitarian reasons. Considerations such as the financial condition of the borrower and negotiation of a profitable rate of interest, while important in private sector lending, are not significant in the foreign assistance

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process. The most likely candidates for foreign aid are not necessarily the most credit-worthy.

Figures A-5 and A-6 compare current and delinquent loans to the value of the total outstanding portfolio. Loans repayable in local currency have been converted to US Dollars using the reporting rates established by the US Treasury.

Current Loans and Total Portfolio

Figure A-5 presents current loans as a percentage of total outstanding loan portfolio. The three programs with the highest percentages of current loans are the Predecessor Agency Fund, the Alliance for Progress Fund, and the P.L. 480 Loan Fund [Cooley and Private Enterprise Development]. In the case of Alliance for Progress and Predecessor Agency Funds, this reflects the diminishing nature of their outstanding portfolios. The greater part of both funds consists of older loans that have been disbursed for some time, and as a result, the noncurrent portions of their outstanding loan balances have decreased substantially. The P.L. 480 Fund current percentage is high due to the smaller size of its outstanding portfolio, and the generally shorter terms of its loans.

Delinquent Loans and Total Portfolio

Figure A-6 presents delinquent loans as a percentage of the total outstanding loan portfolio. Because AID Direct Loans are not made with specific regard to the credit-worthiness of the borrowers, but for political and humanitarian reasons, delinquencies cannot be controlled as they would be in the private sector. At the loan servicing level, FA/FM/LM can report certain delinquencies through Congressionally mandated Section 620Q and Brooke Amendment sanctions, but further action is not within its authority.

V. Financial Management

Loan Collections and Current Loans

Figure A-7 presents Loan Collections as a percentage of current loans receivable. The current loans figure is derived from combining collection projections for the upcoming year with the total delinquent loans as of September 30, 1992. Loan collections include all collections made during the fiscal year.

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AGENCY FOR INTERNATIONAL DEVELOPMENT
FA/FM/LM

FINANCIAL STATEMENT OVERVIEW

FINANCIAL PERFORMANCE MEASURES

I. PERFORMANCE MEASURE 1: Principal Coming Due as a percentage of Total Portfolio.

Program	Fund	[a] Principal Coming Due	[b] Total Portfolio	Percent*
Alliance for Progress	1	482,375,705	2,287,356,372	21%
Functional Development Assistance [1]	2	134,784,234	3,434,110,651	4%
AID Supporting Assistance (ESF) [2]	3	209,873,625	6,079,975,814	3%
AID Other Appropriations [3]	15	8,860,598	58,880,750	15%
Disaster Relief	16	1,456,000	136,635,597	1%
AID Development Loan Fund	17	251,942,099	3,770,715,393	7%
International Organizations and Programs	8,9	1,607,000	41,315,596	4%
AID Other Loans (PL 480) [4]	6	25,484,732	182,131,059	14%
PL 480 Loans [5]	7	6,770,944	36,652,242	18%
Predecessor Agencies [6]	4,5	73,670,948	294,555,529	25%
TOTAL:		1,196,825,885	16,322,329,003	7%

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AGENCY FOR INTERNATIONAL DEVELOPMENT
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FINANCIAL STATEMENT OVERVIEW

FINANCIAL PERFORMANCE MEASURES

II. PERFORMANCE MEASURE 2: Delinquent Loans as a percentage of Total Portfolio.

Program	Fund	[a] Delinquent Loans	[b] Total Portfolio	Percent
Alliance for Progress	1	295,438,705	2,287,356,372	13%
Functional Development Assistance [1]	2	33,973,234	3,434,110,651	1%
AID Supporting Assistance (ESF) [2]	3	32,879,625	6,079,975,814	1%
AID Other Appropriations [3]	15	426,551	58,880,750	1%
Disaster Relief	16	0	136,635,597	0%
AID Development Loan Fund	17	27,609,099	3,770,715,393	1%
International Organizations and Programs	8,9	0	41,315,596	0%
AID Other Loans (PL 480) [4]	6	3,448,732	182,131,059	2%
PL 480 Loans [5]	7	438,944	36,652,242	1%
Predecessor Agencies [6]	4,5	27,913,948	294,555,529	9%
TOTAL		422,128,838	16,322,329,003	3%

AGENCY FOR INTERNATIONAL DEVELOPMENT
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FINANCIAL PERFORMANCE MEASURES

III. PERFORMANCE MEASURE 3: Loan Collections Compared With Principal Coming Due.

Program	Fund	[c] Loan Collections	[a] Principal Coming Due	Percent
Alliance for Progress	1	76,834,097	482,375,705	16%
Functional Development Assistance [1]	2	55,756,051	134,784,234	41%
AID Supporting Assistance (ESF) [2]	3	83,620,214	209,873,625	40%
AID Other Appropriations [3]	15	8,194,282	8,860,598	92%
Disaster Relief	16	0	1,456,000	0%
AID Development Loan Fund	17	215,457,652	251,942,099	86%
International Organizations and Programs	8,9	501,559	1,607,000	31%
AID Other Loans (PL 480) [4]	6	12,079,882	25,484,732	47%
PL 480 Loans [5]	7	1,755,046	6,770,944	26%
Predecessor Agencies [6]	4,5	40,056,103	73,670,948	54%
TOTAL:		494,254,886	1,196,825,885	41%

AID FA/FM/LM
Financial Performance Measures

Notes

[1] FDA accounts include:
- Population Planning
- Food and Nutrition
- Health
- Education & Human Resources Development
- Selected Development Problems
- Selected Countries and Organizations

[2] AID Supporting Assistance [ESF] includes amounts for Middle East Special Requirements Fund.

[3] AID Other Appropriations include:
- AID Contingency Fund
- Inter-American Social and Economic Cooperation Program
- Assistance to Portugal and Portuguese Colonies
- Trade and Development Agency

[4] AID Other Loans [PL 480] include:
- Economic Development (PL 480 Section 104f)
- Triangular Trade (PL 480 Section 104g)
- Common Defense (PL 480 Section 104c)

[5] PL 480 Loans include:
- Cooley program (PL 480 Section 104e)
- Private Enterprise Development (PL 480 Section 108(Rev.)

[6] Predecessor Agency Fund includes loans issued under Development Loan Fund, Economic Cooperation Act, Mutual Assistance Act, and Mutual Defense Assistance Act.

VI. FA/FM/LM Financial Statements

Limitations of Financial Statements

These financial statements have been prepared to report the financial position and results of operations of the AID Direct Loan Programs pursuant to the requirements of the Chief Financial Officers Act of 1990.

While these statements have been prepared from the books and records of the AID Direct Loan Programs in accordance with the formats prescribed by OMB, the statements are different from the financial reports used to monitor and control budgetary resources that are prepared from the same books and records.

These statements should be read with the understanding that they are for a sovereign entity, and that unfunded liabilities cannot be liquidated without the enactment of an appropriation. The payment of all liabilities, other than for contracts, can be abrogated by the sovereign entity.

APPENDICES

USAID
U.S. Agency for International Development

Associate Administrator for Finance and Administration

JUN 2 3 1993

MEMORANDUM

TO: IG/A/FA, B. Reginald Howard

FROM: AA/FA, Richard A. Ames RAA

SUBJECT: Draft Audit Report on A.I.D.'s Direct Loan Program

Staff have reviewed the draft audit report on direct loans. There is general agreement to the conclusions reached and on the recommendations.

However, we do not have staff to maintain multiple accounting systems on a current basis, nor are we likely to obtain adequate staff. Hence many of the problems in accounting operations, indeed most of the problems, will not be resolved until 1995 when new financial systems are available, procedures are written and in place and adequate staff trained. This process has begun with the addition of three direct-hire staff and three contract personnel. An integrated accounting system, AWACS, is targeted for implementation in 1995.

We have found nothing in the audit that would lead us to believe that the data in our financial systems is inaccurate. We understand that the auditors could not verify the data and that this is the major reason for the disclaimer.

Appendix II

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