Financial Audits

Audit of the Fiscal Years 1993 & 1994 Financial Statements for the Israeli Loan Guarantee Program

Report No. 0-000-95-034
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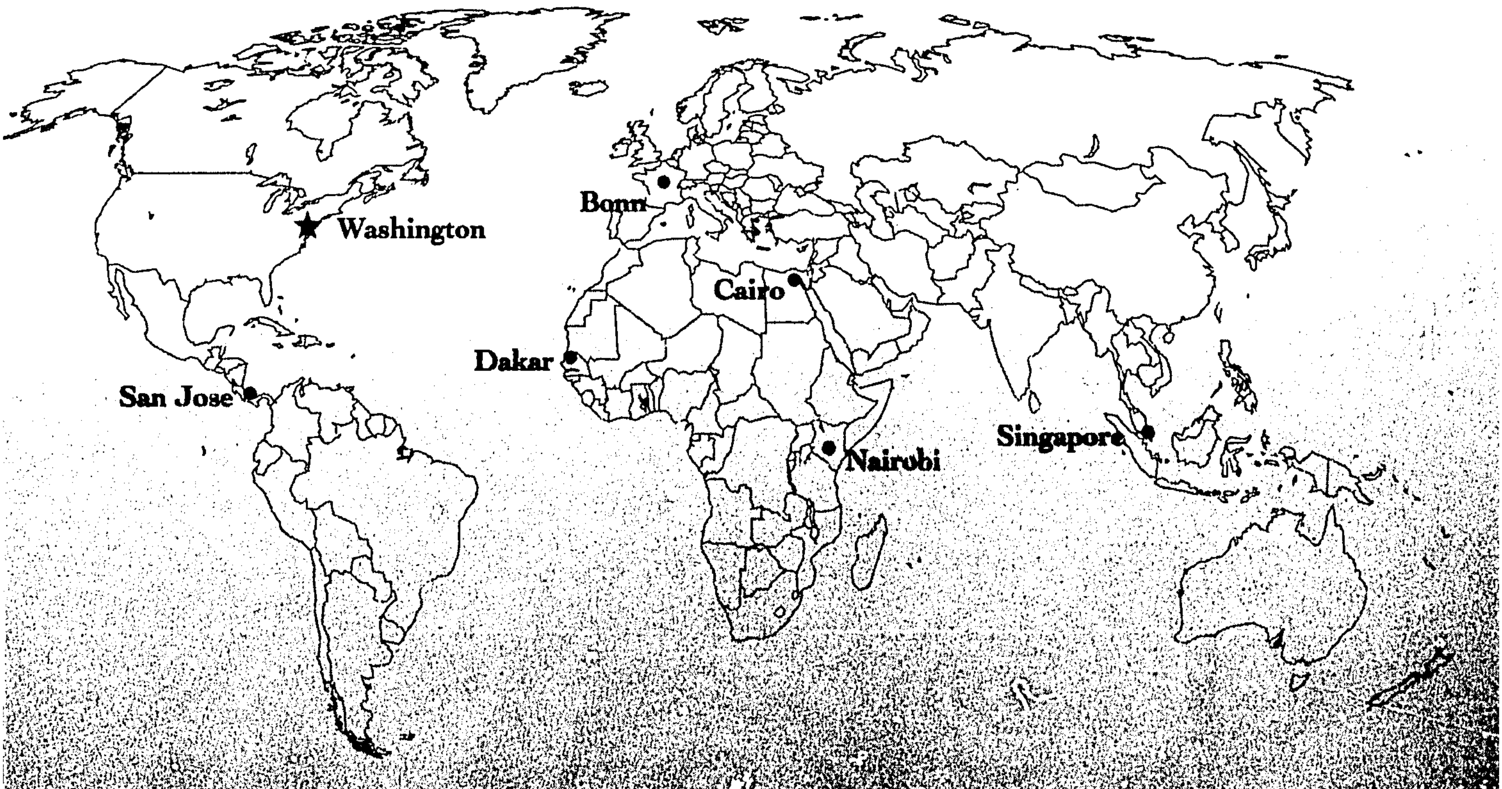

INSPECTOR GENERAL

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

USAID

U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

JUN - 8 1995

Memorandum

FOR: CFO, Donald K. Charney

FROM: AIG/A, James B. Durnil

SUBJECT: Audit of the Fiscal Years 1994 and 1993 Financial Statements for the Israeli Loan Guarantee Program

Attached is our audit report for the fiscal years 1994 and 1993 financial statements of the Israeli Loan Guarantee Program. We performed the audit under the Chief Financial Officers (CFO) Act of 1990, which requires that financial statements be prepared and audited annually for certain federal activities including credit and loan guarantee programs.

The Israeli Loan Guarantee Program was established by legislation in 1992 to guarantee, through the U.S. Agency of International Development (USAID), up to $10 billion in loans to the State of Israel in $2 billion annual increments. Although USAID provides and administers these loan guarantees, the legislation and implementing agreements also assign key roles to the Office of Management and Budget and the Department of State. As of September 30, 1994, USAID guarantees totalled $3.6 billion, and origination fees paid by Israel to the U.S. government totalled $160 million.

The audit showed that the financial statements present fairly, in all material respects, the financial position and results of operations of the Program as of September 30, 1994 and 1993. As discussed in our report, significant estimates regarding risk and reserves required under the Federal Credit Reform Act of 1990 were determined by the Office of Management and Budget in accordance with authorizing legislation.

We conducted the audit in accordance with generally accepted government auditing standards and Office of Management and Budget Bulletin No. 93-06, *Audit Requirements for Federal Financial Statements*. Audit objectives, scope and methodology are discussed further in Appendix I.

USAID Management agreed with our audit conclusions, and its comments on the draft audit report are attached as Appendix II.

I appreciate the cooperation and courtesies extended to my staff during the audit.

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Audit Report on the Fiscal Years 1994 and 1993 Financial Statements for the Israeli Loan Guarantee Program

Background

In anticipation of resettlement costs for immigrants from the former Soviet Union, Ethiopia and other countries, the government of Israel asked the U.S. government to guarantee the repayment of $10 billion in loans from commercial sources, to be borrowed in $2 billion annual increments. Congress enacted Section 226 of the Foreign Assistance Act, authorizing such guarantees beginning in fiscal year 1993. Guarantees are made on behalf of the U.S. government by the U.S. Agency for International Development (USAID), and funding responsibility and basic administrative functions rest with USAID.

The Office of Management and Budget is responsible for determining origination fees and subsidy costs in accordance with the Federal Credit Reform Act of 1990, and the Department of State has policy and program responsibilities. As of September 30, 1994, USAID had guaranteed $3.6 billion in loans to the State of Israel under the program, and origination fees paid to the U.S. government totalled $160 million.

Auditor's Opinion

We have audited the accompanying statement of financial position of the Israeli Loan Guarantee Program as of September 30, 1994 and 1993, and the related statements of operations and changes in net position, and of cash flows for the years then ended. These financial statements are the responsibility of USAID's management. Our responsibility is to express an opinion on these statements based on our audit.

Our audit was made in accordance with generally accepted government auditing standards and Office of Management and Budget (OMB) Bulletin Number 93-06, *Audit Requirements for Federal Financial Statements*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

As described in Note 1, the accompanying financial statements were prepared on the basis of accounting prescribed in OMB Bulletin Number 94-01, *Form and Content of Agency Financial*

Statements, which is a comprehensive basis of accounting other than generally accepted accounting principles.

Also as described in Note 1, Program compliance with the Federal Credit Reform Act of 1990 is principally the responsibility of the Office of Management and Budget. Such compliance includes estimations of default risks and any related subsidy costs to the U.S. government resulting from these loan guarantees, and the Office of Management and Budget has determined these amounts as reported in the financial statements referred to above.

In our opinion, based on our audit and on estimations made by OMB described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Israeli Loan Guaranty Program at September 30, 1994 and 1993, and the results of operations, changes in net position and cash flows for the years then ended in conformity with OMB Bulletin Number 94-01, *Form and Content of Agency Financial Statements*.

Internal Control Structure

In planning and performing our audit of the financial statements of the Israeli Loan Guarantee Program for the years ended September 30, 1994 and 1993, 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 to determine whether the internal control structure meets the objectives identified below. Our consideration included obtaining an understanding of the significant internal control policies and procedures and assessing the level of control risk relevant to cycles, transactions or account balances. For those significant internal control policies and procedures that have been properly designed and implemented, we performed sufficient tests to assess more fully whether they are effective and working as designed.

USAID management is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of internal control structure policies and procedure. The objective of an internal control structure is to provide management with reasonable, but not absolute, assurance that:

- Transactions are properly recorded and accounted for to permit the preparation of reliable financial statements in accordance with applicable accounting principles,
- Transactions are executed in accordance with management's authorization,
- Funds, property and other assets are safeguarded against loss from unauthorized use or disposition, and

- Transactions, including those related to obligations and costs, are executed in compliance with (i) laws and regulations that could have a direct and material effect on the financial statements and (ii) any other laws and regulations that the Office of Management and Budget, the Inspector General and the Program's management have identified as being significant and for which compliance can be objectively measured and evaluated.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants and OMB Bulletin No. 93-06. A material weakness is a condition in which the design or operation of the internal control structure does not reduce, to a relatively low level, the risk that errors or irregularities in amounts material to the financial statements would be detected within a timely period by employees in the normal course of their duties. We did not note any matters involving the internal control structure and its operation that we consider to be material weaknesses as defined above.

However, we noted certain matters involving the internal control structure that we have reported to USAID management in a separate memorandum dated May 23, 1995.

USAID management is also responsible for providing reasonable assurance that data which support performance measures reported in the Program Overview are properly recorded and accounted for to permit preparation of reliable and complete performance information. OMB Bulletin Number 93-06 requires that auditors obtain an understanding of the internal control structure, as it relates to the American Institute of Certified Public Accountants' existence and completeness assertions, and to assess control risk relative to policies and procedures designed to provide reasonable assurance of achieving this objective.

We have reviewed management's Overview and supplemental information to determine whether it is materially consistent with information in the attached financial statements, and we noted no inconsistencies. However, such information has not been subjected to the auditing procedures for the purpose of forming an opinion and, accordingly, we express no opinion on management's program Overview and supplemental data contained therein.

Compliance with Laws and Regulations

Our audit was made in accordance with generally accepted government auditing standards and OMB Bulletin Number 93-06, *Audit Requirements for Federal Financial Statements*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements.

Compliance with the applicable laws and regulations is the responsibility of USAID's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of USAID's compliance with certain provisions of the following laws and regulations:

- the Chief Financial Officers Act of 1990;
- the Federal Managers' Financial Integrity Act (FMFIA) of 1982; and
- the Foreign Assistance Act of 1961, Section 226.

Program compliance with the Federal Credit Reform Act of 1990 is principally the responsibility of the Office of Management and Budget (OMB), which has determined that origination fees of 4.5 percent for fiscal years 1994 and 1993 compensate for estimated subsidy expenses to the U.S. government. An alternative estimation of subsidy expenses and associated origination fees based on OMB's standard model for international credit programs would be approximately 14 percent, and application of this alternative methodology would increase estimated subsidy costs and associated origination fees from $70 million to $219 million for fiscal year 1994 and from $90 million to $280 million in fiscal year 1993.

Our tests for compliance with the provisions of laws and regulations cited above for which USAID management is responsible disclosed no instances of noncompliance. Our objective was not to provide an opinion on overall compliance with such provisions and, accordingly, we do not express such an opinion.

This report is intended for the information of members of the U.S. Congress and management officials of the U.S. Agency for International Development and other participating agencies. This restriction is not intended to limit the distribution of this report, and the report will become a matter of public record.

Office of the Inspector General

Office of the Inspector General
May 23, 1995

Israeli Loan Guarantee Program
Statement of Financial Position
as of September 30, 1994 and 1993
(in U.S. Thousands)

	1994	1993
ASSETS		
Financial Resources:		
Fund Balance with Treasury (Note 3)	$ 171,826	$ 92,956
Total Financial Resources	171,826	92,956
Non-Financial Resources	-0-	-0-
TOTAL ASSETS	$ 171,826	$ 92,956
LIABILITIES AND NET POSITION		
Funded Liabilities:		
Liabilities for Loan Guarantees (Note 4)	$ 171,826	$ 92,956
Total Funded Liabilities	171,826	92,956
Unfunded Liabilities	-0-	-0-
Total Liabilities	171,826	92,956
NET POSITION	-0-	-0-
TOTAL LIABILITIES AND NET POSITION	$ 171,826	$ 92,956

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

Israeli Loan Guarantee Program
Statement of Operations and Changes in Net Position
for the Fiscal Years Ending September 30, 1994 and 1993
(in U.S. Thousands)

	1994	1993
REVENUES AND FINANCING SOURCES:		
Appropriated Capital Used	$ -0-	$ -0-
Interest and Penalties, Non-Federal	8,561	2,991
Other Revenues and Financing Sources	70,335	90,000
Total Revenues and Financing Sources	78,896	92,991
EXPENSES:		
Operating Expenses (Note 5)	27	35
Provision for Loss on Guarantees	78,869	92,956
Funded Expenses	78,896	92,991
Excess (Shortage) of Revenue and Financing Sources over Funded Expenses	-0-	-0-
Excess (Shortage) of Revenue and Financing Sources over Total Expenses	$ -0-	$ -0-
Net Position, Beginning Balance, as Previously Stated	$ -0-	$ -0-
Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	-0-	-0-
Net Position, Ending Balance	$ -0-	$ -0-

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

Israeli Loan Guarantee Program
Statement of Cash Flows
for the Fiscal Years Ending September 30, 1994 and 1993
(in U.S. Thousands)

	1994	1993
CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Cash Provided by:		
Appropriated Capital	$ -0-	$ -0-
Interest, Non-Federal	8,561	2,991
Other Revenues and Financing Sources	70,335	90,000
Total Cash Provided	78,896	92,991
Cash Used for:		
Operating Expenses	27	35
Provision for Loss on Guarantees	78,869	92,956
Total Cash Used	78,896	92,991
Net Cash Provided (Used) by Operating Activities	$ -0-	$ -0-
FUND BALANCES WITH TREASURY BEGINNING OF YEAR	$ 92,956	$ -0-
FUND BALANCES WITH TREASURY ENDING OF YEAR	$171,826	$ 92,956

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

Israeli Loan Guarantee Program
Notes to the Financial Statements for
the Fiscal Years Ending September 30, 1994 and 1993

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Israeli Loan Guarantee Program (the Program) was enacted on October 6, 1992, to assist Israel's absorption and resettlement of immigrants from the former Soviet Union, Ethiopia and other countries[1]. The U.S. Agency for International Development (USAID) provides, on behalf of the United States, a guarantee of payment of principal and interest for U.S. dollar loans totaling up to $10 billion in principal. The President authorizes guarantees on up to $2 billion in loans annually during the period October 1, 1992 through September 30, 1997 based on policy considerations and subject to the Program Agreement, dated January 5, 1993. The guaranteed loans comprise several financial instruments with varying maturities and interest rates.

The Program is administered by the USAID Bureau for Global Program's Office of Environment and Urban Programs under the Asia and Near East Bureau's policy guidance, and USAID's Loan Management Division of the Office of Financial Management maintains the Program's accounts. In addition, the Office of Management and Budget and the State Department have policy roles in Program management.

The Program has one appropriation account, Appropriation 72X4119 (Israeli Financing Account). It was established in accordance with the Federal Credit Reform Act of 1990 to service loans guaranteed under the Program.

As of September 30, 1994, four loans were authorized and under contract, and corresponding guarantees were issued and outstanding, totaling $3.563 billion under the Program.

B. Origination Fee

Fees charged for the Program, under provisions of the authorizing legislation, are to be an aggregate origination fee equal to the estimated subsidy cost of the guarantees issued for that year calculated by the Office of Management and Budget (OMB). In fiscal years 1994 and 1993, OMB determined these fees to be 4.5 percent of the guaranteed loan amounts,

[1] The Program was established under Title VI of Public Law 102-391, the Foreign Operations, Export Financing, and Related Programs Appropriations Act of 1993, which added Section 226 to Title III, Chapter 2, Part I of the Foreign Assistant Act of 1961 setting forth terms and conditions of the loan guarantees to Israel.

amounting to $70.3 million and $90 million in fees generated under the Program for fiscal years 1994 and 1993, respectively. The calculation by OMB of default risks and corresponding subsidy amounts associated with the guarantees is necessary in order for the Program to comply with the Federal Credit Reform Act of 1990. The origination fees also include an amount for the cost of administering the Program by USAID. The fees are paid by the government of Israel to the U.S. government on a prorated basis as each loan guarantee or increment is issued.

C. Basis of Presentation

These financial statements have been prepared to report the financial position and results of operations of the Program, as required by the Chief Financial Officers (CFO) Act of 1990. They have been prepared from USAID's books and records in accordance with OMB Bulletin Number 94-01, *Form and Content of Agency Financial Statements*, and the Program's accounting policies, which are summarized in this Note. The financial statements do not include a separate presentation of budgetary resources and actual expenditures because, according to the Program's authorizing legislation, the Program is entirely financed by the borrower through origination fees appropriations of subsidy costs are not needed for loan guarantees authorized for fiscal year 1993 and the four succeeding fiscal years.

OMB Bulletin 94-01 is considered to be a comprehensive basis of accounting other than generally accepted accounting principles (GAAP). The difference between GAAP and Bulletin Number 94-01 as it applies to the Program is in the accounting for effects of the Federal Credit Reform Act of 1990.

D. Basis of Accounting

Transactions are recorded on an accrual accounting basis. Under the accrual method, revenues are recognized when earned and expenses are recognized when incurred, without regard to receipt or payment of cash. Since there are no appropriations, the financing account is funded by fees paid by Israel.

E. Fund Balance with Treasury

Cash receipts and disbursements are processed by the U.S. Treasury. These funds are available to pay current program expenses and to finance authorized loan guarantee commitments.

F. Reserve for Guarantee Losses

The Reserve for Guarantee Losses provides for estimated losses associated with the guarantees. This reserve is a general reserve available to absorb losses related to guarantees outstanding, and commitments to guarantee, both of which are off-balance sheet commitments. The provision for losses on guarantees is made up of origination fees and interest income, less administrative expenses.

A new accounting policy was adopted for federal loan guarantees committed after October 1, 1991, in accordance with the Federal Credit Reform Act. Guarantee reserves are established for the net present value of the future costs relating to guarantees, net of future revenues. For the Program, the reserve is established when loans under guarantees are disbursed and is calculated as the net present value of all expected costs to the Program resulting from those guarantees, except for administrative expenses, less the net present value of all revenues to be generated from the guarantees.

Under GAAP, reserves are established when the loss is expected to occur, which is not necessarily upon commitment, and costs of defaults are not calculated using net present value. In addition, under GAAP, future revenues are not considered in calculating the reserve and material administrative costs would be included.

G. Revenues and Other Financing Sources

Revenues are obtained through collection of origination fees paid by the borrower upon the closing of each loan guaranteed by USAID. In addition, the Program receives interest income on funds deposited with the U.S. Treasury.

2. COMMITMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

The Program is subject to risk for financial instruments not included in its statement of financial position. These financial instruments are guarantees on unsecured loans which provide principal and interest repayment protection to U.S. lenders against political and economic risks of lending to Israel. USAID does not hold collateral or other security to support its off-balance sheet risk. However, for all guarantees, a third-party guarantee from the government of Israel is required for principal, interest, and certain fees disbursed by USAID on behalf of the borrower.

The Congressionally authorized guarantee limits are as follows (in thousands):

Fiscal Year	
1993	$ 2,000,000
1994	2,000,000
1995	2,000,000
1996	2,000,000
1997	2,000,000
	$10,000,000

Of the total authorized guarantees, $3.563 billion have been contracted and $6 billion of guarantees remain to be disbursed, with a reduction of $437 million due to a Presidential determination in accordance with the authorizing legislation. Outstanding guarantees and guarantee commitments that management estimates may ultimately result in uncollectible claims have been reflected as a liability in the financial statements.

3. FUND BALANCE WITH THE U.S. TREASURY

Fund Balance with the U.S. Treasury at September 30, 1994 and 1993, is as follows (in thousands):

	1994	1993
Total Funds with Treasury	$ 171,826	$ 92,956

4. LIABILITIES FOR LOAN GUARANTEES

Loan guarantee commitments made after 1991 and resulting loan guarantees are governed by the Federal Credit Reform Act of 1990. As stated in Note 2, the Program is also subject to off-balance sheet risk associated with guarantees on unsecured loans.

5. OPERATING EXPENSES

Annual operating expenses for the Program were $27,000 and $35,000 in 1994 and 1993, respectively.

USAID MANAGEMENT'S

PROGRAM OVERVIEW

OF THE

ISRAELI LOAN GUARANTEE PROGRAM

Loan Guarantees to Israel
Program Overview

Introduction

The Loan Guarantees to Israel Program was established in 1992 by Congress as a result of Israel's humanitarian efforts to resettle and absorb the large influx of immigrants from the former Soviet Union, Ethiopia, and other countries. The Program was enacted by Congress on October 6, 1992 under Title VI of Public Law 102-391, the Foreign Operations, Export Financing and Related Appropriations Act, 1993. Specifically, Section 226 was added as an amendment to Title III of Chapter 2 of Part 1 of the Foreign Assistance Act of 1961 (the Act). Under this legislation, during the period from October 1, 1992 and September 30, 1998, the President is authorized to issue guarantees (covering 100 percent of principal and interest) against any future losses incurred in connection with loans disbursed to Israel under this Program.

During the six fiscal years of 1993 through 1998, the President is authorized to guarantee loans up to a total of $10 billion, with up to $2 billion for each fiscal year 1993 through 1997. Any residual amount not authorized during any of those years is available to be authorized in subsequent years, but no later than September 30, 1998. The guarantees may be issued only to support activities in geographic areas subject to the administration of Israel prior to June 5, 1967. This requirement is subject to annual review and the amount of guarantees that can be authorized for any subsequent fiscal year shall be reduced by the estimated amounts of Israel's expenditures on activities not deemed by the President to be consistent with Section 226(c) of the Act.

Proceeds of loans guaranteed under this Program are disbursed to the State of Israel and placed in a special account with the Central Bank of Israel. Most of the funds disbursed are used to make foreign exchange available to Israel's commercial banking system to support increased business sector activities and promote economic growth. Although the primary motivation of the Program is to assist Israel to absorb and resettle the influx of immigrants, the specific end use of any particular loan disbursement is not identified specifically by Israel. However, as specified in the Act, the U.S. Government and the Government of Israel engage in ongoing consultations (reported on an annual basis by the Department of State) to determine Israel's progress in (1) absorbing and resettling immigrants, (2) managing the additional debt burden resulting from loans guaranteed under the Program, (3) improving other economic and financial measures and (4) monitoring the anticipated increases in U.S. exports and investment in Israel arising from this Program.

Although primary oversight of the Loan Guarantees to Israel Program is provided by the President (through the State Department via the Joint Economic Development Group, and monitoring by the Office of Management and Budget (OMB) and the Department of Treasury), the Program's administrative and financial aspects are managed by USAID. Administration of the Program is the responsibility of the Office of Environment and Urban

Programs in USAID's Global Bureau. The accounting functions for the Program are performed by the Loan Management Division of USAID's Office of Financial Management. Legal aspects of the Program are handled for USAID by the Office of the Assistant General Counsel, Global Bureau. The Asia and Near East Bureau of USAID also provides support to the Program, signing the annual fiscal year authorizations and serving as the principal contact point with Department of State.

Standard terms and conditions for loans guaranteed and disbursed under this Program are established by Section 226(m) of the Act. Standard terms call for a maturity of 30 years, with 10 years grace (i.e., with semi-annual payments of interest only over the first 10 years and with semi-annual payments of principal and interest on a level payment basis for the last 20 years). However, the legislation allows different maturities, interest rates and payment terms, provided that in aggregate the terms and conditions correspond to the standard terms.

An origination fee for each loan is required to be paid to USAID as a condition precedent to any loan guaranteed and disbursed under this Program. Section 226(e) of the Act provides that OMB will calculate the fee for each fiscal year consistent with the requirements of the Federal Credit Reform Act of 1990 and that the fee is to be paid by Israel on a pro-rata basis at the time any loan under the Program is guaranteed and disbursed.

The Table below provides a breakdown of loan authorizations, disbursements and USAID fees collected for FY1993 and FY1994. The loan amounts indicated were outstanding as of September 30, 1994.

Israel Loan Guarantee Program
Authorizations and Disbursements in 1993 and 1994
(Amounts in U.S. $ Millions)

Authorization Number	Authorization Date	Amount Authorized	Loan Contract No.	Contract Date	Loan Amount	Fees Collected
1993						
271-AG-001	12/24/92	$ 2,000.0	271-AG-001 A01	3/24/93	$ 1,000.0	$ 45.0
			271-AG-001 B01	9/29/93	1,000.0	45.0
Total FY 1993		2,000.0			2,000.0	90.0
1994						
271-AG-002	3/3/94	1,563.0	271-AG-002 A01	3/18/94	1,000.0	45.0
			271-AG-002 B01	9/19/94	563.0	25.3
Total FY 1994		1,563.0			1,563.0	70.3
Total FY 1993 and FY 1994		3,563.0			3,563.0	163.3

Program Procedures

Loans guaranteed under this Program have been arranged through the U.S. investment and financial community on a competitive basis for the selection of financial advisors, underwriters and fiscal agents, subject to approval by USAID. In view of the large size of each transaction, these borrowings are arranged by underwriting and selling groups in the form of public offerings. Recommending the structure of the financing is the role of the financial advisor selected by the underwriters. The underwriters undertake to purchase the entire amount of the offering on an apportionment basis to the members of the underwriter group. Several financial instruments with varying maturities and interest rates are incorporated into these offerings. In aggregate, the terms and conditions of these instruments are designed to correspond to the terms and conditions required by the Act. Procedures used for the sale of securities may vary in future transactions.

Formal loan closings with appropriate loan documentation are conducted for each loan guarantee contracted and disbursed. Funds are disbursed to State of Israel as borrower upon confirmation by the U.S. Treasury that Israel has paid the origination fee into the appropriate USAID account at the Treasury.

Upon receipt of loan documentation for each borrowing, supplemented by debt servicing information provided on a periodic basis by the fiscal agent for the borrowing, accounting and reporting functions are performed by USAID's Loan Management Division.

Performance Indicators

Primary oversight of this Program is provided by the President through the State Department, OMB and the U.S. Treasury. USAID's role is to administer only the financial aspects of the Program. In this capacity, USAID carries out the following procedures to assure that administrative performance complies with implementing agreements and Program legislation:

- In consultation with State Department and OMB, USAID authorizes for each fiscal year the amount the President has determined in accordance with Section 226(b) and (c) of the Act.

- Reviews and approves competitive selection by Israel of financial advisors, underwriters and fiscal agents.

- Reviews and approves pricing of each borrowing under the Program.

- Reviews and assures that documentation is in order for borrowings authorized under the Program.

- Attends loan closings and executes loan documentation.

- Obtains confirmation from the U.S. Treasury that USAID origination fee is paid prior to disbursement of any borrowing.

- Maintains loan contract files for borrowings contracted and guaranteed.

- Accounts for and tracks debt servicing performance in close coordination with the fiscal agent of loans disbursed.

- Submits periodic required status reports to OMB and the U.S. Treasury regarding guarantees issued under this Program.

For fiscal years 1993 and 1994, USAID performed the above procedures to reasonably assure that Israel met financial requirements under the Program legislation for which USAID has monitoring responsibilities.

Objectives, Scope and Methodology

Management has the responsibility for:

- Preparing the principal financial statements in conformity with applicable accounting principles;
- Establishing and maintaining internal controls and systems to provide reasonable assurance that the broad control objectives of FMFIA are met; and
- Complying with applicable laws and regulations.

The three objectives of this audit were to (i) express an opinion on whether the financial statements are fairly presented, (ii) consider the internal control structure and (iii) test for compliance with applicable laws and regulations.

In undertaking our audit of the Israeli Loan Guarantee Program, we planned and conducted an audit of its financial statements and of internal controls over safeguarding of assets, assuring material compliance with budget authority, and assuring that there were no material misstatements in the financial statements. We also planned to test the Program's compliance with laws and regulations we considered relevant.

We evaluated internal controls in the following areas:

- Guarantee authorizations;
- Program funding; and
- Program expenditures.

We also assessed internal controls related to performance measures insofar as they relate to management's existence and completeness assertions and control risks, and we assessed whether information in management's Overview section was materially consistent with the information in the principal financial statements.

We tested compliance with selected provisions of the following laws and regulations:

- Chief Financial Officers Act of 1990;
- Federal Managers' Financial Integrity Act (FMFIA) of 1982; and

- Foreign Assistance Act of 1961, Section 226.

Our work was done in accordance with generally accepted government auditing standards and OMB Bulletin 93-06, *Audit Requirements for Federal Financial Statements.*

Management Comments

USAID

U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

JUN 1 1995

MEMORANDUM

TO: Thomas F. O'Connor, IG/A/FA

FROM: Donald K. Charney, CFO, Director of Finance, M/FM/C DKC

SUBJECT: Draft Audit Report on the Audit of USAID'S Israeli Loan Guarantee Program for Fiscal Year 1994

I have reviewed the subject audit report and concur with the findings.

We also appreciate IG/A/FA'S findings that these annual financial statements were in conformance with OMB Bulletin 94-01, and that there were no reportable internal control weaknesses or conditions. We remain committed to continuing improvements in our financial records and financial statements.

The Office of Financial Management appreciates the efforts of your staff in the provision of this audit of the Israeli Loan Guarantee Program.

cc: JDKing, M/FM/LM
M/FM/PPC (2)

320 Twenty-First Street, N.W., Washington, D.C. 20523