

104  
OVERSIGHT: UNITED STATES AGENCY FOR  
INTERNATIONAL DEVELOPMENT

---

---

Y 4. IN 8/16: D 49/3

Oversight: United States Agency for...  
-----ING

BEFORE THE

COMMITTEE ON  
INTERNATIONAL RELATIONS  
HOUSE OF REPRESENTATIVES

ONE HUNDRED FOURTH CONGRESS

SECOND SESSION

-----  
MAY 9, 1996  
-----

Printed for the use of the Committee on International Relations



DEPOSITORY  
OCT 30 1996  
CONGRESSIONAL LIBRARY

U.S. GOVERNMENT PRINTING OFFICE

26-530 CC

WASHINGTON : 1996

---

For sale by the U.S. Government Printing Office  
Superintendent of Documents, Congressional Sales Office, Washington, DC 20402  
ISBN 0-16-053431-3



04  
OVERSIGHT: UNITED STATES AGENCY FOR  
INTERNATIONAL DEVELOPMENT

---

---

Y 4. IN 8/16:D 49/3

Oversight: United States Agency for... ING

BEFORE THE

COMMITTEE ON  
INTERNATIONAL RELATIONS  
HOUSE OF REPRESENTATIVES

ONE HUNDRED FOURTH CONGRESS

SECOND SESSION

\_\_\_\_\_  
MAY 9, 1996  
\_\_\_\_\_

Printed for the use of the Committee on International Relations



LIBRARY  
OCT 30 1996

U.S. GOVERNMENT PRINTING OFFICE

26-530 CC

WASHINGTON : 1996

---

For sale by the U.S. Government Printing Office  
Superintendent of Documents, Congressional Sales Office, Washington, DC 20402

ISBN 0-16-053431-3

## COMMITTEE ON INTERNATIONAL RELATIONS

BENJAMIN A. GILMAN, New York, *Chairman*

WILLIAM F. GOODLING, Pennsylvania  
JAMES A. LEACH, Iowa  
TOBY ROTH, Wisconsin  
HENRY J. HYDE, Illinois  
DOUG BEREUTER, Nebraska  
CHRISTOPHER H. SMITH, New Jersey  
DAN BURTON, Indiana  
JAN MEYERS, Kansas  
ELTON GALLEGLY, California  
ILEANA ROS-LEHTINEN, Florida  
CASS BALLENGER, North Carolina  
DANA ROHRABACHER, California  
DONALD A. MANZULLO, Illinois  
EDWARD R. ROYCE, California  
PETER T. KING, New York  
JAY KIM, California  
SAM BROWNBACK, Kansas  
DAVID FUNDERBURK, North Carolina  
STEVEN J. CHABOT, Ohio  
MARSHALL "MARK" SANFORD, South  
Carolina  
MATT SALMON, Arizona  
AMO HOUGHTON, New York  
TOM CAMPBELL, California

LEE H. HAMILTON, Indiana  
SAM GEJDENSON, Connecticut  
TOM LANTOS, California  
ROBERT G. TORRICELLI, New Jersey  
HOWARD L. BERMAN, California  
GARY L. ACKERMAN, New York  
HARRY JOHNSTON, Florida  
ENI F.H. FALEOMAVAEGA, American  
Samoa  
MATTHEW G. MARTINEZ, California  
DONALD M. PAYNE, New Jersey  
ROBERT E. ANDREWS, New Jersey  
ROBERT MENENDEZ, New Jersey  
SHERROD BROWN, Ohio  
CYNTHIA A. MCKINNEY, Georgia  
ALCEE L. HASTINGS, Florida  
ALBERT RUSSELL WYNN, Maryland  
JAMES P. MORAN, Virginia  
VICTOR O. FRAZER, Virgin Islands (Ind.)  
CHARLIE ROSE, North Carolina  
PAT DANNER, Missouri

RICHARD J. GARON, *Chief of Staff*

MICHAEL H. VAN DUSEN, *Democratic Chief of Staff*

MARK S. KIRK, *Counsel*

PARKER H. BRENT, *Staff Associate*

# CONTENTS

---

## WITNESSES

	Page
Mr. Jeffrey Rush, Jr., Inspector General, U.S. Agency for International Development .....	2

## APPENDIX

Prepared statement of Mr. Jeffrey Rush, Jr. ....	19
Additional information provided by the U.S. Agency for International Development .....	38
Response by the U.S. Agency for International Development to a question submitted by Congressman Roth .....	64
Responses by the U.S. Agency for International Development to additional questions submitted by Chairman Gilman .....	76



# OVERSIGHT: UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT

---

THURSDAY, MAY 9, 1996

HOUSE OF REPRESENTATIVES,  
COMMITTEE ON INTERNATIONAL RELATIONS,  
*Washington, DC.*

The committee met, pursuant to call, at 10:40 a.m. in 2172 Rayburn House Office Building, Hon. Benjamin Gilman (chairman of the committee) presiding.

Chairman GILMAN. The committee will come to order. Today the committee will hear the testimony of Mr. Jeffrey Rush, Jr., Inspector General; The Agency for the International Development. Before becoming AID Inspector General, Mr. Rush served for many years in the Agricultural Department rising to become the department's Deputy Assistant Inspector General. He also served as the Acting Inspector General to the Peace Corps. He has a lot of inspections under his belt.

Mr. Rush is originally from Kansas; holds a bachelors degree from Baker University and a law degree from George Mason. I also understand Mr. Rush is one of the only Inspectors General in the U.S. Government who served as a student teacher of music prior to his current, less than musical, occupation. Mr. Rush, we offer you in musical terms a fortissimo welcome to our committee as well as an apology for not calling you sooner before our committee.

The work of an Inspector General is vital to the continued success and integrity of our foreign assistants program. You and your able staff formed the first line of defense against waste, fraud and abuse that can creep into any government program. We want to support and highlight your work and hope you will be able to appear again before our committee when the need comes.

The last three semi-annual reports to the Congress details some shocking problems with AID. We understand that you forcefully raised with AID management many of the problems described in your reports and we are interested in AID's response. For example, your latest report noted that AID has \$14 billion outstanding in direct loans but could not provide any complete picture of who received those loans or whether any of those loans have been repaid.

According to some of your findings, the agency is installing a \$65 million worldwide accounting system, or AWACS, which unlike the Pentagon's reliable AWACS, apparently is not workable. The report describes AID's AWACS as being riddled with system weaknesses and far behind schedule. While AID laid off more than 200 employees, your report indicates that tens of millions of dollars in unspent operating expense funds lie unused in various accounts. The gov-

ernment in Mozambique blatantly stole more than \$1 million in food aid and refuses to make repayment. Yet AID continues to provide them with \$7 million in other assistance.

A further problem, contractors attempting to charge AID \$300,000 to pay bribes, not to mention false claims by Jordanian contractors. Embezzlers of micro-enterprise development funds confirms offering AID employees future employment in return for favors in a procurement process. Your office has also been investigating waste and mismanagement of the AID mission in South Africa and the activities of its director, Mr. Cap Dean. We understand that a report will be forthcoming with regard to that investigation in the near future.

We certainly look forward to your testimony not only on these and other problems, but also on the accomplishments of your office on behalf of our American taxpayers. Before taking your statement, I would like to ask any of my colleagues if they have any opening remarks. Mr. Roth.

Mr. ROTH. Mr. Chairman, I agree with you that it is very important that we have this hearing and hear from the Inspector General. His testimony I think is going to be most illuminating. Mr. Rush, we are delighted to have you before our committee and be able to ask you a few questions, also. Thank you.

Chairman GILMAN. Thank you, Mr. Roth. Any other opening statements? Judge Hastings.

Mr. HASTINGS. Mr. Chairman, no, sir. I have no opening statement, Mr. Chairman.

Chairman GILMAN. If there are no further opening statements, I want to welcome Mr. Rush and your complete statement will be included in the record. If you would like to summarize it, please feel free.

#### STATEMENT OF JEFFREY RUSH, JR., INSPECTOR GENERAL, U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

Mr. RUSH. Thank you and good morning, Mr. Chairman. I am delighted to appear before the committee to share with you my views about the challenges facing USAID in meeting requirements under the Chief Financial Officer's Act (CFO Act), the Government Management Reform Act (CGMRA), the Government Performance and Results Act (CGPRA) and to talk generally about some of the performance audit work that we do.

Before I summarize my testimony, I would like to draw your attention and the members' and staff's attention to the table to my left. We have provided some additional copies of our most recent semi-annual reports. We have a copy of our annual plan for fiscal year 1996. We have a copy of our 5-year audit strategy for 1991 through 1995. And we have copies of several statutes that might be of interest to members and their staff. Those statutes are those that pertain to the IG Act and our authorities, the Chief Financial Officer's Act, the Government Performance and Results Act and the Government Management and Reform Act.

The CFO Act was passed in 1990 and requires most Federal agencies to prepare audited financial statements of revolving funds, trust funds and any other entity performing substantial commercial operations. USAID has made considerable progress during the

first 4 years that it was required to prepare financial statements for the various programs under CFO. However, we are still in the process of completing the financial statements for this current fiscal year. We hope to have the last three of those accounts audited and our opinions issued by June 30, 1996.

We have been working closely with the USAID Chief Financial Officer in anticipation of fiscal year 1996 financial statements. However, there are problems with that statement and they relate to the existing agency accounting systems which were used to prepare the financial statements in 1995 and will likely impact the preparation of the fiscal year 1996 statements.

The USAID will be relying on a new integrated financial accounting system known as the AID Worldwide Accounting and Control Systems, or AWACS, to generate its first consolidated financial statement. The GMRA, the Government Management and Reform Act, requires most Federal agencies to prepare and submit to OMB audited financial statements not later than March 1, 1997 and every year thereafter.

Notwithstanding the agency's plans for implementation of AWACS, USAID management has not been able to provide sufficient information for an independent verification that AWACS will produce reliable, timely, and accurate financial statements. Thus, in my last and most recent semi-annual report to the Congress, I stated the problems with the development and implementation of the agency's new accounting system could result in a failure to meet the requirement of a consolidated financial statement for that fiscal year.

Chairman GILMAN. Please continue. We are on a roll call but we'll continue right on through. I would like to indicate to my colleagues that if they would like to go vote now, we will continue right through without recessing. Thank you. Please continue, Mr. Rush.

Mr. RUSH. The Government Performance Results Act requires Federal agencies to implement effective management systems for measuring program performance, developing program strategies, monitoring progress of those strategies and reporting on that progress. In March 1994, USAID submitted a proposal to become a pilot project under GPRA. The proposal offered to expand agency-wide strategic planning, better link performance measures to agency-wide programming and management systems and to test broader management system reforms aimed at enhancing the agency's ability to manage for results through pilots.

In February 1996, the USAID sent OMB a copy of its 1995 annual performance report. Our monitoring of USAID's progress in meeting GPRA requirements is ongoing. Our review of the performance report disclosed that the report does not comply with the requirements of GPRA in several respects. First, the report does not address performance during one year. It discussed performance covering several years. Second, the report provides no basis to compare actual performance against planned performance. I am providing copies of the USAID Pilot Project Proposal and the OMB Pilot Project Proposal to my testimony.

Finally, in talking a little bit about corrective actions at USAID, one of my responsibilities is to keep the Administration and the

Congress informed about the problems and deficiencies of the agency, and to report both the need for and the progress of agency corrective action. Corrective action taken as a result of investigations and audits is dealt with in a systematic way.

Prior to closing an investigative case file, a review is conducted by a supervisory investigator to determine if any criminal, civil or administrative action has been taken.

Prior to closing an audit, a review is made to determine whether a "management decision" has been made. The 1988 amendments to the Inspector General Act define "management decision" as when management and the OIG agree on actions to take to address a particular audit recommendation.

The USAID Office of Management Planning and Innovation, the USAID Office of Procurement and the OIG are working on an automated consolidated audit tracking system. The system will provide a shared data base and eliminate duplicate recordkeeping by management and OIG involving audit follow-up and tracking, and should be operational by October 1, 1996.

Mr. Chairman, I would be pleased to answer any questions you might have.

[The prepared statement of Mr. Rush appears in the appendix.]

Chairman GILMAN. Thank you, Mr. Rush, for your testimony.

Mrs. MEYERS. Mr. Chairman.

Chairman GILMAN. Ms. Meyers.

Mrs. MEYERS. I would like to welcome Mr. Rush to the committee. I represent the State of Kansas and the District I believe not only where he lived, but where he went to school. And so I am very pleased to have you before the committee today.

Chairman GILMAN. Thank you, Mrs. Meyers. Have you voted, Mrs. Meyers? There is a vote on now.

Mrs. MEYERS. Have you all—

Chairman GILMAN. If you would like to go on over, I am waiting for Mr. Roth to come back to continue with the hearing. You might want to go over and vote.

Mrs. MEYERS. All right.

Chairman GILMAN. I would welcome your doing that. Mr. Rush, I understand that in order to replace 11 outdated and separate accounting systems, AID approached a large software company known as Oracle Federal Systems and many independent contractors to design an entirely new accounting system from scratch. I will note that the law does not allow this unless GSA grants a waiver which GSA permitted. Following a Pentagon approach, the system is called the AID Worldwide Accounting and Control System known as AWACS.

You note in your testimony and reports that AWACS is late, over budget and lacks documentation on its design, control and testing. And specifically, you note that the AWACS system is lacking in basic system controls and procedures; that it is riddled with systemic weaknesses including a lack of edit controls over data entry and duplicative functions and suffering from poor quality of documentation and data.

You also note that critical milestone dates for bringing the system on-line have been missed and basic internal controls are lack-

ing. It seems likely that despite the cost and effort, AWACS will miss auditing the 1996 years it was designed to do.

Can you tell us what is the cost of the AWACS and what can be done about the weaknesses and delays that you have clearly defined in your regular reports to Congress?

Mr. RUSH. Mr. Chairman, we have not done an audit to determine the cost of AWACS. In fact, AWACS is more than one system. AWACS was initially conceived by the agency in the late 1980's as a result of reporting its material weakness to the President under the Federal Managers Financial Integrity Act.

The original approach to AWACS would have been to take some software off the shelf, software previously approved by GSA, and to put it on a distributive system. But in 1994, a decision was made to forego that approach to seek a waiver which was obtained from GSA and to develop some custom software. The software selected was data base sold by Oracle. Since that time, the agency has purchased, I think, 44 servers. These are mini-computers (UNIX) platform servers. They have installed them around the world and we are still in development. So I do not have a cost answer for you.

Chairman GILMAN. Well, is it your recommendation that they proceed further with this system despite all these weaknesses?

Mr. RUSH. We have not yet made a recommendation to management. We have been looking at the development to date. There are at least four things the agency can do. We will be talking with management in the next few weeks about what they intend to do with AWACS. But, my opinion, as stated in my semi-annual, is that on the current course of development, AWACS will not be delivered in time to produce consolidated audited financial statements for 1996.

Chairman GILMAN. As I recall, I think you described this buy-and-develop procedure as a recipe for disaster. Do you still feel that that is a no-win situation?

Mr. RUSH. Over many years of auditing and investigating the government's purchase of information systems, one of the things most common to failed systems is an attempt to design and implement simultaneously. We would like to think that AID will stop, make final decisions about development, come up with a set of milestones and get on with implementation. But trying to implement as you develop is a recipe for disaster.

Chairman GILMAN. What is the total cost of this new system?

Mr. RUSH. Sir, we do not know.

Chairman GILMAN. No information has been given to you?

Mr. RUSH. We have a little information about the cost of the servers and the cost of the licenses for the software. That information would come to a total of probably less than \$10 million. But that would only be costs that we can easily identify after the March 1994 decision for a waiver. All of the money spent prior to 1994 (dating back to at least 1988) has not yet been reviewed and audited.

Chairman GILMAN. Have you any estimate of what the total cost of this system would be?

Mr. RUSH. No, sir, we do not.

Chairman GILMAN. I understand recently you conducted a ground-breaking review of unused operating expense funds appro-

riated for your own IG office, and you found \$9 million from various fiscal year funds out of your total IG annual budget of about \$30 million. As you state in your report, Federal law and AID policy requires that such reviews of operating expense funds be conducted of AID as a whole. It is safe to say that these reviews are rarely, if ever, done, hence, your own ground-breaking review.

In your pilot review of several AID country accounts, I note that you found the following unused operating expense funds and de-obligated them for better use. For example, Egypt, \$930,000; West Bank, \$300,000; Senegal, \$100,000; Kazakhstan, \$250,000; Namibia, \$83,000. Mr. Rush, were any of these funds refunded to the Treasury?

Mr. RUSH. No, sir. By law once those funds are identified and de-obligated, they can be re-obligated by the agency unless either the President or head of the agency decides to seek a rescission, a return to the government.

Chairman GILMAN. I will note that AID is conducting a Reduction-in-Force of over 200 employees this year essentially laying them off. If a comprehensive review were undertaken of all unused operating expense funds of AID, how much money do you anticipate we could find?

Mr. RUSH. We cannot make an estimate. We did not do a statistical sample of all the countries that have such funds. So we can only tell you that in the limited review we did within OIG and the review done in only six countries, we found several million dollars.

Chairman GILMAN. Mr. Rush, I may be asking you some further questions. Mr. Frazer, would you continue with the questioning at this time? I have to go to the floor to vote.

Mr. FRAZER. [Presiding] Mr. Rush, I see your lengthy statement. You gave us a very thorough listing of the technical auditing and financial requirements that Congress has imposed on your agency and other agencies. Can you give us some idea in layman terms of how well AID has done in meeting the requirements of such laws as Chief Financial Officer's Act, Government Performance and Results Act?

Mr. RUSH. My own view is that we have done relatively well. The government was very slow to accept the concept of having audited financial statements after the CFO Act was passed in 1990. And as I note in my testimony, in the first 4 years of preparing financial statements, AID did a pretty good job. The opinions were not always the best opinion you can get, but we were able to produce statements and we began to work with the agency toward unqualified opinions.

Our only problem this year is a problem related to timing. The Office of Management and Budget changed the deadlines and caused the agency to produce its reports about 90 days sooner than we would have anticipated. Thus, we were late on getting all of our accounts audited. But we now have all that information and we hope to have our audits completed by June 30, 1996, as I indicated.

Mr. FRAZER. Generally speaking, Mr. Rush, are the trend lines and AID's performance on these laws getting better or worse and how would AID's records in meeting these requirements today compare with 1990?

Mr. RUSH. If I try to generalize, I have to separate one account from the seven. In six of the accounts, we have made major progress and it is likely that we can get clean opinions in the future if we were to continue on the same course. But the single problem turns out to be the single largest account, that is the direct loan account. That account involves funds that have been loaned to countries in many instances 20 and 30 years ago. Loans have been rescheduled; records have been lost. We actually have examples where we made loans to countries in Central Europe that no longer exist. In fact, the portfolio contains a loan made to Yugoslavia.

Thus, we have had problems and we have disclaimed opinions for that account for each of the years that we have been required to audit financial statements.

Mr. FRAZER. Way back, AID was in a list of U.S. Government agencies viewed as high risk for waste, fraud and abuse. Is AID still on that list?

Mr. RUSH. No, sir. They are not.

Mr. FRAZER. Could you give us some impression of how AID's compliance for these laws compare to, say, the Department of Defense's compliance, small business compliance, small business administration compliance or any other Federal agency?

Mr. RUSH. It is hard to compare AID to another agency. If I try to compare AID today to AID of 1990 or 1991, I can give you an impression that it is a much improved environment where employees are much more concerned about accountability and performance. But it is very difficult for me to try to compare AID's performance or accountability with another agency.

Mr. FRAZER. You said that AID has not met the requirements of Government Performance and Results Act to measure program performance by setting and monitoring program strategies. Is it true that implementation is 4 years away?

Mr. RUSH. You are exactly right.

Mr. FRAZER. Well, the fact that it is stated that it has not been met, an implementation at 4 years away, are you speculating perhaps when that is going to be able to be met?

Mr. RUSH. No. I am saying that AID, as a pilot agency, is unable to meet those requirements as a pilot agency. I do not want to try to hold AID to a standard that has not been imposed. That will be the GPRA standards that require full implementation by the year 2000. But AID did volunteer in 1994 to be a pilot agency. So we are trying to hold the agency against the published standards.

Mr. FRAZER. Mr. Hastings.

Mr. ROTH. If you want to yield some time to Mr. Hastings, you are free to do that, Mr. Frazer.

Mr. HASTINGS. Well, I appreciate the time. I was going to have some time on, Mr. Chairman. I would hope that would not preclude my being able to make clarity.

Mr. ROTH. Yes, why don't—

Mr. HASTINGS. Well, I will give you back the chair.

Mr. ROTH. [Presiding] Yes, thank you. As I had mentioned to you before, I think you are doing a super job. And I am interested in some of your findings here. I wonder if you could enlighten us a bit to some of the results of your investigation. We had a big hear-

ing before our committee some time ago before the unfortunate accident with Ron Brown where he talked about the Foreign Corrupt Practices Act and what is happening to our businesses overseas because of it. And AID found, for example, a contractor attempted to charge AID some \$340,000 to pay illegal commission in violation of the Foreign Corrupt Practices Act. Can you give us a little bit of background on that?

Mr. RUSH. Sir, I cannot give you background on that from first-hand knowledge. I may be able to refer to Mr. Ransom.

Mr. ROTH. I see.

Mr. RUSH. Or if you prefer, I can give you an answer for the record.

Mr. ROTH. Why don't you send the answer to us in written form.

Mr. RUSH. Fine.

Mr. ROTH. Incidentally, we have other questions so that we do not have to keep you with all the questions we have.

Mr. RUSH. And I would be pleased to provide copies of any audit or investigative reports that the members and staff might want to look at that relate to some of the semi-annual results that we are making available.

Mr. ROTH. Thank you, Mr. Rush. Please do that. I was interested, too, in the housing guarantee program. And the reason is because we had that before our committee, and we also had a debate on the floor dealing with that issue.

And your most recent report noted that in the audits concerning the \$14-billion direct loan program, the auditor was unable to render an opinion due to inadequate or unattainable records which prevented the audit from being completed. The General Accounting Office reported that the housing guarantee program alone will be responsible for some \$1 billion in losses to the taxpayers and the Congress voted repeatedly to end these housing loans. Can you tell us why there is such a weak audit trail or seems to be?

Mr. RUSH. Well, with respect to the housing guarantee program, what we have done by looking at financial statements is not completely consistent with what the General Accounting Office did when they did a performance audit of that program. So I really cannot speak to the conclusions drawn by the GAO. We are familiar with those results and they talked with our auditors as they conducted that audit.

What we are referring to when we talk about the audited financial statement goes back to the auditor's ability to go in and look behind records and validate what is being placed on ledgers and we are not satisfied that the documentation is sound. Thus, we offered the opinions that we did on the financial statements.

Mr. ROTH. I would like to also ask a question about the AID mission in South Africa. That has come up before our committee a number of times. Incidentally, in your last answer, is that, do you think, a symptom of a larger problem?

Mr. RUSH. I am not sure it is a symptom. AID operates in an environment where we have to go into foreign countries that do not have accounting systems that are comparable to the accounting systems that we have in the United States. Some of them do not have the banks and other infrastructure. When we make loans and grants in those environments, it is very, very difficult to always

track things back to satisfy auditors. We have to try to do that. It is the agency's responsibility. But it is a different environment than most domestic agencies operate in.

Mr. ROTH. You know, this committee has received a lot of evidence about waste and mismanagement in the AID program in South Africa. Your most recent report noted that the cost submitted by the South African Legal Resources Trust, that over 70 percent were not properly supported by documentary evidence. Could you detail the problems in this program? Can you enlighten us a little bit as to what is going on there?

Mr. RUSH. Mr. Chairman, I prefer not to comment on that particular audit. It is not resolved. And as we seek to resolve it administratively, we may find ourselves having to pursue that in court. And I do not want to prejudice the agency or the Department of Justice's interest by making a comment now. But that is an active matter and we will continue to report on it until it is closed.

Mr. ROTH. I know we had quite a spirited debate on that and ancillary issues. And so it would be important for our committee to be enlightened on that. You noted that in your last report, AID pays for over \$342 million worth of research and development activities in a variety of fields. You also noted that none of AID's funding receipts submitted federally financed invention disclosures reports, nor had the government's patent rights been disclosed. Royalty information was also not received by the agency. Can you give us some further illumination on what we should be looking for here as a committee and as a Congress?

Mr. RUSH. Well, to our dismay, we found the agency was not even aware of the requirement at the time we started our audit. Now they are aware of that requirement and we are working with them. They understand the need to create a trail as to the kind of research we are financing and they are making the efforts to try to determine when royalties are being paid. But this is completely new to AID. AID management has responded and we are working on that one.

Mr. ROTH. I want to go back to the first question, Mr. Rush, dealing with the Foreign Corrupt Practices Act. When a company, private agency, violates a Foreign Corrupt Practices Act—as you know, there are severe penalties for that—

Mr. RUSH. Yes, sir.

Mr. ROTH. Do those same penalties apply to the Federal Government, to an agency of our government?

Mr. RUSH. I am sorry. I do not follow that question, sir.

Mr. ROTH. If, for example, AID violates the Foreign Corrupt Practices Act, are they subject to the same penalties that a private company would be?

Mr. RUSH. Well, AID cannot violate the Foreign Corrupt Practices Act as the statute is written. It is subject to individuals and not a government institution. However, if we found an AID employee or contractor performing in a way that might suggest a violation of the Act, the individual or contractor, that matter could be referred to the Department of Justice and that would be pursued based upon the individual's conduct, but not the agency's conduct.

Mr. ROTH. I was just wondering if that individual—is he protected by the government or by the agency?

Mr. RUSH. Absolutely not.

Mr. ROTH. He is not. So in other words, the answer is that you would be subject to the same penalties as people that are—

Mr. RUSH. Right. Any employee or contractor might be subject to those penalties. If we found sufficient evidence, they would be prosecuted.

Mr. ROTH. OK. Thank you, Mr. Rush. Mr. Hastings.

Mr. HASTINGS. Thank you very much, Mr. Chairman. Mr. Rush, thank you for your testimony and more importantly, thank you for the extraordinary work you and your staff have done in dealing with the audit of USAID as is your charge.

I would like to return to a question that Congressman Frazer asked you. And I recognize that it is very difficult to—in your analysis where you have not analyzed any other agency or had that responsibility to make a determination in a definitive way as to whether or not AID is doing as well as any other agency. Let me put it in this context. Am I correct that there are roughly 9,000—a little bit more than 9,000 active AID agreements?

Mr. RUSH. Yes, sir.

Mr. HASTINGS. Am I further correct that in your responsibilities as is your charge, that less than a hundred of them are under audit?

Mr. RUSH. No, sir. Let me explain that. Most of the agreements, contracts and grants require some form of audit.

Mr. HASTINGS. Yes, sir.

Mr. RUSH. Most of those audits are performed by non-Federal auditors, independent public accounting firms. The numbers that you see us refer to in our work product in the semi-annual report reflect only the few instances where we perform an oversight role of the independent public accounting firm.

Mr. HASTINGS. All right.

Mr. RUSH. So that the low number does not reflect the entire audit universe; only those audits that we have looked at very closely.

Mr. HASTINGS. I follow you. What percentage of the audits that you have looked at very closely and/or performed did AID itself request?

Mr. RUSH. Most of them. Most of the work we do in both our audit and investigations program and all of the work we do in security is driven by management.

Mr. HASTINGS. So where problems existed—and I recognize, for example, the continuing quest of certain committee members to get information regarding South Africa. South Africa and others were brought to your attention by management at USAID.

Mr. RUSH. In part, yes.

Mr. HASTINGS. All right.

Mr. RUSH. I received requests to look at problems in South Africa simultaneously. And literally on the same day, I had three requests at my desk; one from the administrator, one from Senator Leahy and one from Congressman Hamilton, all of them asking me to look at particular issues raised by a complaint from an employee.

Mr. HASTINGS. Well, then, you know, I gather that it is easy for those of us as policymakers to determine what is bad about an

agency after audits are conducted. I guess what I am really interested in is has AID improved over time in your judgment?

Mr. RUSH. If I compare AID today with the AID that existed in 1991 and 1992, I do not think there is any doubt that there has been improved accountability.

Mr. HASTINGS. 1991 and 1992, since that time, they have improved in accountability?

Mr. RUSH. In the early 1990's (I was not then part of the agency), the investigations office had a remarkable number of fraud, theft, and embezzlement investigations under way. There were a remarkable number of criminal cases resulting in prosecution. I can tell that as we look at the last few years, while the agency is smaller, while my staff is smaller, clearly we have fewer of those cases coming to our attention and we do not have any reason to believe that many escape our attention.

Mr. HASTINGS. I can appreciate that. Are there any particularly alarming or unusual findings in your October 1995 through March 1996 reports?

Mr. RUSH. I think most of the audits and investigations we reported in our last semi-annual are pretty typical of the kinds of deficiencies you find in programs like our programs, grants and loans.

Mr. HASTINGS. Right.

Mr. RUSH. The remarkable issue I tried to bring to the Congress in my most recent report goes to the lack of having a core accounting system. I think it is critical to AID to develop such a system because you cannot do the other things right if you do not have a reliable accounting system.

Mr. HASTINGS. Right. I appreciate very much your answers and your work and effort. My time has expired, but I wish that we had the wherewithal to have you and your limited staff with limited resources to do an audit of the U.S. Congress and its efficiencies. And I gather that AID would stack up comparably and that is just my opinion. Thank you very much.

Mr. RUSH. Thank you, sir.

Mr. ROTH. Well, thank you, Mr. Hastings. I am now going to call on Chairwoman Meyers for any questions that she may have.

Mrs. MEYERS. Thank you, Mr. Chairman and I apologize for not being here for all of your report and for then having to leave to vote and missing some of the questions. So if I ask a question that has been asked before, just tell me so.

In your report, you said that between 1991 and 1994, AID donated a substantial amount of PL-480 Title III commodities to the government of Mozambique. Under the Title III program, the government of Mozambique was required to sell the food using the proceeds to support development projects. And you noted in the report that the government of Mozambique stole \$1.4 million dollars worth of food as it arrived in port. The AID mission in Mozambique suspended food aid deliveries and asked the government for compensation. Could you describe or talk more about the details of this case? Did the military steal the USAID? What was the response of the ambassador and what is the government of Mozambique doing to correct the problem so that it will not happen again?

Mr. RUSH. Let me start back with the 1993 shipments if I can and then come forward in time. Just yesterday, I was notified by

the Department of Justice that they have entered a lawsuit in New York on behalf of the Department of Agriculture and AID to try to recover on some of the so-called "unfit for human consumption" grain that we delivered under PL-480 in 1993.

With respect to the more recent problem into 1995 with theft and pilferage, I spoke with the ambassador and the mission director. Our agency has tried to act responsibly. In December 1995 and on into January 1996, decisions were made to suspend that program until we get some kind of compensation for grain that has already been delivered. The mission is working with the government with respect to accounting for the local currencies that were generated when prior shipments were sold.

Now, what we have asked and what the agency has agreed to do is to use some of that local currency to pay for security and accountability of any future shipments. But all of this is conditioned on having the country step up to its responsibilities for the most recent thefts.

I want to try to clarify something and that is with respect to who was responsible for those thefts. It is not fair to say that the government was involved in the thefts. What is probably fair to say is that certain government officials had to have knowledge of these thefts for them to occur. The thefts occurred in plain view while the ships were being unloaded. The quantities are so substantial that there is no way that people could have taken it away in their pockets as they used to say in the midwest. We are talking about truckloads and carloads of grain. To move those quantities, we suspect that certain government officials have to have knowledge.

But we have worked with the local authorities, the regional security officer in Mozambique is following up with them and we will continue to follow up through our audits.

Mrs. MEYERS. Thank you. I think it demonstrates the importance of what you are doing because it is not really just to find wrongdoing here in this country, but it is to catch mistakes that are being made and it is to identify problems and wrongdoing in other countries. And so what you are doing is very important.

As part of our large AID program for Egypt, under the 1979 Camp David accords pledging a total of \$5.1 billion annually for Israel and Egypt, AID initiated a \$200 million annual cash payment to Egypt linked to economic reforms. One expert noted that Egypt's economy was controlled by the government as much as Bulgaria's or Poland's during the cold war despite Egypt's tilt toward the west after Camp David.

You noted that AID did not document the basis of its decisions to release these funds based on solid economic reforms. This implies that AID eventually paid the Egyptian Government without solid documented evidence of economic reform. Could you comment?

Mr. RUSH. Well, AID management has agreed that they did not have the documentation. As part of our audit for cash management, they have agreed that they will in the future have that kind of documentation on file before they make a transfer.

Mrs. MEYERS. You noted that you had received one conviction and two personnel terminations as a result of your investigations. Can you describe these cases?

Mr. RUSH. I can provide that for you in some detail in writing later. They involve three employee cases. Two employees were terminated for embezzlement. A third employee was prosecuted and terminated for theft.

Mrs. MEYERS. All right. Thank you, Mr. Rush.

Mr. RUSH. By the way, those were all foreign service nationals. None of those individuals were U.S. direct hires. They were foreign service national contract employees.

Mrs. MEYERS. Thank you, Mr. Rush.

Mr. ROTH. Thank you, Chairwoman Meyers. We are going to call on you, Mr. Ballenger, for the questions that you may have of Mr. Rush.

Mr. BALLENGER. Thank you, Mr. Chairman. I was just in your statement reading that you noted your latest report AID pays for over \$342 million dollars worth of research and development activities in a variety of fields. You also note that none of AID's funding recipients submitted federally financed invention disclosures reports nor had the government patent rights been disclosed. I mean, it sounds to me like we are allowing people to use Federal money to invent things and then keep them to themselves. Is that what is the ultimate end?

Mr. RUSH. That is certainly a possible outcome. I was asked the same question earlier today.

Mr. BALLENGER. Oh, excuse me.

Mr. RUSH. And let me give you a brief response. As we initiated our audit, we determined that AID was not aware of this requirement. They have now become aware and we are working with AID management to put some systems in place so that we can do a better job of tracking the kind of research that we fund and the kind of royalties being charged on our contracts and agreements.

Mr. BALLENGER. Well, let me apologize as Mrs. Meyers did because missing the first part of this—

Mr. RUSH. I understand.

Mr. BALLENGER [continuing]. if I ask duplicate questions, I am sorry. But one of the things that really struck my mind—I am sure it might have struck somebody else's—was the fact that a Nigerian thief stole an AID check. I did not realize we wrote checks for \$142,000. One check from a South African social development center. Now, first of all, I did not realize that a Nigerian thief would be in South Africa. But was he working for us when he stole this?

Mr. RUSH. I do not think he was working with us. The Nigerian was not. He is not an employee. No, this was not an employee or a contractor. But let me try to answer part of your question before you proceed and that is with respect to checks.

Mr. BALLENGER. Yes.

Mr. RUSH. I said earlier that one of the many problems that AID has to deal with is that it operates in a different environment than most domestic agencies. Once you leave the United States, you actually deal with checks and foreign currencies. The idea of electronic funds transfer does not work when you leave the environment that we are in right now in this country. So, in places like South Africa and throughout the developing world, we have to deal with the problems of checks and cash.

Mr. BALLENGER. Well, I mean, with a check that large, \$141,000, wouldn't a South African bank even ask?

Mr. RUSH. Sir, I would have to direct you to a story done by "60 Minutes" and by a series of reports coming from the Federal Bureau of Investigation. Without trying to generalize about Nigerians, there has been and continues to be a concern about a number of folks who have come from Nigeria both in this country and around the world who have mounted massive frauds. So for someone to get a check and negotiate it is not inconsistent with what we have found in other cases.

Mr. BALLENGER. In other words, this was a branch of the South African bank in Nigeria that cashed the check?

Mr. RUSH. No, this was a Nigerian in South Africa who gained access to a check and was able to negotiate it by falsely impersonating someone who could negotiate the check.

Mr. BALLENGER. Let me congratulate you on finding what you got here. I have worked with AID in Nicaragua and I thought it was doing very well in certain areas. But I can see that—I am a businessman myself and if you have got a bookkeeping system—as much you might say the Federal Government here when they say that our budget is going to be off \$200 million, they ought to say plus or minus a billion dollars because we are not—with the set of books that we keep here, nobody really knows what is going on. And I agree with you that if you do not have a good set of accounting practices, you cannot figure out anything. Thank you, Mr. Chairman.

Mr. ROTH. Thank you, Mr. Ballenger. Mr. Rush, before I ask Mr. Chabot for his questions, let me say that in the question period before, we talked about AID's own outside auditor. And they have predicted a 40 percent loss rate for the housing guaranteed program. Now, \$1 billion in losses on a \$2.8 billion guarantee, it is a 40 percent loss rate. And I wonder is that acceptable to the Federal loan guarantee program?

Mr. RUSH. It certainly would not be acceptable as I understand what AID management is trying to do. I have to be careful though because I do not want to give you the impression that we can agree with those numbers because we did not do that audit. I would have to defer to the General Accounting Office as to whether there really is a potential for that loss. In their report, as I understand it, they showed a worse case for losses under the housing guarantee program which is not to say that they reported that such a loss had already occurred.

Mr. ROTH. Yes. The reason that I am asking the question is because this is AID's own outside auditor. This was paid for by AID. And so I am assuming that AID shares the concerns that I have. You know, there are some 22 foreign governments that owe our government \$409 million in bad loans under this program. This according to GAO. I was just wondering, are you satisfied that AID is doing all it can to recover these funds?

Mr. RUSH. I cannot be satisfied with that. And because GAO is still bringing that to resolution, I will have to reserve judgment. But it is my understanding that the agency did not agree with GAO with respect to the possibility of those losses. However, to

bring that audit to closure there will have to be a management decision to do better. And we will be monitoring that.

Mr. ROTH. When I was reading that report—I cannot recall the exact figure; it was over \$400 million that is owed right now. And I wonder what is your opinion? Should new guarantees be issued to governments that already owe us money in bad loans?

Mr. RUSH. There might be policy reasons for the agency to make a loan to someone who is having problems with loans. If you look at AID's history over time, you will see that a lot of bad debt has been rescheduled. So, it is very difficult for me to give you an opinion about something that management may have to face in the future. But, I can tell you in the past that such loans have been made. And they are usually made for policy reasons.

Mr. ROTH. Well, if you have 22 foreign governments that are delinquent in their loans and we do not know whether we should give them more money, I think that is bad business. I would think that once people default, the least we could do is not increase the problem we have got by giving them more loans.

Mr. RUSH. I cannot disagree with you, but I have to be sure you see that there are at least several other factors you would have to take into account. The first is are you dealing with the same government today in extending new loans when you look at the conduct of prior government officials; are you operating in the same environment.

And I would suggest to you if you were looking at situations like those that exist in central Europe, there might be reasons—policy reasons—that the Congress and this Administration might choose to extend new credit. But if I answer your question strictly as a business practice, most lenders do not extend credit to folks who have not paid their bills in the past.

Mr. ROTH. Well, what I am concerned about, serving here in Congress, and I know the other members share the same concerns, is when we have 22 foreign governments that are delinquent in their loans and owe the American taxpayer all this money—\$1 billion out of \$2.8 billion in guarantees, that is a huge, huge loss. And we do not want our Uncle Sam to turn into Uncle Sap. And so, Mr. Rush, we are asking you to help us in this endeavor.

Mr. RUSH. Yes, sir.

Mr. ROTH. Mr. Chabot.

Mr. CHABOT. Thank you, Mr. Chairman, and I will be brief in my questions. And I will take the time to review your written testimony here, Mr. Rush.

Mr. RUSH. Thank you.

Mr. CHABOT. Thank you for your time today. Just one question. Does the civil service and foreign service discipline system work effectively within AID? And if not, could you just let us know your opinions and any comments you would like to make about that.

Mr. RUSH. Sir, we have not done an audit or review to compare the outcomes. I would have to give you some anecdotal view of the systems. The civil service system has a very clear set of rules with respect to discipline. And it is not at all difficult when an employee is found to have engaged in misconduct to inform the employee that they have engaged in misconduct; to charge the employee; to give the employee the due process rights of being heard with or

without a lawyer; and then to make a final decision to do anything from as little as reprimand to as much as remove. And we are talking about noncriminal conduct.

Mr. CHABOT. Yes.

Mr. RUSH. It does not work quite that way in the foreign service. In the foreign service, there is not a predetermined set of steps when you choose to discipline someone who is in the foreign service. In fact, if you bring charges against the person, their first right is to appeal to the grievance board. What happens is in most cases, the folks continue on the job with full pay.

I can tell you that when I have tried to get information about discipline in the foreign service in talking with the employee relations staff at AID, there is not a record—not much of a record—of serious discipline. In fact, in most instances where we find serious misconduct by foreign service personnel, the employees resign rather than face any charge. So it is very difficult to compare the two systems.

Mr. CHABOT. In fact, it has been brought to my attention and it is my understanding that not one foreign service officer has been fired. There may have been some resignations, but nobody has ever been fired. Is that your knowledge and understanding, too?

Mr. RUSH. That is what I have been told. I am not aware of any foreign service officer being fired at AID anytime in the recent past, no.

Mr. CHABOT. OK. Thank you very much, Mr. Rush. I yield back the balance of my time.

Mr. ROTH. Mr. Rush, one of our more active members, Mr. Payne, has just arrived and I am going to ask him if he has any questions. I know he is going to be brief because he realizes you have been here a good long time. And all the questions that we have, again Mr. Rush, we are going to send to you and then you can reply to us.

Mr. RUSH. Thank you.

Mr. ROTH. Because I know we asked some questions that were somewhat sensitive. And if you would reply to us in writing on that, we would appreciate it.

Mr. RUSH. I will, sir.

Mr. ROTH. We will ask Mr. Payne for his questions.

Mr. PAYNE. Thank you very much. I will very brief. And I am sorry that I did miss your testimony. Of course, this is about the fourth or fifth time I have heard what is wrong with USAID. I went over to the Senate about 7 months ago about the South African experience. We had another hearing here and then we had a third hearing. So it is kind of common here this congressional session to beat a dead horse. So I know I did not miss anything new.

I have heard about some of the programs; the problems that they had at the South African embassy; the fact that some of those things were corrected; that there was a tremendous increase in the program and the staff did not grow commensurate and there was some fumbling and stumbling like we always do. But I have never seen so much criticism about a specific program. And I do not know that that has been the genesis of your discussion today. No? OK, good, but it will give me a chance to say it anyway.

You know, we look at the B-2 bomber where it is going to cost about \$2 billion at the present cost. But nobody saying let us stop the B-2 bomber. As a matter of fact, they want 20 more. And a guy said if we do 40 more, it will really reduce the cost. So, like I said, maybe I am at the wrong meeting at the wrong time, but when I saw USAID, I figure once again just let us bash up that South African program; let us criticize Haiti; let us talk about oh, what we are doing in Bosnia.

So I guess I have no questions since it is not uncommon that I am on the wrong page sometimes. Maybe you could just briefly tell me in about a minute what was the genesis of your report and what were you findings.

Mr. RUSH. The last semi-annual report is nothing more than the routine summary that we provide every 6 months. And I want to be sure I leave you and the other members, the Chair and the staff, with an impression that I did not come here to bash AID. I am part of AID. If there is something wrong with USAID, part of my job is to help correct it; not merely to sit back and tell folks how badly they perform.

The role of an IG is to try to first prevent problems. If you cannot prevent problems, the next role is to help identify the cause of the problems. Most of our staff is, in fact, made up of auditors because we are in the internal control business. We think if you put solid systems together, you can prevent most problems. And those that you cannot prevent, you can detect early enough that you reduce the government's exposure.

If my reports seem critical, I have to give you a little background on what IG's do. Unfortunately, the Congress when they passed the IG Act in 1978 mandated that we issue a report to the Congress every 6 months. But the Congress decided that they wanted to hear primarily about problems and deficiencies. So most of what you read when you read our semi-annuals is addressing problems and deficiencies. That is not to say that USAID and other agencies of the government are not hitting home runs. But I am kind of in the strike out and ground out and fly out business as an IG. And too often, our work product is seen solely from the negative.

But we need to tell the agency the truth about its problems and we are trying to do that. We are trying to be fair and balanced in our reporting. And we are trying to contribute to how well these programs work at AID.

Mr. PAYNE. Well, I certainly think that all of those things are very positive. I certainly agree that the problems certainly have to be identified and worked on. It is true that there is an old story that when thousands of planes land safely every day at the airport but when one has a problem, that is a big story. So I know that the strike outs and the pop outs and the getting picked off at first base are really things that—

Mr. RUSH. You have done me one better on that one.

Mr. PAYNE. All right. Thank you, Mr. Chairman. And thank you. And I yield back the balance of my time.

Mr. ROTH. I thank you, Mr. Payne. I consider Mr. Payne a good friend of mine. And he said, you know, we are going to talk about beating a dead horse. I want you to know that AID is the strongest horse in the government and we will not have any problem. But

I am, in fact, rather envious of the new quarters they are going to be moving into.

Mr. Rush, we appreciate your testimony before our committee.

Mr. RUSH. Thank you, sir.

Mr. ROTH. We will send you a list of the questions. You can respond to us. And we want you to know we appreciate the report we received from you.

Mr. RUSH. Thank you very much.

Mr. ROTH. Thank you.

[Whereupon, at 11:40 a.m., the committee was adjourned.]

# APPENDIX

---

STATEMENT OF JEFFREY RUSH, JR.

INSPECTOR GENERAL

U. S. AGENCY FOR INTERNATIONAL DEVELOPMENT

HOUSE COMMITTEE ON INTERNATIONAL RELATIONS

MAY 9, 1996

GOOD MORNING. I AM DELIGHTED TO APPEAR BEFORE THIS COMMITTEE TO SHARE WITH YOU MY VIEWS ABOUT THE CHALLENGES FACING THE U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT (USAID) IN MEETING THE REQUIREMENTS OF THE CHIEF FINANCIAL OFFICERS ACT (CFO ACT), THE GOVERNMENT MANAGEMENT REFORM ACT (GMRA), AND THE GOVERNMENT PERFORMANCE AND RESULTS ACT (GPRA). I WILL ALSO PROVIDE THE COMMITTEE INFORMATION REGARDING PERFORMANCE AUDITS AND MONITORING OF CORRECTIVE ACTION.

## THE CFO ACT

THE CFO ACT WAS PASSED IN 1990 AND REQUIRES MOST FEDERAL AGENCIES TO PREPARE AUDITED FINANCIAL STATEMENTS OF REVOLVING FUNDS, TRUST FUNDS, AND ANY ENTITY PERFORMING SUBSTANTIAL COMMERCIAL OPERATIONS. AMONG OTHER THINGS, THE PURPOSE OF THE CFO ACT WAS TO PROVIDE FOR THE PRODUCTION OF RELIABLE, TIMELY, AND ACCURATE FINANCIAL INFORMATION FOR USE BY THE EXECUTIVE BRANCH OF THE GOVERNMENT AND THE CONGRESS IN THE FINANCING, MANAGING, AND EVALUATING OF FEDERAL PROGRAMS. USAID HAS SEVEN PROGRAM ACCOUNTS SUBJECT TO CFO AUDITS: THE DIRECT LOAN FUND

PROGRAM, THE HOUSING GUARANTEE REVOLVING FUND PROGRAM, THE LOAN GUARANTEE TO ISRAEL, THE MICRO AND SMALL ENTERPRISE DEVELOPMENT FUND PROGRAM, THE MISCELLANEOUS U.S. DOLLAR TRUST FUND PROGRAM, THE FOREIGN SERVICE NATIONAL SEPARATION PAY TRUST FUND PROGRAM, AND THE PROPERTY MANAGEMENT FUND PROGRAM. A BRIEF SUMMARY OF EACH PROGRAM FUND FOLLOWS:

- DIRECT LOAN FUND PROGRAM — THE DIRECT LOAN FUND PROGRAM SUPPORTS ECONOMIC, TECHNICAL AND FINANCIAL PROJECTS FROM THE PROGRAM'S FUNDS. THE PROGRAM ALSO INCLUDES DIRECT LOANS ISSUED BY USAID AND PREDECESSOR AGENCIES SINCE THE INCEPTION OF U.S. FOREIGN ECONOMIC ASSISTANCE IN 1948.
  
- HOUSING GUARANTEE REVOLVING FUND PROGRAM — THE HOUSING GUARANTEE REVOLVING FUND PROGRAM IS DESIGNED TO STIMULATE U.S. PRIVATE SECTOR INVOLVEMENT IN THE FINANCING OF LOW-INCOME SHELTER AND RELATED SERVICES IN THE DEVELOPING WORLD.
  
- LOAN GUARANTEE TO ISRAEL — THE LOAN GUARANTEE TO ISRAEL PROGRAM WAS ESTABLISHED BY LEGISLATION IN 1992 TO GUARANTEE UP TO \$10 BILLION IN LOANS TO THE STATE OF ISRAEL IN \$2 BILLION ANNUAL INCREMENTS.

- MICRO AND SMALL ENTERPRISE DEVELOPMENT FUND PROGRAM -- THE MICRO AND SMALL ENTERPRISE DEVELOPMENT PROGRAM FUND WAS ESTABLISHED IN 1994 AS A SUCCESSOR TO THE PRIVATE SECTOR INVESTMENT PROGRAM FUND. THESE PROGRAMS WERE DESIGNED TO BUILD SUSTAINABLE LINKS BETWEEN FINANCIAL INSTITUTIONS AND MICRO AND SMALL BUSINESSES IN DEVELOPING NATIONS.
  
- MISCELLANEOUS U.S. DOLLAR TRUST FUND PROGRAM -- THE MISCELLANEOUS U.S. DOLLAR TRUST FUND ACCOUNTS FOR THE ACTIVITIES OF THE U.S. DOLLAR ADVANCES FROM FOREIGN GOVERNMENTS. THE TRUST FUND RECORDS EXPENDITURES AGAINST RECEIPTS HELD IN TRUST WHERE USAID IS IN A FIDUCIARY CAPACITY. THE PROGRAM ALSO ACCOUNTS FOR RECEIPTS OF MONEY, PROPERTY AND SERVICES OF ANY KIND MADE AVAILABLE BY GIFT, DEVISE, BEQUEST, OR GRANT, AND EXPENDITURES AGAINST THESE RECEIPTS.
  
- FOREIGN SERVICE NATIONAL SEPARATION PAY TRUST FUND PROGRAM -- THE FOREIGN SERVICE NATIONAL SEPARATION PAY TRUST FUND PROGRAM WAS ESTABLISHED IN 1992 FOR ANNUAL FUNDING OF ACCRUED VOLUNTARY SEPARATION PAY FOR FOREIGN SERVICE NATIONAL PERSONNEL.

- PROPERTY MANAGEMENT FUND PROGRAM — THE PROPERTY MANAGEMENT FUND PROGRAM IS DESIGNED TO FINANCE THE ACQUISITION OF REAL PROPERTY OVERSEAS AND TO DEPOSIT THE PROCEEDS OF SALES OF SIMILAR PROPERTIES.

A MORE DETAILED DESCRIPTION OF THE SEVEN ACCOUNTS IS ATTACHED. A TABLE SHOWING EACH PROGRAM ACCOUNT VALUE AS OF SEPTEMBER 30, 1995 AND A TABLE SHOWING THE FINANCIAL STATEMENT AUDIT HISTORY AND RELATED OPINIONS ARE ALSO ATTACHED.

FINANCIAL STATEMENT AUDITS ARE PERFORMED TO DETERMINE WHETHER THE FINANCIAL STATEMENTS FAIRLY PRESENT THE ENTITY'S FINANCIAL POSITION, RESULTS OF OPERATIONS, AND CHANGES IN FINANCIAL POSITION. THE FINANCIAL STATEMENT AUDIT PROVIDES A SUMMARY JUDGEMENT CALLED AN OPINION, REGARDING THE FAIRNESS AND ACCURACY OF THE FINANCIAL STATEMENTS. THESE OPINIONS, AS REQUIRED BY GENERALLY ACCEPTED AUDITING STANDARDS, ARE STATED AS BEING EITHER UNQUALIFIED, QUALIFIED, ADVERSE, OR DISCLAIMER OF OPINION.

AN UNQUALIFIED OPINION IS ISSUED WHEN THE STATEMENTS ARE FAIRLY PRESENTED AND NO MATERIAL EXCEPTIONS ARE FOUND DURING THE AUDIT. A QUALIFIED OPINION IS ISSUED WHEN THE STATEMENTS ARE FAIRLY PRESENTED BUT THE AUDITOR NOTED DISCREPANCIES THAT WERE NOT SIGNIFICANT ENOUGH TO REQUIRE AN ADVERSE OPINION. AN ADVERSE

OPINION IS ISSUED WHEN THE FINANCIAL STATEMENTS DO NOT FAIRLY PRESENT RESULTS OR ARE MATERIALLY MISSTATED. AN OPINION IS DISCLAIMED WHEN THE SCOPE OF THE AUDIT IS LIMITED FOR REASONS SUCH AS INADEQUATE OR UNAUDITABLE RECORDS.

USAID MADE CONSIDERABLE PROGRESS DURING THE FIRST FOUR YEARS THAT IT WAS REQUIRED TO PREPARE FINANCIAL STATEMENTS FOR ITS VARIOUS PROGRAMS UNDER THE CFO ACT. FOR FISCAL YEAR 1991, USAID PREPARED 2 OF THE 4 SETS OF FINANCIAL STATEMENTS FOR THE PROGRAM ACCOUNTS THAT WERE SUBJECT TO THE CFO ACT. IN FISCAL YEARS 1992, 1993 AND 1994, THE USAID PREPARED FINANCIAL STATEMENTS FOR THE REQUIRED PROGRAM ACCOUNTS, WHICH BY 1994 NUMBERED SEVEN.

WE ARE STILL IN THE PROCESS OF COMPLETING THE FINANCIAL STATEMENT AUDITS FOR FISCAL YEAR 1995. USAID WAS UNABLE TO PREPARE ANY OF ITS FINANCIAL STATEMENTS IN TIME TO HAVE AUDITS COMPLETED BY MARCH 1, 1996, AS REQUIRED BY THE OFFICE OF MANAGEMENT AND BUDGET (OMB). HOWEVER, SINCE THAT DEADLINE PASSED, WE HAVE COMPLETED AUDITS OF FOUR OF THE SEVEN USAID FINANCIAL STATEMENTS AND ISSUED REPORTS ON APRIL 1, 1996. THREE OF THOSE FOUR AUDITS RESULTED IN UNQUALIFIED OPINIONS AND THE FOURTH RESULTED IN A DISCLAIMER. AS OF TODAY, WE HAVE RECEIVED THE FINANCIAL STATEMENTS FOR THE REMAINING THREE PROGRAM ACCOUNTS AND AUDITS ARE IN PROCESS. WE EXPECT TO COMPLETE THOSE AUDITS AND ISSUE REPORTS BY JUNE 30, 1996.

WE HAVE BEEN WORKING CLOSELY WITH THE USAID CHIEF FINANCIAL OFFICER IN ANTICIPATION OF THE FISCAL YEAR 1996 FINANCIAL STATEMENT. THE OMB HAS REQUIRED IGS AND CFOs TO DEVELOP AND SUBMIT JOINT PLANS SHOWING THE CRITICAL MILESTONES THEY MUST MEET IN ORDER TO COMPLETE THEIR RESPECTIVE AGENCY CONSOLIDATED FINANCIAL STATEMENT BY MARCH 1997. HOWEVER, THE PROBLEMS ENCOUNTERED WITH THE EXISTING AGENCY ACCOUNTING SYSTEMS USED TO PREPARE FISCAL YEAR 1995 STATEMENTS WILL LIKELY IMPACT TIMELY PREPARATION OF FISCAL YEAR 1996 STATEMENTS.

EXAMPLES OF PROBLEMS WITH THESE EXISTING SYSTEMS WERE IDENTIFIED IN USAID'S DECEMBER 1994 AUDITABILITY SELF-ASSESSMENT AND THE FISCAL YEAR 1995 FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT (FMFIA) REPORT. THOSE PROBLEMS INCLUDE:

- DIRECT LOAN PROGRAM DOES NOT HAVE AN EFFECTIVE SYSTEM OF INTERNAL CONTROLS;
- GENERAL LEDGER DOES NOT BALANCE;
- SUBSIDIARY LEDGERS DO NOT AGREE TO THE GENERAL LEDGER;
- FOREIGN CURRENCY ACCOUNTS AND WORLDWIDE ACCOUNTS RECEIVABLE ARE NOT REFLECTED IN THE GENERAL LEDGER;

- THERE IS NO EFFECTIVE SYSTEM OF ACCOUNTING FOR NON-EXPENDABLE PROPERTY;
- DATA RECONCILIATIONS ARE NOT TIMELY; AND
- STANDARDIZED, DOCUMENTED FINANCIAL MANAGEMENT POLICIES/PROCEDURES DO NOT EXIST.

ACCORDING TO AGENCY MANAGEMENT, USAID WILL BE RELYING ON A NEW, INTEGRATED FINANCIAL ACCOUNTING SYSTEM KNOWN AS THE AID WORLDWIDE ACCOUNTING AND CONTROL SYSTEM (AWACS) TO GENERATE ITS FIRST CONSOLIDATED FINANCIAL STATEMENTS. AWACS, AS CURRENTLY ENVISIONED BY THE AGENCY, IS SUPPOSED TO REPLACE 11 OF THE AGENCY'S EXISTING, NON-INTEGRATED, FINANCIAL AND MANAGEMENT INFORMATION SYSTEMS. DESCRIPTIONS OF THOSE SYSTEMS AS SHOWN IN USAID'S SYSTEM INVENTORY ARE INCLUDED AS AN ATTACHMENT.

#### THE GMRA

THE GMRA REQUIRES MOST FEDERAL AGENCIES TO PREPARE AND SUBMIT TO OMB AUDITED FINANCIAL STATEMENTS NOT LATER THAN MARCH 1, 1997 AND EACH YEAR THEREAFTER. GMRA REQUIRES THAT THE FINANCIAL STATEMENTS REFLECT THE OVERALL FINANCIAL POSITION AND RESULTS OF OPERATIONS FOR THE AGENCY. THUS, AGENCIES LIKE USAID THAT HAVE PREVIOUSLY PREPARED AND SUBMITTED AUDITED FINANCIAL STATEMENTS FOR INDIVIDUAL PROGRAM ACCOUNTS ARE NOW REQUIRED TO PREPARE AND SUBMIT CONSOLIDATED FINANCIAL STATEMENTS.

USAID'S ABILITY TO MEET ITS REQUIREMENTS UNDER GMRA ARE CONTINGENT ON THE SUCCESSFUL DEVELOPMENT AND IMPLEMENTATION OF AWACS. AGENCY OFFICIALS ORIGINALLY PLANNED FOR AWACS TO BE FULLY OPERATIONAL ON OCTOBER 1, 1995. HOWEVER, THE IMPLEMENTATION DATE SLIPPED TO JANUARY 1996. CURRENTLY, THE AGENCY'S PLANS ARE FOR IMPLEMENTATION BY JULY 1, 1996. NOTWITHSTANDING AGENCY PLANS FOR IMPLEMENTATION, USAID MANAGEMENT HAS NOT BEEN ABLE TO PROVIDE SUFFICIENT INFORMATION FOR OUR INDEPENDENT VERIFICATION THAT AWACS CAN PRODUCE RELIABLE, TIMELY, AND ACCURATE FINANCIAL STATEMENTS. TO THE EXTENT WE HAVE BEEN ABLE TO REVIEW THE AWACS DEVELOPMENT EFFORT, WE HAVE DETERMINED THAT:

- SYSTEMS DOCUMENTATION IN MANY INSTANCES IS EITHER INADEQUATE OR NON-EXISTENT;
- THE AGENCY HAS NOT DEVELOPED A PLAN FOR AUTOMATED TRANSFER OF DATA FROM THE EXISTING SYSTEMS TO AWACS;
- THE INTEGRITY OF DATA BEING MANUALLY ENTERED INTO AWACS FROM EXISTING SYSTEMS HAS NOT BEEN VERIFIED FOR ACCURACY; AND
- THE AGENCY DOES NOT HAVE A PLAN FOR HOW IT WILL ESTABLISH OPENING BALANCES IN THE SYSTEM.

IN MY MOST RECENT SEMIANNUAL REPORT TO THE CONGRESS, I STATE THAT PROBLEMS WITH THE DEVELOPMENT AND IMPLEMENTATION OF THE AGENCY'S NEW ACCOUNTING SYSTEM COULD RESULT IN A FAILURE TO MEET THE REQUIREMENT OF A CONSOLIDATED, AUDITED FINANCIAL STATEMENT FOR THE FISCAL YEAR 1996.

PERFORMANCE AUDITS AND THE GPRA

OUR PERFORMANCE AUDIT PROGRAM IS DESIGNED TO ASSESS AGENCY COMPLIANCE WITH POLICIES AND PROCEDURES, REVIEW PROGRAM EFFECTIVENESS AND RESULTS AND TO ASSIST USAID IN PREVENTING PROBLEMS BEFORE THEY OCCUR. OVER THE LAST FIVE YEARS, WE HAVE CONDUCTED 410 SUCH AUDITS. SUMMARIES DESCRIBING SOME OF OUR RECENT SIGNIFICANT PERFORMANCE AUDITS FOLLOW:

COST CONTAINMENT OF USAID'S PARTICIPANT TRAINING ACTIVITIES  
USAID'S PARTICIPANT TRAINING ACTIVITIES AMOUNT TO APPROXIMATELY \$300 MILLION PER YEAR. ALTHOUGH THE AUDIT IDENTIFIED MANY POSITIVE ACTIONS TO CONTAIN COSTS, IT ALSO IDENTIFIED AREAS WHERE ADDITIONAL COST SAVINGS COULD BE ACHIEVED. THE AUDIT RECOMMENDED ESTABLISHING TUITION LIMITS AND INCLUDING COST-CONTAINMENT ISSUES IN PLANNING PARTICIPANT TRAINING ACTIVITIES SUCH AS PERFORMANCE MEASURES IN PARTICIPANT TRAINING CONTRACTS.

THE AGENCY HAS AGREED WITH THE REPORT'S RECOMMENDATIONS. PARTICIPANT TRAINING CONTRACTORS ARE NOW REQUIRED TO SEEK COST SHARING/COST REDUCTION OPPORTUNITIES IN THEIR INTERNAL MANAGEMENT AS WELL AS IN NEGOTIATIONS WITH TRAINING PROVIDERS AND OTHER SERVICE PROVIDERS. FURTHER, CONTRACTORS ARE ENCOURAGED TO BE CREATIVE IN THEIR APPROACH TO COST CONTAINMENT ISSUES. TUITION LIMITS HAVE BEEN ESTABLISHED FOR BOTH UNDERGRADUATE (\$10,000 PER YEAR) AND GRADUATE (\$11,300 PER YEAR) STUDENTS.

#### MANAGEMENT OF CASH ADVANCES

REVIEWS OF CASH ADVANCE MANAGEMENT AT USAID/WASHINGTON'S OFFICE OF FINANCIAL MANAGEMENT AND AT FIVE OVERSEAS MISSIONS INDICATE THAT IMPROVEMENTS ARE STILL NEEDED. ONLY ONE OFFICE (AN OVERSEAS MISSION) LIMITED THE AMOUNT OF U.S. TREASURY CHECK ADVANCES TO THE IMMEDIATE NEEDS OF RECIPIENT ORGANIZATIONS, WHILE NONE OF THE OFFICES ADEQUATELY MONITORED RECIPIENTS' INTEREST EARNINGS.

FURTHER, THE OFFICE OF FINANCIAL MANAGEMENT IN WASHINGTON DID NOT ALWAYS LIMIT LETTER-OF-CREDIT CASH ADVANCES TO IMMEDIATE NEEDS OR USE LETTERS OF CREDIT IN LIEU OF CHECK TO FUND RECIPIENTS AS PRESCRIBED BY U.S. TREASURY REQUIREMENTS. THESE DEFICIENCIES COST THE U.S. TREASURY AN ESTIMATED \$4.5 MILLION AS A RESULT OF UNNECESSARY INTEREST COSTS AND UNREALIZED INTEREST INCOME.

THE WASHINGTON OFFICE OF FINANCIAL MANAGEMENT DEVELOPED COMPREHENSIVE PLANS TO CORRECT THESE PROBLEMS AND IDENTIFIED CASH ADVANCE MANAGEMENT AS A MATERIAL WEAKNESS IN THE AGENCY'S FMFIA REPORT FOR 1994. THE REPORT SUMMARIZING OUR FINDINGS IN BOTH WASHINGTON AND AT THE MISSIONS RECOMMENDS THAT USAID TAKE THE ACTIONS NECESSARY TO ENSURE THAT MISSIONS ARE ALSO COMPLYING WITH CASH MANAGEMENT REQUIREMENTS. ALL RECOMMENDATIONS WERE RESOLVED UPON REPORT ISSUANCE.

MONITORING THE PRIVATE SECTOR COMMODITY PROGRAM IN EGYPT  
AN AUDIT WAS CONDUCTED OF EGYPT'S PRIVATE SECTOR COMMODITY IMPORT PROGRAM (CIP) WHICH PROVIDES UP TO \$200 MILLION ANNUALLY TO FINANCE THE IMPORTATION OF GOODS AND EQUIPMENT FROM THE UNITED STATES. AS OF MARCH 31, 1995, CUMULATIVE EXPENDITURES UNDER THIS PROGRAM (STARTED IN 1986) TOTALLED \$1.2 BILLION. THE AUDIT FOUND THAT, IN RESPONSE TO A 1994 PROGRAM EVALUATION, USAID/EGYPT HAD IMPROVED ITS COMMODITY ARRIVAL AND RECEIPT SYSTEMS. THE SYSTEMS NOW PROVIDE REASONABLE ASSURANCE THAT U.S.-FINANCED COMMODITIES ARE RECEIVED AND USED AS INTENDED. ALTHOUGH THE TEN-YEAR PROJECT IS SCHEDULED FOR COMPLETION IN AUGUST 1996, A FOLLOW-UP CIP PROGRAM HAS ALREADY BEEN APPROVED.

**P.L. 480 TITLE III PROGRAM IN MOZAMBIQUE**

BETWEEN 1991 AND 1994, THE UNITED STATES DONATED TO THE GOVERNMENT OF MOZAMBIQUE OVER 458,000 METRIC TONS OF COMMODITIES VALUED AT \$88 MILLION UNDER THE P.L. 480 TITLE III PROGRAM. AN AUDIT FOUND THAT USAID HAD ESTABLISHED A SYSTEM TO MONITOR THE RECEIPT, STORAGE, AND SALE OF COMMODITIES AS REQUIRED BY AGENCY POLICIES AND PROCEDURES. HOWEVER, COMMODITIES THAT MAY HAVE BEEN "UNFIT FOR HUMAN CONSUMPTION" WERE SHIPPED FROM THE UNITED STATES RESULTING IN A LOSS OF \$8 MILLION FOR PURCHASE, TRANSPORT AND DISPOSAL COSTS, AND PILFERAGE OF \$1,376,378 WORTH OF COMMODITIES. THIS OCCURRED AT MOZAMBIQUE PORTS DURING THE UNLOADING OF SHIPMENTS, OFTEN IN PLAIN VIEW OF PORT SECURITY GUARDS.

USAID AND THE U.S. DEPARTMENT OF AGRICULTURE IN WASHINGTON BELIEVED THE CAUSE FOR THE POOR QUALITY COMMODITIES AS THE FLOODS OF THE MISSISSIPPI WATERSHED AND SUGGESTED THAT THE MISSION UPGRADE ITS STANDARD SPECIFICATIONS FOR CORN TRANSPORTS TO MOZAMBIQUE. THE MISSION DID SO AND THE QUALITY OF COMMODITIES HAS SINCE IMPROVED. REGARDING THE THEFTS, THE AUDIT RECOMMENDED THAT USAID CONDITION FUTURE SHIPMENTS OF P.L. 480 TITLE III COMMODITIES ON THE IMPLEMENTATION OF IMPROVED PORT AND WAREHOUSE SECURITY IN ORDER TO MINIMIZE THE OPPORTUNITY FOR FUTURE THEFTS. THE MISSION AGREED AND HAS SUSPENDED ALL FUTURE

SHIPMENTS UNTIL SUCH IMPROVEMENTS ARE MADE. THE MISSION IS ALSO REQUESTING THAT THE GOVERNMENT OF MOZAMBIQUE COMPENSATE THE U.S. GOVERNMENT FOR THE LOSS.

THE AUDIT ALSO FOUND THAT THE MISSION HAD NOT ASSESSED THE RELIABILITY OF THE MOZAMBIQUE GOVERNMENT'S ACCOUNTING SYSTEMS, NOR HAD AUDITS BEEN PERFORMED ON LOCAL CURRENCY EXPENDITURES. USAID CONCURRED WITH ALL THE RECOMMENDATIONS AND INITIATED CORRECTIVE ACTIONS.

IN ADDITION TO OUR PERFORMANCE AUDIT PROGRAM, WE HAVE BEEN MONITORING USAID'S PROGRESS IN MEETING GPRA REQUIREMENTS. THE GPRA REQUIRES FEDERAL AGENCIES TO IMPLEMENT EFFECTIVE MANAGEMENT SYSTEMS FOR MEASURING PROGRAM PERFORMANCE BY DEVELOPING PROGRAM STRATEGIES, MONITORING PROGRESS ON THOSE STRATEGIES, AND REPORTING ON THAT PROGRESS. THE ACT REQUIRES THAT AGENCIES SUBMIT A STRATEGIC PLAN FOR PROGRAM ACTIVITIES NO LATER THAN SEPTEMBER 30, 1997. BASED ON THE STRATEGIC PLAN, EACH AGENCY IS THEN REQUIRED TO PREPARE AN ANNUAL PERFORMANCE PLAN COVERING EACH PROGRAM ACTIVITY BEGINNING WITH THE OCTOBER 1, 1998. THEN, NO LATER THAN MARCH 31, 2000, EACH AGENCY MUST SUBMIT A REPORT ON PROGRAM PERFORMANCE FOR THE PREVIOUS FISCAL YEAR.

WHILE GOVERNMENT-WIDE GPRA PERFORMANCE REPORTING IS NOT REQUIRED UNTIL FISCAL YEAR 2000, THE GPRA PROVIDES FOR PILOT

PROJECTS. THE ACT REQUIRES THAT THE AGENCIES DESIGNATED AS "PILOT" PROJECTS UNDERTAKE THE PREPARATION OF PERFORMANCE PLANS AND PROGRAM PERFORMANCE REPORTS FOR ONE OR MORE OF THE MAJOR FUNCTIONS AND OPERATIONS OF THE AGENCY.

IN OCTOBER 1993, OMB REQUESTED THAT AGENCIES NOMINATE AT LEAST ONE PILOT PROJECT FROM THEIR AGENCIES. IN MARCH 1994, USAID SUBMITTED A PROPOSAL TO BECOME A PILOT PROJECT UNDER GPRA. THE PROPOSAL OFFERED TO EXPAND AGENCY-WIDE STRATEGIC PLANNING, BETTER LINK PERFORMANCE MEASURES TO AGENCY-WIDE PROGRAMMING AND MANAGEMENT SYSTEMS, AND TEST BROADER MANAGEMENT SYSTEM REFORMS AIMED AT ENHANCING THE AGENCY'S ABILITY TO MANAGE FOR RESULTS THROUGH PILOTS IN A SERIES OF "EXPERIMENTAL MISSIONS".

USAID ISSUED A DIRECTIVE ON MAY 31, 1994, SETTING AND MONITORING PROGRAM STRATEGIES, WHICH REQUIRED THAT STRATEGIES AND MONITORING PLANS BE DEVELOPED BY ALL OPERATING UNITS BY APRIL 1995. USAID PREPARED A STRATEGIC FRAMEWORK IN SEPTEMBER 1995. THE FRAMEWORK PRESENTS THE AGENCY'S OBJECTIVES AND STRATEGIES IN FIVE LEVELS: (1) U.S. NATIONAL INTEREST, (2) AGENCY MISSION, (3) AGENCY GOALS, (4) AGENCY OBJECTIVES, AND (5) AGENCY PROGRAM APPROACHES. THE AGENCY THEN SUBMITTED THE STRATEGIC FRAMEWORK TO OMB.

IN OCTOBER 1995, THE AGENCY ISSUED GUIDELINES FOR MANAGING FOR RESULTS. THESE GUIDELINES ARTICULATE, AMONG OTHER THINGS, HOW THE AGENCY WILL GO ABOUT PREPARING STRATEGIC PLANS AND THE REPORTING OF RESULTS. IN LIGHT OF THESE GUIDELINES, MOST OF THE AGENCY'S MISSIONS OR OPERATING UNITS HAVE STRATEGIC PLANS BASED ON THE STRATEGIC FRAMEWORK. FOR FISCAL YEAR 1997, EACH MISSION OR OPERATING UNIT, IS REQUIRED TO SUBMIT A RESULTS REVIEW AND RESOURCE REQUEST. THIS DOCUMENT MUST ADDRESS THE OPERATING UNIT'S PERFORMANCE FOR THE PAST FISCAL YEAR, FOCUSING ON PROGRESS MADE TOWARDS ACHIEVEMENT OF THE STRATEGIC OBJECTIVES.

ACCORDING TO GUIDANCE FROM OMB, AS NOTED ABOVE, THE AGENCY WAS REQUIRED TO PREPARE AN ANNUAL PERFORMANCE PLAN AND REPORT ON THAT PERFORMANCE. THE CONTENTS OF THE PLAN ARE DEFINED IN THE GPRA. THE AGENCY DID NOT PREPARE AN AGENCY-WIDE ANNUAL PLAN FOR FISCAL YEAR 1995. HOWEVER, THE AGENCY SUBMITTED AN ILLUSTRATIVE SET OF PERFORMANCE PLANS FOR NINE COUNTRIES. IN FEBRUARY 1996, THE USAID SENT OMB A COPY OF ITS 1995 ANNUAL PERFORMANCE REPORT.

OUR MONITORING OF USAID'S PROGRESS IN MEETING GPRA REQUIREMENTS IS ON-GOING. OUR REVIEW OF THE PERFORMANCE REPORT DISCLOSED THAT THE REPORT DOES NOT COMPLY WITH THE REQUIREMENTS OF THE GPRA IN SEVERAL RESPECTS. FIRST, THE REPORT DOES NOT ADDRESS PERFORMANCE OVER THE PERIOD OF ONE YEAR. IT DISCUSSED PERFORMANCE COVERING SEVERAL YEARS. THE REPORT OFFERS NO BASIS

TO COMPARE ACTUAL PERFORMANCE AGAINST PLANNED PERFORMANCE. ATTACHED ARE THE COPIES OF THE USAID PILOT PROJECT PROPOSAL AND THE OMB PILOT PROJECT APPROVAL.

MONITORING OF CORRECTIVE ACTION

ONE OF MY RESPONSIBILITIES IS TO KEEP THE ADMINISTRATOR AND THE CONGRESS INFORMED ABOUT THE PROBLEMS AND DEFICIENCIES OF THE AGENCY AND TO REPORT ON BOTH THE NEED FOR AND PROGRESS OF AGENCY CORRECTIVE ACTION. CORRECTIVE ACTION TAKEN AS A RESULT OF OUR INVESTIGATIONS AND AUDITS IS DEALT WITH IN A SYSTEMATIC WAY.

PRIOR TO CLOSING AN INVESTIGATIVE CASE FILE, A REVIEW IS CONDUCTED BY A SUPERVISORY INVESTIGATOR TO DETERMINE WHAT, IF ANY, CRIMINAL, CIVIL, OR ADMINISTRATIVE ACTION HAS BEEN TAKEN. THAT REVIEW COMPARES THE CORRECTIVE ACTION TAKEN AGAINST THE CORRECTIVE ACTION ANTICIPATED WHEN THE INVESTIGATIVE REPORT WAS ISSUED. ANY SIGNIFICANT DISCREPANCY BETWEEN ANTICIPATED CORRECTIVE ACTION AND FINAL CORRECTIVE ACTION IS DISCUSSED WITH OIG AND AGENCY MANAGEMENT. ALL CORRECTIVE ACTION IS DOCUMENTED AND INCLUDED IN THE INVESTIGATIVE CASE FILE.

PRIOR TO CLOSING AN AUDIT, A REVIEW IS MADE TO DETERMINE WHETHER A "MANAGEMENT DECISION" HAS BEEN MADE. THE 1988 AMENDMENTS TO THE INSPECTOR GENERAL ACT DEFINE MANAGEMENT DECISION AS WHEN MANAGEMENT AND THE OIG AGREE ON ACTIONS NEEDED

TO ADDRESS THE AUDIT RECOMMENDATION. FINAL ACTION IS ACCOMPLISHED WHEN THE DECISIONS ARE IMPLEMENTED.

THE 1988 AMENDMENTS ALSO REQUIRED THAT THE OIG'S SEMIANNUAL REPORT TO THE CONGRESS PROVIDE SPECIFIC INFORMATION ABOUT OIG AUDIT REPORTS AND MANAGEMENT DECISIONS PRIOR TO AND DURING THE SIX MONTHS REPORTING PERIOD. WE ARE ALSO REQUIRED TO REPORT THOSE INSTANCES WHEN NO MANAGEMENT DECISION WAS MADE, WHEN A PRIOR DECISION HAS BEEN REVISED, AND WHEN WE DISAGREED WITH THE AGENCY'S MANAGEMENT DECISION.

THE 1988 AMENDMENTS REQUIRE THE ADMINISTRATOR TO PREPARE A REPORT TO THE CONGRESS THAT ACCOMPANIES THE OIG SEMIANNUAL REPORT. THAT REPORT, COMMONLY CALLED THE MANAGEMENT REPORT, PROVIDES AGENCY COMMENTS REGARDING MANAGEMENT DECISIONS, FINAL ACTIONS TAKEN IN RESPONSE TO THE MANAGEMENT DECISIONS, AND OTHER COMMENTS CONCERNING CORRECTIVE ACTION THAT THE ADMINISTRATOR DETERMINES TO BE APPROPRIATE.

USAID HAS ESTABLISHED A SYSTEM TO TRACK ADHERENCE TO FINAL ACTION REQUIRED BY MANAGEMENT DECISIONS MADE FOR ALL AUDITS INCLUDING THOSE PERFORMED BY THE GENERAL ACCOUNTING OFFICE AND THE DEFENSE CONTRACT AUDIT AGENCY. OIG PERIODICALLY REVIEWS FINAL ACTIONS. WE DETERMINE WHETHER THE FINAL ACTION TAKEN RESULTED IN THE CORRECTION OF THE PROBLEMS FOUND DURING THE

AUDIT. THIS REVIEW COULD LEAD TO AN AUDIT RECOMMENDATION BEING RE-OPENED OR A FOLLOW-UP AUDIT BEING UNDERTAKEN.

THE USAID OFFICE OF MANAGEMENT, PLANNING, AND INNOVATION; THE USAID OFFICE OF PROCUREMENT; AND THE OIG ARE WORKING ON AN AUTOMATED CONSOLIDATED AUDIT TRACKING SYSTEM. THIS SYSTEM WILL PROVIDE A SHARED DATABASE AND ELIMINATE DUPLICATE RECORDKEEPING BY MANAGEMENT AND OIG OF MATTERS INVOLVING AUDIT FOLLOW-UP AND TRACKING AND SHOULD BE OPERATIONAL BY OCTOBER 1, 1996.

#### CLOSING

SINCE 1991 USAID HAS MADE SOME PROGRESS IN PREPARING FINANCIAL STATEMENTS. BUT, WITHOUT AN INTEGRATED ACCOUNTING SYSTEM, USAID WILL LIKELY NOT MEET ITS REQUIREMENTS UNDER THE GMRA. AN INTEGRATED ACCOUNTING SYSTEM IS NEEDED NOT ONLY TO PREPARE RELIABLE ACCOUNTING RECORDS, BUT ALSO IS ESSENTIAL TO THE PRODUCTION OF MONITORING SYSTEMS TO MEASURE THE AGENCY'S ACTUAL PERFORMANCE AGAINST PLANNED PERFORMANCE. USAID HAS TAKEN STEPS TOWARDS ESTABLISHING QUANTIFIABLE PERFORMANCE GOALS. BUT, USAID MUST PREPARE ANNUAL PLANS AND DEVELOP A MONITORING AND REPORTING SYSTEM IN ORDER TO MEET THE REQUIREMENTS OF THE GPRA.

I APPRECIATE THIS OPPORTUNITY TO TESTIFY BEFORE THIS COMMITTEE, AND MY STAFF AND I ARE AVAILABLE TO ANSWER ANY QUESTIONS YOU MAY HAVE. THANK YOU.

LIST OF TABLES

- ATTACHMENT 1 - DESCRIPTION OF SEVEN ACCOUNTS
- ATTACHMENT 2 - ACCOUNT VALUES
- ATTACHMENT 3 - FINANCIAL STATEMENT AUDIT HISTORY AND  
RELATED OPINIONS
- ATTACHMENT 4 - DESCRIPTION OF ELEVEN EXISTING  
SYSTEMS
- ATTACHMENT 5 - USAID'S PILOT PROJECT PROPOSAL
- ATTACHMENT 6 - OMB PILOT PROJECT APPROVALS

ATTACHMENT 1: Description of Seven Accounts  
for which USAID Prepares  
Financial Statements

1. DIRECT LOAN FUND

THE DIRECT LOAN PROGRAM SERVICES ALL DIRECT LOANS ISSUED BY THE U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT (USAID) AND PREDECESSOR AGENCIES SINCE THE INCEPTION OF U.S. FOREIGN ASSISTANCE IN 1948. LOANS MADE UNDER THE MICRO AND SMALL ENTERPRISE DEVELOPMENT PROGRAM (MSED) ARE REPORTED SEPARATELY. THE FOREIGN ASSISTANCE ACT OF 1961, AS AMENDED, AND PUBLIC LAW 480 AUTHORIZE THE ORIGINATION OF DIRECT LOANS TO GOVERNMENTS AND PRIVATE ENTERPRISES OPERATING IN LESS DEVELOPED COUNTRIES. THE DIRECT LOAN PROGRAM FUNDS NUMEROUS ECONOMIC, TECHNICAL, AND FINANCIAL PROJECTS IN 105 COUNTRIES.

THE FUNDING FOR THE DIRECT LOAN PROGRAM'S TWELVE ACTIVE FUNDS WAS APPROPRIATED BY THE UNITED STATES CONGRESS. RESPONSIBILITY FOR DESIGNING, IMPLEMENTING AND MONITORING PROJECT, AS PRESCRIBED IN 28 LEGISLATIVE MANDATES, RESTS WITH THE USAID BUREAUS IN WASHINGTON AND 75 OVERSEAS MISSIONS.

SINCE 1989, CONGRESS HAS NOT APPROPRIATED FUNDS FOR DIRECT LOANS. DIRECT LOAN FUNDS ARE FULLY DISBURSED IN ALL PROGRAMS EXCEPT FOR THE FUNCTIONAL DEVELOPMENT ASSISTANCE PROGRAM, THE ECONOMIC SUPPORT FUND AND P.L. 480 SECTION 108 (R) PROGRAMS. DIRECT LOAN FUNDS REMAINING TO BE DISBURSED BY THESE PROGRAMS AND SHOWN AS TOTAL NET POSITION ON THE STATEMENT OF FINANCIAL POSITION AT SEPTEMBER 30, 1994 WERE APPROXIMATELY \$38 MILLION. SUBSTANTIALLY ALL REPAYMENTS ARE REMITTED TO THE U.S. TREASURY (TREASURY).

THE DIRECT LOAN PROGRAM SERVICES THE ENTERPRISE FOR THE AMERICAS INITIATIVE FUND (EAI). THE OUTSTANDING BALANCE FOR EAI AT SEPTEMBER 30, 1994 WAS APPROXIMATELY \$500 MILLION. EAI IS RECORDED IN COMPLIANCE WITH THE FEDERAL CREDIT REFORM ACT OF 1990. THE PRIMARY PURPOSE OF THE CREDIT REFORM ACT IS THE ACCOUNT FOR THE LONG TERM COST OF DIRECT LOANS BEFORE THEY ARE COMMITTED. THESE LONG-TERM COSTS, CALCULATED ON A NET PRESENT VALUE BASIS NET OF ADMINISTRATIVE COSTS, ARE REFERRED TO AS "SUBSIDY COSTS."

2. HOUSING GUARANTY REVOLVING FUND

THE HOUSING GUARANTY PROGRAM IS ADMINISTERED BY THE OFFICE OF ENVIRONMENT AND URBAN PROGRAMS IN THE ENVIRONMENT CENTER OF THE BUREAU FOR GLOBAL PROGRAMS, FIELD SUPPORT AND RESEARCH, U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT (USAID) AND USAID'S GEOGRAPHIC BUREAUS. THERE ARE ALSO A NUMBER OF REGIONAL HOUSING AND URBAN DEVELOPMENT OFFICES (RHUODS), WHICH ARE THE OVERSEAS

COMPONENTS OF THE OFFICE OF ENVIRONMENT AND URBAN PROGRAMS. USAID'S LOAN MANAGEMENT DIVISION OF THE OFFICE OF FINANCIAL MANAGEMENT PERFORMS THE ACCOUNTING FUNCTIONS FOR THE HOUSING GUARANTY PROGRAM.

THE PROGRAM WAS ESTABLISHED BY TITLE III, SECTIONS 221, 222, 223 AND 238C OF THE FOREIGN ASSISTANCE ACT (FAA) OF 1961, AS AMENDED. THE PURPOSE OF THE PROGRAM IS TO ASSIST IN PROVIDING LONG-TERM FINANCING FOR LOW INCOME SHELTER AND NEIGHBORHOOD INFRASTRUCTURE UPGRADING PROGRAMS IN DEVELOPING COUNTRIES AND TO STIMULATE THE PARTICIPATION OF THE PRIVATE SECTOR IN THE ECONOMIC DEVELOPMENT OF LESSER DEVELOPED COUNTRIES. U.S. PRIVATE SECTOR LENDERS PROVIDE UNSECURED FINANCING AT COMMERCIAL RATES FOR PROJECTS UNDERTAKEN BY ELIGIBLE RESIDENT BORROWERS. THE REPAYMENT OF THE PRINCIPAL AND INTEREST IS GUARANTIED THROUGH USAID BY THE FULL FAITH AND CREDIT OF THE U.S. GOVERNMENT. USAID CHARGES THE BORROWERS GUARANTY FEES COMPRISED OF AN INITIAL CHARGE OF ONE PERCENT OF THE AMOUNT OF THE LOAN AND AN ANNUAL FEE OF ONE-HALF OF ONE PERCENT OF THE UNPAID PRINCIPAL BALANCE OF THE GUARANTIED LOAN. USAID ALSO REQUIRES THAT THE HOST COUNTRY GOVERNMENT OF THE BORROWERS SIGN A FULL FAITH AND CREDIT GUARANTY FOR REPAYMENT OF ANY LOAN AND OUTSTANDING INTEREST PAID BY USAID ON BEHALF OF THE BORROWER.

IN THE LIQUIDATING ACCOUNT, UNDER FAA SECTIONS 221 AND 222, THE TOTAL PRINCIPAL AMOUNT OF GUARANTIES ISSUED AND OUTSTANDING UNDER THIS TITLE CANNOT EXCEED \$ 2.558 BILLION AT ANY ONE TIME. THE FAA LIMITS THE ISSUANCE OF HOUSING GUARANTIES TO ANY ONE COUNTRY IN ANY FISCAL YEAR TO \$25 MILLION, EXCEPT FOR THOSE ISSUED TO CHILE, POLAND, SOUTH AFRICA, AND ISRAEL, FOR WHICH SPECIAL LIMITS HAVE BEEN ESTABLISHED. IN ADDITION, EXCEPT FOR THE COUNTRIES MENTIONED ABOVE, THE FAA LIMITS THE AVERAGE FACE VALUE OF GUARANTIES ISSUED IN ANY FISCAL YEAR TO \$15 MILLION.

THE PROGRAM IS FUNDED BY FIVE APPROPRIATIONS:

- 72X4340 (LIQUIDATING ACCOUNT), WHICH WAS ESTABLISHED UNDER THE CREDIT REFORM ACT OF 1990 TO SERVICE LOAN GUARANTY COMMITMENTS ARISING FROM THE PROGRAM MADE PRIOR TO OCTOBER 1, 1991;
- 7220401 AND 722/30401 (PROGRAM ACCOUNT - FISCAL YEAR 1992 AND PROGRAM ACCOUNT - FISCAL YEAR 1992/1993), WHICH WERE ESTABLISHED UNDER THE CREDIT REFORM ACT OF 1990 AS TWO-YEAR APPROPRIATIONS TO COVER THE SUBSIDY AND ADMINISTRATIVE COSTS OF GUARANTIED LOANS;
- 7230401 (PROGRAM ACCOUNT - FISCAL YEAR 1993), WHICH WAS ESTABLISHED UNDER THE CREDIT REFORM ACT OF 1990 AS A SINGLE YEAR APPROPRIATION OF \$297,800 TO COVER THE SUBSIDY AND ADMINISTRATIVE COSTS OF THE HOUSING GUARANTY PROGRAM; AND

- 7240401 (PROGRAM ACCOUNT - FISCAL YEAR 1994), WHICH WAS ESTABLISHED UNDER THE CREDIT REFORM ACT OF 1990 AS A SINGLE YEAR APPROPRIATION OF \$407,800 TO COVER THE SUBSIDY AND ADMINISTRATIVE COSTS OF THE HOUSING GUARANTY PROGRAM.

DURING 1994, UNDER PUBLIC LAW 103-87 AND PRESIDENTIAL DETERMINATION NO. 94-45 OF AUGUST 31, 1994, THERE WERE NINETEEN LOANS AUTHORIZED AND NOT UNDER CONTRACT IN THE PROGRAM ACCOUNT TOTALING \$320 MILLION. THE AMOUNT OF GUARANTIES ISSUED AND OUTSTANDING TOTALS \$355 MILLION.

USAID SUPPORTS THE PROGRAM OBJECTIVES BY PROVIDING TECHNICAL ASSISTANCE CONTRACTORS WHO EVALUATE INDIVIDUAL COUNTRY PROGRAM INITIATIVES AND RESULTS. THE COSTS OF THIS ASSISTANCE IS BORNE BY USAID.

### 3. LOAN GUARANTY TO ISRAEL

THE ISRAELI LOAN GUARANTY 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. THE PROGRAM, WHICH BECAME EFFECTIVE IN 1993, HAD STATEMENTS FOR FISCAL YEARS 1993 AND 1994 AUDITED IN BY THE OIG IN 1994. THE U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT (USAID) PROVIDES, ON BEHALF OF THE UNITED STATES, A GUARANTY OF PAYMENT OF PRINCIPAL AND INTEREST FOR U.S. DOLLAR LOANS TOTALING UP TO \$10 BILLION IN PRINCIPAL. THE PRESIDENT AUTHORIZES GUARANTIES 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 GUARANTIED 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 (OMB) AND THE DEPARTMENT OF STATE 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 GUARANTIED UNDER THE PROGRAM.

AS OF SEPTEMBER 30, 1995 SIX LOANS WERE AUTHORIZED AND UNDER CONTRACT, AND CORRESPONDING GUARANTIES WERE ISSUED AND OUTSTANDING, TOTALING \$4.8 BILLION UNDER THE PROGRAM.

## 4. MICRO AND SMALL ENTERPRISE DEVELOPMENT FUND PROGRAM

THE MICRO AND SMALL ENTERPRISE DEVELOPMENT PROGRAM (MSED), FORMERLY THE PRIVATE SECTOR INVESTMENT PROGRAM (PSIP), IS ADMINISTERED BY THE BUREAU FOR GLOBAL PROGRAMS. MSED OPERATES WITH FUNDING PROVIDED BY MSED'S SUBSIDY APPROPRIATION; MSED'S ADMINISTRATIVE EXPENSE APPROPRIATION; (C) THE PRIVATE SECTOR REVOLVING FUND; THE FUNCTIONAL DEVELOPMENT ASSISTANCE FUND; USAID'S OPERATING EXPENSES APPROPRIATION; AND GUARANTEE BUDGET AUTHORITY. USAID'S LOAN MANAGEMENT DIVISION OF THE OFFICE OF FINANCIAL MANAGEMENT PERFORMS THE ACCOUNTING FUNCTIONS FOR MSED.

IN 1983, A PRIVATE SECTOR REVOLVING FUND WAS ESTABLISHED TO PROMOTE ECONOMIC GROWTH LED BY THE PRIVATES SECTOR BY INCREASING THE FLOW OF CREDIT AND COOPERATIVES IN DEVELOPING COUNTRIES. THE REVOLVING FUND WAS AUTHORIZED BY THE INTERNATIONAL SECURITY AND DEVELOPMENT ASSISTANCE AUTHORIZATION ACT OF 1983, WHICH ADDED SECTION 108 TO THE FOREIGN ASSISTANCE ACT OF 1961, AS AMENDED. PROVISIONS OF THE LEGISLATION STATE THAT FUNDED LOANS SHOULD:

- HAVE DEMONSTRATION EFFECT; BE INNOVATIVE;
- BE FINANCIALLY VIABLE;
- SUPPORT ENTERPRISE THAT WILL MAXIMIZE THE DEVELOPMENT IMPACT ON THE HOST COUNTRY;
- PROVIDE SUPPORT AND SERVICES NOT GENERALLY AVAILABLE TO SMALL BUSINESS ENTERPRISE; AND
- PROVIDE CAPITAL AT OR NEAR THE INTEREST RATE AVAILABLE TO THE RECIPIENT.

IN ADDITION, THE LEGISLATION PROVIDES THAT NOT MORE THAN \$3 MILLION MAY BE AVAILABLE FOR ANY ONE PROJECT AND, FURTHER, THAT NOT MORE THAN 20 PERCENT OF THE ASSETS MAY BE DEDICATED TO MANY ONE COUNTRY.

THE OMNIBUS TRADE AND COMPETITIVENESS ACT OF 1988 ADDED LOAN GUARANTY AUTHORITY TO THE DIRECT LENDING AUTHORITY OF THE PROGRAM. CONGRESS INTENDED THAT LOAN GUARANTIES, BACKED BY THE FULL FAITH AND CREDIT OF THE U.S. GOVERNMENT, WOULD HELP MOBILIZE CREDIT IN DEVELOPING COUNTRY FINANCIAL MARKETS FOR PRIVATE SECTOR GROWTH. BECAUSE MSED SHARES THE RISK ASSOCIATED WITH LENDING IN THE SMALL BUSINESS SECTOR, PRIVATE LENDING INSTITUTIONS OPERATING IN DEVELOPING COUNTRIES ARE ENCOURAGED TO EXTEND MORE MARKET RATE FINANCING TO SMALL BUSINESSES.

MSED IS SUBJECT TO THE FEDERAL CREDIT REFORM ACT OF 1990 (PL 101-508) (CREDIT REFORM), WHICH BECAME EFFECTIVE AS OF OCTOBER 1, 1991. THE PRIMARY OBJECTIVE OF CREDIT REFORM WAS TO IDENTIFY THE COSTS INHERENT IN FEDERAL CREDIT PROGRAMS SO THAT THEY MAY BE COMPARED MORE EASILY WITH THE COSTS OF OTHER FEDERAL SPENDING.

IN FISCAL YEAR 1993, A COMPREHENSIVE PHASE-OUT FOR PSIP WAS APPROVED BY USAID'S SENIOR MANAGEMENT. HOWEVER, RECOGNIZING THE IMPORTANCE OF MICRO AND SMALL BUSINESSES TO ECONOMIC GROWTH AND DESIRING TO INCREASE THE ACCESS OF MICRO AND SMALL ENTERPRISES TO FINANCIAL MARKETS, USAID'S SENIOR MANAGEMENT INSTRUCTED THE UNIT TO PRESERVE AND REPACKAGE THE "BEST ELEMENTS" OF PSIP FOR USE IN EFFORTS TO ENCOURAGE BROAD-BASED, ECONOMIC GROWTH. COMMENCING IN FISCAL YEAR 1994, MSED WAS FORMED FOR THIS PURPOSE. THE PSIP PORTFOLIO IS NOW INCORPORATED INTO MSED.

#### 5. MISCELLANEOUS U.S. DOLLAR TRUST FUND

##### FOREIGN GOVERNMENTS TRUST FUND

SECTION 607 OF THE FOREIGN ASSISTANCE ACT (FAA) OF 1961, PROVIDES USAID WITH THE AUTHORITY TO ACCEPT ADVANCES OF U.S. DOLLARS FROM FOREIGN GOVERNMENTS AND/OR INTERNATIONAL ORGANIZATIONS TO FACILITATE THE PURPOSES OF THE FAA. IN ACCORDANCE WITH U.S. TREASURY REGULATIONS, USAID HAS ESTABLISHED A U.S. DOLLAR ADVANCES FROM FOREIGN GOVERNMENTS TRUST FUND ACCOUNT 72X8502 AT THE U.S. TREASURY TO MAINTAIN THESE DEPOSITS. USAID ACTS IN A FIDUCIARY CAPACITY IN CARRYING OUT SPECIFIC ACTIVITIES AND PROGRAMS IN ACCORDANCE WITH BILATERAL AGREEMENTS WITH FOREIGN COUNTRIES AND DRAWS FROM THE FOREIGN COUNTRIES TRUST FUND BALANCE TO PAY FOR RELATED EXPENDITURES. THE AGENCY PREPARED ITS FIRST FINANCIAL STATEMENTS FOR THE U.S. DOLLAR ADVANCES FROM FOREIGN GOVERNMENTS TRUST FUND ACCOUNT FOR FISCAL YEAR 1992.

THE FUNDS ARE NOT TIED TO A SPECIFIC ORGANIZATION OR PROGRAM IN USAID. THE GOAL IS TO OFFER SERVICES THAT USAID ALREADY PERFORMS IN OTHER PROGRAMS AND HAS THE TECHNICAL EXPERTISE AND RESOURCES TO PROVIDE. THE DIFFERENCE BETWEEN THESE FUNDS AND OTHER PROGRAMS IS THAT THE FUNDING IS PROVIDED BY FOREIGN COUNTRIES INSTEAD OF BY CONGRESSIONAL APPROPRIATION OR REVENUE-GENERATING SERVICES. THESE FUNDS ARE DERIVED FROM PRIMARILY A FINANCING MECHANISM RATHER THAN A SPECIFIC ORGANIZATION OR PROGRAM.

##### GIFTS AND DONATIONS TRUST FUND

SECTION 635(D) OF THE FAA PROVIDES THE PRINCIPAL AUTHORITY AUTHORIZING USAID TO ACCEPT AND USE, IN FURTHERANCE OF USAID PROGRAM OBJECTIVES, MONEY, FUNDS, PROPERTY, AND SERVICES OF ANY KIND MADE AVAILABLE BY GIFT, DEVISE, BEQUEST, AND GRANTS. IN ACCORDANCE WITH U.S. TREASURY REGULATIONS, USAID HAS ESTABLISHED A GIFTS AND DONATIONS TRUST FUND ACCOUNT 72X8824 WHICH RECORDS CASH EXPENDITURES AGAINST DEPOSIT OF FUNDS INTO THIS ACCOUNT. THE AGENCY PREPARED ITS FIRST FINANCIAL STATEMENTS FOR THE GIFTS AND DONATIONS TRUST FUND ACCOUNT FOR FISCAL YEAR 1992.

DONATIONS TO THE GIFTS AND DONATIONS TRUST FUND ARE CONDITIONAL (FOR A SPECIFIC PURPOSE) OR UNCONDITIONAL (FOR GENERAL USE). FOR

CONDITIONAL GIFTS, THERE ARE SEVERAL CRITERIA THAT MUST BE MET:

- USAID MUST COMPLY WITH THE CONDITIONS OF THE DONATION AND STILL USE THE DONATION IN FURTHERANCE OF THE PURPOSES OF THE FAA;
- USAID MUST COMPLY WITH THE CONDITIONS OF THE DONATION IN A REASONABLE AND COST-EFFICIENT MANNER; AND
- ACCEPTANCE OF THE DONATION WILL NOT RESULT IN, NOR CREATE THE APPEARANCE OF, A CONFLICT OF INTEREST.

CURRENTLY, THERE ARE TWO CONDITIONAL GIFT PROGRAMS. ONE OF THE PROGRAMS IS THE NATIONAL CASH REGISTER CORPORATION (NCR) DONATIONS OF \$150,060. THIS DONATION WAS MADE IN 1986 AND WAS TO BE ADMINISTERED BY USAID IN USAID/NIGERIA. AT SEPTEMBER 30, 1994, THE UNDISBURSED BALANCE OF THIS DONATION IS \$10,060. THE OTHER IS AN ANNUAL DONATION RECEIVED FROM A PRIVATE INDIVIDUAL AS A MEMORIAL TO A FORMER EMPLOYEE WHICH IS TO BE USED FOR A CASH AWARD TO A CURRENT USAID EMPLOYEE. A DONATION OF \$1,000 WAS ACCEPTED AND THEN AWARDED TO A USAID EMPLOYEE IN FISCAL YEAR 1995 AND 1994.

#### 6. FOREIGN SERVICE NATIONAL SEPARATION PAY TRUST FUND

UNDER MANY LOCAL COMPENSATION PLANS IN EFFECT AT OVERSEAS MISSIONS OF THE U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT (USAID), FOREIGN SERVICE NATIONAL (FSN) PERSONNEL WITH A SPECIFIED MINIMUM PERIOD OF SERVICE ARE ENTITLED TO RECEIVE A LUMP-SUM SEPARATION PAYMENT WHEN THEY RESIGN, RETIRE OR OTHERWISE VOLUNTARILY SEPARATE FROM USAID. THE AMOUNT OF PAYMENT IS GENERALLY BASED ON LENGTH OF SERVICE, RATE OF PAY AT THE TIME OF SEPARATION AND THE TYPE OF SEPARATION.

PRIOR TO FISCAL YEAR 1992, MISSIONS RECORDED OBLIGATIONS FOR SEPARATION PAY AT THE TIME PAYMENTS WERE MADE INSTEAD OF WHEN THE SEPARATION PAY WAS EARNED. AS A RESULT, NO RESERVES WERE ESTABLISHED TO COVER THE LIABILITY FOR FUTURE PAYMENTS.

LEGISLATION ENACTED IN FISCAL YEAR 1992 (PL 102-138 SECTION 151, 22 USC 4012(A) REQUIRED THAT A SEPARATE TRUST FUND BE ESTABLISHED IN THE U.S. DEPARTMENT OF TREASURY FOR FSN PERSONNEL'S VOLUNTARY SEPARATION PAY. THE INITIAL FINANCIAL STATEMENTS FOR THE FUND WERE PREPARED FOR FISCAL 1993 WHICH THE OIG AUDITED. FUNDS ARE REQUIRED TO BE DEPOSITED INTO THE ACCOUNT EACH YEAR SUFFICIENT TO COVER THAT YEAR'S ACCRUED LIABILITY. PRIOR YEARS' LIABILITIES HAVE BEEN FUNDED FOR SOME MISSIONS BUT REMAIN UNFUNDED FOR OTHERS.

THE FUND OPERATES UNDER A DECENTRALIZED MANAGEMENT SYSTEM, WITH TRANSACTIONS AND ACCOUNTING CONTROLLED PRIMARILY AT THE OVERSEAS

MISSIONS. EACH MISSION IS ALSO RESPONSIBLE FOR COMPLYING WITH THE INDIVIDUAL COMPENSATION PLAN APPLICABLE TO ITS COUNTRY. USAID'S CENTRAL ACCOUNTING AND REPORTING DIVISION OF THE OFFICE OF FINANCIAL MANAGEMENT (FM/CAR) IS RESPONSIBLE FOR PROCESSING THE OVERSEAS ACCOUNTING INFORMATION AND PREPARING ANNUAL FINANCIAL STATEMENTS FOR THE FUND.

#### 7. PROPERTY MANAGEMENT FUND

THE PROPERTY MANAGEMENT FUND OF THE U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT (USAID) IS A REVOLVING FUND USED TO FINANCE ACQUISITION OF REAL PROPERTY OVERSEAS AND TO DEPOSIT PROCEEDS OF SALES OF SIMILAR PROPERTIES. THE FUND, WHICH HAD ITS FIRST SIGNIFICANT ACTIVITY AND HAD FINANCIAL STATEMENTS PREPARED FOR FISCAL YEAR 1994, IS TO BE USED ONLY TO ACQUIRE PROPERTIES AS DEFINED IN SECTION 636(C) OF THE FOREIGN ASSISTANCE ACT, AS AMENDED.

SECTION 636(C) OF THE FOREIGN ASSISTANCE ACT OF 1961 (P.L. 87-195) AUTHORIZED USAID TO CONSTRUCT OR OTHERWISE ACQUIRE OUTSIDE THE UNITED STATES:

- (1) ESSENTIAL LIVING QUARTERS, OFFICE SPACE, AND NECESSARY SUPPORTING FACILITIES FOR USE OF PERSONNEL CARRYING OUT ACTIVITIES AUTHORIZED BY THIS ACT; AND
- (2) SCHOOLS (INCLUDING DORMITORIES AND BOARDING FACILITIES) AND HOSPITALS FOR USE OF PERSONNEL CARRYING OUT ACTIVITIES AUTHORIZED BY THIS ACT, UNITED STATES GOVERNMENT PERSONNEL, AND THEIR DEPENDENTS.

THE LAW RESTRICTS THE USE OF FUNDS AVAILABLE TO A MAXIMUM OF \$6 MILLION IN ANY GIVEN FISCAL YEAR.

PRIOR TO FISCAL YEAR 1991, THERE WAS NO MECHANISM TO RETAIN AND READILY USE THE FUNDS RECEIVED FROM THE DISPOSAL OF PROPERTY OWNED BY USAID IN FOREIGN COUNTRIES. IN ORDER TO REMEDY THIS SITUATION, A SEPARATE FUND WAS AUTHORIZED BY THE U.S. CONGRESS IN FISCAL YEAR 1991 WITH THE ENACTMENT OF SECTION 585(A). SECTION 585(A) OF THE FOREIGN ASSISTANCE APPROPRIATIONS ACT DATED NOVEMBER 5, 1990, (P.L. 101-513) STATED THAT THE PROCEEDS OF OVERSEAS PROPERTY ACQUIRED BY USAID UNDER THE AUTHORITY OF SECTION 636(C) OF THE FOREIGN ASSISTANCE ACT OF 1961 WOULD BE DEPOSITED IN A SEPARATE FUND, WHICH WOULD BE KNOWN AS THE PROPERTY MANAGEMENT FUND. THE LAW RESTRICTED THE USE OF SUCH PROCEEDS FOR THE PURPOSES OF SECTION 636(C) OF THE ACT AND STATED THAT THE FUNDS WOULD REMAIN AVAILABLE UNTIL EXPENDED. THIS LAW ALSO REQUIRED THE USAID ADMINISTRATOR TO REPORT ALL USES OF FUNDS DEPOSITED INTO THE PROPERTY MANAGEMENT FUND AS PART OF THE ANNUAL CONGRESSIONAL PRESENTATION MATERIALS SUBMITTED BY USAID DURING THE APPROPRIATIONS PROCESS.

PRIOR TO FISCAL YEAR 1994, THE PROPERTY MANAGEMENT FUND HAD VERY LITTLE ACTIVITY. THE FIRST MAJOR ACTIVITY WAS TRIGGERED WHEN \$5 MILLION WAS ADDED TO THE PROPERTY MANAGEMENT FUND IN NOVEMBER 1993. SECTION 556 OF THE FOREIGN ASSISTANCE APPROPRIATIONS ACT DATED SEPTEMBER 30, 1993, (P.L. 103-87) DIRECTED THE TRANSFER OF ANY FUNDS REMAINING IN THE ACQUISITION OF PROPERTY REVOLVING FUND TO BE TRANSFERRED TO, AND CONSOLIDATED AND MERGED WITH, FUNDS IN THE PROPERTY MANAGEMENT FUND.

FISCAL YEAR 1994 WAS THE FIRST YEAR OF SIGNIFICANT ACTIVITY AND THE FIRST YEAR THAT FINANCIAL STATEMENTS WERE PREPARED PURSUANT TO THE REQUIREMENTS OF THE CHIEF FINANCIAL OFFICERS ACT OF 1990.

FA:financial statement accounts-5/7/96

**ACCOUNT VALUES AS OF  
SEPTEMBER 30, 1995**

AUDIT ENTITY	FISCAL YEAR 1995 VALUES
Direct Loans (1)	\$10,178,840,000
Housing Guaranty Revolving Fund (1)	\$109,815,000
Loan Guaranty to Israel	\$241,760,000
Micro & Small Enterprise Development Fund (1)	\$16,551,000
Miscellaneous U.S. Dollar Trust Fund	\$3,730,000
FSN Separation Pay Trust Fund	\$6,581,000
Property Management Fund	\$2,292,000

(1) Unaudited.

Source: OIG Audit Reports.

## FINANCIAL STATEMENT AUDIT HISTORY AND RELATED OPINIONS

### *Fiscal Years 1991- 1995*

AUDIT ENTITY	1991	1992	1993	1994	1995
Direct Loan	(1)	Disclaimer	Disclaimer	Disclaimer	(5)
Housing Guaranty Program	Disclaimer	Unqualified	Unqualified	Unqualified	(5)
Loan Guaranty to Israel	(2)	(2)	Unqualified	Unqualified	Unqualified
Micro & Small Enterprise Development Fund	Disclaimer	Unqualified	Unqualified	Unqualified	(5)
Misc. U.S. Dollar Trust Fund	(1)	Disclaimer	Disclaimer	Disclaimer	Disclaimer
FSN Separation Pay Trust Fund	(3)	(3)	Unqualified	Unqualified	Unqualified
Property Management Fund	(4)	(4)	(4)	Unqualified	Unqualified

- (1) Required Financial statements not prepared by USAID.  
 (2) The program became effective in Fiscal Year 1993. The OIG audited the financial statements for Fiscal Years 1993 and 1994 in a combined report issued on June 8, 1995.  
 (3) Fund established in 1992. First financial statements prepared for Fiscal Year 1993.  
 (4) Fund established in 1990. No management account activity until Fiscal Year 1994 when first financial statements were prepared.  
 (5) Audit underway. Reports expected to be issued on June 30, 1996.

Source: OIG Audit Reports.

SYSTEMS BEING REPLACED BY AWACS AS DESCRIBED IN THE  
USAID SYSTEM INVENTORY (DATED MARCH 1, 1996)

FINANCIAL ACCOUNTING AND CONTROL SYSTEM: THIS SYSTEM IS THE FINANCIAL MANAGEMENT SYSTEM FOR THE AGENCY. FACS UTILIZES ON-LINE AND BATCH PROCESSES TO PROVIDE TIMELY FINANCIAL INFORMATION TO MEET THE REPORTING REQUIREMENTS OF USAID. FACS PROVIDES FINANCIAL CONTROL AND ACCOUNTABILITY FOR FUNDS MANAGED BY USAID/W, OFFICE OF FINANCIAL MANAGEMENT (M/FM).

MISSION ACCOUNTING AND CONTROL SYSTEM: MACS IS A FINANCIAL MANAGEMENT TOOL SUPPORTING USAID MISSIONS WORLDWIDE THAT INCORPORATES THREE DIFFERENT ACCOUNTING SUBSYSTEMS: BUDGET ALLOWANCE (ALLOTMENT) ACCOUNTING; OPERATING EXPENSE ACCOUNTING; AND PROJECT ACCOUNTING. MACS IS A TRANSACTION-ORIENTED, ON-LINE, INTERACTIVE SYSTEM THAT IS UPDATED IMMEDIATELY AS NEW TRANSACTIONS ARE INPUT. A SUBSYSTEM OF MACS IS THE MISSION ACCOUNTING AND CONTROL VOUCHER TRACKING SYSTEM (MACSTRAX). IT IS AN AUTOMATED VOUCHER MANAGEMENT SYSTEM WHICH RECORDS, TRACKS, VERIFIES, AND SCHEDULES VOUCHERS FOR PAYMENT BY A U.S. DISBURSING OFFICER. MACS AND MACSTRAX HAVE BEEN CONVERTED TO ACUCOBOL-85 (UNIX) TO PROCESS IN A UNIX SERVER ENVIRONMENT.

PARTICIPANT PAYMENT SYSTEM: THIS SYSTEM RECORDS FUNDING, BUDGET AND DISBURSEMENT DATA ON AID SPONSORED PARTICIPANTS. CHECKS AND ENCLOSURE CARDS ARE PRODUCED BY TREASURY DEPARTMENT FROM THE MONTHLY TAPE OUTPUT FROM THIS SYSTEM. VARIOUS ANALYSES OF THE STATUS OF THE "MASTER DISBURSING ACCOUNT" ARE PRODUCED.

CASH JOURNAL SYSTEM: THE CASH JOURNAL (ALSO CALLED CASH BOOK) RECORDS ALL DOMESTIC ACCOUNTING TRANSACTIONS (RECEIPTS AND DISBURSEMENTS) PROCESSED FOR USAID BY THE U.S. TREASURY AND ALLOTMENT LEDGER ACCOUNTS. ONCE A MONTH THE CASH JOURNAL SYSTEM PRODUCES AN SF-224 STATEMENT OF TRANSACTIONS WHICH IS TELECOMMUNICATED TO THE TREASURY. THESE TRANSACTIONS ALSO INCLUDE FEDERAL RESERVE LETTER OF CREDIT TRANSACTIONS IN ACCORDANCE WITH U.S. TREASURY REQUIREMENTS.

LETTER OF CREDIT SUPPORT SYSTEM: THIS SYSTEM PROVIDES THE ABILITY TO ENTER AND MONITOR ACTIVITY RELATED TO LETTERS OF CREDIT ISSUED BY THE AGENCY WORLDWIDE. ALL LETTER OF CREDIT DRAWDOWN AND EXPENDITURE ACTIVITY WHICH EFFECTS MANAGEMENT DECISIONS IS COLLECTED VIA INTERACTIVE PANELS AND PRESENTED THROUGH ON-LINE DISPLAY OR HARDCOPY REPORTS.

GENERAL LEDGER ACCOUNTING AND REPORTING SYSTEM: THIS SYSTEM MAINTAINS THE ACCOUNTING AND REPORTING STATUS OF ALL GENERAL LEDGER LOAN ACCOUNTS UNDER THE JURISDICTION OF THE AGENCY.

FOREIGN CURRENCY SYSTEM: THIS IS A MANUAL SYSTEM THAT IS NOT INCLUDED IN THE AGENCY'S SYSTEMS INVENTORY. AWACS WILL AUTOMATE THIS CURRENT MANUAL FUNCTION.

ACCOUNTS RECEIVABLE: THIS SYSTEM RECORDS BASIC DATA FROM ALL BILLS FOR COLLECTION AND COLLECTION NOTICES ISSUED WORLD-WIDE, ARISING FROM REFUND AND REIMBURSEMENT ACTIVITY, EXCLUDING LOAN PAYMENTS. IT PROVIDES AGING ANALYSIS ON OUTSTANDING BILLS AND SUMMARY DATA FOR POSTING TO THE ACCOUNTS RECEIVABLE GENERAL LEDGER ACCOUNTS.

COUNTRY FINANCIAL REPORTING SYSTEM: THE CFR SUBSYSTEM REPORTS THE FINANCIAL STATUS FOR USAID/W AND USAID ALLOTMENTS, OBLIGATIONS, AND DISBURSEMENT ACTIVITIES OF FUNDS PROVIDED FOR THE AGENCY'S FOREIGN ASSISTANCE PROGRAM. REPORTS ARE DESIGNED TO SHOW THE FINANCIAL ACTIVITY PERTAINING TO EACH RECIPIENT COUNTRY, IN SUMMARY FORM. THE U101 SUBSYSTEM PROCESSES A MONTHLY SUMMARY OF ALLOTMENT LEDGER TRANSACTIONS AND RECONCILIATION WITH DISBURSING OFFICER'S ACCOUNT WHICH COVERS U.S. DOLLAR FUNDS ALLOTTED TO MISSIONS. BASIC INFORMATION IS PROVIDED FOR GENERAL LEDGER APPROPRIATION AND THE PREPARATION OF AGENCY-WIDE MONTHLY REPORTS WHICH SET FORTH THE ACCOMPLISHMENTS OF THE MISSION IN FINANCIAL TERMS.

HOUSING GUARANTEE PROGRAM MANAGEMENT SYSTEM: HGPMS IS AN AUTHORIZATION/LOAN/NOTE/REPAYMENT/RECEIVABLES/CLAIMS TRACKING AND MANAGEMENT SYSTEM DESIGNED FOR M/FM/LM. THE SYSTEM IS PRESENTED TO THE CUSTOMER AS SEPARATE BUT INTERCONNECTED MODULES: AUTHORIZATIONS; LOANS AND RESCHEDULED LOANS; NOTES; REPAYMENTS AND MONTHLY PAYMENT SCHEDULE; RECEIVABLES; REFERENCE TABLES; AND SYSTEM/SECURITY PARAMETERS AND W239 REPORTS. THE CUSTOMER CAN PERFORM ONLINE QUERIES THAT CAN BE SAVED AND RETRIEVED FOR FUTURE USE AND REPORTING.

GENERAL LEDGER: THIS SYSTEM IS NOW PART OF THE GENERAL LEDGER ACCOUNTING AND REPORTING SYSTEM DESCRIBED ABOVE.



U.S. AGENCY FOR  
INTERNATIONAL  
DEVELOPMENT

ACTION MEMORANDUM FOR THE ADMINISTRATOR

FROM: D/PPC, Terrence J. Brown

SUBJECT: USAID's Proposal for a GPRA Pilot

Director for Policy

Problem: The Office of Management and Budget has solicited a second round of federal agency proposals for "performance measurement and reporting" pilots under the Government Performance and Results Act of 1993 (the GPRA). The attached proposal, developed by PPC in collaboration with M, links relevant ongoing strategic planning, performance measurement, and re-engineering activities as part of a formal USAID GPRA pilot.

Background: The Government Performance and Results Act, signed by President Clinton on August 3, 1993, requires all government agencies to develop explicit strategic plans by the end of FY 1997, to begin measuring and evaluating performance against these plans in FY 1998, and to begin reporting on this performance to the President and Congress in FY 1999.

To develop the capability to meet these requirements, the GPRA mandated "performance measurement pilots" in at least 10 agencies beginning this year. Last October, OMB solicited proposals and recently selected more than twenty agencies as initial GPRA pilots. In January, OMB solicited a second round of proposals intended to broaden the range of pilot activities, particularly in areas -- such as foreign affairs -- that were thinly represented in the first round. By the end of the second round, OMB expects to have identified "performance measurement" pilots in all of the Cabinet departments and in nearly every federal agency with \$1 billion or more in annual funding.

Discussion: There appear to be few disadvantages to proposing a performance measurement pilot within USAID. The activities encompassed -- results oriented planning, performance measurement and related re-engineering -- represent initiatives to which USAID is already strongly committed and which we intend to pursue in any case. OMB, moreover, has assumed a clearly facilitative role in managing the pilots, and

seems unlikely to impose any significant additional burdens on pilot agencies.

At the same time, participating as a GPRA pilot promises significant advantages for USAID:

- it will help us maintain our strong momentum in strategic planning, performance measurement, and "managing for results" and assure that our leadership in these areas is more widely recognized;
- it will provide opportunities to participate in various GPRA working groups being established under the President's Management Council, providing much wider opportunities for us to share our experiences with and learn from other agencies;
- it will qualify us for later consideration, if we so desire, as a "managerial flexibility" pilot under the GPRA, which would include waivers from specific administrative rules and requirements;
- it will put us in a better position to influence OMB's 1996 recommendations to Congress on changes in GPRA and OMB's interpretation on how the Act should be implemented by USAID.

Recommendation: That you approve the attached proposal for a USAID "performance measurement" pilot under the GPRA.

Approve: \_\_\_\_\_

Disapprove: \_\_\_\_\_

Date: \_\_\_\_\_ MAR 16 1994

Attachment:

Tab A - Proposal for a Pilot Project in Performance Planning and Measurement



U.S. AGENCY FOR  
INTERNATIONAL  
DEVELOPMENT

*Director for Policy*

MEMORANDUM FOR: The Honorable Leon E. Panetta  
FROM: Terrence J. Brown  
SUBJECT: Proposal for a Pilot Project in  
Performance Planning and Measurement Under the  
Government Performance and Results Act (GPRA)

USAID Administrator J. Brian Atwood has approved the attached proposal for a GPRA pilot that I am forwarding for your consideration. Please direct any substantive questions to my attention.

USAID looks forward to participating as a pilot under the Government Performance and Results Act.

Attachment:  
Proposal

## AGENCY FOR INTERNATIONAL DEVELOPMENT

Proposal for a Pilot Project in Performance Planning and Measurement under the Government Performance and Results Act

Purpose:

The proposed pilot would expand and integrate ongoing strategic planning, performance measurement, and re-engineering efforts into an operational, Agencywide performance-based management system covering USAID's sustainable development activities, worldwide. This represents about two billion dollars in annual funding and more than 1,000 FTE's.

Background:

USAID's operating units -- country missions and programmatic offices -- have a lead role in planning, delivering, and managing U.S. foreign assistance to developing countries. For the past three years, USAID has worked intensively to help these operating units articulate clearer objectives and strategies, identify appropriate measures of performance against these objectives, and get and use performance information in decision-making. USAID's new leadership has fully embraced this approach to managing for results and coverage is being expanded, as quickly as possible, to all sustainable development programs. New Agencywide program strategies and guidelines have also been developed that provide a much clearer policy framework for operational level planning. The entire Agency has been designated a re-invention lab under the Vice President's National Performance Review, and its management systems are being re-engineered from top to bottom to create an organization that can manage more effectively for results.

Outcomes:

Under the proposed pilot USAID will:

1. Expand Agencywide strategic planning.

Strategic plans have already been developed for about 70 operating units covering more than 50% of USAID's sustainable development resources. By the end of the pilot, strategic plans will be in place for all of USAID's appropriate sustainable development programs. These plans will include explicit strategic objectives, program outcomes, performance indicators, and performance targets -- the development results that USAID expects to achieve in every sustainable development country.

- 2 -

2. Better link performance measures to Agencywide programming and management systems.

USAID will be refining performance measures to make them more useful for agencywide program decision-making and operational management and re-shape annual Congressional Presentations and Budget Submissions around categories of objectives and analyses of performance. Given the complexity and diversity of development assistance programs, USAID will also be assessing the extent to which managerially useful results information can be collected within relevant time frames.

3. Test broader management system reforms aimed at enhancing the Agency's ability to manage for results through pilots in a series of "experimental missions."

The re-engineered processes depend on results monitoring to be effective. Among other things, the reforms rely on improved participation of stakeholders and end users in identifying and measuring achievement of strategic objectives as well as improved data collection. We want to test various methods from customer surveys to joint donor/host country data collection during the next 2 years to determine the most efficient and effective means of monitoring impact.

Other OMB concerns:

USAID's reporting on program performance against sustainable development objectives is not covered by an annual financial statement under the Chief Financial Officers Act of 1990.

Given the complex and diverse nature of USAID's development assistance programs in more than 70 countries, and the lack of historical data, precise cost-benefit analysis is not expected to be possible. However, reengineering will include targets and indicators for process improvement measurement -- i.e. are we faster, cheaper and more accurate; more customer focused; more empowered; and more streamlined.



EXECUTIVE OFFICE OF THE PRESIDENT  
OFFICE OF MANAGEMENT AND BUDGET  
WASHINGTON, D.C. 20503

THE DIRECTOR

July 6, 1994

EXECUTIVE SECRETARIAT  
1994 JUL - 8 P 3:50

94006047

Honorable J. Brian Atwood  
Administrator  
Agency for International Development  
Washington, D.C. 20523

Dear Mr. Atwood:

In accordance with provisions of Section 6(a) of the Government Performance and Results Act of 1993 (GPRA), I am pleased to approve the request of the Agency for International Development (AID) for designation as a pilot project for performance measurement for fiscal years 1995 and 1996. Within AID, the following pilot project is covered by this designation: the sustainable development activities of the agency.

The next step required by the statute is for your agency to prepare annual performance plans and program performance reports for these pilot projects. The FY 1995 plan should be sent to OMB this September, before the start of the fiscal year.

Guidance and information on preparing a performance plan was developed by an interagency task group and, through OMB Memorandum M-94-15, sent to agencies on March 3, 1994. Although this guidance was for the FY 1994 performance plans, agencies should find it generally applicable to the FY 1995 plans as well. As AID's sustainable development activities cover a large number of countries, OMB and AID staff should discuss the prospective scale and scope of the FY 1995 performance plan prior to its submission.

I very much appreciate your agency's response to the request for pilot project nominations. With this new Act, we have the means at hand for bringing about basic changes in how our Government works and is managed. These changes will not be easy or simple to accomplish. The pilot projects are a valuable opportunity to gain experience in achieving this transformation, and we look forward to working with AID staff to assure that the pilot project phase of GPRA implementation is productive and useful.

Sincerely,  
  
Leon L. Panetta  
Director

EXECUTIVE OFFICE OF THE PRESIDENT  
OFFICE OF MANAGEMENT AND BUDGET  
WASHINGTON, D.C. 20003

March 3, 1994



THE DIRECTOR

M-94-15

9403450

MEMORANDUM FOR THE HEADS OF DEPARTMENTS AND AGENCIES DESIGNATED  
AS PILOT PROJECTS UNDER P.L. 103-62

FROM: Leon E. Panetta  
Director

SUBJECT: Submission of Performance Plans for Pilot Projects  
under P.L. 103-62, the Government Performance and  
Results Act of 1993 (GPRA)

On January 31, 1994, 53 pilot projects for performance plans and program performance reports were designated in 21 departments and agencies. In my designation letters, I indicated that an interagency task group was working on additional information and guidance for use in preparing the performance plans, and the results of their effort would be provided to you.

Based on the collaborative efforts of OMB staff and this interagency task group, two attachments to this memorandum have been prepared. Attachment 1 sets forth basic information on the scope, content, and general format of the performance plan. Attachment 2 consists of questions which were raised regarding particular aspects of the performance plan as well as its review by OMB, and the answers to those questions.

Finally, I would like to underscore one point that I made last year in testimony before Congressional committees on this legislation, and which is also a point emphasized in the committee reports on GPRA. We must avoid having the implementation of this Act become a massive paperwork exercise, replete with voluminous documents which attempt to encompass everything and anything. Please make your performance plans simple, concise, and informative. A few good goals and indicators capturing the essence of programs and their administration are much better than extensive displays with large numbers of second- and third-order measures and which delve into operational minutiae.

If you have any questions on the pilot project performance plans, please call Walter Groszyk at (202) 395-5670.

Attachments

SUBMISSION OF PILOT PROJECT  
PERFORMANCE PLANS FOR FY 1994

**Submission Date**

So that submission of the performance plan precedes the start of the measurement period, the plan should be sent to OMB by March 31, 1994.

**Plan Content**

The contents of an annual performance plan are defined in Section 4(b) of the Government Performance and Results Act. A plan contains the following elements:

- (1) one or more performance goals for the program activity (ies) covered by the pilot project
- (2) performance indicators that will be used in measuring outputs and outcomes
- (3) a description of the means to be used to verify and validate measured values
- (4) a brief description of the operational processes, skills, and technology, and the human, capital, information, or other resources required to meet the performance goals. (However, the description may be omitted for any operational or resource factor that has not changed significantly from fiscal year 1993 levels.)
- (5) a description of the contribution (if any) made by non-Federal parties (e.g., consultants or contractors) in the preparation of the plan.

The performance goals and indicators should establish target levels of achievement for the programs and activities covered by the pilot project.

In choosing which goals and indicators to include in the plan, agencies should be guided by the following principles:

- o Goals and indicators should primarily be those used by program managers to determine how a program or activity is doing, and whether it is achieving its intended objectives. (For pilot projects for which audited financial statements are also prepared, agencies should consider including in the plan performance measures from those statements. Agencies should also consider including any other publicly established standards of performance.)
- o Include measures that will be useful to agency heads and other stakeholders in framing an assessment of what the program or activity is accomplishing.

Questions and Answers Regarding  
SUBMISSION OF PILOT PROJECT PERFORMANCE PLANS

Q.1 Who should submit the agency's performance plan to OMB?

A.1 The plan should be submitted by the head of the agency. However, at the agency's discretion, a plan may be submitted by a senior official (one who is appointed by the President and Senate-confirmed) having direct responsibility for the programs and activities covered in the plan.

Q.2 After OMB reviews the FY 1994 performance plans, should agencies expect to revise these FY 1994 plans based on this review?

A2. No. There is little value to revising these plans mid-way through the measurement period. Instead, OMB's review and critique of the FY 1994 plans will be provided to agencies for use in preparing the FY 1995 performance plans. (The present schedule would call for the FY 1995 plans to be sent to OMB in about six months.) However, if it appears that measurement of performance will be precluded because an FY 1994 performance plan lacks any goals or indicators for accomplishing such, OMB may request the agency to revise and re-submit its FY 1994 plan.

Q3. May an agency include a performance goal for which it will be unable to measure actual performance against that goal during the April-September 1994 time-period and include such in the annual program performance report for FY 1994?

A3. Yes. There is often a substantial lag in obtaining actual performance data for a particular period. The Congressional committees, in its reports on this legislation, recognized this, and made allowances for such in the content of the annual program performance report. When a lag occurs, agencies should use the most current relevant data (even if it is several years old), and indicate, in the program performance report for FY 1994, approximately when the actual performance data for the April-September time-period will be available.

**Strategic Plans**

GPRA requires a strategic plan be used when preparing one or more of the performance plans during the pilot period. So that a notation can be made of which of the three annual pilot project plans satisfies this requirement, please indicate if a strategic plan was used for the FY 1994 plan. (Agencies should note that the strategic plan used for this purpose need not meet all specifications for the strategic plans required under GPRA to be submitted to OMB by September 30, 1997. Also, the strategic plan need only cover the pilot program or activity.)

SUPPLEMENT TO THE TESTIMONY OF INSPECTOR GENERAL JEFFREY RUSH

I HAVE SERVED AS THE INSPECTOR GENERAL AT THE U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT (USAID) SINCE SEPTEMBER 1994. THE USAID OFFICE OF INSPECTOR GENERAL (OIG) WAS ESTABLISHED BY STATUTE IN 1980. THE OIG CONSIST OF A RESOURCE MANAGEMENT STAFF AND THREE OPERATIONAL ELEMENTS: SECURITY, INVESTIGATIONS, AND AUDIT.

OUR MISSION IS TO PROMOTE AND PRESERVE USAID'S EFFECTIVENESS, INTEGRITY, EFFICIENCY, AND SECURITY. OUR WORK REQUIRES US TO WORK WITH FOREIGN ASSISTANCE RECIPIENTS IN MORE THAN 100 COUNTRIES, WHO SPEAK MORE THAN 70 DIFFERENT LANGUAGES, AND WHOSE FINANCIAL DEALINGS INVOLVE MORE THAN 50 DIFFERENT FORMS OF CURRENCY.

THE USAID OIG IS MADE UP OF A REMARKABLE GROUP OF MEN AND WOMEN WHO HAVE ADAPTED TO THE MANY RECENT CHALLENGES FACING ALL FOREIGN AFFAIRS AGENCIES. ATTACHED ARE TABLES SHOWING SOME OF THE RESULTS OF OUR SECURITY, INVESTIGATIONS, AND AUDIT ACTIVITIES FROM FISCAL YEAR 1991 THROUGH FISCAL YEAR 1995.

# SECURITY RESULTS

*Fiscal Years 1991 - 1995*

	1991	1992	1993	1994	1995	TOTAL
OVERSEAS SECURITY PROJECTS	8	22	30	16	18	94
ARMORED CARS-LIGHT	5	15	8	10	4	42
ARMORED CARS-HEAVY	0	0	0	2	3	5
CLEARANCES GRANTED	1,644	1,761	2,157	2,832	1,995	10,389
SECURITY BRIEFING	20	40	36	65	54	215
PERSONNEL BRIEFED	273	821	560	635	741	3030

IG/SEC 5/3/96

# INVESTIGATIVE RESULTS

*Fiscal Years 1991 - 1995*

	1991	1992	1993	1994	1995	Total
Complaints	371	255	340	390	321	1,677
Cases	262	162	93	53	116	686
Convictions	37	21	8	12	3	81
Disciplinary/ Admin Actions	60	24	11	12	7	114
Debarment/ Suspension	10	10	1	8	2	31
Cost Savings	4,136,718	8,434,624	999,189	104,986	4,884	13,680,401
Monetary Recoveries	3,783,305	3,744,836	8,749,141	5,642,917	455,927	22,376,126

OIG/  
PAR 5/3/98

# AUDIT RESULTS

Fiscal Years 1991 - 1995

	1991	1992	1993	1994	1995
Performance Audits	66	71	82	88	103
Financial Audits	390	381	639	478	371
<b>TOTALS</b>	456	452	721	566	474
Questioned Costs	\$30,480,000	\$48,488,000	\$60,537,000	\$52,850,000	\$52,939,000
Better Use of Funds	\$73,693,000	\$386,187,000	\$37,602,000	\$58,024,000	\$29,693,000
<b>TOTALS</b>	\$104,173,000	\$434,675,000	\$98,139,000	\$110,874,000	\$82,632,000

Source: OIG Semiannual Reports to the Congress.

## FOREIGN CORRUPT PRACTICES ACT

Mr. Roth, on page 18 of the transcript poses a question on a matter reported in our Semiannual Report to Congress (SARC) related to the Foreign Corrupt Practices Act.

**Mr. Roth:** Why don't you send the answer to us in written form.

**Mr. Rush:** A scheme that involved the concealment of a commission to a non-bona fide agent as a possible violation of the Foreign Corrupt Practices Act (Case: A95072) first came to the attention of my office in November of 1992 when Congressman Lehman of California expressed some concerns about the conduct of a USAID contractor in dealing with its employees.

Investigation revealed that the contractor bid on a multi-million dollar contract with an Egyptian Government's Commission on Survey. In the first evaluation of the bids, the contractor in question received less than 50 points out of a possible 100. Immediately after the first evaluation the contractor retained the services of an Egyptian-American for the sole purpose of assisting them in getting the contract award.

There followed a series of meetings and events which resulted in the contractor being ranked as number one, and the contract was awarded to them over the protests

of all the other competitors who had been ranked previously.

When referred to the Department of Justice (DOJ) a premise for the investigation was that the individual retained for a one percent commission was a "pass through" for funds to insure favorable consideration in violation of Title 15 provisions of the Foreign Corrupt Practices Act. Subsequently, the contractor agreed to a civil settlement for submitting false claims, in violation of Title 18 USC. This agreement was based on the concealment of the commission fees from USAID. The matter remains under prosecutive consideration. We expect the civil settlement to influence the DOJ decision on criminal prosecution but are awaiting a final determination.

## CHIEF FINANCIAL OFFICERS ACT

**Chairman Gilman:** I understand that under the law (the Chief Financial Officers ("CFO") Act), the Agency for International Development ("AID") must submit audited financial statements on all of its revolving funds, trust funds and commercial operations. The deadline set by the Office of Management and Budget ("OMB") was March 1, 1996. OMB gave AID advance notice that no waiver of that deadline would be given. Nevertheless, AID failed to meet that target. Some of the audits are not in, but one major audit remains. Now that AID missed the OMB deadline, do you expect it will meet its self-imposed June 30th deadline to comply with the law?

**Mr. Rush:** In April and May, USAID provided the OIG with the financial statements for Fiscal Year 1995 on two funds--the Direct Loan Fund, and the Micro and Small Enterprise Development Fund. These are the two remaining funds subject to audit which the Agency had not provided financial statements to the OIG as of March 31, 1996. The audit of the Direct Loan Fund is the major audit to which you refer. Two of the final audit reports will be issued on July 2, 1996 and the third final audit report will be issued during the week of July 8, 1996.

The Agency still relies on inefficient accounting systems that are incapable of producing accurate and timely financial information. The Agency also failed to take corrective action that was agreed to last year. Our audit of the Fiscal Year 1994 financial statements

for the Micro and Small Enterprise Development Fund identified a serious deficiency wherein the Agency was not recording, maintaining, or adequately reviewing the program accounting data on a contemporary basis. While the Agency developed a plan to correct this deficiency, it did not implement the plan. As a result, the accounting data for Fiscal Year 1995 were not properly recorded until March and April 1996, almost six months after the close of the accounting period (September 30, 1995). Such deficiencies in the Agency's financial management systems have impaired our ability to provide unqualified opinions in auditing the financial statements.

## NATIONAL BANK FOR DEVELOPMENT

**Chairman Gilman:** In your report, you noted that over one million dollars billed to AID by the National Bank for Development ("NDB") [located in Cairo, Egypt] were for ineligible or unsupported costs for salaries, vehicles, office equipment furniture, training and other direct costs. You noted one "reportable condition" and two instances of "material noncompliance." It sounds that this bank was trying to steal from AID. Can you provide further details on this case? What were the "reportable" and "material noncompliance" issues?

**Mr. Rush:** The OIG contracted a local independent public accounting (IPA) firm to audit the costs incurred by the Egyptian National Bank for Development. The IPA did not find instances of fraud by the Bank during the audit, and in the IPA's opinion, the Bank's fund accountability statement was fairly presented. However, of the \$3.5 million in host country owned local currency expenditures covered during the audit, the IPA questioned \$1.0 million including:

- (1) USAID funds transferred to the Bank's general funds as a contingency to be used for bonuses earned during the audit period, but not yet paid. (\$413,487);
- (2) Payment of bonuses with no documentation to support the basis for the awards. (\$358,201);

- Φ
- (3) Administrative services paid to the Bank from project funds without adequate documentation. (\$100,599);
  - (4) Salaries of bank employees assigned to USAID project were totally charged to the project but 24% of their time was spent working on non-USAID projects. (\$49,859);
  - (5) Procurement of a non-U.S. vehicle (\$17,102) and payment of related sales and customs duties on the vehicle (\$16,854). This procurement was not in accordance with the grant provisions. (\$33,956);
  - (6) Leasing costs for 13 vehicles charged to the project which are unsupported. (\$36,312);
  - (7) Procurement of training equipment over the amount authorized by the approved procurement plan and purchased subsequent to when the major portion of the training occurred. (\$15,696); and
  - (8) Ineligible expenses charged to the project for such costs as parties, gifts, flowers, entertainment, and awards. (\$14,335).

Ø

The reportable internal control findings related to deficiencies in cash management by certain branches of the Bank who were implementing the project: 1) cash collected was not being deposited on a daily basis, and 2) cashiers were not provided facilities to properly safeguard cash received. The two material instances of noncompliance included: 1) expenses reported as salaries by the Bank and questioned by the audit (previously discussed), and 2) the funding of the Bank's operational expenses past the period stipulated in the loan fund agreement.

No final management decision has been made with respect to the amounts questioned by the audit. However, the Mission reports that it has been working closely with the Bank to determine the amounts to be disallowed, and a final determination is expected soon.

## SOCIETY FOR THE CARE OF THE HANDICAPPED

**Chairman Gilman:** You contracted with an accounting firm to review the accounts of the Society for the Care of the Handicapped in the Gaza Strip ("the Society"). You noted that of the \$9 million given to the Society by AID, over \$1.5 million in costs charged were questionable, including salaries, travel, equipment, furnishings, overhead, research and other direct costs. Your investigators noted no less than three "reportable conditions," and three instances of "material non-compliance" at the Society. The recommendations made remain unresolved by the mission. Helping handicapped children in Gaza appears to be a worthwhile cause, but your people in Cairo told our staff during their recent visit there that AID was "taken for a ride." Can you comment on this case?

**Mr. Rush:** The USAID contracting officer has stopped further funding to the Society until management makes a final decision on the questioned costs. The Mission agreed with \$1,358,319 of the \$1,521,005 in questioned costs. An additional \$94,399 is still under consideration. The Mission reported that the Society had not responded to regional contracting officer requests to meet and discuss the questioned costs. The contracting officer planned to try one more time to engage the Society in a discussion of the questioned costs. A bill of collection in the amount of \$1,452,718 was issued on June 13, 1996. Our investigation is on-going.

## ENGE-RIO COMPANY (MOZAMBIQUE)

**Chairman Gilman:** In your report, you noted that in your audit of the Enge-Rio company in Mozambique, you found \$1.2 million out of a \$5.6 million contract were questioned for the usual list of items: salaries, travel, benefits, indirect costs and other costs. You rejected Enge-Rio's accounting and cited one "material instance of non-compliance." Your recommendations were transmitted to the AID mission in Maputo and it would appear that no action has been taken. Can you comment?

**Mr. Rush:** Enge-Rio is a Brazilian engineering company headquartered in Rio de Janeiro, with a local branch in Maputo, Mozambique. USAID had contracted an independent public accounting (IPA) firm in Johannesburg, South Africa to conduct financial audits on two of its contracts with the Enge-Rio which totaled \$5.6 million. The audit resulted in adverse opinions being issued on Enge-Rio's Fund Accountability Statements due to \$1.1 million in contract costs being questioned. These questioned costs consisted of 1) \$901,770 of costs which were ineligible because they were prohibited and/or not provided for by the terms of the contract, and 2) \$222,237 of costs which were not supported by adequate documentation. Examples of these questioned costs include the following:

- (1) original travel documentation could not be located for \$2,009 in travel costs claimed by Enge-Rio and reimbursed by USAID/Mozambique;

- (2) a lack of evidence supporting agreed-upon indirect cost rates caused the auditors to question \$8,869 in reimbursable indirect costs claimed by the contractors; and
- (3) fixed fee contract prices were reimbursed an excess of \$17,205 over what was allowable according to U.S. law.

In addition to the questioned costs, the audit disclosed one instance of material noncompliance. Material instances of non-compliance are failures to follow requirements or violations of agreement terms or laws and regulations that cause the auditors to conclude that the aggregation of misstatements resulting from those failures or violations is material to the fund accountability statement. The results of our tests of compliance disclosed a material instance of non-compliance, the effect of which is shown as questioned costs in Enge-Rio's fund accountability statement. USAID requires all contractors, regardless of nationality, to comply with the terms of condition included in the contract, attached provisions and referenced procurement regulations. In general, such compliance cannot be waived by an individual USAID mission or by USAID/Washington. The audit disclosed that the general level of awareness of U.S. Government

regulations by the contractor was inadequate, as evidenced by the numerous instances of noncompliance with Federal Acquisition Regulations noted in the reports findings. In particular, Enge-Rio failed to maintain adequate records to support the audit of the indirect cost rate calculation as required.

While there were no instances of material internal control weaknesses, the audit reported that Enge-Rio lacked adequate accounting and control policies and procedures.

Enge-Rio management declined to comment on the audit report, therefore, the final report does not include management comments. Subsequent to the audit report, the Mission has worked with Enge-Rio to determine the allowability of the questioned costs. In January 1996, the Mission sent a letter to Enge-Rio Brazil requesting additional documentation in support of the questioned costs, numerous telephone calls were made to Enge-Rio in February and March, and a meeting was held with company officials in April. The Mission also requested the USAID Regional Legal Advisor and the Brazilian Embassy in Maputo to assist in resolving the questioned costs. In June 1996, the Mission made a determination that \$908,000 of the reported questioned costs were unsupported, and a bill of

①

collection for cost recovery has been prepared.

## OMB CIRCULAR A-50

**Chairman Gilman:** You noted in your report that under OMB Circular A-50, AID must follow up on your recommendations within six months. You noted that AID has failed to follow up on 76 of your recommendations, involving the possible repayment to the government of over \$29 million. These cases involve "resolution of recommendations" where AID agrees to implement your recommendations, not "recommendation closure" where the Agency actually implements your recommendations. If AID does not follow through, you reopen a case. You reopened one during your last reporting period. Could you describe it?

**Mr. Rush:** Before responding to your specific question, I would like to explain some of the terminology and audit resolution follow-up processes included in our semiannual report. Our Semiannual Report to the Congress has referred to the requirements of OMB Circular A-50 "Audit Follow-Up" in explaining the OIG's audit follow-up process. That was an error. Audit follow-up is no longer governed by that circular. When the Inspector General Act was amended in 1988, audit follow-up and resolution became statutory matters subject to specific reporting requirements to the Congress. The USAID Administrator and I must report on our progress in resolving matters disclosed as a result of audit during each six-month reporting period.

Our semiannual report (Tables B through E) include the

φ phrase "audit reports for which no management decision has been made", rather than "for which the recommendations have been resolved." Specifically, the 1988 amendment to the Inspector General Act requires that semiannual reports summarizing the activities of the Office [of Inspector General]...shall include...statistical tables showing the total number of audit reports "for which no management decision had been made by the commencement of the reporting period..." and "for which a management decision was made during the reporting period..." Similar to the OMB Circular's definition of "resolution", the IG Act defines "management decision" as the evaluation by the management of an establishment of the findings and recommendations included in an audit report and the issuance of a final decision by management concerning its response to such findings and recommendations, including actions determined to be necessary.

In response to your question regarding the 76 recommendations (from prior period audit reports) for which no management decision has been made as March 31, 1996, these recommendations consisted of:

- (1) 33 recommended procedural changes, for which no quantifiable monetary benefits or savings were

identified, and

- (2) 43 identified potential recovery of questioned costs or better use of USAID funds (i.e., management efficiency). The amounts involved totalled \$29.8 million.

Questioned costs are those, which, at the time of the audit, were not, in the auditor's opinion, supported by adequate documentation. Management efficiencies may include: a) savings from such items as reprogramming or recapture of unliquidated obligations; b) more efficient contract negotiations; and c) reductions or eliminations of payments, costs, or expenses that would be incurred by the Agency.

We reopened one closed recommendation during the six month reporting period ending March 31, 1996. This was a procedural recommendation related to USAID's compliance with statutory requirements on lobbying restrictions, as specified in 31 U.S.C. 1352. In the audit report which was issued on February 3, 1995, we had recommended that the USAID Office of Procurement include appropriate built-in controls in its automated contract and grant processing system to facilitate compliance with the lobbying disclosure and certification requirements of the aforementioned

legislation. We closed this recommendation in April 1995 based on written assurances from USAID management that appropriate changes would be made to USAID's automated Document Generator System (DGS) which would address the problems that resulted in the above recommendation.

When we reviewed this recommendation in January 1996, we found that the DGS was not fulfilling its intended control functions, in part because it could not be adapted to incorporate the necessary features relating to modification-type procurement actions because of technical problems. Consequently, in a report issued on March 21, 1996, we advised USAID of our decision to reopen the recommendation and reclassify it as unresolved.

The Director of the Office of Procurement concurred with the finding and said he would ask his section chiefs to review their last ten procurement actions to determine compliance with lobbying restrictions. By memorandum dated April 22, 1996, he reported that this review found the required certificates for 93.6 percent of the reviewed procurement actions. He concluded that M/OP was substantially in compliance with the lobbying requirements. He conceded, however, that the systemic deficiency in the automated DGS

continues to exist and USAID is vulnerable to noncompliance with lobbying restrictions on contract and grant modifications. He intended to overcome this weakness by emphasizing to his employees the need for diligence while processing modifications. On the basis of the review results, the Director asked the recommendation be closed.

Unfortunately, we cannot validate the claimed results as no records were kept as to which contract actions were reviewed and which were found to be in noncompliance. Because the DGS cannot be modified for all types of contract actions, compliance will continue to depend on the alertness of trained personnel. We have asked for additional information as to the specific training activities that the Office of Procurement intends to provide to its staff on current lobbying restrictions requirements. When we have received this information we will decide whether the recommendation should be resolved.

## REVISION OF AID MANAGEMENT

**Chairman Gilman:** You described "one significant revision of AID management" during the last six months. Can you describe what happened?

**Mr. Rush:** The one significant revision of management decision related to the "Audit of USAID's Grant to OFNAR Under the Chad Strengthening Road Maintenance Project", dated April 1, 1993. This revision was actually a USAID management decision that required the OIG to reclassify a recommendation from "resolved" to "unresolved." This reclassification was necessary in order to reflect changes in the Agency's (USAID/Chad) agreement to recover questioned costs which had been identified by the audit. The audit recommended that USAID/Chad recover \$370,967 in costs determined to be unallowable or unsupported. The Mission initially agreed to recover \$360,662 by offsetting that amount against subsequent payments due to OFNAR (a quasi-government organization), however, USAID/Chad stated that the offset would occur only after a final audit of OFNAR was completed. The Mission had believed that this final audit would result in USAID having underpaid OFNAR and would thus enable them to offset the previous questioned costs. Conversely, however, the audit resulted in additional questioned costs which OFNAR was required to refund to USAID. Since recovery was not being made as originally

agreed, the OIG had to change the status of the recommendation from resolved to unresolved.

The responsibility for closing the subject recommendation has now been transferred to REDSO/WCA because USAID/Chad is closed. REDSO/WCA is reviewing the available records and has reported that they will be traveling to Chad shortly to make a final decision on these unsupported costs.

## CONVICTION AND TERMINATIONS

**Chairman Gilman:** You noted that you had received one conviction and two personnel terminations as a result of your investigations. Can you describe these cases?

**Mr. Rush:** A Private Voluntary Organization (PVO) recipient of PL-480 commodities reported to the U.S. Agency for International Development (USAID) Kenya mission and our Nairobi field office that 1,224 cartons (30 metric tons) of vegetable oil, valued at \$46,650, were stolen while in transit from the port of Mombassa to the province of Garissa in early July 1994. Investigation disclosed that a Kenyan, employed as a truck driver for the contract transport company, was the person responsible for the theft. He was arrested by Kenyan law enforcement authorities, who participated in the investigation, and tried in a Kenyan court on the charge of theft of goods in transit. On November 15, 1995, the driver was convicted and sentenced to four years imprisonment.

The USAID Manila Controller discovered an apparent embezzlement of U.S. funds. A surprise cash count found cash shortages in the funds entrusted to the cashier and the alternate cashier of the mission. Both were Foreign Service National Personal Services Contractors. A subsequent reconciliation of all accounts found that the Philippine peso equivalent of

\$620 was missing from the cashier's funds and \$32,974 from the funds entrusted to the alternate cashier. During our joint investigation with the Regional Security Officer at the American Embassy in Manila, both cashiers provided statements admitting their wrongful actions. The cashier resigned in lieu of termination and made full restitution. The alternate cashier was terminated for cause and \$243 was recovered from his retirement fund. Prosecution by the Philippine judicial system was not deemed feasible.

A whistleblower reported that a U.S. Personal Services Contractor (USPSC) in Russia had solicited employment with a firm which had been awarded over \$35 million in USAID funded privatization task orders in Europe and the Newly Independent States. Investigation disclosed that the USPSC was in charge of managing privatization programs in Russia and oversaw the task orders awarded to a contractor. The USPSC had contacted the firm on four different occasions in 1995 seeking employment with the firm when he returned to the United States. In response to the investigative results, USAID Moscow terminated the USPSC's contract. The investigative results were referred to the Department of Justice for prosecutive consideration and the matter is currently being considered by both the civil and criminal divisions.

## SUPREME AUDIT INSTITUTIONS

**Chairman Gilman:** You have pioneered the practice of relying on foreign counterparts of your office or our GAO to handle some of the workload. Describe Supreme Audit Institutions.

**Mr. Rush:** Supreme Audit Institutions or "SAIs" have an important role to play in promoting government accountability. SAIs are the host country's primary audit agency, and are the foreign counterparts of the U.S. General Accounting Office (GAO). A well-established SAI constitutes a country's first line of defense in combatting fraud, waste and mismanagement within government operations. This is particularly true in developing countries where concepts of government accountability are often still evolving. The SAIs are faced with the challenge of increasing accountability and transparency in regions often-times plagued by endemic corruption and resource constraints. SAIs have an obvious cultural advantage which place them in a better position to impact on the control environment of its own government operations.

Unfortunately, SAIs in many of the countries in which USAID does business lack the necessary resources and expertise to adequately fulfill this crucial role. Due to the SAIs susceptibility to these inherent vulnerabilities prevalent in less-developed countries, we first assess the SAI's potential capabilities

and then work with these organizations to improve their professional skills, resolve cultural disparities and instill a strong code of ethical conduct. We host conferences which provide a forum for the SAIs to meet with the OIG, USAID missions, and other international donors. We provide extensive training which familiarizes them with USAID programs and the application of U.S. auditing standards<sup>1</sup>. In working with them, we emphasize the need for maintaining the integrity of the U.S. development assistance programs abroad and advocate their sharing in this responsibility. Only after working with the SAIs to assure fully developed audit capabilities, will the OIG extend the offer of an audit agreement. Then after an agreement has been established, the OIG closely monitors the work of the SAI until an acceptable level of competence is demonstrated.

To date, we have established official working agreements (Memorandum of Understandings to conduct audits of USAID funds, which are signed by each country) with seven SAIs: Bolivia; Ghana; Honduras; Indonesia; Mali; St. Lucia; and Tanzania. In addition, we have developed working relations with the SAIs of several other countries that have established a proven

---

<sup>1</sup> The OIG requires that the SAI adopt either the U.S. General Accounting Office (Yellow Book) auditing standards for Federal organizations or the International Organization of Supreme Audit Institutions' auditing standards.

track record in conducting quality audits in accordance with acceptable auditing standards.

This innovative approach to auditing our foreign assistance program embraces good accountability practices and transparency in both the donor and recipient governments. Using SAIs is also an indicator of the U.S. Government's interest in collaborating with foreign governments to ensure that sound accountability requirements are properly embedded into the design and implementation of the foreign aid program. Use of SAIs to obtain needed audit coverage and improve accountability has been endorsed by the GAO and is being coordinated with other international donor organizations, such as the World Bank and the International Development Bank.

The OIG has ensured that all legal requirements are met in using SAIs to conduct audits. The Inspector General determines the appropriateness of using SAIs, and ensures that any audit performed by SAIs complies with standards established by the Comptroller General. These auditing standards establish the level of quality on which audits should be based. Compliance with the four general standards—qualifications, independence, due professional care, and quality control—are essential to assuring audit quality.

Recognizing that many SAIs adopt their own set of local or regional auditing standards, or those of the International Organization of Supreme Audit Institutions (INTOSAI), the OIG asked the Comptroller General of the United States whether an SAI's use of INTOSAI auditing standards would be acceptable. The GAO stated that, while the INTOSAI standards are broader and less directive than the U.S. standards established by the GAO (which incorporate standards of the American Institute of Certified Public Accountants), the INTOSAI auditing standards provide a good foundation for the work of many SAIs. While accepting the use of INTOSAI standards by SAIs, the GAO suggested that the OIG ensure the quality of the work being performed according to these standards by assessing the SAI's qualifications, independence, and reviewing its audit program, methodology, and workpapers. This is being done.

## REFERRALS TO DEPARTMENT OF JUSTICE FOR FALSE STATEMENTS

**Chairman Gilman:** Could you list instances where there were referrals to the Department of Justice for false statements or false claims (regardless of whether a felony or misdemeanor), or any felony, where prosecution was declined, and where, on administrative referral, the administrative action taken was less than a suspension without pay for one week or more, and provide a brief description.

**Mr. Rush:** During the last six-month reporting period, there were no referrals to the Department of Justice of matters related to false statements or false claims; however, we did refer two matters which had felony potential that were not false claims.

The first of these matters was a case which involved the alleged use of appropriated funds for lobbying purposes. This investigation was predicated on an article in the Washington Post and a subsequent request from a Member of Congress as to whether an internal USAID E-Mail message could have been an attempt to muster contractor or Private Voluntary Organizations (PVO) support to lobby the Congress concerning budget reduction discussions. The investigation did not substantiate the allegation. We did however ask the Department of Justice to review the matter and after the review prosecution was declined for lack of evidence of criminal wrongdoing. Agency officials to whom the matter was referred advised that

they would take no action as there was no evidence of impropriety or wrongdoing.

The second referral was a case which involved a potential conflict of interest. This investigation began with the receipt of a Hotline call and a referral from the Defense Contract Audit Agency (DCAA) alleging that the President and CEO of an organization which receives USAID and other Federal funding was actually a USAID employee on detail and thus in a conflict situation. The conflict appeared when, during an audit conducted by the DCAA, the detailed USAID employee represented the grantee before the DCAA.

Although there was the appearance of a conflict, no evidence was developed which would support the contention that the USAID employee was engaged in negotiations with DCAA but was in fact answering questions related to the audit function, which is permissible. The Assistant United States Attorney who reviewed the matter stated there was no evidence of a criminal violation. When the matter was referred to the Agency, officials advised that a systemic change in procedure had been ordered to preclude placement of USAID direct hire employees in positions where the appearance of a conflict is created by a detail assignment to an USAID funded grantee.

## CIVIL SERVICE AND FOREIGN SERVICE DISCIPLINE

**Chairman Gilman:** Does Civil Service and Foreign Service discipline systems work effectively within AID? (Can you opine on this?) Does it deter misbehavior? Is management responding adequately, in your view, when administrative referrals are made by your investigative staff?

**Mr. Rush:** We have not conducted a review of the Civil Service or Foreign Service discipline systems at USAID. I have not seen any evidence that shows either discipline system is a deterrent to misbehavior or misconduct. I am generally satisfied with the action taken by USAID management when administrative referrals are made by my investigative staff.

## AID-CONTRACTED AUDITS

**Chairman Gilman:** How were cases chosen for AID-contracted Audits? The Audits covered only 1/2 of 1 percent of all AID dollars now under contract (\$87 million of \$23 billion). Could results (\$6.5 million in questioned costs) be extrapolated to other USAID programs?

**Mr. Rush:** Agency-contracted audits are funded by the Agency and contracted out by the OIG. These non-Federal auditors and generally review costs incurred under individual contracts/grants, as well as internal controls and compliance with contract/grant terms and applicable laws and regulations. The OIG oversees all phases of these audits by preparing the Scope of Work for the contracted audit firm, approving work plans, monitoring work in process, reviewing workpapers, attending entrance and exit conferences, and approving draft and final reports. Agency-contracted audits are specific financial audits which are, by design, performed on an "as needed" basis, i.e., when a potential problem with a specific contract or grant is brought to the attention of the OIG. While all of USAID's contract, grant, and cooperative agreements are subject to audit under the Agency-contracted audit program, in actuality, very few of the Agency's agreements are ever audited under this program because of their relatively high cost.

With regard to the second part of your question, the

results of these audits cannot be statistically projected to the universe of USAID's unaudited contracts and grants. Each audit by its nature is unique and results in an opinion on the eligibility of costs claimed for that particular time period of that particular contractor or grantee. The eligibility of costs claimed is in many instances dependent upon the effectiveness of internal controls and accounting systems used by each contractor or grantee: therefore, it would be unreasonable to project the potential impact of our audit process onto costs claimed by other contractors or grantees with a completely different set of internal controls and accounting systems.



## NEW MANAGEMENT SYSTEM

**Chairman Gilman:** Were the minor reductions in funding available for operating the agency or the shutdown early this year adequate explanations for the aid's failure to perform as required by law with respect to getting its audit system up and running and curing the specific problems with particular audits that you discuss in your semiannual report?

**Mr. Rush:** I believe that the reason the Agency is having so much difficulty implementing NMS and AWACS is because of poor planning and insufficient controls over the system design and development process. The only legal requirement for these systems relate to the need to produce a consolidated financial statement. The means of doing this are up to each executive agency. USAID has failed to meet any of its self-imposed deadlines. And, unless they dramatically alter their systems development processes, the Agency will probably not meet the requirements of GMRA.

The problems highlighted in the semiannual report are from recently issued audit reports. We would not normally expect corrective actions to have been completed by the time the semiannual report was issued.

## SWEET HILL ASSOCIATES

**Chairman Gilman:** Your office has investigated Sweet Hill Associates ("SEA") and the AID officers who accused it of wrongdoing. As I understand it, you are investigating both SEA for possible wrongdoing and the AID officers who made the accusations for possibly using the accusation process to improperly dismiss a contractor and contracting with a competitor. Could you update the Committee on this dual track investigation?

**Mr. Rush:** These investigations are on-going and have been discussed with officials of the Department of Justice. As such, I am unable to comment further on the matter at this time.



ISBN 0-16-053431-3



9 780160 534317

90000