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Financial Audits

AUDIT OF USAID'S DIRECT LOAN PROGRAM FOR FISCAL YEAR 1994

Report No. 0-000-95-035
June 15, 1995

INSPECTOR GENERAL

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

USAID

AGENCY FOR
INTERNATIONAL
DEVELOPMENT

June 15, 1995

MEMORANDUM

TO: CFO, Donald K. Charney

FROM: AIG/A, James B. Durnil

SUBJECT: Audit of Fiscal Year 1994 Annual Financial Statement for USAID's Direct Loan Program

The Chief Financial Officers (CFO) Act of 1990 requires the U.S. Agency for International Development (USAID) to prepare an Annual Financial Statement for the Direct Loan Program (Program). This statement is to include the presentation of Program and financial performance information related to the Program. The USAID Office of Inspector General is responsible for auditing the Annual Financial Statement. To fulfill this responsibility, we contracted with the independent certified public accounting firm of Deloitte and Touche to perform, under our general oversight, the financial audit for fiscal year (FY) 1994. In addition, the USAID Office of Inspector General reviewed the presentation of management performance information required by the Office of Management and Budget (OMB). This report presents the results of the audit.

Audits under the CFO Act are to be performed in accordance with generally accepted government auditing standards and OMB Bulletin Number 93-06, "Audit Requirements for Federal Financial Statements." Those standards require the audit to provide reasonable assurance that the financial statements are free of material misstatement. The audit included obtaining an understanding of the relevant internal control policies and procedures designed to achieve control objectives; determining that the controls had been placed in operation; and assessing the control risks. The audit also included tests of USAID's compliance with certain laws and regulations.

The Program consists of direct loans issued by USAID and predecessor agencies since the inception of U.S. foreign economic assistance in 1948. The Program funds a multitude of economic, technical, and financial projects. Funding for the Program's twelve active funds was appropriated by the Congress. Responsibility for designing, implementing and monitoring programs rests with USAID Bureaus and Missions.

Deloitte and Touche was unable to express an opinion on the financial statements. The Program lacks a system of internal control and adequate computer accounting systems. As a result of these deficiencies, substantially all balances in the financial statements may require material adjustments to the reported amounts. Deloitte and Touche was unable to apply alternative auditing procedures to satisfy themselves regarding substantially all account balances, and systems were inadequate to facilitate audit testing.

Deloitte and Touche identified a material weakness[1] applicable to the Program for the year ended September 30, 1994:

> "In previous years, Program activity was accounted for without appropriate internal control procedures, and without supervision and review of activity and account balances. Also, the computerized accounting system did not accurately process the types of transactions conducted by the Program."

Our reports for FY 1993[2] and 1992[3] on the CFO Act audits of the U.S. Direct Loan Program identified the same material weakness. Our prior reports also included a recommendation to correct the material weakness through improved accounting, reporting and reconciliation. In addition, USAID Management has identified the Program as a material weakness in its FMFIA report to the President and the Congress for 1994. We continue to collaborate with USAID management to resolve the serious problems that exist and their prominence with the FY 1996 implementation of Agency-wide Financial Statements.

Performance Measures

As in the preceding two annual reports, management's overview includes three financial indicators: (1) current loans as a percentage of total portfolio, (2) delinquent loans as a percentage of total portfolio and (3) loan collections compared with current loans receivable. Since the source of these indicators is the same system used to develop the financial statements for which a disclaimer is rendered, we are unable to attest to the reliability of the performance information. As with the financial statements, reliable financial performance indicators on the Direct Loan Program will not be available until the system problems are resolved. After the system problems are resolved, we intend to explore with management other possible performance measures for the Direct Loan Program.

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1 See page 2 of Deloitte and Touche's Independent Auditor's Report for the definition of a "material weakness."

2 Audit Report No. 0-000-94-004, dated June 30, 1994

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

Management's Comments

We provided a copy of the draft report to USAID's Chief Financial Officer and other USAID Management officials who were involved in the audit. These officials indicated they were in agreement with the findings identified. Further, management commented that they expect to have a new accounting system in place at the end of FY 1995 which will correct the deficiencies found in the internal control system.

We appreciate the courtesies and cooperation extended to both the staffs of the USAID Office of Inspector General and Deloitte and Touche during the course of this audit.

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DIRECT LOAN PROGRAM

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INDEPENDENT AUDITORS' REPORT

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

Summary

We were engaged to audit the principal financial statements, listed in the table of contents, of the Direct Loan Program (the Program) administered by the U. S. Agency for International Development (USAID) as of and for the years ended September 30, 1994 and 1993.

We are unable to express an opinion on the principal financial statements due to lack of adequate accounting records supporting Program loan balances that are material to the principal financial statements. We were unable to apply alternative auditing procedures to satisfy ourselves as to the Program loan balances.

We noted a deficiency in internal controls that we consider to be a reportable condition under established standards, which is also considered a material weakness.

As a result of the deficiency in internal controls, we identified instances of noncompliance with certain laws which we believe may have a material effect on the determination of financial statement amounts.

These conclusions and the scope of our work are discussed in more detail below.

Disclaimer of Opinion on Principal Financial Statements

Because we were unable to apply alternative auditing procedures to satisfy ourselves regarding substantially all Program loan balances, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the principal financial statements of the Program on pages 6 to 10.

As discussed in Note 1B, in conjunction with adopting Office of Management Budget (OMB) Bulletin No. 94-01, the Program is presenting a Statement of Changes in Liability to Treasury, that reflects liquidating account activity. This change in presentation had no effect on net position. The 1993 financial statements have been restated in accordance with generally accepted accounting principles.

Report on Internal Control Structure

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

- Transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of the principal financial statements in accordance with the basis of accounting prescribed in OMB Bulletin No. 94-01;
- Funds, property, and other assets are safeguarded against loss from unauthorized use or disposition; and
- Transactions, including those related to obligations and costs, are executed in compliance with:
  - Laws and regulations that could have a direct and material effect on the principal financial statements; and
  - Any other laws and regulations that the OMB, entity management, or the Inspector General have identified as being significant for which compliance can be objectively measured and evaluated.

Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning our engagement to audit the principal financial statements of the Program, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of attempting to express an opinion on the principal financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

We noted a certain matter involving the internal control structure and its operation that we consider to be a reportable condition under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the principal financial statements.

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

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

USAID cannot provide a complete accounting for all Program loans.

We reported a material weakness in internal controls in our report on the internal control structure of the Program for the year ended September 30, 1993. That material weakness has not been resolved in the current year. Management of the Program cannot properly account for Program loans, particularly those for older and rescheduled loans.

In previous years, Program activity was accounted for without appropriate internal control procedures, and without supervision and review of activity and account balances. Also, the computerized accounting system did not accurately process the types of transactions conducted by the Program.

USAID/Washington is taking strides to resolve these issues and should continue to do so. We understand that management is implementing a new computerized accounting system to process Program transactions. We understand that management is reconciling each account balance to supporting activity summaries and creating files to corroborate loan account balances and activity. Management is also developing an internal control system to provide adequate supervision and review of activity and is planning to conduct training programs to familiarize Program accountants with standard accounting procedures to be used in the future.

We are not repeating our prior year recommendation; however, we believe that all appropriate corrective actions, such as those described in the preceding paragraph, should be completed to ensure complete and appropriate accounting for all Program activity and balances.

Compliance with Laws and Regulations

Compliance with laws and regulations applicable to the Program is the responsibility of USAID's management. During our engagement to audit the principal financial statements, we performed tests of the Program's compliance with certain provisions of laws and regulations. However, the objective of our engagement to audit the principal financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

Laws and regulations applicable to the Program include:

- Eligibility provisions of Title III of the Foreign Assistance Act of 1961, as amended;
- The Chief Financial Officers Act of 1990;
- The Budget and Accounting Act of 1950, as amended;
- The Federal Managers Financial Integrity Act of 1982;
- The Debt Collection Act of 1982;
- The Prompt Payment Act of 1982, as amended; and
- The Federal Credit Reform Act of 1990.

Material instances of noncompliance are failures to follow requirements, or violations of prohibitions contained in statutes or regulations that cause us to conclude that the aggregation of the misstatements resulting from those failures or violations may be material to the financial statements, or if the sensitivity of the matter would cause it to be perceived as significant by others. The material weakness in internal control discussed above indicates that management is not in compliance with certain provisions of the following laws and regulations:

- The Federal Managers Financial Integrity Act of 1982;
- The Debt Collection Act of 1982;
- The Chief Financial Officers Act of 1990; and
- The Budget and Accounting Procedures Act of 1950.

These instances of noncompliance are required to be reported herein under *Government Auditing Standards*.

Management's Responsibilities

Management has responsibility for:

- Preparing the principal financial statements in accordance with the comprehensive basis of accounting described in Note 1 to the principal financial statements;

- Establishing and maintaining an internal control structure; and

- Complying with applicable laws and regulations.

Management is also responsible for obtaining audit coverage that is broad enough to help fulfill the reasonable needs of potential users of the audit report. With respect to audit coverage of internal controls and compliance with laws and regulations, management engaged us to perform those procedures required in a financial statement audit conducted in accordance with generally accepted government auditing standards. Those procedures were not sufficient to provide a basis for expressing an opinion on internal controls or compliance. Had we been engaged to apply additional agreed-upon procedures or perform an examination of controls or compliance with laws and regulations, we might have discovered and reported deficiencies in internal controls or instances of noncompliance in addition to those reported above.

Independent Auditors' Responsibilities

Except as described in the following paragraph, we were engaged to audit the principal financial statements of the Program in accordance with generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Bulletin No. 93-06, *Audit Requirements for Federal Financial Statements*. As noted above, the scope of our work was limited due to the lack of an adequate internal control structure, and use of inadequate computer systems, and we are unable to express, and do not express, an opinion on the principal financial statements.

As requested by the USAID Office of the Inspector General (IG) the procedures we conducted did not address the requirement in OMB Bulletin No. 93-06 to obtain an understanding of the internal control structure and to assess risk with respect to management's policies and procedures for the preparation of performance measurement information. This audit requirement was addressed by the IG.

Distribution

This report is intended for the information of the U. S. Congress, the management of USAID, and the Office of the Inspector General for USAID. This restriction is not intended to limit distribution of this report when it becomes a matter of public record.

Deloitte & Touche LLP

June 1, 1995

Deloitte & Touche LLP

U. S. AGENCY FOR INTERNATIONAL DEVELOPMENT
DIRECT LOAN PROGRAM

STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 1994 AND 1993
(In Thousands)

	1994	1993
ASSETS		
ENTITY ASSETS:		
Intragovernmental Assets:		
Fund Balance with Treasury (Note 2)	$ 13,720	$ 34,093
Foreign Currency (Note 2)	25,261	28,346
Accounts Receivable, Net (Note 3)	27,545	27,545
Total Intragovernmental Assets	66,526	89,984
Governmental Assets:		
Accounts Receivable, Net (Note 3)	111,433	118,806
Loans Receivable, Pre-Credit Reform, Net (Note 4)	5,628,631	8,342,130
Loans Receivable, Post-Credit Reform, Net (Note 4)	290,082	320,358
Total Governmental Assets	6,030,146	8,781,294
TOTAL ASSETS	$6,096,672	$8,871,278
LIABILITIES AND NET POSITION		
LIABILITIES COVERED BY BUDGETARY RESOURCES:		
Intragovernmental Liabilities:		
Debt (Note 5)	$ 317,627	$ 347,903
Resources Payable to Treasury (Note 5)	5,740,064	8,460,935
Accounts Payable - Other	1,360	3,586
Total Liabilities Covered by Budgetary Resources	6,059,051	8,812,424
LIABILITIES NOT COVERED BY BUDGETARY RESOURCES:		
Other Governmental Liabilities (Note 6)	26	22
Total Liabilities	6,059,077	8,812,446
NET POSITION:		
Unexpended Appropriations	12,360	30,508
Foreign Currency Allocation	25,261	28,346
Future Funding Requirement	(26)	(22)
Total Net Position	37,595	58,832
TOTAL LIABILITIES AND NET POSITION	$6,096,672	$8,871,278

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

U. S. AGENCY FOR INTERNATIONAL DEVELOPMENT
DIRECT LOAN PROGRAM

STATEMENTS OF OPERATIONS
YEARS ENDED SEPTEMBER 30, 1994 AND 1993
(In Thousands)

	1994	1993
REVENUES AND FINANCING SOURCES:		
Appropriated Capital Used	$ 843	$ 47,874
Adjustment of Appropriated Capital Used	(1,891)	-
Interest and Penalties, Intragovernmental	358,113	402,428
Less: Transfers to Treasury	(358,113)	(402,428)
Interest, Governmental	22,661	24,934
Other Revenues and Financing Sources (Note 8)	1,103	110
Less: Transfers to Treasury	(1,103)	(110)
Total Revenues and Financing Sources	21,613	72,808
EXPENSES:		
Operating Expenses (Note 9)	869	47,896
Provision for Uncollectible Loans and Interest (Note 1 I)	2,115,145	1,808,529
Interest on borrowings from Treasury	23,135	24,934
Subsidy Re-estimate Expense (Excess)	(1,891)	26,099
Interest on Subsidy Re-estimates	(474)	1,446
Funded Expenses	2,136,784	1,908,904
EXCESS OF EXPENSES OVER REVENUES AND FINANCING SOURCES	(2,115,171)	(1,836,096)
Less: Unfunded Expenses	26	22
SHORTAGE OF REVENUES AND FINANCING SOURCES OVER TOTAL EXPENSES	$(2,115,145)	$(1,836,074)

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

U. S. AGENCY FOR INTERNATIONAL DEVELOPMENT
DIRECT LOAN PROGRAM

STATEMENTS OF CHANGES IN NET POSITION
YEARS ENDED SEPTEMBER 30, 1994 AND 1993
(In Thousands)

	Unexpended Appropriations	Foreign Currency Allocation	Future Funding Requirement	Net Position
BALANCE AT OCTOBER 1, 1992	$ 83,119	$28,494	$ (37)	$ 111,576
Unobligated Funds Returned to Treasury	(19,409)	-	-	(19,409)
Appropriations/Allocations Received, Net	3,758	5,439	-	9,197
Disbursements for Previous Loan Commitments	(36,960)	(5,153)	-	(42,113)
Unfunded Expenses	-	-	15	15
Exchange Rate Losses	-	(434)	-	(434)
BALANCE AT SEPTEMBER 30, 1993	30,508	28,346	(22)	58,832
Unobligated Funds Returned to Treasury	(2,823)	(2,992)	-	(5,815)
Appropriations/Allocations Received, Net	-	2,096	-	2,096
Disbursements for Previous Loan Commitments	(11,585)	(2,189)	-	(13,774)
Unfunded Expenses	-	-	(4)	(4)
EAI Transfer to Treasury (Note 10)	(3,740)	-	-	(3,740)
BALANCE AT SEPTEMBER 30, 1994	$ 12,360	$25,261	$ (26)	$ 37,595

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

U. S. AGENCY FOR INTERNATIONAL DEVELOPMENT
DIRECT LOAN PROGRAM

STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 1994 AND 1993
(In Thousands)

	1994	1993
CASH FLOWS FROM OPERATING ACTIVITIES:		
Shortage of Revenues and Financing Sources over total expenses	$ (2,115,145)	$ (1,836,074)
Adjustments Affecting Cash Flow:		
Collection of Loans Receivable - Direct Loans	581,017	498,029
Collection of Loans Receivable - Credit Reform Direct Loans	53,982	46,295
Collection of Interest Receivable - Direct Loans	357,827	377,988
Creation of Loans Receivable - Disbursement of Direct Loan Appropriations	(11,585)	(36,960)
Creation of Loans Receivable - Disbursement of Foreign Currency Allocations	(2,189)	(5,153)
Creation of Loans Receivable - Disbursement of Credit Reform Direct Loans	-	(422,244)
Interest and Penalties - Credit Reform Direct Loans	1,795	7,344
Other Unfunded Expenses:		
Provision for Uncollectible Loans and Interest	2,115,145	1,808,529
Program Expenses	-	73,805
Total Adjustments	3,095,992	2,347,633
Net Cash Provided by Operating Activities	980,847	511,559
CASH FLOWS FROM FINANCING ACTIVITIES:		
Appropriations:	-	30,679
Withdrawals - Dollar Appropriated	(2,823)	(19,409)
Withdrawals - Foreign Currency	(2,992)	-
Transfers of Cash to Treasury	(931,731)	(867,877)
Transfers of Cash to Dept. of Agriculture	(9,320)	(5,864)
Transfers of Cash for EAI Program Fund to Treasury	(3,740)	-
Transfers of Accounts Payable - EAI	(18)	-
Net Appropriations	(950,624)	(862,471)
Allocations - Foreign Currency	2,096	5,005
Subsidy expense	(2,366)	(27,545)
Borrowing from Treasury	-	375,984
Repayments on Loans From Treasury	(30,276)	(28,081)
Interest on Borrowings - Treasury	(23,135)	(24,934)
Net Cash Used by Financing Activities	(1,004,305)	(562,042)
NET CASH USED BY OPERATING ACTIVITIES AND FINANCING ACTIVITIES	(23,458)	(50,483)
FUND BALANCES WITH TREASURY, CASH, AND FOREIGN CURRENCY, BEGINNING	62,439	112,922
FUND BALANCES WITH TREASURY, CASH, AND FOREIGN CURRENCY, ENDING	$ 38,981	$ 62,439

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

U. S. AGENCY FOR INTERNATIONAL DEVELOPMENT
DIRECT LOAN PROGRAM

STATEMENT OF CHANGES IN LIABILITY TO TREASURY
YEARS ENDED SEPTEMBER 30, 1994 AND 1993
(IN THOUSANDS)

	1994	1993
RESOURCES PAYABLE TO TREASURY BEGINNING	$ 8,460,935	$11,195,110
Add: Loan Disbursements	13,774	42,113
Interest Earned	358,113	402,428
Less: Shortage of Revenues and Financing Sources over Expenses	(2,115,145)	(1,836,074)
Less: Payments/Withdrawals to Treasury	(937,546)	(887,286)
Less: Unrealized/Realized Exchange Rate Gains	(3,888)	(17,722)
Less: Unapplied Receipts Adjustments	(36,179)	(437,634)
RESOURCES PAYABLE TO TREASURY, ENDING	$ 5,740,064	$ 8,460,935

U. S. AGENCY FOR INTERNATIONAL DEVELOPMENT
DIRECT LOAN PROGRAM

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 1994 AND 1993

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Direct Loan Program (the 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 economic 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 projects, 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 EIA 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 to account for the long term costs 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."

B. Basis of Presentation

The financial statements have been prepared to report the financial position and results of operations of the Direct Loan Program, as required by Chief Financial Officers Act (CFO Act) of 1990. They have been prepared from account balances contained in books and records of the Direct Loan Program in the financial statement formats contained in Office of Management and Budget's (OMB) Bulletin 94-01, *Form and Content of Agency Financial Statements* and the Program's accounting policies, which are summarized in this note. These statements are therefore different from the financial reports, also prepared by the Direct Loan Program pursuant to OMB directives that are used to monitor and control the Direct Loan Program's use of budgetary resources. OMB Bulletin 94-01 is considered to be a comprehensive basis of accounting other than generally accepted accounting principles (GAAP). The difference between GAAP and OMB Bulletin 94-01 as it applies to the Direct Loan Program is in the accounting for the effects of the Credit Reform Act.

In conjunction with adopting OMB Bulletin 94-01 the Program is presenting a Statement of Changes in Liability to Treasury that more fully reflects the provision for uncollectible loans and interest of the liquidating account applied to the liability to Treasury balance and not as appropriated capital. The change in presentation has no effect on net position.

For 1993 the financial statements were prepared in accordance with OMB Bulletin 93-02 *Form and Content of Agency Financial Statements*. The implementation of OMB 94-01 did not materially impact the financial statement presentation.

C. Basis of Accounting

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

D. Revenues and Other Financing Sources

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

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

E. Fund Balance with Treasury

Substantially all the Direct Loan Program's cash receipts and disbursements are processed by the U. S. Treasury which, in effect, maintains the Direct Loan Program's accounts. For purposes of the Statements of Cash Flows, the Direct Loan Program's unrestricted funds in Treasury are considered cash. The Fund Balance with Treasury is appropriated funds that are available to pay current committed loan agreements.

F. Foreign Currency

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

G. Intragovernment Transactions

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

The Direct Loan Program does not account for those aspects of the pension liability, assets, and expenses which are the responsibility of the Office of Personnel Management and the Federal Retirement Thrift Investment Board.

H. Accounts Receivable

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

I. Loans Receivable

Loans are accounted for as receivable after funds have been disbursed. For loans obligated prior to October 1, 1991 (the pre-credit reform period), loan principal, interest, and penalties receivable are reduced by an allowance for estimated uncollectible amounts. The allowance is estimated based on past experience, present market condition, and an analysis of outstanding balances. The annual change in the allowance is reflected in the accompanying statements of operations as the provision for uncollectible loans and interest.

While estimates of uncollectible loans and interest are made using the rates established by the Interagency Country Risk Assessment System (ICRAS), the final determination of whether loans are not collectible is affected by actions of other related agencies within the Federal Government.

In accordance with Statement of Federal Financial Accounting Standards (SFAS) No. 2, "Accounting for Direct Loans and Loan Guarantees," loans extended after October 1, 1991 (the post-credit reform period) are reduced by a similar allowance which is estimated as the difference between the present value of expected future cash inflows and the present value of expected future cash outflows. This allowance, known as a subsidy cost allowance, is estimated annually using an economic model created by the OMB and promulgated for use by all affected agencies (Note 4).

J. Resources and Accounts Payable

Resources Payable to Treasury is comprised of funds that are due to Treasury for the unpaid principal balance, interest collections, and realized gains from foreign currency transactions, net of any related allowances.

Accounts Payable - Other represents funds due to the Treasury for the unpaid principal balance of a loan monitored and serviced by the Direct Loan Program for the Department of Agriculture.

K. Accrued Annual Leave

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

L. Statement of Budget and Actual Expenses

Appropriations for the Direct Loan Program are not separately identified by USAID. USAID's budget for the Direct Loan Program is consolidated with other agency programs and is monitored at the appropriation level for the combined programs. Therefore, the Statement of Budget and Actual Expenditures has not been presented in the Direct Loan Program principal financial statements.

M. Reclassifications

Certain 1993 balances have been reclassified to conform with current year presentation.

2. FUND BALANCE WITH TREASURY (In Thousands)

	1994	1993
Fund Balances with Treasury consist of the following accounts:		
Fund Balance with Treasury - Operating Account	$ 12,360	$ 26,749
Fund Balance with Treasury - Receipts Clearing Account	1,360	3,586
Fund Balance with Treasury - Credit Reform	-	3,758
	$ 13,720	$ 34,093
Foreign Currency with Treasury	$ 25,261	$ 28,346

3. ACCOUNTS RECEIVABLE (In Thousands)

Allowance for Loss on Governmental Accounts Receivable is computed using the same method as used for Loans Receivable. No allowance is computed for the Intragovernmental Accounts Receivable.

	1994	1993
Intragovernmental Receivables from Appropriations		
Subsidy Reestimate for Enterprise for the Americas Initiative Fund	$ 27,545	$ 27,545
Governmental		
Accrued Interest Receivable - Dollars	$ 241,419	$ 255,600
Accrued Interest Receivable - Foreign Currencies with Maintenance of value (MOV)	15,805	18,111
Accrued Interest Receivable - Foreign Currencies without MOV	3,362	4,541
Less: Allowance for Uncollectible Accounts	(149,153)	(159,446)
Total	$ 111,433	$ 118,806

4. LOANS RECEIVABLE (In Thousands)

During 1994 the Direct Loan Program implemented SFAS No. 2 (Note 1 I). The composition of pre-credit reform and post-credit reform loans is as follows:

	1994	1993
Pre-Credit Reform (Direct Loan)		
Loans Receivable - Dollars	$13,810,606	$14,495,715
Loans Receivable - Foreign Currencies with MOV	208,452	249,912
Loans Receivable - Foreign Currencies without MOV	86,358	98,088
Less: Allowance for Uncollectible Loans and Interest	(8,476,785)	(6,501,585)
Net Loans Receivable	$ 5,628,631	$ 8,342,130
Post-Credit Reform (EAI Program)		
Loans Receivable	$ 500,343	$ 554,324
Less: Allowance for Subsidy	(210,261)	(233,966)
Net Loans Receivable	$ 290,082	$ 320,358

5. DEBT (In Thousands)

	1994		
	Beginning Balance	Adjustments/ Repayments	Ending Balance
Principal Payable to Treasury Credit Reform Program	$ 347,903	$ (30,276)	$ 317,627
Resources Payable to Treasury Direct Loan Program	$8,460,935	$(2,720,871)	5,740,064
Total Debt			$6,057,691

	1993		
	Beginning Balance	Adjustments/ Repayments	Ending Balance
Principal Payable to Treasury Credit Reform Program	$ 375,984	$ (28,081)	$ 347,903
Resources Payable to Treasury Direct Loan program	8,845,640	(384,705)	8,460,935
Total Debt			$8,808,838

6. OTHER GOVERNMENTAL LIABILITIES (In Thousands)

	1994	1993
Other governmental liabilities consists of the following:		
Accrued Annual Leave	$ 26	$ 22

7. RETIREMENT PLAN

Direct Loan Program employees are covered by one of four retirement plans: the Civil Service Retirement System (CSRS), the Federal Employee Retirement System (FERS), the Foreign Services Pension system (FSPS), or the Foreign Services Retirement and Disability System (FSRDS). The Agency contributes approximately 7.5 percent of an employees gross salary for CSRS and FSRDS, and approximately 24 percent of an employees gross salary for FERS and FSPS.

In addition, employees may elect to participate in the Thrift Savings Plan (TSP). Under this plan, FERS and FSPS employees may elect to have up to 10 percent of gross earnings withheld from their salaries, and receive matching contributions from a minimum of 1 percent to a maximum of 5 percent. CSRS and FSRDS employees may elect to have up to 5 percent of gross earning withheld from their salaries, but do not receive matching contributions.

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

8. OTHER REVENUES AND FINANCING SOURCES (In Thousands)

	1994	1993
Other Revenues and Financing Sources		
Realized Exchange Rate Gains	$ 1,103	$ 110

9. OPERATING EXPENSES (In Thousands)

	1994	1993
Operating Expenses by Object Classification:		
Unfunded Annual Leave Expense	$ 26	$ 22
Salaries and Benefits	543	463
Contractual Services	37	601
Distributed Operating Costs	263	550
Total Expenses by Object Class	869	1,636
Operating Expenses by Program:		
Direct Loans Under Credit Reform:		
Subsidy Expense	-	46,260
Total Expenses by Program	$ -	$46,260
Total Expenses	$ 869	$47,896

Operating Expenses included salaries and benefits for 11 direct-hire employees. Distributed costs represent the Direct Loan Program's share of agency operating expenses and are computed as a percentage of total Financial Management Department distributed costs. The percentage allocated to the Direct Loan Program is the ratio of Loan Management Department direct-hire to Financial Management Department direct-hire personnel.

10. TRANSFER OF PROGRAM ACCOUNT

During 1994, the Program transferred to Treasury, the program account for the EAI Program. The Program account balance for the EAI program transferred to Treasury amounted to $3,740. The Program continues to maintain the Financing Account for the EAI Program.

Since the Program continues to maintain the financing account for the EAI Program, the Program continues to record the financial effects of the annual subsidy expense estimate and loan and interest payment activity. Treasury is responsible for processing any new loan activity

* * * * * *

USAID Management's Program Overview of the Direct Loan Program

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT
DIRECT LOAN PROGRAM FINANCIAL STATEMENTS
SEPTEMBER 1994

OVERVIEW

The U.S. Agency for International Development (USAID) administers direct loans as part of the Foreign Assistance Program of the United States of America. These loans are authorized under Foreign Assistance Acts, various predecessor agency programs, and other foreign assistance legislation. The Loan Management Division (M/FM/LM) is responsible for the financial management of direct loans. Figure 1 describes the organizational structure of the Loan Management Division.

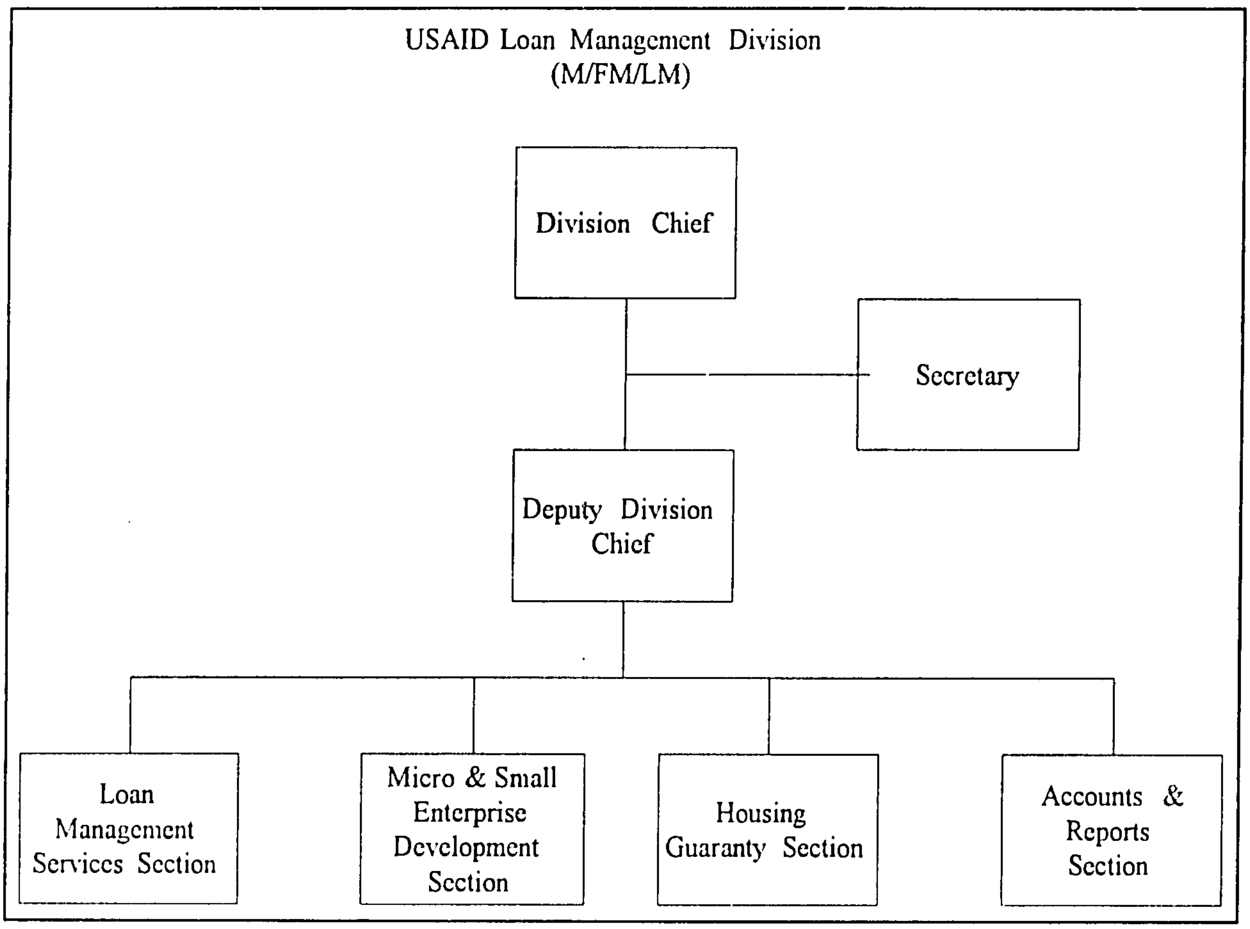

Figure 1

This report presents the financial statements of USAID Direct Loan Programs for the year ending September 30, 1994.

During fiscal year 1994, loans were executed only under P.L. 83-480 Section 108(Rev.) (Private Enterprise Development). In addition, most existing loans in the Direct Loan Program were previously disbursed. As a result of the diminishing nature of these loan programs, complete performance information is not available. The Office of Management and Budget (OMB), in agreement with USAID, has accepted the performance measures presented in this report.

USAID Direct Loans are issued in either U.S. Dollars or the native (local) currency of the borrower. Foreign currency loans made "with maintenance of value (MOV)" place the risk of currency devaluation on the borrower, and are recorded by M/FM/LM in equivalent U.S. Dollars. Loans made "without MOV" place the risk of devaluation on the U.S. Government, and are recorded in the local currency of issuance. Figure 3 shows the USAID Direct Loan Programs (the Economic Assistance Loans Liquidating Account) and the values of their outstanding portfolios. The Enterprise for the Americas Initiative (Debt Reduction Program) is discussed in Part IV.

I. Foreign Assistance Loan Programs

Alliance for Progress

The Alliance for Progress (Alliance) was established by the Charter of Punta del Este, signed August 17, 1961 by all members of the Organization of American States (OAS) except Cuba. The Foreign Assistance Act (FAA) of 1962 [P.L. 87-793] added Title VI to Part 1, Chapter 2 of the FAA of 1961 (as amended) to recognize and support the establishment of the Alliance. Title VI authorized the President to furnish assistance to promote the economic development of countries and areas in Latin America. President Kennedy proposed funding Alliance programs for a ten year period.

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

The Alliance produced mixed results. Factors that reduced its effectiveness include unchecked population growth, external debt, and civil strife.

USAID was one of several U.S. and international financial institutions which provided funding under the Alliance during this ten-year period. Title VI was repealed by the International Development and Food Assistance Act of 1978 [P.L. 95-424].

USAID Direct Loan Programs - 09/30/94
M/FM/LM
(Except EAI Program Loans)[1]
[U.S. Dollars in Thousands]

Direct Loan Program	Outstanding Loan Balance
Alliance for Progress	$1,750,654
Functional Development Assistance	3,013,540
USAID Supporting Assistance (ESF)[2]	5,458,753
Predecessor Programs	196,310
P.L. 83-480 Loan Programs[3]	129,463
P.L. 83-480 Loan Programs[4]	28,537
International Organizations & Programs	38,027
USAID Fund 15[5]	25,187
Disaster Relief & Rehabilitation	130,341
USAID Development Loan Fund	3,334,604
Total:	$14,105,416

Figure 2

[1] Loans issued under the EAI Program (Debt Reduction), with a total outstanding balance of approximately $550 million, are discussed in Section IV.

[2] This includes loans issued under the Middle East Special Requirements Fund.

[3] This includes loans issued under P.L. 83-480 Common Defense, Triangular Trade, and Economic Development.

[4] This includes Loans issued under P.L. 83-480 Cooley and Private Enterprise Development.

[5] This includes loans issued under the following programs:
- Inter-American Social and Economic Cooperation Program
- USAID Contingency Fund
- Assistance to Portugal and Portuguese Colonies
- Trade and Development Agency.

Functional Development Assistance

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

Loan assistance made available under these FDA sections:

Section 103, Food and Nutrition: Provided one loan account to alleviate starvation, hunger, malnutrition and provide basic services to the poor;

Section 104, Population Planning and Health: Population Planning and Health existed as two separate loan accounts to increase opportunities and motivation for family planning, reduce population growth, prevent and combat disease, and help improve health services.

Section 105, Education and Human Resource Development: Provided one loan account to reduce illiteracy, extend basic education, and increase manpower training in skills related to development;

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

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

FDA accounts were created with these principles in mind:

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

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

-- Assistance should encourage regional cooperation regarding common obstacles to development.

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

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

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

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

USAID Development Loan Fund

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

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

USAID Security Supporting Assistance

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

Other USAID Programs

U.S. Trade and Development Agency-USAID continues to provide financial management services for loans issued under the Investor Assistance Program (IAP) of the U.S. Trade and Development Agency (TDA). TDA discontinued its IAP because loan assistance did not prove to be cost effective.

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

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

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

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

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

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

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

-- to encourage common standards on rights and responsibilities of private investment, and

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

USAID Contingency Fund-The USAID Contingency Fund was established in Part I of the Foreign Assistance Act of 1961, although an appropriation was initially made for such a fund in fiscal year 1956. Remaining authority for the President to use funds for contingencies under this section is limited to no more than $20 million in any given year, from funds already appropriated.

Latin America received a large portion of contingency assistance in the 1960s, for such purposes as financing foreign exchange and imports, but support was also provided to emerging governments in Africa and countries in Asia and the Near East. Both grants and loans were made available under this fund.

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

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

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

Disaster Relief and Rehabilitation International Organizations and Programs-USAID manages loans issued under the Disaster Relief and Rehabilitation Program and the International Organizations and Programs Fund (FAA of 1961, as amended), both of which originated in FAA of 1961, as amended. No loans currently are being issued under these programs.

II. P.L. 83-480 Loan Programs.

The Agricultural Trade Development and Assistance Act of 1954 [P.L. 83-480 Section 104], authorized the President to "enter into agreements with friendly nations or organizations to use foreign currencies, including principal and interest from loan repayments", for the following purposes:

Common Defense

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

Cooley Loans

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

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

Economic Development

Section 104(f) was added by P.L. 89-808 (November 11, 1966) and provided that P.L. 83-480 local currencies could be used to promote multilateral trade and other economic development. It was intended particularly to assist recipient country programs designed to promote or improve food production processing, distribution or marketing in food-deficit countries friendly to the United States. This was to be done using, to the extent practicable, nonprofit voluntary agencies registered with USAID.
This section was eliminated by amendments made by P.L. 101-624 (November 28,1990).

Triangular Trade

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

Private Enterprise Development

The Food Security Act of 1985 [P.L. 99-198] included a revised version of P.L. 83-480 Section 108 designed to foster the development of private institutions and infrastructure for the promotion and improvement of the production of food and other related goods and services. This was to be accomplished through agreements made with financial intermediaries to receive loans of foreign currency (generated from the sale of agricultural commodities) which would then be used to make loans, at reasonable rates of interest, to private individuals, cooperatives, corporations or other entities within developing countries. Section 108 also provided that no less than five percent of these funds, to the extent practicable, would be used to finance agricultural technical assistance.

This program is still active. In fiscal year 1992, one loan was issued under P.L. 83-480 Section 108. In 1993, seven loans were issued. In 1994, five loans were issued.

III. Predecessor Agency Programs.

Development Loan Fund

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

Other Predecessor Agency Loans

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

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

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

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

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

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

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

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

Mutual Security Act of 1954 [As Amended].

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

IV. Enterprise for the Americas Initiative.

The Enterprise for the Americas Initiative (Debt Reduction Program) was launched in an effort to build closer and more productive relations with the countries of Latin America and the Caribbean, and to boost trade, investment, and growth throughout the hemisphere. One element of the initiative provides for the reduction of bilateral debt to the U.S. Government and the dedication of the associated interest payments to the support of environmental projects.

Countries become eligible for such debt reduction if they:

- are pursuing economic reform programs with International money fund and the World Bank;
- are pursuing major investment reforms through an International Development Bank loan or on their own; and if appropriate,
- have agreed with their commercial banks on a satisfactory financing program

Loans restructured under EAI are treated as loan modifications under the Credit Reform Act of 1990, and are recorded net of an Allowance for Subsidy. The subsidy represents the present value of net cash flows estimated to be incurred over the life of the loan, and is funded through an appropriation. The balance the loan provided is funded through borrowings from the U.S. Treasury.

Six U.S. Dollar loans were issued under the Debt Reduction Program in 1993, with face values totalling $599 million. The countries involved in the program are Argentina, Chile, Colombia, El Salvador, Jamaica, and Uruguay. No loans were issued in 1994.

V. Financial Performance.

The trend in USAID foreign assistance programs has been a steady decrease in the use of direct loans as a form of aid. In fiscal year 1984, M/FM/LM reported 100 dollar loans issued totalling $825,075,000. By 1990, however, only five dollar loans were issued totalling $5,019,000. There were no dollar loans authorized and signed in fiscal years 1991 and 1992 and only six loans were issued under the Enterprise for the Americas Initiative (EAI)in 1993. No dollar loans were issued in 1994. The following graph illustrates the decline in dollar loan issuance from 1984 to 1994. (Figure 3)

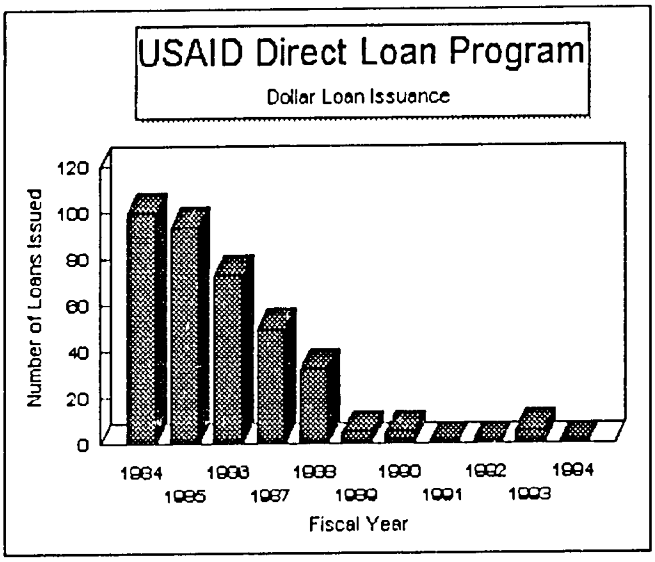

Figure 3

Foreign currency loans issued under P.L. 83-480 Section 108 (Private Enterprise Development, see page 12) have followed the same trend as loans issued in U.S. Dollars. Five, seven, one, and eight local currency loans were issued in 1994, 1993, 1992, and 1991, respectively.

Financial performance of the direct loan portfolio must be measured and evaluated with the diminishing nature of these programs in mind. In addition, it must be remembered that USAID Direct Loans are part of the U.S. Foreign Aid Program, and are executed for political and humanitarian reasons. Considerations such as the financial condition of the borrower and negotiation of a profitable rate of interest, while important in private sector lending, are considered to a lesser degree in foreign assistance lending. The most likely candidates for foreign aid are not necessarily the most credit-worthy.

Figures 4 and 5 compare current and delinquent loans receivable to the value of the total outstanding portfolio. Loans repayable in local currency have been converted to U.S. Dollars using the reporting rates established by the U.S. Treasury.

Current Loans Receivable and Total Portfolio

Figure 4 presents current loans receivable as a percentage of total outstanding loan portfolio. The percentages are relatively low, reflecting the generally long amortization periods for USAID direct loans (as much as thirty years). The Enterprise for the Americas Debt Reduction Loan Fund has a higher current percentage due to the substantially shorter terms of its loans (approximately 12 years). The percentages have increased from 1993, reflecting the general decreasing trend in total portfolio value.

Delinquent Loans and Total Portfolio

Figure 5 presents delinquent loan payments as a percentage of the total outstanding loan portfolio. Because USAID Direct Loans are not made with specific regard to the credit-worthiness of the borrowers, but for political and humanitarian reasons, delinquencies cannot be controlled as they would be in the private sector. At the loan servicing level, M/FM/LM can report certain delinquencies through Congressionally mandated Section 620Q and Brooke Amendment sanctions, but further action to address loan delinquencies is not within its authority.

VI. Financial Management

Loan Collections and Current Loans

Figure 6 presents fiscal year 1994 loan collections as a percentage of current loans receivable. The current loans figure is derived from combining collection projections for the upcoming year with the total delinquent loans as of September 30, 1994. Loan collections include all collections made during the fiscal year.

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT
M/FM/LM
SEPTEMBER 30, 1994

FINANCIAL PERFORMANCE MEASURES

I. PERFORMANCE MEASURE 1: Current Loans Receivable as a percentage of Total Portfolio (in Thousands)

Program		Current Loans	Total Portfolio	1994	Percent	1993
Economic Assistance Loan Programs	(1)	933,408	14,105,416	6.6%		6.2%
Enterprise for the Americas - Debt Reduction Program		55,574	500,343	11.1%		9.7%
TOTAL:		988,982	14,605,759	6.8%		6.3%

(1) Note: This account contains all USAID Direct Loan Programs except for the Debt Reduction Program, and is the Direct Loan Liquidating Account under the Credit Reform Act of 1990.

Figure 4

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT
M/FM/LM
SEPTEMBER 30, 1994

FINANCIAL PERFORMANCE MEASURES

II. PERFORMANCE MEASURE 2: Delinquent Loan Payments as a percentage of Total Portfolio (in Thousands)

Program		Delinquent Loans	Total Portfolio	1994	Percent	1993
Economic Assistance Loan Programs	(1)	208,526	14,105,416	1.5%		1.1%
Enterprise for the Americas - Debt Reduction Program		0	500,343	0.0%		0.0%
TOTAL:		208,526	14,605,759	1.4%		1.1%

(1) Note: This account contains all USAID Direct Loan Programs except for the Debt Reduction Program, and is the Direct Loan Liquidating Account under the Credit Reform Act of 1990.

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT
M/FM/LM
SEPTEMBER 30, 1994

FINANCIAL PERFORMANCE MEASURES

III. PERFORMANCE MEASURE 3: Fiscal Year 1994 Loan Collections Compared With Current Loans Receivable (in Thousands)

Program		Loan Collections	Current Loans	1994	Percent	1993
Economic Assistance Loan Programs	(1)	581,017	933,408	62.2%		54.2%
Enterprise for the Americas - Debt Reduction Program		53,982	55,574	97.1%		84.5%
TOTAL:		634,999	988,982	64.2%		55.9%

(1) Note: This account contains all USAID Direct Loan Programs except for the Debt Reduction Program, and is the Direct Loan L'quidating Account under the Credit Reform Act of 1990.

VII. M/FM/LM Financial Statements

Limitations of Financial Statements

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

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

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

Management Comments

USAID

U.S. Agency for International Development

MEMORANDUM

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

FROM: Donald K. Charney, Chief Financial Officer, M/FM/C

SUBJECT: Draft Report - FY 1994 Year End Financial Audit of the Direct Loan Program

The Office of Financial Management concurs with the Inspector General's audit of the Direct Loan Program for FY 1994, acknowledging your need to disclaim an opinion, and the continuing efforts of your staff to work with Agency management to resolve the continuing deficiencies in the Direct Loan Program that preclude expression of an opinion on the annual financial statements.

We reiterate FM's commitment to resolve these deficiencies in the Direct Loan Program with conversion of those accounting records to documented and validated accounts in the new AID Worldwide Accounting and Control System (AWACS), with effect from the start of FY 1996, October 1, 1995. This should, in turn, enable a full audit to be conducted of the FY 1995 annual financial statements that will permit expression of an audit opinion.

We wish to thank your staff for their professional work and courtesy.

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