Report of Audit

Audit of USAID'S Direct Loan Program Financial Statements for the Year Ending September 30, 1995

Report No. 0-000-96-017
July 1, 1996

OFFICE OF INSPECTOR GENERAL
U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

USAID

J.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

July 1, 1996

MEMORANDUM

To: CFO, Donald K. Charney

Bruce N Crandlemire

From: IG/A/FA, Director, Bruce N. Crandlemire

Subject: Audit of USAID's Direct Loan Program Financial Statements for the Year Ending September 30, 1995

This is our final report on the audit of the financial statements for the U.S. Agency for International Development's (USAID) Direct Loan Program for Fiscal Year 1995.

The Office of Management and Budget (OMB) Bulletin No. 93-18 established March 1, 1996, as the date by which these financial statements were to be submitted. As set forth in a March 14, 1996, letter to OMB from USAID's Chief Financial Officer and Inspector General, these financial statements would not be submitted until June 30, 1996.

We do not express an opinion on the financial statements. The Program lacks an adequate 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.

We were unable to apply alternative auditing procedures to satisfy ourselves regarding the account balances. This work requires going back and auditing many years' transactions that make up the beginning balances of accounts on the statement of financial position (e.g., Fund Balance with Treasury, Accounts Receivable, and Loans Receivable). In some cases, the source documentation and subsidiary records no longer exist. The beginning balances directly impact the financial activity reported on the remaining statements.

Our reports for Fiscal Years 1992, 1993, and 1994 on the Chief Financial Officers Act audits of the U.S. Direct Loan Program also disclaimed opinions, citing the lack of source documents and subsidiary records. Our prior reports included recommendations to correct the material weakness through improved accounting, reporting and reconciliation. To their credit, officials at Loan Management Division have made some improvement since the last audit. They have taken initial steps to develop procedures manuals and to train the staff. Additionally, Loan Management Division officials have expended much effort in confirming and reconciling the Loans Receivable accounts, but further efforts are needed in this area. When implemented, the new automated

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accounting system for the Direct Loan Program, should correct many of the existing weaknesses in the financial management system

We provided a copy of our draft report to USAID's Chief Financial Officer and other USAID Management officials. USAID management did not agree with our report. Appendix II contains USAID management's response to our draft report. We intend to provide USAID management a separate management letter that will give more details on our findings and recommendations.

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Audit Report on USAID's Direct Loan Program Financial Statements for the Year Ending September 30, 1995

Background

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 I describes the organizational structure of the Loan Management Division.

During Fiscal Year 1995, loans were executed only under Public Law 83-480 Section 108, Revision (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 was not obtained. The Office of Management and Budget, 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 foreign currency of the borrower. Foreign currency loans made "with maintenance of value" place the risk of currency devaluation on the borrower, and are recorded by M/FM/LM in equivalent U.S. Dollars. Loans made "without maintenance of value" place the risk of devaluation on the U.S. Government, and are recorded in the foreign currency of issuance. At September 30, 1995, USAID Direct Loan Programs (the Economic Assistance Loans Liquidating Account) had a gross balance outstanding of reportedly over $13 billion. The Debt Reduction Financing Account, which had a gross balance outstanding of reportedly over $450 million at September 30,1995, is discussed in Part IV of the Program Overview.

USAID Inspector General's Report on Financial Statements

We were engaged to audit the accompanying statements of financial position of the Direct Loan Program of the U.S. Agency for International Development (USAID) as of September 30, 1995 and the related statements of operations and changes in net position, of cash flows, and of budget and actual expenses for the year then ended. These financial statements are the responsibility of USAID management. The financial statements of the Direct Loan Program as of September 30, 1994 were audited by other auditors whose report dated June 1, 1995, disclaimed an opinion on those statements.

In prior audits of the Direct Loan Program, auditors identified that 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. Further, in its Federal Managers Financial Integrity Act report to the President and the Congress for 1994 and 1995, USAID Management acknowledged that sufficient subsidiary records and source documents do not exist and that information in the accounting systems is not reconcilable. For Fiscal Year 1995, we found that these conditions have not changed significantly. Our prior reports also included recommendations to correct the material weakness through improved accounting, reporting and reconciliation. USAID Management had planned to have a new accounting system in place at the end of Fiscal Year 1995 which was to correct the deficiencies found in the internal control system. However, as of June 1996, the new accounting system had not been installed.

Since the Direct Loan Program lacked sufficient subsidiary records and source documents and we were not able to apply other auditing procedures to satisfy ourselves as to the Direct Loan balances, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on these financial statements.

USAID Inspector General's Report on Internal Control Structure

USAID management is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. 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 internal control 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.

We gained an understanding of internal controls designed to:

- safeguard assets against loss from unauthorized acquisition, use or disposition;
- assure the execution of transactions in accordance with laws governing the use of budget authority and with other laws and regulations that have a direct and material effect on the Principal Statements or that are listed in OMB audit guidance and could have a material effect on the Principal Statements; and
- properly record, process and summarize transactions to permit the preparation of reliable financial statements and to maintain accountability for assets.

With regard to this 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. We do not express an opinion on internal controls because the purpose of our work was to determine our procedures for auditing the financial statements, not to express an opinion on internal controls. However, we found the material weaknesses described in the paragraph below. A material weakness is a condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material to the financial statements may occur and not be detected promptly by employees in the normal course of performing their duties. Our internal control work would not necessarily disclose all material weaknesses.

The internal control weaknesses that we considered to be material include:

- Ineffective internal control systems with inadequate checks and balances, for example:

  - The existing system does not ensure that newly established rescheduled loans, which are in the hard-copy loan file folders, are entered into the loan subsidiary ledger and general ledger. As an example, we noted a loan folder with a $737,000 loan, which had been established in July 1994, but which had not been entered into the subsidiary ledger or general ledger. The responsible loan analyst said that she had not had time to enter the loan into the system.

  - There are inadequate control procedures and separation of duties associated with payments directly received and processed by the USAID Direct Loan Program office. This control weakness is significant and creates an environment where fraud could occur. Check payments that are received directly by the Program are not recorded in a log, and it is our understanding—since no written procedures exist—that the checks are then given to the loan analyst who also posts adjustments to the loan subsidiary ledgers.

  - Existing procedures do not ensure that loan payments and adjustments are properly posted to principal and interest. Payments or adjustments that were supposed to be posted to interest were erroneously posted to principal. Supervisory reviews were not conducted, and the errors went undetected. For example, we noted a loan payment of $358,710 which was erroneously applied entirely to principal. However $117,663 of this amount should have been posted to interest. The loan analyst explained that the loan was being paid behind schedule and the extra posting to principal would help catch the loan up to a current status.

- Inadequate computer systems which do not provide a useful integrated financial management system.

  - Problems with the reliability of data exist with the automated loan subsidiary ledger. Different automated reports at the same point in time reflect different outstanding loan balances for the same loans. For example the W-224 computer generated report reflected a zero outstanding balance for a loan; whereas the Run - 18 computer generated report reflected a balance of $2,224,794. Management could not explain why these discrepancies were occurring.

— In some cases, computer-based loan delinquency reports reflect delinquent principal and interest balances, whereas the outstanding balances on the loan are actually zero. For example, a Nicaraguan loan had an outstanding balance of zero, but reflected a delinquent principal amount of $36,327 and a delinquent interest amount of $1,683.

— Accrued interest receivable balances are still reflected on the automated subsidiary ledger for loans that have been written off. For example a Honduran loan, which had been previously written off, still reflected an accrued interest receivable balance of $23,532.

— Material differences continue to exist between the automated loan subsidiary ledger balances and the general ledger.

— Although the computer-based general ledger is printed monthly, management is not able to use it as an effective management tool because adjusting journal vouchers are not posted on a timely basis. In most cases, journal vouchers for transactions arising throughout the year were not posted until the fiscal year end.

— The existing general ledger account structure does not follow the format and numbering guidelines of Treasury Bulletin S2-94-01. Both the general ledger numbers and the structural format used by the Program do not follow the Treasury guidelines. Management should consider modifying the Direct Loan Program's general ledger to comply with the structure recommended by Treasury.

- The lack of comprehensive policy and procedures manuals and the need for additional staff training to further improve staff performance, especially in the areas of past due loans and loan rescheduling. As can be seen from the above described weaknesses and examples, Program staff do not clearly understand how to handle loans that are past due or rescheduled.

These deficiencies in internal controls may adversely affect any decision by management which is based on information that is inaccurate because of the deficiencies. Unaudited financial information reported by the Direct Loan Program also may contain misstatements resulting from these deficiencies.

The above mentioned material weaknesses were reported in prior audit reports for fiscal years 1994, 1993 and 1992. USAID management is developing a new automated accounting system for the Direct Loan Program, which when implemented, is intended to correct many of the existing financial management system weaknesses. Management has also taken some initial steps to develop procedures manuals and to train its staff, but further efforts are needed in these areas.

Recommendation No.1: We recommend that Direct Loan Program Division Chief:

1.1 Establish detailed policies and procedures which provide adequate guidance to Direct Loan Program employees to properly execute day-to-day transactions;

1.2 Train Direct Loan Personnel to properly execute day-to-day transactions;

1.3 Reconcile applicable subsidiary ledger balances to the general ledger; and

1.4 Establish internal controls, with the proper segregation of duties and checks and balances that will ensure, to a higher level, that transactions are properly recorded.

USAID Inspector General's Report on Compliance with Laws and Regulations

In our audit of the Direct Loan Program, we found reportable noncompliance with the following laws and regulations tested.

- The Federal Manager's Financial Integrity Act of 1982;
- The Budget and Accounting Procedures Act of 1950; and
- The Chief Financial Officers Act of 1990.

The results of our review of internal controls found material internal control weaknesses which reflect management's lack of compliance with the Federal Manager's Financial Integrity Act. This act calls for the establishment of internal accounting and administrative controls to provide assurance that funds, property and other assets are safeguarded, and that revenues and expenditures are properly recorded and accounted for. Furthermore, as a result of these control weaknesses there is no assurance that account balances are stated in accordance with generally accepted federal government accounting principles, as required by the Budget and Accounting Procedures Act. In addition, the Direct Loan Program has not complied with the reporting requirements under the Chief Financial Officers Act. Under the Chief Financial Officer's Act, financial statements are due to be filed with OMB by March 1 following the close of the fiscal year. However, the Direct Loan Program has not met this filing requirement.

Except as noted above, our tests for compliance with the provisions of selected laws and regulations disclosed no other instances of noncompliance that would be reportable under generally accepted government auditing standards or OMB Bulletin 93-06. We considered these material instances of noncompliance in forming our decision to disclaim an opinion on the financial statements. Furthermore, the objective of our audit was not to provide an opinion on overall compliance with laws and regulations. Accordingly, we do not express such an opinion.

Consistency of Other Information

USAID management is responsible for providing reasonable assurance that data which support performance measures reported in the Program Overview are properly recorded and accounted for to permit preparation of reliable and complete performance information. The Program Overview contains a wide range of data, some of which are not directly related to the financial statements. We do not express an overall opinion on this information. However, we compared this information for consistency with the financial statements and discussed the methods of measurement and presentation with management. Based on this limited work, we found no material inconsistencies with the financial statements or non-conformance with Office of Management and Budget guidance.

This report is intended for the information of the U.S. Congress and the management of USAID. This restriction is not intended to limit the distribution of this report and the report will become a matter of public record.

Office of the Inspector General
June 26, 1996

DIRECT LOAN PROGRAM
STATEMENT OF FINANCIAL POSITION
AS OF SEPTEMBER 30, 1995 AND 1994
(in U.S. Thousands)

	1995	1994
ASSETS		
ENTITY ASSETS:		
Intragovernmental Assets:		
Fund Balance with Treasury (Note 2)	$ 61,001	$ 13,720
Foreign Currency (Note 2)	17,363	25,261
Accounts Receivable, Net Intragovernmental (Note 3)	29,058	27,545
Total Intragovernmental Assets	107,422	66,526
Governmental Assets:		
Accounts Receivable, Net, Governmental (Note 3)	152,549	111,433
Loans Receivable, Pre-Credit Reform, Net (Note 4)	9,652,822	5,628,631
Loans Receivable, Post-Credit Reform, Net (Note 4)	266,047	290,082
Total Governmental Assets	10,071,418	6,030,146
TOTAL ASSETS	$10,178,840	$6,096,672
LIABILITIES AND NET POSITION		
LIABILITIES COVERED BY BUDGETARY RESOURCES:		
Intragovernmental Liabilities:		
Debt (Note 5)	$10,140,511	$ 6,057,691
Liability to Treasury - Downward Reestimates	5,537	0
Accounts Payable	2,553	1,360
Total Liabilities Covered by Budgetary Resources	$10,148,601	6,059,051
LIABILITIES NOT COVERED BY BUDGETARY RESOURCES:		
Other Governmental Liabilities (Note 9)	16	26
Total Liabilities:	$10,148,617	$6,059,077
NET POSITION		
Unexpended Appropriations	12,876	12,360
Foreign Currency Allocations	17,363	25,261
Future Funding Requirements	(16)	(26)
Total Net Position	30,223	37,595
TOTAL LIABILITIES AND NET POSITION	$10,178,840	$ 6,096,672

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

DIRECT LOANS PROGRAM
STATEMENT OF OPERATIONS AND CHANGES IN NET POSITION
FOR THE YEARS ENDED SEPTEMBER 30, 1995 AND 1994

(In U.S. Thousands)

	1995	1994
REVENUES AND FINANCING SOURCES		
Appropriated Capital Used	$1,115	$843
Interest and Penalties, Intragovernmental	413,932	358,113
Less: Transfers to Treasury	(413,932)	(358,113)
Interest Income Federal	21,122	23,135
Other Revenues and Financing Sources (Note 6)	(4,602,946)	2,116,248
Total Revenues and Financing Sources	($4,580,709)	$2,140,226
EXPENSES:		
Program or Operating Expenses (Note 7)	$1,131	$869
Provision for Bad Debts	(4,602,982)	2,115,145
Realized Losses on Exchange Rate Valuation	36	1,103
Interest on Borrowings from Treasury	21,122	23,135
Funded Expenses	($4,580,693)	$2,140,252
Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	(16)	(26)
Less: Unfunded Expenses	16	26
Excess (Shortage) of Revenues and Financing	0	0
NET POSITION:		
Net Position, Beginning Balance	$37,595	$58,832
Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	0	0
Plus (Minus) Non-Operating Changes (Note 8)	(7,372)	(21,237)
Net Position, Ending Balance	$30,223	$37,595

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

DIRECT LOANS PROGRAM
STATEMENT OF CHANGES IN LIABILITY TO TREASURY
FOR THE YEARS ENDED SEPTEMBER 30, 1995 AND 1994
(In U.S. Thousands)

	1995	1994
RESOURCES PAYABLE TO TREASURY, BEGINNING	$5,740,064	$8,460,935
ADD:		
Loan Disbursements	9,208	13,774
Interest Earned	413,932	358,113
LESS		
Shortage of Revenues and Financing Sources over Expenses	0	(2,115,145)
Charges Against Resources Payable to Treasury for Bad Debt Expense	4,602,982	0
Transfers of Repayments to Treasury	(907,438)	(937,546)
Realized and Unrealized Exchange Rate Gains/Losses	(704)	(3,888)
Unapplied Receipt Adjustments	9,086	(36,179)
Adjustments for Prior Period Errors	(61,759)	0
RESOURCES PAYABLE TO TREASURY, ENDING	$9,805,371	$5,740,064

DIRECT LOANS PROGRAM
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 1995 AND 1994(in U.S. Thousands)

	1995	1994
CASH FLOWS FROM OPERATING ACTIVITIES:		
Excess (shortage) of Revenues and Financing Sources Over Total Expenses:	0	0
Adjustments Affecting Cash Flow:		
Collection of Loans Receivable - Direct Loans	580,224	581,017
Collection of Loans Receivable - Credit Reform Direct Loans	47,231	53,982
Collection of Interest Receivable - Direct Loans	327,214	357,827
Creation of Loans Receivable - Disb of Direct Loan Appropriations	(6,224)	(11,585)
Creation of Loans Receivable - Disb of Foreign Currency Allocations	(2,984)	(2,189)
Creation of Loans Receivable - Disb of Credit Reform Direct Loans	0	0
Interest and Penalties - Credit Reform Direct Loans	59	1,795
Total Adjustments:	945,520	980,847
Net Cash Provided by Operating and Investing Activities:	945,520	980,847
CASH FLOWS FROM FINANCING ACTIVITIES		
Appropriations	0	0
Appropriations - Adjustments	6,916	0
Allocations - Foreign Currency	1,385	2,096
Less:		
Withdrawals - Dollar Appropriated	(176)	(2,823)
Withdrawals - Foreign Currency	(6,299)	(2,992)
Cash Transfers to Treasury	(903,007)	(931,731)
Cash Transfers to Department of Agriculture	(3,238)	(9,320)
Cash Transfers - EAI Program Fund to Treasury	0	(3,740)
Transfer of Accounts Payable - EAI	0	(18)
Net Appropriations:	(904,419)	(948,528)
Borrowings from Treasury	19,777	0
Repayments on Borrowings from Treasury	0	(32,642)
Repayments on Borrowings from Treasury - Adjustments	101	0
Interest Paid to Treasury on Borrowings	(21,596)	(23,135)
Interest - Reestimates of Subsidy		
Subsidy - Reestimates	0	0
Net Cash Used in Financing Activities:	(906,137)	(1,004,305)
Net Cash provided by Operating, Investing and Financing Activities:	39,383	(23,458)
Fund Balance with Treasury, Cash, and Foreign Currency, Beginning of Year	38,981	62,439
Fund Balance with Treasury, Cash, and Foreign Currency, End of Year	78,364	38,981

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

DIRECT LOAN PROGRAM
STATEMENT OF BUDGETARY RESOURCES AND ACTUAL EXPENSES
FOR THE YEARS ENDED SEPTEMBER 30, 1995

(in U.S. Thousands)

	Budget			Actual
		Obligations		
Program	Resources	Direct	Reimbursed	Expenses
Economic Assistance Loans Liquidating Account	0	0	0	0
Debt Reduction Financing Account	21,596	21,596	0	21,122
Total:	21,596	21,596	0	21,122

Budget Reconciliation:

A.	Total Expenses	21,122
B.	Add:	
	(1) Capital Acquisitions	0
	(2) Loans Disbursed	0
	(3) Other Expended Budget Authority	474
C.	Less: Expenses not Covered by Available Budgetary Resources	
	(1) Depreciation and Amortization	0
	(2) Annual Leave	0
	(3) Other Expenses	0
D.	Accrued Expenditures	21,596
E.	Less: Reimbursements	0
F.	Accrued Expenditures, Direct	21,596

Note: Actual Expenses do not agree with those shown in the Statement of Operations because that statement includes distributed expenses not directly funded by the Direct Loan Program and charges against Resources Payable to Treasury in the liquidating fund.

The above accounts are not currently being funded and therefore have no budgets. The expenses shown are funded by collections or borrowings from the U.S. Treasury pursuant to the Credit Reform Act of 1990.

The amount in B.3. above represents the interest component of the FY 1994 downward reestimate of subsidy and is to be transferred to a special receipt account. It was erroneously characterized as interest expense due to Treasury on the SF 143.

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

DIRECT LOAN PROGRAM
NOTES TO THE FINANCIAL STATEMENTS
AS OF SEPTEMBER 30, 1995 AND 1994

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED SEPTEMBER 30, 1995 AND 1994

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity and Its Operations

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 76 countries.

The Direct Loan Program has been funded through congressional appropriation and borrowing from the U.S. Treasury (as prescribed by the Credit Reform Act of 1990). 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, 1995 were approximately $30 million. Substantially all repayments are remitted to the U. S. Treasury.

The Direct Loan Program services the Debt Reduction Financing Account in compliance with the Credit Reform Act of 1990. The purpose of the Credit Reform Act is to account for the total long-term cost of direct loans when they are committed. These long-term costs, calculated on a net present value basis, net of administrative costs, are referred to as "subsidy", and appear as an offset to Loans Receivable.

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 of 1990.

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.

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.

The Direct Loan Program is accounted for according to the provisions of the Credit Reform Act of 1990, as explained in Basis of Presentation above.

D. Revenues and Other Financing Sources

Administrative support for the Direct Loan Program is funded through USAID administrative appropriations. The appropriated funds may be used for operating or 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.

The Debt Reduction Financing Account has permanent indefinite authority to borrow from the U.S. Treasury to pay interest expense to the extent such expense cannot be funded through operations.

Provision for Bad Debts is an expense recorded as a charge against Resources Payable to Treasury.

E. 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.

F. Fund Balance with Treasury

Substantially all the Direct Loan Program's cash receipts and disbursements are processed by the U. S. Treasury. Fund Balance with Treasury consists of appropriated funds that are available to pay current committed loan agreements, funds held for transfer to the USDA, and repayments of loan principal received in the Debt Reduction Financing Account.

G. 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 rates prescribed by the U.S. Treasury.

A gain or loss on translation is recognized for the change in valuation of foreign currencies at year-end.

H. Accounts Receivable, Non-Federal and Federal

The non-federal accounts receivable of the Direct Loan Program are comprised of interest due on loans. The federal accounts receivable include monies due from the Debt Reduction Program Fund administered by the U.S. Treasury, and interest receivable from the U.S. Treasury on uninvested funds (loan collections).

I. Loans Receivable

Loans are recorded 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 offset by an allowance for uncollectible amounts. The allowance is calculated using a method prescribed by OMB that takes into account country risk and projected cash flows. The annual change in the allowance is reflected in the accompanying Statement of Operations as the Provision for Bad Debts.

While estimates of uncollectible loans and interest are made using the method prescribed by OMB, the final determinations as to the collectibility of a loan is affected by actions of other related agencies within the Federal Government.

Pursuant to the Credit Reform Act of 1990, loans extended after October 1, 1991 (the post-credit reform period) are offset by an "allowance for subsidy" 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 is reestimated each year using an economic model developed by OMB (Note 4).

J. Accounts Payable

Accounts Payable is comprised of principal and interest collections on certain loans administered by the Direct Loan Program on behalf of the USDA, and not transferred to USDA at year-end.

K. Liability to Treasury for Downward Reestimates

A Downward Reestimate occurs when the annual subsidy reestimate indicates a net decrease in the subsidy cost of a loan cohort since the last reestimate. A loan cohort consist of all financed by a common fiscal year appropriation; the Debt Reduction Financing Account comprises a single loan cohort. The amount of the net decrease in subsidy an related interest is transferred to a special receipt account at the U.S. Treasury.

Liability to Treasury for Downward Reestimates consists of subsidy monies and related interest not transferred to Treasury at year-end.

L. Accrued Annual Leave

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

M. Statement of Budget and Actual Expenses

The budget for the Direct Loan Program is not wholly separate from other agency programs. While obligated but undisbursed loan funds reside in a separate appropriation account, other operating expenses of the Direct Loan Program are consolidated with those of other agency programs and are monitored at the appropriation level. The Statement of Budget and Actual Expenditures must be viewed in light of these considerations.

N. Resources Payable to Treasury

Resources Payable to Treasury is a liability account that represents credit reform liquidating fund assets in excess of liabilities. The balance in the account is held as working capital to be returned to Treasury after the liquidation of all other liabilities.

O. Reclassifications

Certain 1994 balances have been reclassified to conform with current year presentation.

2. FUND BALANCE WITH TREASURY (In Thousands)

Fund Balances with Treasury consist of the following accounts

	1995	1994
Fund Balance with Treasury - Operating Account	$12,876	$12,360
Fund Balance with Treasury - Receipts Clearing Account	2,553	1,360
Fund Balance with Treasury - Credit Reform	45,572	0
	$61,001	$13,720
Foreign Currency with Treasury	$17,363	$25,261

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.

	1995	1994
Intragovernmental Receivables from Appropriations		
Subsidy Reestimate	$27,545	27,545
Intragovernmental Receivables		
Interest Receivable - Treasury	$1,513	$0
Governmental		
Accrued Interest Receivable - Dollars	$327,357	$241,419
Accrued Interest Receivable - Foreign Currencies with MOV	17,602	15,805
Accrued Interest Receivable - Foreign Currencies without MOV	4,951	3,362
Less: Allowance for Loss on Accounts Receivable	(197,361)	(149,153)
Total	$152,549	$111,433

4. LOANS RECEIVABLE (In Thousands)

	1995	1994
Pre-Credit Reform		
Loans Receivable - Dollars	$13,196,687	$13,810,606
Loans Receivable - Foreign Currencies with MOV	171,339	208,452
Loans Receivable - Foreign Currencies without MOV	78,640	86,358
Less: Allowance for loss on Loans Receivable	(3,793,844)	(8,476,785)
Net Loans Receivable	$9,652,822	$5,628,631
Post-Credit Reform		
Loans Receivable	$453,111	$500,343
Less: Allowance for Subsidy	(187,064)	(210,261)
Net Loans Receivable	$266,047	$290,082

5. DEBT (In Thousands)

	1995		
	Beginning Balance	Adjustments/ Repayments	Ending Balance
Borrowing Authority Credit Reform Program	$ 317,627	$ 17,513	$ 335,140
Resources Payable to Treasury Direct Loan Program	$5,740,064	$4,065,307	$9,805,371
Total Debt			$10,140,511

	1994		
	Beginning Balance	Adjustments/ Repayments	Ending Balance
Borrowing Authority 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

6. OTHER REVENUES AND FINANCING SOURCES (In Thousands)

	1995	1994
Other Revenues and Financing Sources		
Charge Against Resources for Realized Exchange Rate Gains/Losses	$36	$1,103
Charge Against Resources for Bad Debt Expense	($4,602,982)	$2,115,145
	($4,602,946)	$2,116,248

Realized Gains or Losses are due to fluctuations in foreign currency exchange rates.

A reduction in Bad Debt Allowance, resulting in a credit to Bad Debt Expense, is due to a change in accounting method. The new method, prescribed by OMB, calculates bad debt allowance using a model that accounts for current sovereign new lending default estimates, as well as the annual President's Budget receipt estimates. Use of the new OMB Model resulted in a significant decrease in the allowance for uncollectible debt.

7. OPERATING EXPENSES (In Thousands)

	1995	1994
Operating Expenses by Object Classification:		
Unfunded Annual Leave Expense	$16	$26
Salaries and Benefits	472	543
Contractual Services	0	37
Distributed Operating Costs	643	263
Total Expenses by Object Class	$1,131	$869
Operating Expenses by Program:		
Direct Loans Under Credit Reform:		
Subsidy Expense	$0	$0
Subsidy Expense - Reestimates	$0	$0
Total Expenses by Program	$0	$0
Total Expenses	$1,131	$869

Operating Expenses included salaries and benefits for nine 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.

8. NON-OPERATING CHANGES (In Thousands)

	1995		
	Foreign Currency	U.S Dollar	Total
Increases:			
Transfers-In:			
Foreign Currency Allocations	$1,385	$0	$1,385
Liquidating Fund Reconciliation Adj	0	6,916	6,916
Total Increases	1,385	6,916	8,301
Decreases:			
Withdrawals	($6,299)	($176)	($6,475)
Loan Disbursements	(2,984)	(6,224)	(9,208)
Future Funding Requirement, Net Change	0	10	0
Total Decreases	($9,283)	($6,390)	($15,673)
Net, Non-Operating Changes	($7,898)	$526	($7,372)

8. NON-OPERATING CHANGES (In Thousands) (Continued)

	1994		
	Foreign Currency	U.S Dollars	Total
Increases:			
Transfers-In:			
Foreign Currency Allocations	$2,096	$0	$2,096
Total Increases	$2,096	$0	$2,096
Decreases:			
Withdrawals	($2,992)	($2,823)	($5 815)
Loan Disbursements	(2,189)	(11,584)	(13,773)
EAI Transfers to Treasury	0	(5)	(5)
Future Funding Requirement, Net Change			
Total Decreases	($5,181)	($18,152)	($23,333)
Net, Non-Operating Changes	($3,085)	($18,152)	($21,237)

9. OTHER LIABILITIES (In Thousands)

	1995	1994
Other Liabilities Not Covered By Budgetary Resources		
Accrued Annual Leave	$16	$26

10. 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.

11. TRANSFER OF PROGRAM ACCOUNT

During Fiscal Year 1994, the U.S. Department of the Treasury took responsibility for the maintenance of the Debt Reduction Program Account.

The Direct Loan Program continues to maintain the Debt reduction Financing Account.

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT
DIRECT LOAN PROGRAM FINANCIAL STATEMENTS
SEPTEMBER 1995

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.

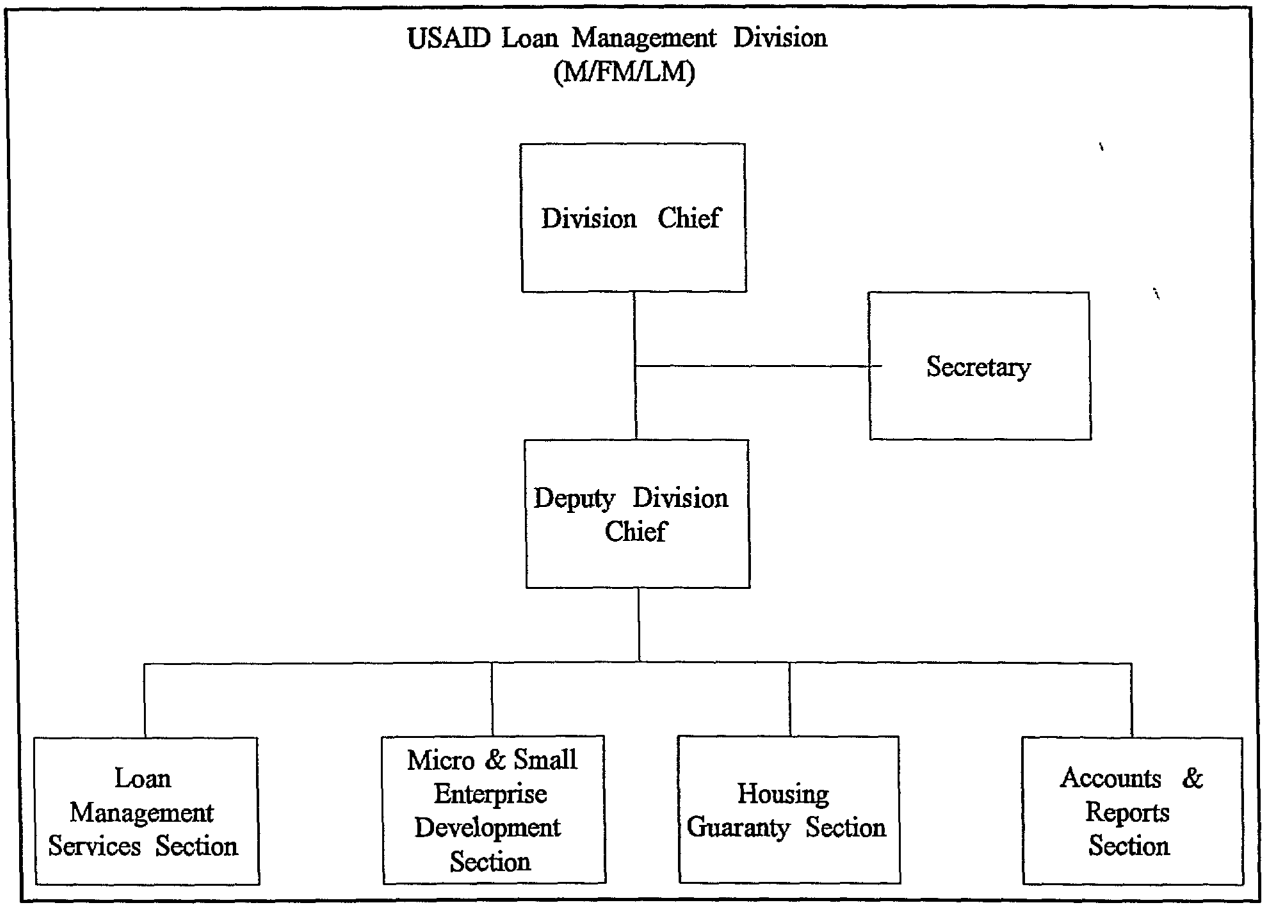

Figure 1

This report presents the financial statements of USAID Direct Loan Programs for the year ending September 30, 1995.

During fiscal year 1995, 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 are completely 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. At September 30, 1995, USAID Direct Loan Programs (the Economic Assistance Loans Liquidating Account) had a gross balance outstanding of over $13 billion. The Debt Reduction Financing Account, which had a gross balance outstanding of over $450 million at September 30,1995, 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 I, 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].

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 participation 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 or 1995.

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 or 1995. The following graph illustrates the decline in dollar loan issuance from 1984 to 1995. (Figure 2)

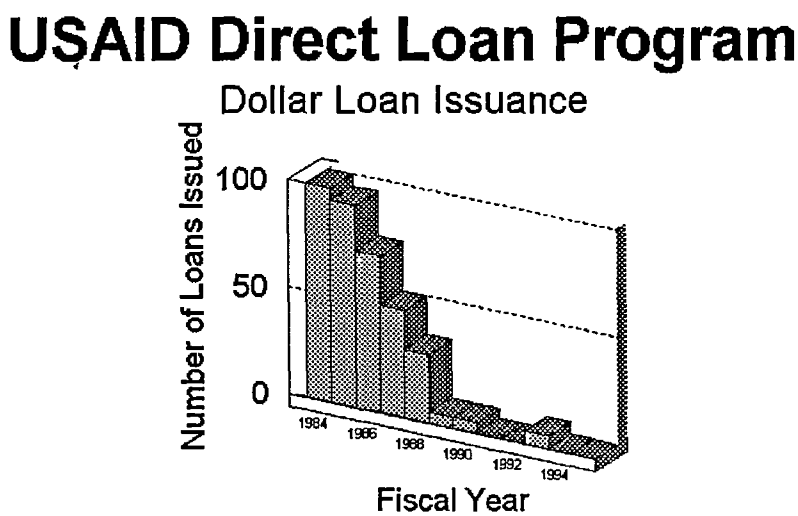

Figure 2

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. Nine, Five, seven, one, and eight local currency loans were issued in 1995, 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 3 and 4 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 3 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).

Delinquent Loans and Total Portfolio

Figure 4 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 5 presents fiscal year 1995 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, 1995. Loan collections include all collections made during the fiscal year.

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT
M/FM/LM
SEPTEMBER 30, 1995

FINANCIAL PERFORMANCE MEASURES
(In Thousands in US Dollars)

I. PERFORMANCE MEASURE 1: Current Loans Receivable as a percentage of Total Portfolio.

Program	Current Loans	Total Portfolio	1995	Percent	1994
Economic Assistance Loan Programs (1)	1,068,728	13,446,666	7.9%		6.6%
Enterprise for the Americas - Debt Reduction Program	55,574	453,111	12.3%		11.1%
TOTAL:	1,124,302	13,899,777	8.1%		6.8%

(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 3

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT
M/FM/LM
SEPTEMBER 30, 1995

FINANCIAL PERFORMANCE MEASURES
(In Thousands in US Dollars)

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

Program	Current Loans	Total Portfolio	1995 Percent	1994
Economic Assistance Loan Programs (1)	305,085	13,446,666	2.3%	1.5%
Enterprise for the Americas - Debt Reduction Program	8,356	453,111	1.8%	0.0%
TOTAL:	313,441	13,899,777	2.3%	1.4%

(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, 1995

FINANCIAL PERFORMANCE MEASURES
(In Thousands in US Dollars)

III. PERFORMANCE MEASURE 3: Fiscal Year 1995 Loan Collections Compared With Current Loans Receivable.

Program	Loan Collections	Current Loans	1995 Percent	1994
Economic Assistance Loan Programs (1)	580,224	1,068,728	54.3%	62.2%
Enterprise for the Americas - Debt Reduction Program	47,231	55,574	85.0%	97.1%
TOTAL:	627,455	1,124,302	55.8%	64.2%

(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 5

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.

Objectives, Scope and Methodology

Management has the responsibility for:

- preparing the financial statements in conformity with applicable accounting principles;
- establishing and maintaining internal controls and systems to provide reasonable assurance that the control objectives of Federal Managers' Financial Integrity Act (FMFIA) are met; and
- complying with applicable laws and regulations.

The three objectives of this audit were to: (1) express an opinion on whether the financial statements are fairly presented; (2) consider the internal control structure; and (3) test for compliance with applicable laws and regulations.

In performing our audit of the Direct Loan Program, we conducted a review of the financial statements and of internal controls over safeguarding of assets, assuring material compliance with budget authority and with laws and regulations we considered relevant, and assuring that there were no material misstatements in the financial statements. We also tested the Direct Loan Program's compliance with laws and regulations we considered relevant. We did not plan to evaluate all internal controls relevant to operating objectives as broadly defined in FMFIA.

We were able to evaluate internal controls in the following areas: (1) revenue transactions (including cash receipts and disbursements; (2) treasury funds; and (3) approval and authorization processes.

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

- Chief Financial Officers Act of 1990;
- Federal Managers' Financial Integrity Act of 1982;
- Budget and Accounting Procedures Act of 1950; and
- Federal Credit Reform Act of 1990

USAID

U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

June 28, 1996

MEMORANDUM

TO: Bruce Crandlemire, IG/A/FA

FROM: Donald K. Charney, Chief Financial Officer

SUBJECT: Draft Report - FY 1995 Year End Financial Audit of the Direct Loan Program

The Chief Financial Officer (CFO) does not agree with the opinion of the auditor that the financial statements do not fairly represent the financial position of the USAID Direct Loan Program. The CFO does not believe that the audit was performed in a fair and impartial manner. The Office of the Inspector General (OIG) has presented audit reports to the CFO for every year since 1992. OIG had detailed knowledge of the exact operation of this program.

It is a material fact that the OIG and AA/M are not working together in a cooperative manner. Management feels that this situation is not conducive to the performance and review of the financial statements prepared by the Office of Financial Management in a fair and impartial manner. The fact that the CFO was requested to present a management response to an audit report of this complexity in less than 24 hours is additional evidence of the type of working relationship that exist between the OIG and the CFO.

The lack of internal controls inherent in the systems and the process are present, but in the opinion of the CFO are not so onerous as to be the cause for the financial statements to be misleading.

It is the opinion of the CFO that unless the above conflicts are presented the reader of the auditor's opinion cannot obtain a true presentation in the manner in which the auditor's work was carried out and the basis used to form an opinion as to the fairness and impartiality of the financial statements.

Our comments relating to the internal control weakness identified in the audit report are as follows:

- There was no significant lack of internal controls or supervision associated with rescheduled loans not being recorded in the LAIS system. A management decision was made not to enter rescheduled loans into the LAIS system because of the impending decision to implement AWACS. Rescheduled loans do not affect the principal balances therefore, they do not result in a material misstatement of asset value. The failure to record rescheduled loans did result in the posting of erroneous interest income which did not result in a material misstatement of interest income.

- Five or less check payments aggregating $500,000 are received annually by the Loan Management Division. All other payments totalling $684 million are received electronically. Management has been aware that there has not been adequate internal controls in place. However, Management does not feel there has been any exposure because of the small number of transactions in involved. Upon being advised that inadequate control procedures and lack of separation of duties existed, Management took immediate action and implemented written procedures which were provided to OIG prior to the completion of the audit.

- OIG noted one clerical error in posting of principal versus interest payment totalling $241,047 out of the $684 million collected. Management does not consider this material.

- Management acknowledges current systems do not provide useful integrated financial management data. Accordingly a state of the art integrated management system has been developed and is being implemented on a modular basis. Management was unable to obtain specifics on the differences between the different computer generated reports.

- The erroneous amounts reflected for Nicaragua and Honduras loans aggregating less than $75,000 are not deemed to be significant or material in loan management. Based upon findings by the auditors these erroneous amounts have been corrected.

- The report does not identify the specific material differences between the automated loan subsidiary ledger balances and the general ledger, however, Management acknowledges there are differences.

- Neither the report nor the auditors were able to identify the specific instances of journal vouchers not being posted in a timely manner. Reconciliations were performed, however, many postings were made during the last quarter.

- The general ledger structure stated by the Treasury Bulletin S2-94-01 are guidelines and not mandatory. Management will consider these guidelines during the implementation of AWACS.

- Management acknowledges that there are deficiencies in internal controls, however, Management does not agree that these deficiencies adversely affect its ability to make timely decisions nor does it agree that the misstatements are of such significance to impair its ability to carry out its responsibilities.

The CFO does not feel that the examples presented in the audit report indicate that the recording errors discovered were material in nature in view of the total dollar amount of the assets or income. While the CFO is not supporting the erroneous recording, he does not feel that the total dollar value of the errors is material or that the correction could not have been made in a timely manner.