



**USAID**  
FROM THE AMERICAN PEOPLE

USAID **50** ANNIVERSARY



FISCAL YEAR 2011  
**AGENCY FINANCIAL REPORT**

# ABOUT THIS REPORT

The Reports Consolidation Act of 2000 authorizes federal agencies to consolidate various reports in order to provide performance, financial, and related information in a more meaningful and useful format. This report, along with the Annual Performance Report, satisfies the reporting requirements of the following legislation:

- Inspector General (IG) Act of 1978 [Amended] – requires information on management actions in response to IG audits
- Federal Managers' Financial Integrity Act (FMFIA) of 1982 – requires ongoing evaluations of, and reports on, the adequacy of internal accounting systems and administrative controls, not just controls over financial reporting but also controls over program areas
- Chief Financial Officers (CFO) Act of 1990 – requires better financial accounting and reporting
- Government Management Reform Act (GMRA) of 1994 – requires annual audited agency-level financial statements as well as an annual audit of Government-wide consolidated financial statements
- Federal Financial Management Improvement Act (FFMIA) of 1996 – requires an assessment of the agency's financial

management systems for adherence to government-wide requirements to ensure accurate, reliable, and timely financial management information

- American Recovery and Reinvestment Act (Recovery Act) of 2009 – requires reporting on agency allocation of Recovery Act funds to each state through individual programs
- Government Performance and Results Modernization Act of 2010 – requires quarterly performance reviews of federal policy and management priorities
- Improper Payments Elimination and Recovery Act (IPERA) of 2010 – requires agencies to improve agency efforts to reduce and recover improper payments

Since FY 2007, the U.S. Agency for International Development (USAID) has elected to continue the production of three separate reports in lieu of a consolidated Performance and Accountability Report (PAR).

- Agency Financial Report (AFR) – provides complete details on relevant financial results
- Annual Performance Report (APR) – provides complete details on performance results [to be submitted in conjunc-

tion with the Congressional Budget Justification in February 2012]

- Joint State and USAID Summary of Performance and Financial Information Report – summarizes the AFR and APR in a brief, user-friendly format [available February 2012]

All three reports will be available at <http://www.usaid.gov/performance/agency-performance/>.

There are three major sections to this report. The first section, Management's Discussion and Analysis (MD&A), provides an overview of financial results, a high-level discussion of program performance, management assurances on internal control and financial management systems compliance; and other management information, initiatives, and issues. The second section, Financial Section, provides the financial details, including the independent auditor's report, audited financial statements, and a message from the Chief Financial Officer. The third section, Other Accompanying Information, includes a statement prepared by the IG summarizing what the Office of the Inspector General considers to be the most serious management and performance challenges facing the Agency; tables summarizing the financial statement audit and management assurances; and a detailed report on Agency efforts to reduce and recover improper payments.



Then...

(Above) In a concerted effort with other government agencies and international organizations, USAID contributed to an 11-year campaign that eradicated smallpox in 1980. The campaign also led to new and innovative vaccination strategies that are still in use today. PHOTO: USAID

NOW. (Cover) Polio victims suffer from fever and flu-like symptoms that can result in paralysis and death, and only by receiving a vaccination can the disease be prevented. USAID began funding polio eradication programs in the mid-1980s. Since then, prevalence of the disease has decreased by 85 percent. PHOTO: GWENN DUBOURTHOUMIEU / AFP

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# A MESSAGE FROM THE ADMINISTRATOR

**A**s we celebrate our 50th anniversary, we have an opportunity to reflect on our history and look forward with renewed dedication to our mission: saving lives, promoting peace and generating prosperity for the developing world and the American people.

Every day, across the world, the U.S. Agency for International Development (USAID) represents the very best of America: the generosity, goodwill, and ingenuity that unite us as a people. But our work also derives benefits for the American people: it keeps our country safe and strengthens our economy.

By helping entrepreneurs open businesses, USAID spurs the growth of new markets and energizes our own economy. By driving innovations in agriculture, the Agency helps nations break the devastating cycle of food riots, famine, and failed states that can spur conflict and undermine our national security. And by providing assistance in times of natural disasters or humanitarian crises, we express our shared values of compassion, dignity, and justice.

Today, with the strong backing of President Obama and Secretary Clinton, the Agency is building on its legacy as one of the world's premier development agencies and making new progress toward its ultimate goal: creating the conditions where U.S. assistance is no longer needed. To do so, we are partnering



**Rajiv Shah**

with developing nations and other actors and making innovative use of science, technology, and human capital to bring the most profound results to the greatest number of people.

## **USAID FORWARD REFORM AGENDA**

To realize this vision, we began to institute a series of ambitious reforms called *USAID Forward* to ensure our Agency becomes more efficient, effective, and business-like than ever before. Across the Agency, we are making foundational changes in seven key areas: policy capacity, budget management, procurement reform, monitoring and evaluation, talent management, innovation, and science and technology.

For USAID to become the world's premier development agency, it must be able to make strategic policy choices that are informed by cutting-edge evidence and analysis. To guide us in this effort, we have rebuilt our policy bureau and budget office, giving us greater control over how and where we spend our resources.

We have begun a critical shift in the way we administer our assistance, placing a greater emphasis on public-private partnerships and driving funding to local organizations that have the cultural knowledge and expertise to ensure our assistance leads to sustainable development. In the 2011 Development Assistance Committee Peer Review, the Organization for Economic Co-Operation and Development recognized these efforts, calling the Agency a leader when it comes to private sector engagement.

We are also creating new funding mechanisms that allow us to work directly with local partners, substantially increasing in-country capacity and empowering the local private sector and civil society to create meaningful development solutions. By 2015, we aim to triple the amount of funding that goes to local systems, substantively increasing our leverage with partner countries in a way that allows us to scale back our efforts over time.

To ensure that our assistance is effective, we have introduced a new evaluation policy that has been called "a model for

other federal agencies” by the American Evaluation Association. Under this policy, we will ensure performance evaluations are completed for every major project and conducted by independent third parties, not by the implementing partners themselves.

By January 2013, we aim to complete 250 high quality evaluations, based on an average of three per mission—and 10 central evaluations. We will release the results of all our evaluations within three months of their completion, whether they tell a story of success or failure.

The Agency has a proud history of transforming development through science, technology, and innovation. To reclaim this legacy and usher in a new era of breakthroughs, we have launched the Grand Challenges for Development, a series of grant competitions designed to focus the development community on key barriers to progress. We recently announced award nominations for our first Grand Challenge—Saving Lives at Birth—and plan to soon unveil Grand Challenges in agriculture, energy, and education.

Harnessing the power of geospatial technology, we are building a global system to map and visualize data from every single program in every location in which we work. By making information about our programs and investments accessible and transparent, we facilitate improved coordination, more rigorous analysis, and greater accountability.

We are also dedicated to strengthening science, technology, and innovation capacity in developing countries. Most recently, we launched a partnership with the National Science Foundation to link their research fellows with USAID-funded scientists in the developing world.

To achieve serious reform and real results, we have to effectively leverage—and proactively support—the enormous talent within our nation’s development community. By bringing on board diverse new classes of skilled officers through our Development Leadership Initiative, we are raising the bar for development professionals across the globe. We continue to work hard to meet serious management and performance challenges across the Agency, including in acquisitions and assistance and information technology.

Each of these reforms is designed to change the way the Agency does business—with new partnerships, a greater emphasis on innovation, and a relentless focus on real results. Collectively, these reforms will help ensure we are investing every development dollar in the most effective, efficient, and transparent way possible.

## **DELIVERING MEANINGFUL RESULTS**

Over the past year, we have pursued rigorous, thoughtful, and business-like approaches to address and solve development challenges on an effective and meaningful scale. Although this letter only focuses on specific initiatives, we are accelerating progress across a range of issues, from supporting women and girls, to improving global education, to prompting broad-based economic growth.

### **The Horn of Africa and Feed the Future Initiative**

In the Horn of Africa, the worst drought in 60 years has put more than 13.3 million people in need of humanitarian assistance—greater than the populations of New York City and Los Angeles combined.

In Somalia, where decades of civil war and disorder have contributed to the complete breakdown of governance, that drought has led to famine.

The single largest humanitarian and development partner in the region, the United States is funding life-saving assistance for millions of people, including food, water, medical, and sanitation services. Because we learned from past famines that the leading cause of death is preventable disease, not starvation, we are aggressively pursuing public health interventions, including therapeutic feeding and vaccinations. We have vaccinated over 1.5 million children in the Horn against polio and measles, and we have even provided them with the newest vaccines against diseases that cause pneumonia and diarrhea.

And though the American people will always provide aid in times of urgent need, emergency assistance is not a lasting solution. The reality is we must do more to prevent these crises in the first place. That is why President Obama launched Feed the Future, a global food security initiative to help countries develop their own resilient agricultural sectors and food systems so they can feed themselves over the long term.

In Kenya and Ethiopia, two Feed the Future countries, a new story is unfolding—a story of drought resilience and real development results that are protecting people and saving lives. In Kenya, we are investing in maize treatments that can significantly boost yields, potentially transforming the production of western Kenya’s largest staple crop. And as a result of supporting government safety net programs in Ethiopia, 7.5 million people have been able to withstand the worst effects of drought without the need for humanitarian assistance.

Across 20 countries, Feed the Future works with governments, private sector partners, civil society organizations, and local farmers to harness new innovations and scale up effective approaches. Rather than prioritize everything, everywhere, the presidential initiative works with countries to make difficult choices to focus investments on regions most likely to flourish and industries with the greatest chance of alleviating poverty and ending malnutrition. By 2015, Feed the Future will ultimately lift 18 million people, including 7 million children, out of hunger and poverty.

### **Humanitarian Response**

In March 2011, USAID led a whole-of-government response to the devastating earthquake and tsunami that hit Japan. Within 49 hours after the earthquake, two USAID-mobilized urban search-and-rescue teams—comprising of 147 personnel and 12 canines trained to detect live victims—arrived in Japan. We also immediately deployed a Disaster Assistance Response Team (DART) and facilitated the involvement of 11 experts from the U.S. Nuclear Regulatory Commission, as well as staff from the U.S. Department of Energy, who provided technical and material assistance to our Japanese counterparts.

Through a decade of partnership, we have also helped Turkey strengthen its ability to mitigate and respond to the significant seismic risk they face. Our work has not only elevated Turkey's role as an international leader in global disaster response, but it also helped enable the Turkish Government's rapid and robust response to the October 23 earthquake in eastern Turkey. Over the course of our partnership with Turkey, USAID has helped train and equip urban search and rescue teams; increase seismic preparedness, including first responder training; and improve emergency management systems.

### **Global Health Initiative**

Although we have witnessed a significant decline in child mortality over the last 25 years, 7.6 million children under five continue to die every year because they do not have access to basic life-saving interventions, like vaccines or bed nets to prevent malaria. An additional 370,000 children are born with HIV, transmitted by their mothers. To overcome this challenge, we are expanding access to life-saving vaccines, scaling up the distribution of proven interventions against malaria, and preventing pediatric AIDS with HIV medication.

This year marked the first time the world came together to ensure that children everywhere had access to the same life-saving vaccines against pneumonia and diarrhea, two leading causes of child death. At the Global Alliance for Vaccines and Immunizations, the United States pledged to continue our commitment to one of the smartest, most effective investments we can make in global health. Combined with other donors, our funding enables the Alliance to immunize an additional 243 million children and save 4 million lives over the next five years. By engaging with the private sector to drive down the costs of vaccines, we were able to leverage our commitment more than eight-fold, multiplying the power of our investment to save even more lives.

We are also making strategic investments toward the goal of eliminating child death from malaria. We are scaling up access to life-saving interventions, like bed nets, and funding research into new biomedical tools for the diagnosis, prevention, and treatment of malaria.

To help realize the vision of the world's first AIDS-free generation, we are expanding the distribution of highly effective and low cost drugs that prevent

transmission of HIV/AIDS from mothers to children. By coupling HIV/AIDS treatment with maternal and child health services, we have expanded the reach of critical health services at no additional cost.

### **Democracy, Human Rights, and Governance**

In October, millions of Tunisians cast their votes in an historic and peaceful election—the first free election of the Arab Spring.

The success of Election Day in Tunisia belongs to its citizens, but our Agency played a critical role in helping them reach that moment. On the ground within two-and-a-half weeks after President Ben Ali fled, we have worked closely with local organizations—particularly in marginalized regions—to expand opportunity and democratic space. In the interior of the country, we brought over 60 organizations together to form a regional civil society network, the very first of its kind. As the election approached, we helped accelerate voter education efforts and support dozens of international election observers on the ground.

Across the region, the Arab Spring has fundamentally changed the calculus about what is possible. It also made clear that sustainable growth must support both economic and democratic empowerment.

This is a movement we will embrace at USAID. If we wish to be a credible supporter of sustainable growth and progress—if we hope to expand opportunity to the people we serve—then we must work to support both democratic and economic empowerment. We must help countries deliver democracy with a dividend.

To better integrate these dual efforts, we are creating a new, formal funding channel within our food security and

global health presidential initiatives to support—with already existing resources—smart investments in democracy, rights, and governance.

In Ethiopia, we are making democratic governance a core part of our Feed the Future strategy, because we know that effective land and natural resource management not only spurs agricultural growth, it reduces tensions and empower citizens. And in Rwanda, through the Global Health Initiative, we saw a 23 percent increase in birth attendance at health facilities by working with the government to expand the transparency of the country's health system.

### **Financial Reporting and Representation**

For the ninth consecutive year, USAID has earned unqualified opinions on its financial statements, a representation that these statements fairly present the financial condition of the Agency. However, the deficiency related to reconciling USAID's Fund Balance with the U.S. Treasury remains a material weakness.

We have prepared plans to address this, as well as six significant deficiencies: reconciling loans receivable; reviewing and deobligating unliquidated obligations; accounting for and accurately reporting property, plant, and equipment; accounting for accounts receivable; accounting for advances; and reconciling intragovernmental transactions. We will continue to invest resources effectively and efficiently to ensure better oversight of our funds.

For the fifth consecutive year, the Agency has elected to prepare an Agency Financial Report, rather than a consolidated Performance and Accountability Report.

Comprehensive performance information, including performance accomplishments, will be reported in the Annual Performance Report and the Summary of Performance and Financial Information. These two reports will be available in February 2012.

The Independent Auditor's Report, including the reports on internal control and compliance with laws and regulations, is located in the Financial Section of this report. Issues on internal controls, identified by management and the auditors, including planned corrective actions and timeframes, are discussed in the Management's Discussion and Analysis section of this report. I hereby certify that the financial and performance data in the FY 2011 Agency Financial Report are reliable and complete.

With the support of Congress, senior officials in the U.S. Government have made a significant commitment to development through appropriations that have more than doubled since 2001. USAID recognizes that with additional resources come additional responsibilities. We are committed to managing these appropriations in a transparent and accountable fashion as we carry out a mission that reflects the generosity of the American people and improves the lives of millions worldwide.

### **Conclusion – For the American People**

Since the Agency's creation, the engagement and compassion of the American people have always been a critical part of our efforts to shape a brighter future. Today, we are developing creative new ways to connect with our fellow citizens—sharing our work and inviting their engagement.

Earlier this year, we launched the FWD outreach effort to raise awareness across America about the destructive combination of famine, war and drought that has led to today's crisis in the Horn of Africa. Through interactive maps and tool kits, we are empowering people with the latest information about the situation and giving them a powerful way to respond. The FWD outreach effort represents our efforts across the Agency to strengthen our engagement with a range of partners, including faith-based communities, universities, and our colleagues in the military.

As we continue to transform into a more effective, efficient, and transparent enterprise, our mission will remain of vital importance to America's prosperity, security, and values. Even as we mark 50 years of progress, we step forward with renewed dedication and a greater focus on partnerships, innovation, and—above all—meaningful results.



Rajiv Shah  
Administrator  
November 15, 2011



# MANAGEMENT'S DISCUSSION AND ANALYSIS



*Then...*



**(Above) Feed the Future** is the lead government initiative to help eradicate global hunger and achieve food security for the world's growing population. One part of this initiative is improving agricultural productivity and sustainability for rural regions, much like in this small scale maize farm in Chinhamora, Zimbabwe. PHOTO: ALEXANDER JOE / AFP

**(Preceding page)** American scientist Norman Borlaug created hybrid "miracle wheat" seeds that doubled and tripled crop yields in India. During a period known as "The Green Revolution," Borlaug was one of the many USAID scientists who helped create methods and technologies to make the agricultural sectors of developing countries self-sustainable. PHOTO: TERPAN / CIMMYT

# MISSION AND ORGANIZATIONAL STRUCTURE



## MISSION STATEMENT

USAID's mission is to advance broad-based economic growth, democracy and human progress in developing countries.

Today, with the strong backing of the Obama Administration, the Agency is building on its legacy as one of the world's premier development agencies and making new progress toward its ultimate goal: creating the conditions where U.S. assistance is no longer needed.

To do so, we are partnering with developing nations and other actors, making innovative use of science, technology and human capital to bring the most profound results to the greatest number of people.\*

*\*This statement was formulated by the USAID Senior Leadership Team in support of the Mission Statement included in the FY 2007-2012 Department of State and USAID Strategic Plan (<http://www.usaid.gov/performance/stratplan>).*

USAID has elected to produce an Agency Financial Report (AFR), Annual Performance Report (APR), and Summary of Financial and Performance Information report as an alternative to the consolidated Performance and Accountability Report (PAR). The Agency will include its FY 2011 APR with its Congressional Budget Justification and will post it, along with the Summary report on the Agency's Web site at <http://www.usaid.gov/performance/agency-performance/> by February 15, 2012.

## ORGANIZATIONAL STRUCTURE

The U.S. Agency for International Development (USAID) is an independent federal agency that receives overall foreign policy guidance from the Secretary of State. The Agency provides economic, development, and humanitarian assistance around the world in support of the foreign policy goals of the United States. USAID is headed by an Administrator and Deputy Administrator, both appointed by the President and confirmed by the Senate. The current Administrator is Rajiv Shah. The Agency is headquartered in Washington, D.C., has an official U.S. presence in 87 countries, and carries out its mission in several others. USAID plans its assistance programs jointly with the Department of State.

In Washington, USAID's bureaus are responsible for coordinating the Agency's activities in Washington and supporting implementation of USAID's programs overseas. USAID has geographic, functional, and central bureaus. Independent offices support crosscutting or more limited services. The geographic bureaus are Africa (AFR), Asia (ASIA), Middle East (ME), Latin America and the Caribbean (LAC), and Europe and Eurasia (E&E). The Office of Afghanistan and Pakistan Affairs (OAPA) was created in August 2010. The geographic bureaus and offices are supported by four functional bureaus: the Bureau for Democracy, Conflict and Humanitarian Assistance (DCHA), which provides expertise in democracy and governance, conflict management and mitigation, and humanitarian assistance; the Bureau for Economic Growth, Agricul-

ture, and Trade (EGAT), which provides expertise in economic growth, trade opportunities, technology, and education; the Bureau for Global Health (GH), which provides expertise in global health challenges, such as maternal and child health, and HIV/AIDS; and the Bureau for Food Security (BFS), which provides expertise in agricultural productivity and addressing hunger. DCHA and EGAT are in the process of reorganizing to focus on their new mandates. Central bureaus include the Bureau for Policy, Program, and Learning (PPL), which oversees all program, policy, and development and promotes a learning environment; the Bureau for Management (M), which administers centralized support services for the Agency's worldwide operations; the Bureau for Foreign Assistance (FA), which provides strategic planning, regional coordination, and program budget formulation; and the Bureau for Legislative and Public Affairs (LPA), which manages the Agency's outreach programs to promote understanding of USAID's mission and programs. Each bureau is overseen by an Assistant Administrator, appointed by the President and confirmed by the Senate.

In addition to these bureaus, USAID has nine independent offices that are responsible for discrete Agency functions that include human capital management, diversity programs, security, and partnerships. These offices are (1) the Office of the Executive Secretariat (ES), (2) the Office of Civil Rights and Diversity (OCRD) (formerly Office of Equal Opportunity Program), (3) the Office of the General

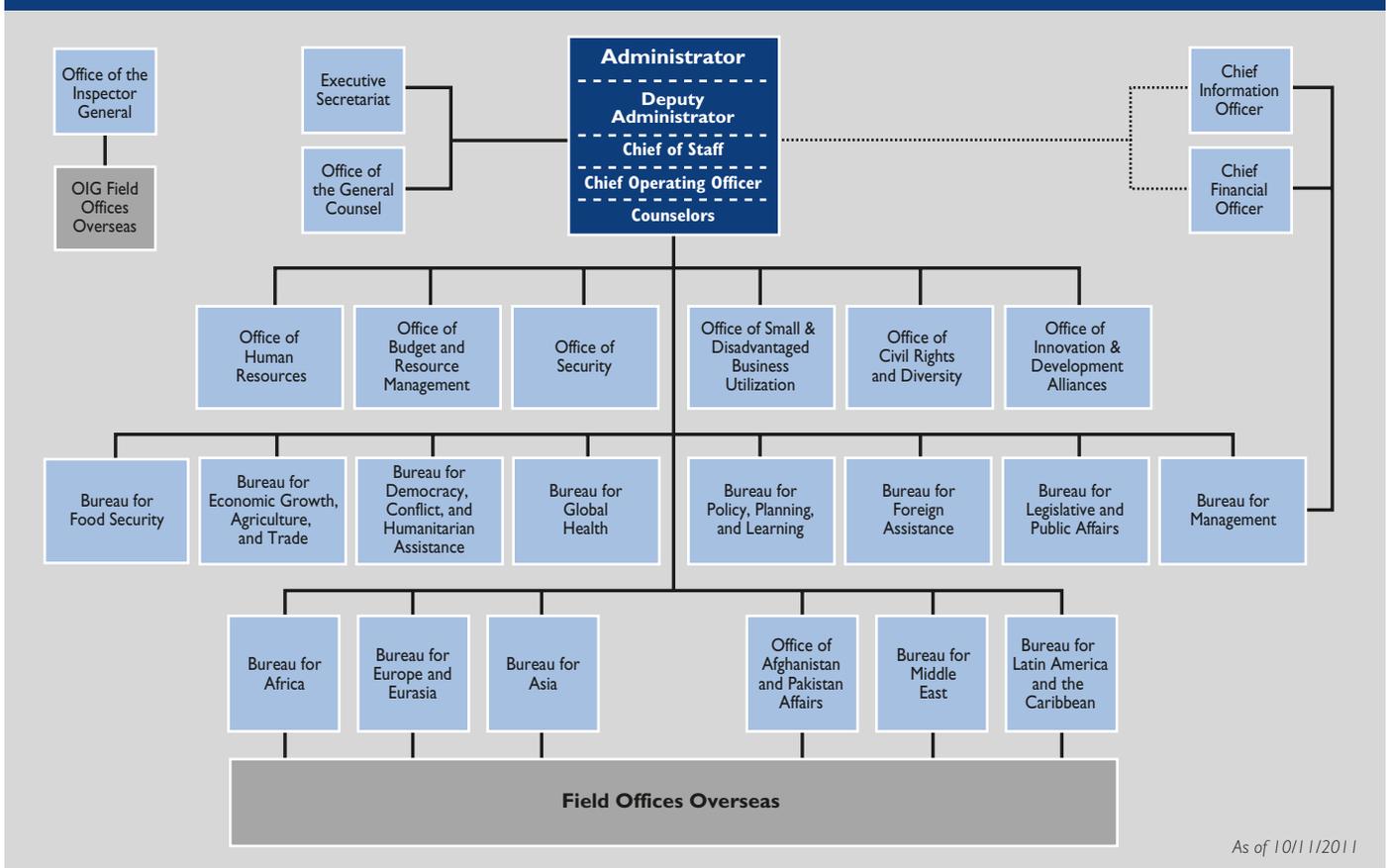
Counsel (GC), (4) the Office of Small Disadvantaged Business Utilization (OSDBU), (5) the Office of Security (SEC), (6) the Office of Innovation and Development Alliances (IDEA) (formerly Office of Development Partners), (7) the Office of Human Resources (OHR), and (8) the Office of Budget and Resource Management (BRM). Finally, the Office of Inspector General (OIG) reviews the integrity of Agency operations through audits, appraisals, investigations, and inspections.

## ORGANIZATIONAL STRUCTURE OVERSEAS

USAID's overseas organizational units are known as "field missions." The U.S. Ambassador serves as the Chief of Mission for all U.S. Government agencies in a given country and all USAID operations fall under its authority. The USAID Director or Representative, as the USAID Administrator's representative and the Ambassador's prime development advisor, is responsible for USAID's operations in a given country or region and also serves as a key member of the U.S. Government's "country team." USAID missions operate under decentralized program authorities, allowing them to design and implement programs and negotiate and execute agreements.

Missions conduct and oversee USAID's programs worldwide, managing a range of diverse multi-sector programs in developing countries. The Mission Director

## U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT



serves as the development counselor to the Ambassador and directs a team of contracting, legal, and project design officers; financial services managers; and technical officers. Bilateral and regional missions work with host governments and non-governmental organizations (NGO) or other partner organizations to promote sustainable economic growth, meet basic human needs, improve health, mitigate conflict, and/or enhance food security. All missions provide assistance based on integrated strategies that include clearly defined program objectives and performance targets.

USAID also has three “mega” missions, which are necessary for the exceptional programs in Iraq, Afghanistan, and Pakistan. These missions have several hundred staff, comprising U.S. direct-hires

(USDH), and personal services contractors (PSC), many of whom staff interagency provincial reconstruction teams. These teams combine personnel from USAID, Departments of State and Defense, and other departments and agencies to promote local development and conflict resolution throughout these three countries.

The workforce in USAID’s field missions is composed of three major categories of personnel: USDH employees, U.S. PSCs (USPSC) and foreign service nationals (FSN), or locally-hired host-country citizens. Career USDHs are foreign service employees assigned to missions for two to four-year tours. USPSCs are U.S. citizen contractors hired for up to five years to carry out a scope of work specified by USAID. FSNs are professionals and administrative staff recruited

in their host countries by USAID and account for nearly 50 percent of USAID’s total workforce. USAID also assigns Foreign Service Officers to posts where U.S. Government development policies need representation to coordinate and leverage other multilateral and bilateral donors for high priority U.S. Government issues. The Agency currently has officers stationed in Paris, Tokyo, Brussels, Geneva, Rome, and in the U.S. Africa Command (AFRICOM) in Stuttgart, Germany.

# PROGRAM PERFORMANCE

## STRATEGIC DIRECTIONS

Over the past 50 years, USAID has helped reduce poverty for millions of people and put countries on the path to prosperity. USAID's overarching goal is to shape and sustain a peaceful, prosperous, just, and democratic world and foster conditions for stability and progress for the benefit of the American people and people around the world. Today, the Agency is poised to build on its legacy as one of the world's premier development agencies and to make new progress by implementing the President's U.S. Global Development Policy. The Agency is also undertaking significant foundational changes essential to strengthening the Agency's core competencies. This agenda for institutional renewal, known as *USAID Forward*, is an

outcome of the Quadrennial Diplomacy and Development Review, which elevates the role of development in achieving national objectives. The *USAID Forward* initiative encompasses seven reforms:

- Procurement Reform
- Talent Management
- Rebuilding Policy Capacity
- Strengthening Monitoring and Evaluation
- Rebuilding Budget Management
- Innovation
- Science and Technology

In FY 2011, USAID issued its first *2011-2015 Policy Framework* ([http://www.usaid.gov/policy/policyframework\\_sep11.html](http://www.usaid.gov/policy/policyframework_sep11.html)) with development objectives that directly contribute to the joint USAID-State Strategic Plan and the joint High Priority Performance Goals (HPPG).

Principles including gender equality and female empowerment, selectivity and focus, sustainability, integrated approaches, leveraging "solution-holders," and partnering strategically will be systematically applied to increase the effectiveness of USAID in helping build a safer, more prosperous world for the benefit of the United States and of people everywhere.



Senegal will increase its partner base by procuring a \$11 million communications component of its health program locally.

PHOTO: USAID

## IMPLEMENTING USAID FORWARD: USAID/SENEGAL ENGAGES A LOCAL PARTNER FOR HEALTH COMMUNICATIONS

USAID/Senegal is launching an \$11 million, five-year procurement with a local communications organization to enhance key messaging to improve health indicators.

The Senegalese firm will develop tailored communications activities aimed at influencing the social and behavioral changes needed in the priority areas of reproductive health, maternal and child health, malaria, HIV/AIDS,

tuberculosis, and other infectious diseases. The expertise of a Senegalese firm will maximize the use of relevant approaches, materials, tools, and media products already developed and used successfully in Senegal. In addition, the local procurement will increase the capacity of the implementing private sector organization and reduce operational costs for USAID as compared to an international implementer.

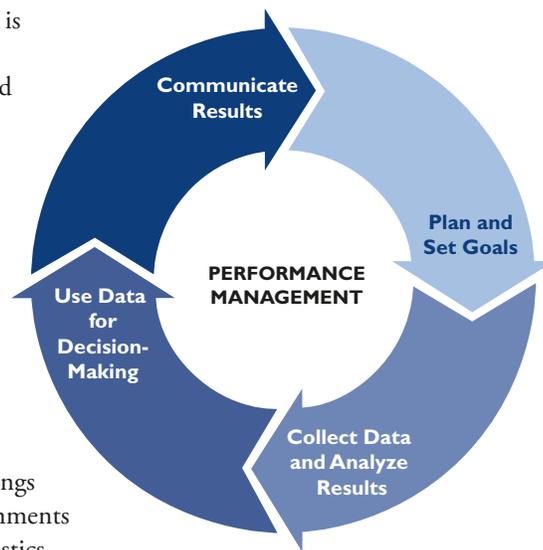
## PERFORMANCE MANAGEMENT

USAID develops and uses world-class tools to measure progress, outcomes, and development impact. Performance management represents the commitment of USAID to increase its accountability for delivering effective development outcomes. The Agency follows a four-part performance management process: (1) plan and set goals, (2) collect data and analyze results, (3) use data for decision making, and (4) communicate results.

At USAID, the tools for assessing, learning, and sharing are interrelated through the concept of performance management. USAID missions and offices are responsible for establishing Performance Management Plans and targets to measure progress toward intended objectives. They are also responsible for reporting key indicators in their annual performance

reports. Performance management is crucial for informing decisions on funding, program development, and implementation.

A good performance target is ambitious, measurable, and achievable. USAID follows a multi-step process to determine targets by examining the following: baseline value before U.S. Government intervention, historical trends and level of progress, expert judgment from technical authorities, research findings and empirical evidence, accomplishments of programs with similar characteristics elsewhere, customer expectations, and planned progress from the baseline for what will be accomplished over a five-year period with anticipated funds.

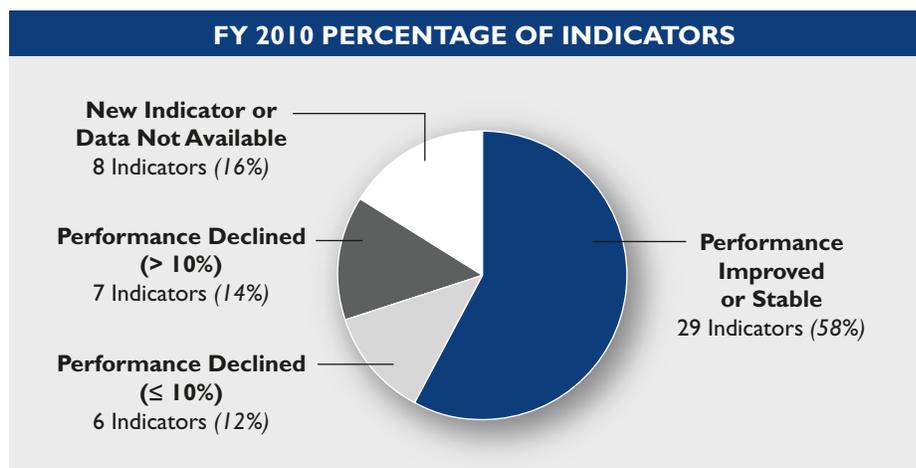


## PERFORMANCE INDICATORS AND TRENDS

See table starting on page 20 for a set of approximately 50 representative indicators used to illustrate USAID contributions to U.S. foreign assistance and their performance trends from 2006-2010. These indicators were chosen to reflect major areas of U.S. Government funding, earmarks, initiatives, foreign policy priorities, and HPPGs. FY 2011 results for these indicators will not be available until December 2011 and will be reported in the *FY 2011 Annual Performance Report*, published in conjunction with the *FY 2013 Congressional Budget Justification* next spring. A smaller subset of these indicators will also be published in February 2012 in the *FY 2011 Department of State-USAID Joint Summary of*

*Performance and Financial Information*. USAID is transitioning to report results against the new joint USAID-State Strategic Plan in future submissions.

The chart below depicts USAID's reported annual performance for FY 2010. Overall, the Agency maintained a high record of stable or improved performance.



## DATA QUALITY

Data are only useful for decision making if they are of high quality and provide the groundwork for informed decisions. As indicated in USAID's Automated Directive System Chapter 203.3.5, (<http://www.usaid.gov/policy/ads/200/203.pdf>), USAID missions and offices are required to conduct data quality assessments for all performance data reported to Washington. These assessments verify the quality of the data against the five standards of validity, integrity, precision, reliability, and timeliness. USAID has three data source categories: (1) primary data (data collected by USAID or where collection is funded by USAID), (2) partner data (data compiled by USAID implementing partners but collected from other sources), and (3) data from third-party sources (data from other government agencies or development organizations). The data that USAID has the most control over go through the most rigorous USAID assessments to ensure that they meet quality standards. While the data for third-party sources do not go through the same USAID quality assessments, the sources utilized were carefully chosen based on the organization's experience, expertise, credibility, and use of similar assessments.

## STRENGTHENING EVALUATION AT USAID

USAID has continued to make strides in improving evaluation standards and practices. A new Agency Evaluation Policy, issued in January 2011, sets ambitious standards for high-quality evaluation of USAID projects and programs. These include the following: (1) promoting independence of evaluators to mitigate bias by using external experts to lead evaluation teams; (2) applying

methods most appropriate to answering key evaluation questions in such a way that the findings are reproducible by others using the same methods; (3) where appropriate, conducting impact evaluations using experimental and quasi-experimental methods to measure the magnitude of change attributable to a given USAID intervention; and (4) increasing the transparency and accessibility of evaluation findings by setting a three-month deadline for final evaluation reports to be uploaded to the USAID Development Experience Clearinghouse, the Agency's online document archive system. Under this policy, evaluation is now required for all large projects and pilot or innovative interventions testing.

To support implementation of the Evaluation Policy, USAID created Evaluation Policy Learning Groups around five major topics: Performance Evaluation, Impact Evaluation, Professional Development in Evaluation, Evaluation in Complex and High Threat Environments, and Transparency and Outreach in Evaluation. Each small working group advises the Office of Learning, Evaluation, and Research on challenges and opportunities for implementing the Evaluation Policy.

Other recent actions related to implementing the policy include the naming of Evaluation points of contact in all USAID operating units and the adoption by USAID missions of new or revised mission operating policies that incorporate the evaluation requirements and specify how they will be applied in each context.

The Evaluation Interest Group at USAID continues to grow, with membership at over 400 people. The Agency also hosted evidence summits on counterinsurgency and counterterrorism, broad-based

economic growth, and applying new agricultural technologies.

In FY 2011, approximately 365 USAID staff were trained in one of two courses: *Evaluation for Evaluation Specialists* or *Evaluation for Program Managers*.

In FY 2012, these courses are expected to be offered to approximately 450 more staff.

FY 2012 plans include developing Agency policies on research and knowledge management and improving staff capacity in evaluation through training, direct technical support, evaluation planning services through the Program Cycle Service Center, and supporting the Agency in producing 250 quality evaluations by the first quarter of FY 2013.

## PRIORITY GOALS

USAID and the Department of State developed two-year HPPGs in 2009 which meet the Office of Management and Budget's (OMB) criteria as high priorities for the agencies and the President, relevant to the public, requiring interagency coordination, and having an existing funding stream and congressional authorization. New Agency Priority Goals (APG) for FY 2012-FY 2013 have been developed. These goals reflect the Secretary of State's and USAID Administrator's highest priorities, and they reflect USAID's strategic and budget priorities. They will continue to be of particular focus for the two agencies through FY 2013.

The table below displays the HPPG statements. USAID contributes to all except the global security goal. Three of the goals reflect the Feed the Future (<http://www.feedthefuture.gov/>), Global Health (<http://www.usaid.gov/ghi/>) and Global Climate Change ([http://www.usaid.gov/our\\_work/environment/climate/index.html](http://www.usaid.gov/our_work/environment/climate/index.html)) Presidential Initiatives and all contribute to the joint USAID-State strategic goals.

JOINT USAID-STATE HIGH PRIORITY PERFORMANCE GOALS	
Theme	Goal Statement
<b>Afghanistan-Pakistan</b>	See Stabilization Strategy <a href="http://www.state.gov/documents/organization/135728.pdf">http://www.state.gov/documents/organization/135728.pdf</a>
<b>Iraq</b>	A sovereign, stable, and self-reliant Iraq.
<b>Global Health</b>	Countries receiving health assistance will better address priority health needs of women and children, with progress measured by U.S. Government and UNICEF-collected data and indicators. The Global Health Initiative aims to reduce the mortality of mothers and children under five and save millions of lives, avert millions of unintended pregnancies, prevent millions of new HIV infections, and eliminate some neglected tropical diseases.
<b>Climate Change</b>	U.S. assistance will support the establishment of at least 12 work programs to support the development of Low-Emission Development Strategies (LEDS), expanding to 20 countries. U.S. assistance will result in strengthened capacity and measurable progress on LEDS, laying the groundwork for climate resilient development and meaningful reductions in national emissions trajectories longer term.
<b>Food Security</b>	Up to five countries will demonstrate the political commitment and capacity to effectively implement comprehensive food security plans that will track progress toward the country's Millennium Development Goal to halve poverty and hunger.
<b>Democracy, Good Governance, and Human Rights</b>	To promote greater adherence to universal standards of human rights, strengthen democratic institutions, and facilitate accountable governance through diplomacy and assistance by supporting activists in 15 authoritarian and closed societies, and by providing training assistance to 120 thousand civil society and government officials in 23 priority emerging and consolidating democracies.
<b>Global Security –Nuclear Nonproliferation</b>	Improve global controls to prevent the spread of nuclear weapons and enable the secure, peaceful use of nuclear energy.
<b>Management – Building Civilian Capacity</b>	Strengthen the civilian capacity of the State Department and USAID to conduct diplomacy and development activities in support of the Nation's foreign policy goals by strategic management of personnel, effective skills training, and targeted hiring to fill priority vacancy needs.

## SCIENCE AND TECHNOLOGY

The world's foreign assistance resources are insufficient to address the major global development problems the world faces. The Science and Technology Office at USAID seeks to leverage the resources of a wide range of federal science agencies which have technologies and knowledge that could benefit development but remain an untapped resource. Some of USAID's partnerships include:

**National Science Foundation Partnership (NSF):** USAID is working with NSF to build and strengthen science and technology capacity in developing countries

through cooperative research grants, improved access to scientific knowledge, and higher education and training opportunities.

**National Aeronautics and Space Administration Partnership (NASA):** USAID and NASA signed an umbrella Memorandum of Understanding in April 2011 in which the agencies agreed to expand their already significant joint activities. Two new flagship partnerships have been launched:

- **SERVIR:** An initiative that applies Earth observations and predictive models to support

decision making by government officials, managers, scientists, researchers, students, and the public. Currently, SERVIR addresses eight of the societal benefit areas highlighted by the Group on Earth Observations: disasters, ecosystems, biodiversity, weather, water, climate, health, and agriculture.

- **LAUNCH:** A unique government and private sector partnership whose goal is to identify, support, and help take to market creative technologies and other solutions that address global sustainability problems.

## ILLUSTRATIVE ACCOMPLISHMENTS

Below are illustrative accomplishments for FY 2011 in each of the five strategic goals articulated in the joint Department of State and USAID Strategic Plan (<http://www.usaid.gov/performance/stratplan>). They also reflect the 2011-2015 USAID Policy Framework, USAID Forward, and Presidential Initiatives.

### STRATEGIC GOAL ON PEACE AND SECURITY

U.S. policy states that the security of U.S. citizens at home and abroad is best guaranteed when countries and societies are secure, free, prosperous, and at peace. USAID and its partners seek to strengthen its capabilities, as well as those of its international partners, to prevent or mitigate conflict, stabilize countries in crisis, promote regional stability, and protect civilians. USAID achieves these objectives by providing assistance in the following areas: counterterrorism, supporting counternarcotics activities, strengthening stabilization operations and promoting security sector reform, combating transnational crime, and sponsoring conflict mitigation and reconciliation programs.

USAID's policy framework underscores the importance of responding to conflict and fragility with support for a local process of state building, reinforced with focused improvement of key governance functions and the delivery of priority services. USAID seeks to build stronger partnerships, increase capacity for integrated planning, increase use of effective existing tools, and to more systematically incorporate gender analysis and female empowerment into crisis situations.



Local staff conduct a final assessment of Bakwa's new roads. PHOTO: USAID / LGCD

### Where Instability Threatens, Roads Unite

Located on the border of one of Afghanistan's most insecure areas, Bakwa District in Farah Province has seen little development aid. Coalition forces and USAID have identified Bakwa as an area in need of stability initiatives because insurgents are using it as a safe haven. In response to this need, USAID worked with the local community to implement a small-scale community roads project which connects Bakwa residents with government-delivered services, thereby demonstrating the Afghan Government's ability to respond to their needs.

In March 2010, project staff facilitated a meeting between Bakwa representatives and community leaders to identify

possible stabilization projects. Following continued discussions throughout 2010, USAID awarded nine grants designed to allow communities throughout the district to level and surface approximately 15 kilometers of roads leading from rural towns to the main Ring Road that passes through Bakwa's center and connects every major city in Afghanistan.

These projects provided 228 residents with temporary employment (local residents contributed labor, additional materials, and equipment); helped to build relationships between the communities and their local government; and improved access to main roads and markets. The Bakwa district is now more connected to other areas, resulting in greater stability.

## Empowering Women to Foster Peace

USAID is helping to promote women's roles in peace building, especially through capacity building for village-based women's groups, in order to reduce tension and counter violence on the Indonesian island of Saparua.

Gender-based violence at the household level has increased in the post-conflict era on Saparua and has been compounded by the codification of traditional laws. The return of these traditional laws indicates a respect for indigenous people's rights. Paradoxically, the laws disfavor indigenous women's rights, which were previously guaranteed under 1979 laws. The new program is working to empower women and make their voices heard. During the first two months, the initiative held several women's discussions where groups identified and prioritized concerns related to a return to traditional structures.

The program members used the outcomes of these meetings to map conflict in communities and against women. The issues were then presented to local government agencies, traditional rulers, and at local village coordination and

development meetings. The program also provides grants and training to women of differing ethnic and religious affiliations so that they can work together to address identified problems. These are crucial steps to foster peace in Saparua where the territorial divisions of communities based on religion have played a role in conflict. Even at this early stage, women participants are saying that the greatest benefit they have received from the project is a sense of individual empowerment and collective responsibility.

### LINKING ACTIVITIES TO OUTCOMES

Activities promoting women's roles in peace building contribute to the annual performance indicator, "Number of People Trained in Conflict Mitigation/Resolution Skills with U.S. Assistance" in which the U.S. Government provided training to 65,932 people, including 36,956 women in FY 2010. This program also promotes gender equality and supports the United States National Action Plan to implement United Nations Resolution 1325 on women, peace, and security.

## STRATEGIC GOAL ON GOVERNING JUSTLY AND DEMOCRATICALLY

The U.S. Government supports just and democratic governance for three related reasons: as a matter of principle, as a contribution to U.S. national security, and as a cornerstone of the broader U.S. development agenda. Effective and accountable democratic states are best able to promote broad-based and sustainable prosperity. Without capable, transparent, accessible, and accountable public institutions, economic growth, broad-based opportunity, and key public services cannot be sustained. At the same time, citizens who enjoy access to services but do not live in a democratic society cannot realize the freedom and opportunity that true development implies. USAID and its partners seek to promote freedom and strengthen effective democracies by assisting countries to move along a continuum toward democratic consolidation. USAID achieves these objectives by providing assistance in the following areas: rule of law and human rights, good governance, political competition and consensus building, and civil society. Accordingly, USAID will pursue programs that advance democracy, human rights, and governance, and will integrate these programs into other sectors to sustainably advance goals in the areas of health, food security, and climate change. The Agency will support the next generation of democratic transitions and focus its efforts on a set of new, fragile democracies by providing assistance for rule of law.

## South Sudan Becomes the World's Newest Nation

On July 9, 2011, the Republic of South Sudan declared its independence—a result of the January 2011 referendum that gave the people of South Sudan the opportunity to democratically choose their future. Despite steep challenges, including making the voting process understand-



Women's group in Nolloth village, Saparua. These groups meet regularly to discuss issues that affect their families and their communities. PHOTO: USAID / SARASI



A young girl hangs the South Sudan flag on July 9, 2011. PHOTO: TIMOTHY MCKULKA / USAID

able to a war-affected population of whom some three-fourths are illiterate, and delivering registration and voting materials on a very compressed timeline in an area the size of Texas with approximately 40 kilometers of paved road, USAID provided comprehensive technical and material assistance to carry out the referendum.

In addition, support was provided for both civic and voter education and for domestic and international observation of the

### LINKING ACTIVITIES TO OUTCOMES

Support for democratic practices such as this vote for South Sudan to become a new nation contribute to the **High Priority Performance Goal** on Democracy, Good Governance, and Human Rights in which the U.S. Government aims to provide training assistance to 120 thousand civil society and government officials in 23 priority democracies. Training and support for political elections provide an important opportunity to advance democratization and ensure **citizen participation**.

process. USAID also played a significant role in helping the new nation draft a constitution. At the July 9 Independence Day ceremonies, South Sudan unveiled its new flag and national anthem, swore in its first President, Salva Kiir Mayardit, and approved the country's transitional constitution.

As South Sudan embarks on nationhood, USAID seeks to help make the new nation increasingly stable through strengthening the capacity of the government to deliver basic services to citizens; provide effective, inclusive, and accountable governance; diversify the economy; and combat poverty.

For more information on the independence of South Sudan, please see: [http://www.youtube.com/watch?v=7Rurqxx2TL0&feature=player\\_embedded#!](http://www.youtube.com/watch?v=7Rurqxx2TL0&feature=player_embedded#!)

### Technology Helps Macedonian Courts Shine

A computerized case management system, funded and installed by USAID, has had a significant impact on the performance of all 33 Macedonian courts. By replacing manual case processing, courts have become more efficient and transparent. The results, including faster disposition of cases and random case assign-

### LINKING ACTIVITIES TO OUTCOMES

The assistance that provided the computerized case management system contributes to the annual performance indicator "Number of U.S. Government-Assisted Courts with Improved Case Management" in which the U.S. Government assisted 573 courts in FY 2010. Improving case management reduces the risk of corruption, improves the efficiency of the court system, and ensures accountability.

ment without accusations of favoritism, demonstrate that judges and the Macedonian court system can be leaders in the transformation of the judicial process.

Some courts also now have Web sites where anyone with a computer can check the status of his or her court case 24 hours a day. Judges in Macedonia believe that the people who are using the site will spread the word that the court will be responsive to their judicial needs and handle cases in a timely manner. Furthermore, judges say that they spend less time supervising court staff because, through the new system, everyone can see



The Automated Court Case Management Information System in use in a Macedonian court. PHOTO: NENA IVANOVSKA / USAID

what everyone else is doing. The system also reduces mistakes, prevents manipulation of cases, and allows judges to easily read the rulings of fellow judges. Judge Stojance Ribarev, President of the Appellate Court in Stip, said, “All of this gives us more time to dedicate to the quality of our decisions.”

## STRATEGIC GOAL ON INVESTING IN PEOPLE

The lack of education and training, poor health and disease, high levels of unintended pregnancy, and the lack of services, particularly for vulnerable populations, are important root causes of the problems faced by U.S. partners in development assistance. These problems both destroy lives and destabilize countries. USAID’s approach for the Investing in People strategic objective is to help recipient nations achieve sustainable improvements in the well-being and productivity of their citizens, and build sustainable capacity to provide services that meet the people’s needs in three priority program areas: health, education, and social services and protection for especially vulnerable populations.

An example of USAID’s effort to improve people’s lives is the Global Health Initiative. USAID is collaborating with a wide range of partners in the continued fight of some of the world’s most debilitating diseases. USAID is working with partner countries to build stronger, more integrated and sustainable systems that provide basic health services at a low cost. Furthermore, the Agency is focusing on investments where it has the greatest potential for impact, investing in a new wave of medical technologies, focusing on sustainability, and leveraging engagement with key multilateral entities. By investing in education, science and technology, and innovative practices, USAID is investing in people in order to impact vulnerable populations.

## Saving Lives across Nepal: Female Community Health Volunteers

In Nepal, the Ministry of Health and Population has succeeded in bringing maternal and child health information and services to every community in the country—in spite of the fact that the majority of Nepal’s 29 million people live in rural and often remote areas, far from any health service facility. The Female Community Health Volunteer program, with the support of USAID and other partners, has built upon existing country resources to organize, train, and supply a powerful workforce of approximately 50 thousand women—each elected by her community and who contributes her time and effort to care for those in her village.

Doctors at the central level drive a cascading series of training which pass vital knowledge to groups of health services workers. Once a month, these volunteers hold mothers’ group meetings where they act as health promoters covering topics such as the benefits of proper diet during pregnancy and how certain traditional beliefs can result in life-threatening situations during and after delivery. They also serve as health providers who, at their home or during house calls, treat the primary causes of childhood mortality (diarrhea and pneumonia) and administer vitamin A,

### LINKING ACTIVITIES TO OUTCOMES

Development activities such as those mentioned above contribute to the annual performance report indicator, “Percentage of Live Births Attended by Skilled Birth Attendants” which the U.S. Government helped to increase to 49 percent worldwide in FY 2010. Skilled birth attendants help to decrease the likelihood of both infant and maternal mortality.

which by itself saves the lives of an average of 15 thousand children annually.

In no small part due to their commitment and that of the rest of the cadre of Female Community Health Volunteers, Nepal’s maternal and child mortality rates have dropped significantly.

## Mobile Clinics in India Take to the Road: Bringing HIV Testing and Counseling and STI Services to Those Most at Risk

Sanjay, a migrant worker, takes his lunch break on his construction job near the city of Nagpur, India. During his break, he decides to visit the van parked near the site where he works, where an outreach worker told him he can get free HIV and sexually transmitted infection (STI) testing. He enters the van and is greeted by the counselor, who explains how HIV and STIs are transmitted and what he can do to avoid them. Sanjay then gives his consent for an HIV test. The counselor shares some pamphlets that give him additional information about HIV and STI prevention. Before she leaves, she demonstrates how to use a condom and offers him some. Next, he visits the doctor, who goes through a checklist of STI symptoms and provides a physical exam. Finally, he goes to the lab, where blood is drawn. At the end of his shift, he returns to the van and the counselor tells him that he is HIV-negative and does not have an STI. She reminds him how he can stay healthy and avoid HIV and STIs and answers all of his additional questions.

Scenes such as this play out every day at the Nagpur mobile clinic and the four other clinics that are part of an innovative program supported by USAID/India and other partners. Given the nature of the HIV epidemic in India, with most infections concentrated in specific groups within the population and in certain areas of the country, USAID/India supports

## LINKING ACTIVITIES TO OUTCOMES

Bringing HIV preventative health services to rural areas contributes to the President's **Global Health Initiative** which aims to support the prevention of 12 million new HIV infections and provide care for more than 12 million people.

interventions focused on most-at-risk populations.

Each mobile clinic, staffed by a doctor, counselor, lab technician, and driver collaborate with NGOs in each district to spread the word about the arrival of the clinic. Although the mobile clinic program is less than a year old, it has shown promising results. A typical day will result in 35 to 40 clients seen, more than are seen daily in government testing and counseling centers. The program is reaching greater numbers of high-risk groups than previous options.

### Scholarships Offer Counterweight to Iraqi Brain Drain

In the fall of 2010, Bahija Jwad Ahmed finished her master's degree in public administration at the Graduate School of Business at the Arab Academy of Science and Technology in Cairo through a

USAID/Tatweer scholarship, and returned to her native Iraq. She had been chosen from over one thousand applicants to receive the highly sought after USAID-funded scholarship and is among the first cadre of 26 master's degree graduates who returned home eager to apply newly acquired skills to rebuilding their devastated country. Graduating at the top of her class, she soon rose to fill a new position as head trainer of all 15 provincial training centers within a ministry human resources department. Ahmed said, "I want my country to succeed, and I have been chosen to help lead Iraq to a bright future."

Much has been said about Iraq's "brain drain"—the flight of its finest minds out of the country to seek respite from insecurity and violence. Garnering less, if any, attention, are the larger numbers that willingly choose to remain in Iraq. Program graduates say that they are driven by a deep desire to restore Iraq's former status as regional leader and driving force of modernization while aiding their country's return to its once prominent international position. The return of Ahmed and her fellow scholarship recipients to Iraq is yet another milestone in USAID's ongoing efforts to build a critical mass of highly trained citizens to drive modernization of Iraq's public administration.

## STRATEGIC GOAL ON PROMOTING ECONOMIC GROWTH AND PROSPERITY

Economic growth provides citizens and governments with the resources needed to meet needs and aspirations, including improved education, health, peace and security, and thus to emerge from dependence on foreign assistance. Rapid recovery from the current global economic crisis and restoration of broad-based economic growth will further expand the number of countries that have become effective partners with the United States in working toward a more stable, secure, healthy, and prosperous world. USAID works with both government and non-governmental partners to empower private entrepreneurs, workers, and enterprises to take advantage of expanding opportunities in a global economy. To achieve these outcomes, USAID administers programs in the following eight program areas: macroeconomic foundation for growth, trade and investment, financial sector, infrastructure, agriculture, private sector competitiveness, economic opportunity, and the environment.

Fostering broad-based economic growth is a top priority for the Agency under the Presidential Policy Directive 6, and USAID is working to help countries spark and sustain transformative economic growth, paying special attention to reducing gender gaps in productivity and earnings in order to unlock women's contributions to growth. Beginning with the *2011-2015 Policy Framework*, USAID plans to deploy economic growth tools in support of initiatives in food security, health, and climate change. Furthermore, the Agency will be more systematic about exploiting the synergies between education and broad-based economic growth.



**Bahija Jwad Ahmed received a USAID/Tatweer Scholarship.** PHOTO: MSI

## Micro Entrepreneurs, Big Dreams

In most ways, Bibi is an ordinary wife in Lahore, Pakistan. Married 25 years, she and her husband Nisar have raised a family in a small village on the outskirts of the city while relying on his income as a day laborer and her work making and embellishing ladies garments with beads at home.

The family squeaked by until hard times struck last year. In the midst of an economic downturn, Nisar was injured in a street accident and could no longer work. Trapped economically, the couple agreed that Bibi should take the unusual step of venturing out of the house. She proposed to her neighbors to sell the garments together to get better deals from market vendors.

At just the right moment, a USAID program offered to train her on product design and development, use of raw materials, market demand, and pricing arrangements. The following month, Bibi became a sales agent, i.e., an entrepreneur. “I have had a difficult life,” Bibi said, wiping a tear with her headscarf. “But I feel a tremendous responsibility for my family since my husband’s injury. My becoming a sales agent has improved our condition, and also my confidence. Now that I have this opportunity, I want to maximize it.” This USAID program will increase the incomes of at least 120 thousand micro-entrepreneurs like Bibi by developing the capabilities of indigenous organizations and local private and public sector partners working with micro-entrepreneurs and small enterprises.

As for Bibi, she consults with her husband Nisar on all important business decisions and maintains her established role in the family setting as she breaks down some of Pakistan’s social barriers and rigid social traditions. “My husband didn’t give me the right to work,” Bibi said. “I earned it. Today we make joint decisions, and the people in our village understand. USAID

has given me new ideas and approaches I never would have considered.”

## Green School Plants a Brighter Future for Kosovo’s Children

For almost a decade, USAID has worked with Kosovo school system leaders to alleviate problems in overcrowded schools. In 2009, this effort took a new turn when USAID and partners introduced the concept of a “green school” to address overcrowding in a section of Pristina, the capital of Kosovo.

Green schools practice energy efficiency and water conservation, and use non-toxic and recyclable building materials in an effort to reduce the negative environmental impacts of school construction and operation. Energy efficiency is a particular concern in Kosovo where coal-fired power plants provide much of the nation’s electricity, but emit high amounts of pollution. With the new green systems, the green school can save 30 to 60 percent on energy costs every year. Additional savings will come from maximizing the use of natural light using a “light corridor” that allows sunlight to reach the core of the building and from there illuminate the classrooms. Other key features include flooring, ceiling panels, and wall paint that are free of asbestos and harmful chemicals, and a “green roof” that students can use as a botanical “living laboratory.”

Moreover, a curriculum is being developed to teach students about environmental issues and green technology. As a result, the school is one of the first institutions in Kosovo to have a plastics recycling program.

Officials in Pristina note that educational benefits extend far beyond the school building itself. U.S. Ambassador Christopher Dell stated, “The education doesn’t stop with the children. The school’s advanced engineering is going to be used to teach engineering students at the University of Pristina about modern, environmentally friendly construction

## LINKING ACTIVITIES TO OUTCOMES

This school contributes to the annual performance report **HPPG on Global Climate Change** as well as the President’s **Global Climate Change Initiative** to Support Low Emissions Development Strategies in up to 20 countries. These strategies offer lower greenhouse gas emissions while developing a robust development path.

techniques. This actually has a benefit that goes well beyond the teaching of the children of the community; it’s something that’s going to modernize the entire construction industry in the country.”

## Mangoes and Trees: The Next Phase of Haitian Recovery?

In addition to the incredible human loss suffered on January 12, 2010, the earthquake that struck Port-au-Prince, Haiti, also damaged critical infrastructure and caused \$7.8 billion in damages and losses—equal to 120 percent of Haiti’s 2009 GDP. With so much destruction to both infrastructure and human resources, it is critical that reconstruction efforts be carefully targeted, playing to Haiti’s comparative advantages. USAID’s economic growth programs in Haiti target sectors like agriculture and garment manufacturing.

Even though mangoes are one of Haiti’s top export crops, farmers lose 30-40 percent of their post-harvest crop because of lack of training and infrastructure. In early 2011, USAID partnered with two non-profit organizations and an agribusiness firm to strengthen local farmer associations and open two post-harvest mango centers. In addition to creating jobs at the center itself, this public-private



**The Fishing with 3G Nets project donated a training center, formerly a county jail, and 18 computers to a Brazilian fishing community.**

PHOTO: ALEX ARAÚJO / USAID

### LINKING ACTIVITIES TO OUTCOMES

Innovative practices such as this contribute to the annual performance report indicator “*Number of People with Access to Internet Service*” in which the U.S. Government provided 256,118 people with access in FY 2010. It also contributes to **USAID Forward’s** focus on Science and Technology.

Once trained and properly equipped, local fishermen, including the Pataxó indigenous community, should be able to broker deals with buyers, access weather information, and manage economic activities in real time. The upshot: increased business opportunities for fishermen and improved safety conditions. Previously, fishermen had to trust their instincts to evaluate weather conditions and wait until they were back from sea to start negotiations with buyers at the local market. Now, fishermen have help in deciding when to go fishing and how long to stay out in order to ensure profits.

Another objective of the project is to increase the environmental sustainability of fishing activities in Cabralia, which is already suffering from overfishing of certain species. The fishermen will provide information about the fish caught and sold in the city that will be fed into a database.

The city of Cabralia also donated a building to the fishing community to be used as a training center. The Computer Center Casa do Pescador, equipped with 18 computers donated by the project, also doubles as a place to expand access to the Internet in the community beyond the fishermen.

partnership will increase mango production and farmer incomes up to an estimated 20 percent.

USAID is also helping Haitian farmers by supporting the Coca-Cola Haiti Hope Project by providing \$1 million in funding for the public-private initiative to develop a sustainable mango industry. With support from Coca-Cola and other partners, USAID is focused on stimulating economic growth and sustainable development for mango farmers.

Another key U.S. public-private partnership focuses on the garment industry in order to create jobs in areas outside the

crowded cities. Along with the Haitian Government and other partners, the U.S. Government recently signed an agreement to construct an industrial park in northern Haiti, with South Korea’s leading garment manufacturer, Sae-A Trading Co. Ltd, as the anchor tenant. Sae-A alone will bring an estimated 20 thousand permanent jobs to the area, and total employment is projected at 65 thousand permanent jobs once the park is fully developed.

### Fishing Community Goes Digital to Increase Profits and Safety

In Bahia, Brazil, the word “net” refers to a combination of digital technologies that is improving the local fishing industry and making life better for about 200 families in the municipality of Santa Cruz Cabralia. The project, called “Fishing with 3G Nets,” was officially launched in fall 2010. The goal is to promote economic development of the local fishing community using digital technology. The project provides broadband access, 3G mobile Internet, custom applications for managing fishing businesses, equipment, and training through a partnership between USAID/Brazil and other public and private partners.

### LINKING ACTIVITIES TO OUTCOMES

Activities supporting local agribusiness and growth contribute to the Economic Growth Core Development Objective to help developing countries increase their exports. For each dollar the U.S. Government spends on trade capacity building, the Government aims to increase exports by \$43 in a two year period.

## Providing the Advantage of Literacy to Family Farmers in Burundi

In 2010, USAID's Burundi Agribusiness Program introduced literacy training in the hilly north-central Muramvya Province of Burundi. The program is helping to expand and diversify rural economic opportunities in Burundi through technical training and trading and marketing support to Burundi's coffee, horticulture, and dairy sectors. Marie, a Burundian farmer and livestock herder, was illiterate until USAID provided her an opportunity to learn to read and write. Today, Marie can register the daily sales of her milk volumes, the price she negotiates, and the monthly value of her milk. Because she writes everything down, no milk collector can fool her by suggesting that she gave them a different volume or sold the milk at other than the negotiated and registered price. Since she began writing down all of her transactions, she has recovered at least 10 liters of milk, worth about \$4, that would have been lost to collectors. Marie invests this recovered revenue in improved animal forage for her cow in order to increase the animal's milk and manure production. Since April 2010, USAID has provided literacy training to approximately 2,171 farmers, 92 percent of whom are women.

## STRATEGIC GOAL ON PROVIDING HUMANITARIAN ASSISTANCE

The commitment of the United States to humanitarian assistance demonstrates the Nation's compassion for victims of natural disasters, armed conflict, forced migration, persecution, human rights violations, widespread health and food insecurity, and other threats. It requires an urgent response to emergencies, a concerted effort to address hunger and protracted crises,

and planning to build the necessary capacity to prevent and mitigate the effects of conflict and disasters. Effective emergency operations foster the transition from relief through recovery to development, but they cannot replace the investments necessary to reduce chronic poverty or establish social services. USAID achieves these objectives by providing assistance in the following areas: providing protection, assistance, and solutions; preventing and mitigating disasters; and promoting orderly and humane means for migration management.

USAID has a global reputation for responding quickly and effectively when catastrophe strikes around the world. This will remain the Agency's central concern, with an increased focus on planning, prevention, building resilience and preparedness, and fostering a more durable recovery. Furthermore, USAID will continue to improve its ability to measure the impact of programs in order to apply lessons learned, expand capacity to respond to urban crises, use technology and new media, and pay close attention to the challenges women and girls face in post-disaster environments, including the increased risk of sexual violence.

Finally, USAID will continue to recognize that vulnerable populations, including women, children, internally displaced persons, and persons with disabilities, face increased risks for harm, exploitation, and abuse in disaster contexts. The Agency will increase the number of humanitarian assistance programs that include protection measures for vulnerable groups.

## Crisis in the Horn of Africa

In East Africa today, in a region known as the Horn, more than 13.3 million people are in crisis. The worst drought the world has seen in 60 years is devastating farmlands, uprooting families, and killing tens of thousands in four countries: Kenya, Ethiopia, Djibouti, and Somalia. Drought, conflict, and famine are forcing people from their homes in search of food and water.

To combat the effects of the drought, the United States is working to save and sustain lives now and help prevent future famines. The scope and severity of this humanitarian crisis are stunning: the United Nations estimates that \$2.5 billion in aid will be needed for the immediate crisis. To date, the global community has contributed \$1.7 billion in humanitarian



Marie, a dairy farmer in Burundi.

PHOTO: DAI



**In a refugee camp in Ethiopia, a mother gives her child Plumpy'nut, a high-nutrition therapeutic food.** PHOTO: AYSHA HOUSE-MOSHI

### **Skilled Health Care Saves Lives: Female Health Workers Trained by USAID's Family Advancement for Life and Health (FALAH) Project Help Save Lives in Flood-Ravaged Pakistan**

Even though the 2010 floods destroyed their home, Zeenat and Mithal of Sindh Province in Pakistan are grateful for the blessings life has shown them. They lost everything they owned last year, but with support from two USAID-trained female health workers, they were able to give birth to a healthy boy.

When the floods came, Zeenat was nine months pregnant. She and Mithal had to walk a long way to find shelter in a temporary camp for displaced persons.

Fortunately, female health workers trained by the USAID-funded FALAH program were working at the camp. Female health workers are community members that provide basic health care advice and services to residents of remote villages across Pakistan. During the floods, they played a vital role by arranging vaccinations and providing support to women and children in the camps.

Recognizing that Zeenat was in need of special attention, the health workers began to monitor her condition closely. When Zeenat's labor pains started one evening, the health workers were quick to recognize a potentially difficult delivery. They called an ambulance and accompanied Zeenat to a local hospital. Although a doctor at the hospital said the labor pains were false and Zeenat should return to the camp, the female health workers made sure to leave their contact information with Mithal after they

assistance. Two USAID-supported early warning networks alerted the international community to the pending crisis in August 2010. As a result, the United States made sizeable, early food aid contributions and scaled up emergency programs to meet increasing needs in the region. As 4.6 million people seek refuge from the conflict and famine, the United States is providing over \$600 million in food, health services, shelter, and other forms of emergency assistance.

The leading cause of death in past famines has been preventable disease. The United States has ramped up measles vaccination campaigns that will not only save lives today but also give children a lifetime of protection against this disease. Thanks to a significant commitment by the Obama Administration and other donors, USAID is making sure children in the Horn receive new vaccines that can protect them against viruses that cause pneumonia and diarrhea.

#### **LINKING ACTIVITIES TO OUTCOMES**

Humanitarian assistance activities in the Horn of Africa contribute directly to the President's **Feed the Future** Initiative in which the U.S. Government aims to lift 7.5 million people out of extreme poverty and assist over 18 million vulnerable women, children, and family members to escape poverty and hunger by increasing their purchasing power. The U.S. Government addresses the root causes of hunger by helping foster better farming, stronger markets, and greater resilience to climate shocks.

returned to the camp. Sure enough, later that night, Mithal called the workers saying that Zeenat needed urgent attention. With no time left, the female health workers helped Zeenat deliver a healthy baby boy the following morning. Next, they arranged vaccines for the new baby and monitored Zeenat's and her new baby's condition until they were both healthy enough to return to the camp.

Zeenat and Mithal said, "We owe this happy ending to the training provided by the USAID-funded program," and the two female health workers followed by saying that the program "guided us through Zeenat's difficult delivery and many more situations since."



**A Pakistani flood-affected girl kisses a newborn baby at a hospital in Nowshera on August 25, 2010.** PHOTO: A. MAJEED / AFP

## USAID 2011 REPRESENTATIVE INDICATORS AND PERFORMANCE TRENDS BY STRATEGIC GOALS<sup>1</sup>

### ACHIEVING PEACE AND SECURITY

Representative Performance Indicator	FY 2007 Results	FY 2008 Results	FY 2009 Results	FY 2010 Results	FY 2011 Target	Data Note #*
Hectares of Alternative Crops targeted by U.S. Government Programs under Cultivation	111,392	286,107	201,989	275,797	106,136	2,3
Number of People Trained in Conflict Mitigation/Resolution Skills with U.S. Assistance	17,965	12,578	92,601	65,932	98,867	3,4

### GOVERNING JUSTLY AND DEMOCRATICALLY

Representative Performance Indicator	FY 2007 Results	FY 2008 Results	FY 2009 Results	FY 2010 Results	FY 2011 Target	Data Note #*
Number of Justice Sector Personnel Who Received U.S. Government Training	111,034	61,696	68,392	53,426	49,114	3,5
Number of U.S. Government-Assisted Courts with Improved Case Management	352	567	337	573	624	3,6
Number of Domestic Election Observers Trained with U.S. Government Assistance	61,533	170,307	39,866	653,722	57,132	3,7
Number of U.S. Government-Assisted Political Parties Implementing Programs to Increase the Number of Candidates and Members Who are Women, Youth and from Marginalized Groups	127	249	217	116	118	3,8
Number of U.S. Government-Assisted Civil Society Organizations that Engage in Advocacy and Watchdog Functions	1,049	1,753	1,772	2,629	1,822	3,9
Europe Non-Governmental Organization Sustainability Index	3.8	3.7	3.7	3.7	3.6	10, 11
Eurasia Non-Governmental Organization Sustainability Index	4.6	4.6	4.6	4.6	4.5	11,12
Number of Positive Modifications to Enabling Legislation/Regulation for Civil Society Accomplished with U.S. Government Assistance	75	80	69	56	49	3, 13

### INVESTING IN PEOPLE

Representative Performance Indicator	FY 2007 Results	FY 2008 Results	FY 2009 Results	FY 2010 Results	FY 2011 Target	Data Note #*
Number of People Receiving HIV/AIDS Treatment	1.3M	2.0M	2.5M	3.2M	3.8M	14, 15, 16
Number of People Receiving HIV/AIDS Care and Support	6.6M	9.7M	11.0M	11.4M	13.8M	14, 17, 18
Average Tuberculosis Treatment Success Rate (TSR) in USAID Priority Countries	N/A	80%	82%	84%	85%	19, 20
Average Tuberculosis Case Detection Rate (CDR) in USAID Priority Countries	N/A	55%	58%	63%	65%	20, 21
Number of People Protected Against Malaria with a Prevention Measure in President's Malaria Initiative Countries	22.3M	25.0M	30.0M	40.0M	46.0M	3, 22
Number of Treatments Delivered to Control Neglected Tropical Diseases	36.0M	57.0M	127.0M	162.M	180.0M	23, 24
Percentage of Children with DPT 3 Coverage	59.6%	60.2%	61.0%	62.2%	62.3%	25, 20
Percentage of Live Births Attended by Skilled Birth Attendants	45.7%	46.7%	47.9%	49.0%	50.9%	26, 20
Average Modern Contraceptive Prevalence Rate (MCPR)	N/A	26.4%	27.3%	28.4%	29.6%	20, 27
Average Percentage of Births Spaced Three or More Years Apart	N/A	44.80%	45.60%	46.60%	47.80%	20, 26
Average Percentage of Women Aged 18-24 Who Had a First Birth Before Age 18	N/A	23.80%	23.90%	24.40%	24.00%	27, 20

\* See Appendix A for the performance indicator data notes.

<sup>1</sup> See Appendix A for details of data note 1.

(continued on next page)

**USAID 2011 REPRESENTATIVE INDICATORS AND PERFORMANCE TRENDS BY STRATEGIC GOALS<sup>1</sup>**  
(continued)

**INVESTING IN PEOPLE (continued)**

<b>Representative Performance Indicator</b>	<b>FY 2007 Results</b>	<b>FY 2008 Results</b>	<b>FY 2009 Results</b>	<b>FY 2010 Results</b>	<b>FY 2011 Target</b>	<b>Data Note #**</b>
Number of People in Target Areas with First-Time Access to Improved Drinking Water Sources	4,988,616	4,633,566	7,751,265	2,844,484	5,369,572	3, 28
Percentage of Children Underweight under Age Five	N/A	N/A	26.90%	N/A	26.50%	20, 29
Percentage of Women Age 15-49 with Anemia	N/A	N/A	46.90%	N/A	45.90%	20, 30
Primary Net Enrollment Rate for a Sample of Countries Receiving Basic Education Funds	76%	78%	79%	83%	81%	31, 32
Number of People Benefiting from U.S. Social Services	816,258	3,136,838	2,988,115	2,040,131	2,307,106	3, 33
Number of People Benefiting from U.S. Social Assistance Programs	1,081,670	3,535,001	3,485,079	4,148,088	3,018,778	3, 34

**PROMOTING ECONOMIC GROWTH AND PROSPERITY**

<b>Representative Performance Indicator</b>	<b>FY 2007 Results</b>	<b>FY 2008 Results</b>	<b>FY 2009 Results</b>	<b>FY 2010 Results</b>	<b>FY 2011 Target</b>	<b>Data Note #**</b>
Inflation Rate	7.20%	14.40%	4.00%	6.20%	5.00%	35, 36
Three-Year Average in the Fiscal Deficit as a Percent of Gross Domestic Product (GDP)	-2.1	-2	-2.2	-3.4	-3.9	37, 38
Time Necessary to Comply with Procedures Required to Export/Import Goods (days)	80	77	74	73	72	39, 40
Credit to Private Sector as a Percent of GDP	56.0%	59.8%	60.7%	NA	61.5%	41, 42
Number of People with Increased Access to Modern Energy Services	1,865,076	803,277	4,426,952	2,129,223	1,687,087	3, 43
Number of People with Access to Internet Service	6,556,232	1,509,803	531,398	256,118	400,000	3, 44
Number of Internet Users	1.4B	1.6B	1.7B	1.9B	2.1B	47, 46
Number of Mobile Subscribers	3.3B	4.0B	4.6B	5.0B	5.4B	47, 46
Number of People Benefiting from U.S. Government-Sponsored Transportation Infrastructure Projects	2,404,561	864,799	2,341,526	2,863,566	3,096,426	3, 45
Number of Rural Households Benefiting Directly from U.S. Interventions in Agriculture	3,780,419	3,536,170	2,079,359	3,210,058	3,784,805	3, 48
Percent Change in Value of International Exports of Targeted Agricultural Commodities Due to U.S. Assistance	52.90%	28.30%	50.29%	33.36%	35.54%	3, 49
Value of Incremental Sales (Collected at Farm Level) Attributed to FTF Implementation (New Indicator)	NA	NA	NA	927,778	65,577,773	3, 50
Number of Farmers and Others Who Have Applied New Technologies or Management Practices as a Result of U.S. Government Assistance		960,069	659,384	1,506,187	3,627,837	51, 3
Number of Commercial Laws Put into Place that Fall in the 11 Core Legal Categories for a Healthy Business Environment	41	30	11	2	5	3, 52
Global Competitiveness Index	12%	27%	10%	33%	33%	54, 53
Percent of U.S. Government-Assisted Microfinance Institutions that have Reached Operational Sustainability	69%	74%	86%	75%	70%	55, 56
Quantity of Greenhouse Gas Emissions Reduced or Sequestered (metric tons)	180M	142M (est.)	120M	120M	100M	57, 58
Number of Hectares of Biological Significance and Natural Resource under Improved Management as a Result of U.S. Government Assistance	121,637,252	129,580,863	104,557,205	92,660,217	102,781,575	3, 59

\* See Appendix A for the performance indicator data notes.

<sup>1</sup> See Appendix A for details of data note 1.

**USAID 2011 REPRESENTATIVE INDICATORS AND PERFORMANCE TRENDS BY STRATEGIC GOALS<sup>1</sup>**  
(continued)

**PROVIDING HUMANITARIAN ASSISTANCE**

<b>Representative Performance Indicator</b>	<b>FY 2007 Results</b>	<b>FY 2008 Results</b>	<b>FY 2009 Results</b>	<b>FY 2010 Results</b>	<b>FY 2011 Target</b>	<b>Data Note #**</b>
Percent of USAID-Monitored Sites with Dispersed Populations (Internally Displaced Persons, Victims of Conflict) Worldwide with Less than 10% Global Acute Malnutrition (GAM) Rate	41%	39%	25%	40.5%	40%	60, 61
Percentage of OFDA-Funded Non-Governmental Organization Projects that Mainstream Protection	N/A	N/A	26%	32.1%	35.0%	62, 63
Percent of Planned Emergency Food Aid Beneficiaries Reached by USAID's Office of Food for Peace Programs	86%	92%	93%	93%	93%	65, 64
Percent of Targeted Disaster-Affected Households Provided with Basic Inputs for Survival, Recovery or Restoration of Productive Capacity	85%	84%	85%	90%	NA	66, 67
Number of Hazard Risk Reduction Plans, Policies, Strategies, Systems, or Curricula Developed	N/A	N/A	N/A	86	35	68, 69

\* See Appendix A for the performance indicator data notes.

<sup>1</sup> See Appendix A for details of data note 1.

# ANALYSIS OF FINANCIAL STATEMENTS

The financial statements of USAID reflect the Agency's efforts to fulfill its mission to accelerate human progress in developing countries. This section presents a summary analysis to help the reader understand the Agency's financial position and results of operations. Further, it addresses the relevance as well as major changes in types and/or amounts of assets, liabilities, costs, revenues, obligations, and outlays.

The principal statements include a Consolidated Balance Sheet, a Consolidated Statement of Net Cost, a Consolidated Statement of Changes in Net Position, and a Combined Statement of Budgetary Resources. The complete financial statements are included in the financial section of this report.

## OVERVIEW OF FINANCIAL POSITION

Preparing the Agency's financial statements creates the opportunity to improve financial management and provide accurate, reliable information that is useful for assessing performance and allocating resources. The Agency's management is responsible for the integrity and objectivity of the financial information presented in the statements. As a reflection of USAID's ongoing commitment to financial management excellence, for the ninth consecutive year, the financial statements have received an unqualified audit opinion from the USAID Office of Inspector General (OIG). The Agency's internal controls are in place to ensure that all assets are safeguarded against loss from unauthorized acquisition, use, or disposition. As USAID continues to engage in Afghanistan and Pakistan with significant resources, the Agency will persist in delivering assistance through host government systems and local organizations. The trend toward

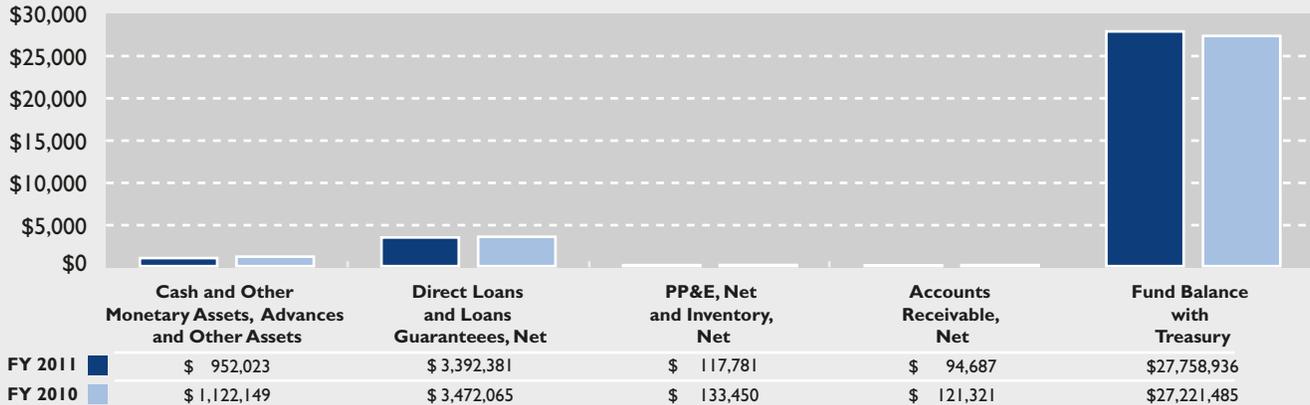
CHANGES IN FINANCIAL POSITION IN FY 2011 (In Thousands)			
Net Financial Condition	2011	2010	% Change in Financial Position
Fund Balance with Treasury	\$ 27,758,936	\$ 27,221,485	2%
Direct Loans and Loan Guarantees, Net	3,392,381	3,472,065	-2%
Accounts Receivable, Net	94,687	121,321	-22%
Cash and Other Monetary Assets, Advances and Other Assets	952,023	1,122,149	-15%
PP&E, Net and Inventory, Net	117,781	133,450	-12%
<b>Total Assets</b>	<b>\$ 32,315,808</b>	<b>\$ 32,070,470</b>	<b>1%</b>
Debt and Liability for Capital Transfers to the General Fund of the Treasury	3,677,086	3,680,664	0%
Accounts Payable	1,749,755	2,112,820	-17%
Loan Guarantee Liability	1,694,195	2,265,591	-25%
Other Liabilities	1,963,457	1,129,537	74%
<b>Total Liabilities</b>	<b>\$ 9,084,493</b>	<b>\$ 9,188,612</b>	<b>-1%</b>
Unexpended Appropriations	21,202,085	21,108,712	0%
Cumulative Results of Operations	2,029,230	1,773,146	14%
Total Net Position	23,231,315	22,881,858	2%
<b>Net Cost of Operations</b>	<b>\$ 11,243,693</b>	<b>\$ 10,406,296</b>	<b>8%</b>
<b>Budgetary Resources</b>	<b>\$ 23,791,919</b>	<b>\$ 24,957,025</b>	<b>-5%</b>

greater local delivery of assistance and the resulting internal control challenges will require increased scrutiny and focus from USAID's entire team of financial and program professionals to mitigate risks.

A summary of USAID's major financial activities in FY 2011 and FY 2010 is presented in the table above. This table represents the resources available for use (assets) to pay obligations (liabilities) and

the amounts that comprise the difference (net position). The net cost represents the gross cost of operating USAID's lines of business less earned revenue. Budgetary resources represent funds available to the Agency to incur obligations and fund operations. The summary includes an explanation of significant fluctuations on each of USAID's financial statements.

## ASSETS COMPARISON *(In Thousands)*



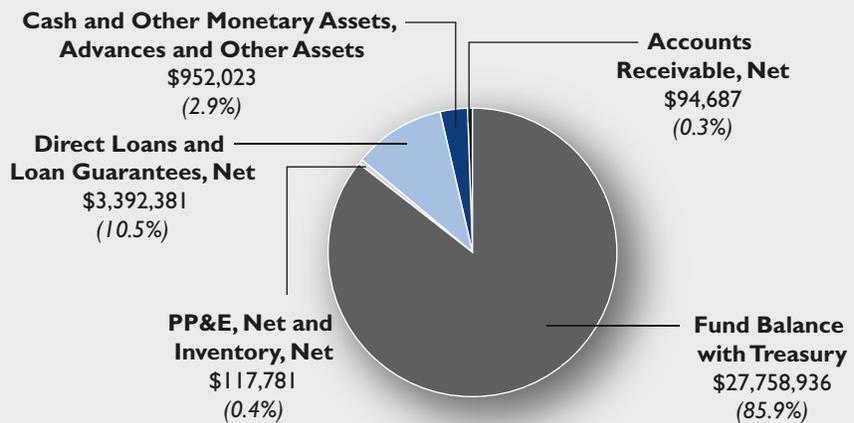
## BALANCE SHEET SUMMARY

### ASSETS – WHAT WE OWN AND MANAGE

Total assets were \$32.3 billion as of September 30, 2011. This represents an increase of \$0.2 billion (or 1 percent) over the previous year's total assets of \$32.1 billion. The charts that follow present a comparison of the major asset and liability categories as a percentage of total assets and liabilities. The most significant assets are the Fund Balance with Treasury, and Direct Loans and Loan Guarantees, Net which represent 86 percent and 11 percent of USAID's current period assets, respectively. The Fund Balance with Treasury consists of funding available through the U.S. Department of Treasury's accounts that are accessible by the Agency to pay its obligations incurred. USAID's Fund Balance with Treasury increased by \$0.5 billion (2 percent) primarily due to the funds from appropriations received that are undisbursed as of September 30, 2011.

In addition, USAID receives budget authority primarily from the following three parent agencies: Millennium Challenge Corporation, U.S. Department of Agriculture (USDA) Commodity Credit Corporation, and the Department

### FY 2011 TOTAL ASSETS: \$32,315,808 *(In Thousands)*



of State. USAID is required to submit financial data to these parent agencies to enable these agencies to report on allocations provided to the Agency.

### LIABILITIES – WHAT WE OWE

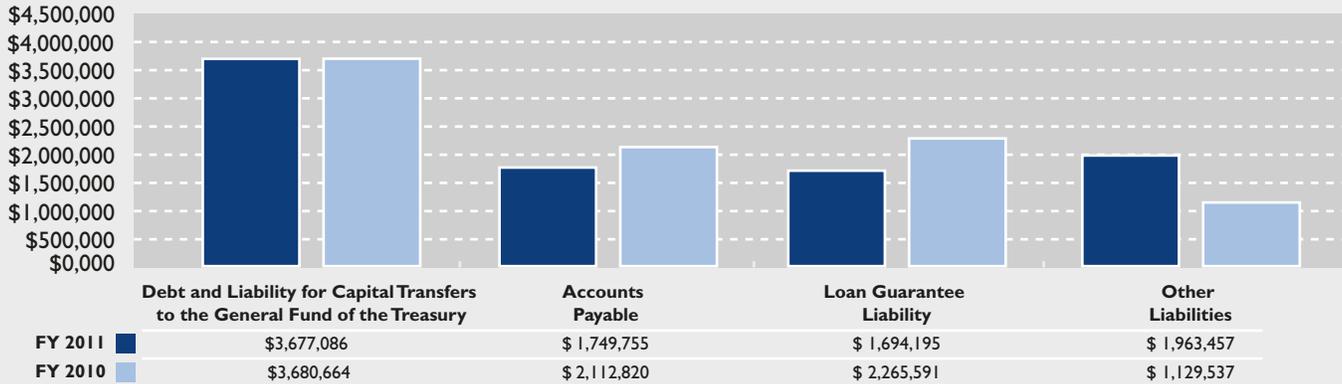
The Consolidated Balance Sheet reflects total liabilities of \$9.1 billion, of which \$3.7 billion or 41 percent, is Debt and Liabilities for Capital Transfers to the General Fund of the Treasury as presented in the chart shown. These liabilities represent funds borrowed from the U.S. Treasury to carry out the Agency's Federal Credit Reform program activities and net liquidating account equity. Total liabilities decreased \$0.1 billion or 1 percent

compared to FY 2010. The Loan Guarantee Liability decreased \$0.6 billion (25 percent) due to a re-estimation of the subsidy allowance for guaranteed loans. This amount is also included in Intragovernmental Other Liabilities since it will be repaid to the Treasury.

### ENDING NET POSITION – WHAT WE HAVE DONE OVER TIME

The Statement of Changes in Net Position represents the Agency's equity, which includes the cumulative net earnings and unexpended authority granted by Congress. USAID's Net Position as

## LIABILITIES COMPARISON (In Thousands)



shown on the Consolidated Balance Sheet and the Consolidated Statement of Changes in Net Position increased \$0.3 billion or 2 percent. The increase was primarily attributable to the Cumulative Results of Operations as detailed in the Statement of Changes in Net Position.

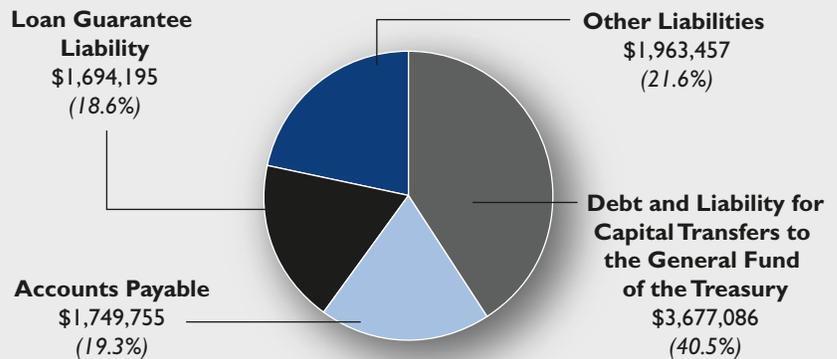
## RESULTS (NET COST) OF OPERATIONS

### NET COSTS

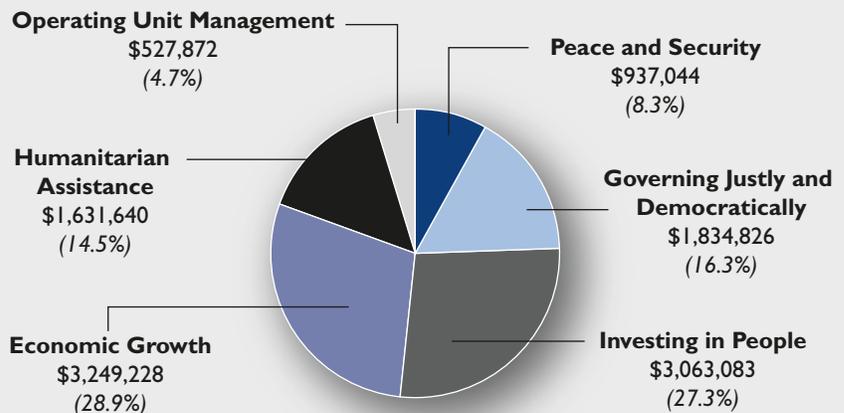
The results of operations are reported in the Consolidated Statement of Net Cost and the Consolidated Statement of Changes in Net Position. The Consolidated Statement of Net Cost represents the cost (net of earned revenues) of operating the Agency's six objectives. These objectives are consistent with the State-USAID Strategic Planning Framework in place during the reporting period. Two objectives, Investing in People and Economic Growth, represent the largest investments at 27 percent and 29 percent of the net cost of operations, respectively. The corresponding chart shows the total net cost incurred to carry out each of the Agency's objectives.

For FY 2011 and FY 2010, USAID's net cost of operations totaled \$11.2 billion and \$10.4 billion, respectively. Net costs of operations increased \$0.8 billion or

## FY 2011 TOTAL LIABILITIES: \$9,084,493 (In Thousands)



## FY 2011 NET COST OF OPERATIONS: \$11,243,693 (In Thousands)



8 percent compared to 2010. In FY 2011, USAID allocated additional resources to its two largest objectives, Economic Growth and Investing in People. The increase in net cost of operations reflects the expenditure of funds appropriated in prior years.

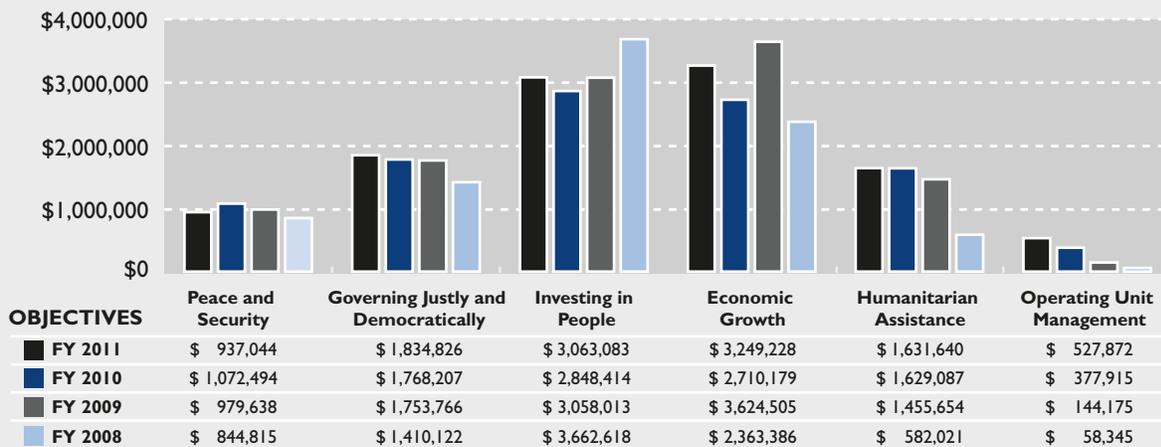
Major elements of net cost are broken out below. This chart compares the major elements of net cost by year from FY 2008 through FY 2011. In addition, the financial reporting of the disbursement of American Recovery and Reinvestment Act (Recovery Act) of 2009 funds by the Agency has comported with

statutory mandates and OMB requirements. Monitoring of internal controls provides assurance that funds are properly accounted for and reported. The Agency has developed a series of reports to allow internal tracking of activities under the act.

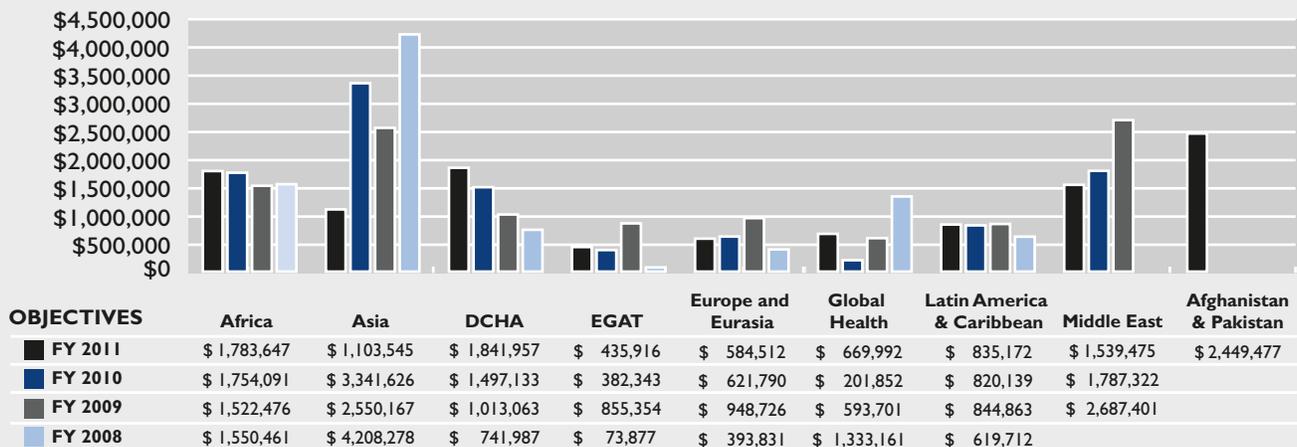
USAID also tracks its expenses by responsibility segment as shown in Note 17 to the financial statements. The Agency includes its six geographic bureaus and three technical bureaus as responsibility segments. The chart below summarizes costs by responsibility segment for FY 2008 through FY 2011. In 2010,

the Agency created a new geographic bureau for Afghanistan and Pakistan that was previously included with Asia and began allocating costs separately in 2011. Amounts for prior years have not been adjusted to reflect the new bureau retroactively. By virtue of the separation from the Asia bureau, the Afghanistan and Pakistan bureau is the largest geographic segment for FY 2011 followed by Africa and the Middle East. The Bureau for Democracy, Conflict and Humanitarian Assistance (DCHA) is the largest technical segment.

### MAJOR ELEMENTS OF NET COST COMPARISON OVER TIME (In Thousands)



### OPERATING COSTS BY RESPONSIBILITY SEGMENT (In Thousands)

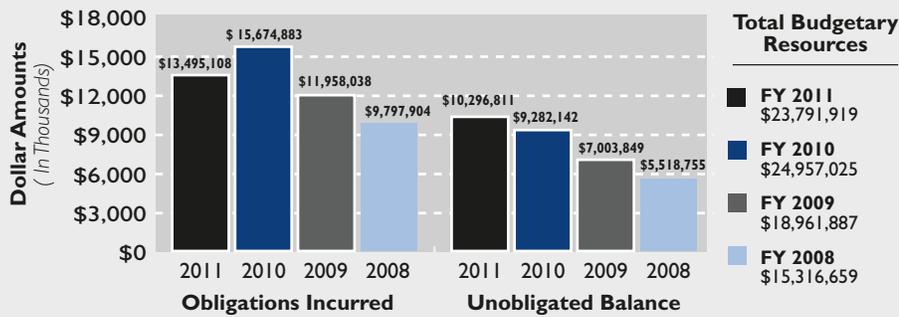


## FY 2011 NET COST PROGRAM AREAS

(In Thousands)

OBJECTIVE	PROGRAM AREA	TOTAL
<b>Peace &amp; Security</b>	Counterterrorism	\$ 29,237
	Combating Weapons of Mass Destruction (WMD)	13,625
	Stabilization Operations and Security Sector Reform	36,259
	Counternarcotics	301,383
	Transnational Crime	15,416
	Conflict Mitigation and Reconciliation	541,124
<b>Peace &amp; Security Total</b>		<b>937,044</b>
<b>Governing Justly &amp; Democratically</b>	Rule of Law and Human Rights	231,853
	Good Governance	1,015,372
	Political Competition and Consensus-Building	256,172
	Civil Society	331,429
<b>Governing Justly &amp; Democratically Total</b>		<b>1,834,826</b>
<b>Investing in People</b>	Health	1,584,199
	Education	742,487
	Social and Economic Services and Protection for Vulnerable Populations	736,397
<b>Investing in People Total</b>		<b>3,063,083</b>
<b>Economic Growth</b>	Macroeconomic Foundation for Growth	321,729
	Trade and Investment	136,479
	Financial Sector	94,143
	Infrastructure	865,880
	Agriculture	929,355
	Private Sector Competitiveness	299,868
	Economic Opportunity	187,923
	Environment	413,851
<b>Economic Growth Total</b>		<b>3,249,228</b>
<b>Humanitarian Assistance</b>	Protection, Assistance and Solutions	1,496,158
	Disaster Readiness	133,215
	Migration Management	2,267
<b>Humanitarian Assistance Total</b>		<b>1,631,640</b>
<b>Operating Unit Management</b>	Crosscutting Management and Staffing	26,640
	Program Design and Learning	92,840
	Administration and Oversight	408,392
<b>Operating Unit Management Total</b>		<b>527,872</b>
<b>Total Net Cost of Operations</b>		<b>\$ 11,243,693</b>

## STATUS OF BUDGETARY RESOURCES FY 2011, FY 2010, 2009 AND FY 2008



## LIMITATIONS OF THE FINANCIAL STATEMENTS

The principal financial statements have been prepared from the Agency's accounting records to report the financial position and results of operations of USAID, pursuant to the requirements of 31 U.S.C.3515 (b). While the statements have been prepared from the books and records of USAID, in accordance with generally accepted accounting principles (GAAP) for federal entities and the formats prescribed by OMB, the statements are provided in addition to the financial reports used to monitor and control budgetary resources. The statements should be read with the understanding that they are for a component of the U.S. Government, a sovereign entity.

## BUDGETARY RESOURCES

### OUR FUNDS

The Combined Statement of Budgetary Resources provides information on the budgetary resources that were made available to USAID during the fiscal year and the status of those resources at the end of the fiscal year. The Agency receives most of its funding from general government funds administered by the U.S. Department of Treasury and appropriated by Congress for use by USAID. Budgetary Resources consist of the resources available to USAID at the beginning of the year, plus the appropriations received, spending authority from offsetting collections, and other budgetary resources received during the year. For FY 2011, the Agency has received \$23.8 billion in cumulative budgetary resources, of which, by the end of FY 2011, it had obligated \$13.5 billion and left unobligated \$10.3 billion.

### OBLIGATIONS AND OUTLAYS

The Status of Budgetary Resources chart compares obligations incurred and unobligated balances at year end for FY 2011, FY 2010, FY 2009, and FY 2008. Net outlays reflect disbursements net of offsetting collections and distributed offsetting receipts. USAID recorded total net outlays of \$10.3 billion during the current fiscal year, and these outlays were disbursed timely according to contracted terms. Budgetary resources decreased \$1.2 billion or 5 percent, from FY 2010, while net outlays increased \$0.8 billion or 9 percent, consistent with the increase in net costs.

# ANALYSIS OF SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

## MANAGEMENT ASSURANCES

### FISCAL YEAR 2011 FMFIA ASSURANCE STATEMENT

USAID's management is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the Federal Managers' Financial Integrity Act (FMFIA) of 1982. USAID is able to provide a qualified statement of assurance that the internal controls and financial management systems meet the objectives of FMFIA, with the exception of one material weakness. The details of the exception are provided in Exhibit A.

USAID conducted its assessment of the effectiveness of internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations in accordance with OMB Circular A-123, *Management's Responsibility for Internal Control*. Based on the results of this evaluation, USAID

can provide reasonable assurance that its internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations as of September 30, 2011 was operating effectively and no material weaknesses were found in the design or operation of the internal controls.

In addition, USAID conducted its assessment of the effectiveness of internal control over financial reporting, which includes safeguarding of assets and compliance with applicable laws and regulations, in accordance with the requirements of Appendix A of OMB Circular A-123. Based on the results of this evaluation, USAID identified one material weakness in its internal control over financial reporting as of June 30, 2011. Other than the exception noted in Exhibit A, the internal controls

were operating effectively and no other material weaknesses were found in the design or operation of the internal controls over financial reporting.

USAID also conducted reviews of its financial management systems in accordance with OMB Circular A-127, *Financial Management Systems*. Based on the results of these reviews, USAID can provide reasonable assurance that its financial management systems substantially comply with the requirements of the Federal Financial Management Improvement Act (FFMIA) as of September 30, 2011.



Rajiv Shah  
Administrator  
November 15, 2011

### FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT (FMFIA)

The FMFIA provides the statutory basis for management's responsibility for and assessment of internal accounting and administrative controls. Such controls include program, operational, and administrative areas, as well as accounting and financial management. Guidance for implementing FMFIA is provided through OMB Circular A-123, *Manage-*

*ment's Responsibility for Internal Control*. In addition to requiring agencies to provide an assurance statement on the effectiveness of programmatic internal controls and conformance with financial systems requirements, the Circular requires agencies to provide an assurance statement on the effectiveness of internal control over financial reporting. USAID,

in keeping with the Administration's increased transparency and accountability requirements, expanded its internal control assessment efforts during the year to respond to recent legislation and regulatory requirements.

## Effectiveness of Internal Control (FMFIA Overall)

USAID's Internal Control Program is comprehensive and requires Agency managers to take systematic and proactive measures to develop and implement appropriate cost-effective controls for results-oriented management and evaluate effectiveness on a continuous basis. Information from annual certification statements provided by Mission Directors, Assistant Administrators, and Independent Office Directors serves as the fundamental basis for the Administrator's annual FMFIA Assurance Statement. This document asserts the adequacy of the Agency's internal control environment and explains whether related control deficiencies exist. The certification statements are based on information gathered from various sources, including the managers' personal knowledge of day-to-day operations and existing controls, program reviews, and other management-initiated evaluations. In addition, USAID managers gave consideration to the Government Accountability Office (GAO) and the Office of Inspector General (OIG) reviews, audits, inspections, and investigations as part of the evaluation process.

USAID managers successfully completed and documented internal control reviews of the Agency's programs and operations. No material weaknesses were reported. However, several significant deficiencies were identified and reported to the Agency's Management Control Review Committee (MCRC). [The definitions for material weakness, significant deficiencies, and control deficiencies are provided in Appendix B of the Agency Financial Report (AFR).]

The Agency's MCRC oversees the Agency's internal control program, including the identification, correction, and reporting on internal control deficiencies; OIG and GAO audit findings and recom-

mendations; and serious management and performance challenges identified by the OIG. The MCRC met twice this fiscal year. It was chaired by the Agency Counselor and attended by USAID executive level managers, including the Chief Operating Officer, Chief Financial Officer (CFO), Chief Acquisition Officer, Performance Improvement Officer, and Chief Information Officer (CIO). The MCRC recommended to the Administrator that two significant deficiencies related to operations and five significant deficiencies related to the effectiveness of internal control over financial reporting (discussed below) be reported externally through the AFR. After a discussion with the auditor, the significant deficiency related to reconciling the Fund Balance with Treasury was elevated to a material weakness. See pages 33-38 for a summary of the material weakness and six significant deficiencies as well as corrective actions to resolve them.

## Effectiveness of Internal Control over Financial Reporting

OMB Circular A-123, *Appendix A, Internal Control over Financial Reporting* requires agencies to assess, document, and report on internal control over financial reporting. Specifically, Appendix A signals increased responsibility and awareness of management for financial related controls in terms of safeguarding assets from waste, loss, unauthorized use, or misappropriation, as well as complying with laws and regulations pertaining to financial reporting. Financial reporting includes the annual financial statements, as well as other significant internal or external financial reports that could have a material effect on a significant spending, budgetary, or other financial decision of the Agency or that are used to determine compliance with laws and regulations on the part of the Agency. Significant reports include quarterly

financial statements, financial statements at the operating division or program level, budget execution reports, reports used to monitor specific activities, and reports used to monitor compliance with laws and regulations.

USAID remains committed to sound internal control over financial reporting and employs a program to continuously assess, document, and report on these controls. USAID management uses the standard principles of a risk-based approach to comply with the requirements outlined in OMB Circular A-123, Appendix A, and continually monitors financial-related controls. Monitoring includes updating process documentation, updating key controls based on operational changes, and testing key controls in Washington and in the missions according to a risk-based cyclical schedule as follows: High Risk – annually, Moderate Risk – biennially, and Low Risk – triennially. Accordingly, the FY 2011 Appendix A review focused primarily on high-risk and low-risk key business processes. The key businesses processes tested during FY 2011 consisted of:

- Accounts Receivable and Cash Receipts (low risk)
- Financial Reporting (low risk)
- Fund Balance with Treasury (high risk)
- Cash, Foreign Currency, and other Monetary Assets (low risk)
- Grants and Cooperative Agreements (low risk)
- Intragovernmental Transactions (low risk)
- Nonexpendable Property (low risk)
- Revenue (low risk)
- Information Technology (low risk)

Management assessments were conducted in Washington and at six USAID overseas field missions located in Bangladesh, El Salvador, Haiti, Nepal, Thailand, and Dominican Republic. The continuous Appendix A monitoring, coupled with the FMFIA certification process, identified one material weakness (see Exhibit A on page 33) and four significant deficiencies in internal controls over financial reporting. Of the four, two are new: (1) there are inaccurate salary and entitlement payments, and (2) the Agency's FMFIA certification process is inconsistent at the Bureau and Independent Office level. The two significant deficiencies reported last year related to loans receivable reconciliation and unliquidated obligations remain open as significant deficiencies in FY 2011.

The Appendix A review also determined that the FY 2010 material weakness of the Agency's "large unreconciled differences between the Fund Balance with Treasury account recorded in its financial accounting system (Phoenix) and the Fund Balance reported by the U.S. Department of the Treasury" showed significant improvements, but not sufficient to be downgraded to a significant deficiency. The Agency continued to maintain outstanding suspense items that were aged beyond the 60 day limit required by the U.S. Treasury. USAID also continued to have large unreconciled differences between the Fund Balance with Treasury account recorded in Phoenix and the Fund Balance reported by the U.S. Treasury. These differences occurred because USAID frequently recorded third party payments in its general ledger in appropriations that were different from the appropriations used by the U.S. Treasury to record the identical payments. During FY 2011, USAID effectively reduced outstanding suspense items over 60 days by at least 40 percent. Also, because of

reconciliation process improvements for USAID direct payments and Intragovernmental Payment and Collection (IPAC) transactions, the Department of Health and Human Services (HHS) payments, U.S. Disbursing Office (USDO) 1221 payments, warrants, transfers, and payroll payments, USAID significantly reduced the unexplained differences between the U.S. Treasury and general ledger cash balances in FY 2011. USAID has made substantial progress in reconciling prior year transactions; however, the Agency has more work to do with these legacy transactions. Therefore the material weakness still exists.

The OIG characterized the Fund Balance with Treasury deficiency as a material weakness in the financial statement audit. They disagreed with corrections that the Office of the CFO had recorded in the general ledger cash account. During FY 2012, the OIG and Office of the CFO will discuss these corrections with U.S. Treasury staff to reach a mutually agreed-upon approach on how these corrections should be recorded.

### **Internal Control Review of the Government Charge Card Program**

OMB Circular A-123, Appendix B, *Improving the Management of Government Charge Card Programs* requires federal agencies to maintain internal controls that reduce the risk of fraud, waste, and error in government charge card programs. Appendix B prescribes policies and procedures to agencies regarding how to maintain internal controls that reduce the risk of fraud, waste, and error in government charge card programs. Its purpose is to maximize benefits to the Federal Government when using government charge cards to pay for goods and services in support of official federal missions.

During FY 2011, USAID management performed a review of various aspects of cardholder activity in order to monitor controls and compliance, including objectives such as:

- Only authorized and trained employees are provided a charge card;
- Card account management is appropriate when a cardholder transfers within the Agency or separates from the Agency;
- All charges are accurate, authorized, and are for legitimate business purposes;
- Payments are made properly and promptly to maximize card rebates;
- Cardholders and supervisors reconcile card charges to identify errors and/or misuse;
- Erroneous charges or unauthorized purchases identified after payment are recaptured from the vendor or employee; and
- Management monitors activity and appropriate reports to identify delinquency, misuse, or abuse.

Several control deficiencies were identified as part of the Appendix B review; however, none met the definition of significant deficiency or material weakness.

### **Internal Control Review of Improper Payments**

The Improper Payments Information Act (IPIA) of 2002, as implemented by OMB Circular A-123, Appendix C, *Requirements for Effective Measurement and Remediation of Improper Payments*, required federal agencies to review their programs and activities annually, identify programs that may be susceptible to

significant improper payments, perform testing of programs considered high risk, and develop and implement corrective action plans for high risk programs. During July 2010, Congress passed the Improper Payments Elimination and Recovery Act (IPERA) which amended the IPIA and Section 831 of the Defense Authorization Act of 2002, also known as the Recovery Auditing Act. IPERA mandates the recoupment of improper and erroneous payment dollars by recovery efforts targeting all types of programs and activities, including grants. Further, IPERA urges departments and agencies to use all available tools and technologies to address improper payments and intensifies the reporting requirements on the results and methods used.

In FY 2011, the Agency did not have any programs and activities that met the OMB criteria for significant risk; however, the Agency's payment transactions were monitored for improper payments

cyclically throughout the year. An annual risk assessment was performed along with a comprehensive review and sampling of all programs and activities to ensure that Agency error rates remain at minimal levels. Several control deficiencies were identified as part of the Appendix C review; however, none met the definition of significant deficiency or material weakness. [See also detailed Improper Payments report located in the Other Accompanying Information section of the AFR.]

### **Internal Control Review of the Acquisition Function**

An OMB Memorandum dated May 21, 2008, on *Conducting Acquisition Assessments under OMB Circular A-123*, requires agencies to conduct entity level internal control reviews of the acquisition function; continuously monitor and improve the effectiveness of internal

control associated with their programs; integrate assessment efforts with existing agency internal control processes and practices to ensure the coordinated establishment, assessment, and correction of internal controls for acquisition; and use the OMB developed template for acquisition and program management reviews to standardize the assessment approach.

No deficiencies were identified that met the definition of significant deficiency or material weakness.

### **FMFIA Material Weakness**

At the close of the fiscal year, the Agency reported one material weakness and six significant deficiencies. Of the six significant deficiencies, two are operations-related and four are related to financial reporting.

## EXHIBIT A – FMFIA MATERIAL WEAKNESS

<b>Deficiency</b>	<p><b>USAID continues to have large unreconciled differences between the Fund Balance with Treasury account recorded in Phoenix and the Fund Balance reported by the U.S. Treasury and continues to have outstanding suspense items older than 60 days.</b> The cause of the unreconciled differences is attributed to (1) inadequate transmission of payment information from third-party payers to USAID, and (2) legacy differences from prior years. In addition, there are approximately 1,800 outstanding suspense account transactions over 60 days old because USAID was not able to investigate and resolve all suspense transactions in a timely manner. <i>Treasury Financial Manual Volume I, Bulletin No. 2007-07, Suspense “F” Account Discontinuance and Waiver Policy</i> states that agencies with approved waivers, the F3875 and F3885 suspense accounts, are required to have balances no more than 60 days old effective February 28, 2009. The cause of the delays was attributed to legacy differences from prior years for which it is difficult to obtain information.</p>
<b>Actions Taken</b>	<p>During FY 2011, USAID intensified its efforts to reconcile monthly transactions with the U.S. Treasury. Significant milestones achieved include:</p> <ul style="list-style-type: none"> <li>• Completed implementation of a process that (1) uses the Cash Reconciliation Tool (CART) to ensure that, monthly, all USDO vouchers charged to USAID/Washington are either posted or sent to a mission by IPAC; and (2) moves cash at the U.S. Treasury so that charges at the U.S. Treasury match the appropriations charged by USAID;</li> <li>• Calculated charge-off of old Standard Form (SF) 1221 (Statement of Transactions) items;</li> <li>• Improved the payroll reconciliation procedures by creating a new Access database and a new posting model for correcting payroll differences between the Agency’s financial accounting system (Phoenix) and the U.S. Treasury;</li> <li>• Reduced the number of suspense account items over 60 days old from approximately 3,000 to 1,800 and eliminated most unexplained legacy differences recorded in other appropriation accounts; and</li> <li>• Created a comprehensive Treasury General Ledger Reconciliation analysis that identifies unexplained cash differences in order to help eliminate them.</li> </ul>
<b>Actions Remaining and Expected Completion Date</b>	<ul style="list-style-type: none"> <li>• Reverse 1,200 old unresolvable suspense account transactions and charge them to expenses in the accounting system;</li> <li>• Complete implementation of a Web-based CART, create final outstanding items/adjustment lists, and revise the U.S. Treasury balances;</li> <li>• Complete the calculation of the overall accounting adjustments for appropriation 72X1021 which is expected to be in the range of plus \$7 million to minus \$20 million;</li> <li>• Identify and correct the causes of remaining unexplained differences, if any, between the U.S. Treasury and the general ledger cash balance;</li> <li>• Correct the cash balance differences between the general ledger and Budget Module; and</li> <li>• Eliminate all suspense items over 60 days old</li> </ul> <p><b>Target Completion Date:</b> February 29, 2012</p>

## FMFIA Significant Deficiencies

In keeping with the Agency’s core concept of increasing transparency, USAID is voluntarily disclosing its most significant deficiencies and continues to monitor the progress of corrective actions.

FMFIA SIGNIFICANT DEFICIENCIES AND CORRECTIVE ACTION PLANS	
OPERATIONS	
<b>Deficiency</b>	<p><b>Limited ability to implement and monitor activities in high threat environments (HTE).</b> USAID continues to face enormous challenges in implementing its programs and activities in Afghanistan, Pakistan, Iraq, and Sudan. Security concerns, weaknesses in governance, and corruption are persistent problems. [See also the OIG Memorandum for the Administrator dated October 14, 2011 in the Other Accompanying Information section of the AFR.]</p>
<b>Actions Taken</b>	<p><b>Policy.</b> The Administrator approved the Agency policy, “Development Response to Violent Extremism and Insurgency (VEI),” on September 7, 2011. It was released to the Agency in October 2011. The Agency will form a steering committee charged with developing an implementation plan, guidance on managing risk, and best practices in HTE environments.</p> <p>For six months, a Foreign Service Officer will work to directly address the FMFIA deficiencies and OIG concerns for operations and management in HTEs. An Action Memo has been submitted for the Administrator’s approval to move forward with this process. A two-day conference in December is pending approval. The conference discussions will produce a strategy and action plan further leading to the development and implementation of corrective actions, policies, directives, and revised structures that are exclusively within the Agency’s manageable interests and authorities and suggest approaches for those that implicate other parts of the U.S. Government. The Management Bureau has combined forces with the Bureau for Policy, Planning, and Learning and will jointly establish a steering committee for HTE Operations Management and programming for VEI.</p> <p><b>Monitoring and Evaluation.</b> The Agency has:</p> <ul style="list-style-type: none"> <li>• Established and delivered multiple iterations of two training courses;</li> <li>• Developed guidance documents (<i>Evaluation TIPS</i>);</li> <li>• Conducted a LERning Competition to provide financial support to particularly strong evaluations, with two winning proposals for evaluations in HTEs in Kenya;</li> <li>• Established a planning and evaluation services center to provide on-call support to USAID staff; and</li> <li>• Supported the Evaluation Interest Group knowledge network for the exchange of information about evaluation topics.</li> </ul> <p>USAID also has updated its Managing for Results course content to include a module on Monitoring and Evaluation in HTEs. This module underscores the importance of conflict assessment and developing baselines, and explores innovative methods for Monitoring and Evaluation in HTEs.</p> <p><b>Recruitment and retention.</b> The Operations Management review is looking at issues of recruitment, retention, and training in HTEs. The Civilian Response Corps (CRC) currently has 34 CRC-Active hired and each has achieved all of the readiness requirements. CRC makes available its Web portal “community of practice” for CRC members to engage in topics critical to work, exchange critical knowledge and practices in reconstruction and stabilization (R&amp;S), enable continuous cycles of learning, and streamline team productivity and business practices. Since December 2010, the portal has grown in membership.</p>

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**FMFIA SIGNIFICANT DEFICIENCIES AND CORRECTIVE ACTION PLANS (continued)**

**OPERATIONS (continued)**

**Actions Taken**  
(continued)

**Training.** The Agency is developing an HTE Security Training (Hi-TEST). The CRC Functional Essential Tasks List was complete as of January 2011. Revised the Interagency RS500 Foundations of Conflict Prevention and Response Course, which was piloted in May 2011. Foundations, Security for Non-traditional Operating Environments (SNOE), and Planners are being delivered to reflect a decreased training pipeline. Increased emphasis is being given in the training program to courses focused on conflict assessment and prevention. An interagency working group is internally evaluating the training needs not currently met by the interagency R&S training program, the CRC applying the training; and the impacted field performance to date. The outcome of this evaluation will enable the Agency to baseline personnel readiness and resource requirements for civilian surge personnel.

**Staff care.** The Bureau for Democracy, Conflict and Humanitarian Assistance (DCHA) piloted an instructor-led and Agency-wide Staff Resiliency and Stress Control Training and complementary online courses.

**Security.** The Office of Security (SEC) has established Partner Security Liaison Offices (PSLO) to support the mission and the implementing partners' security. USAID U.S. personal services contractor (USPSC) and foreign service national (FSN) positions have been established throughout Afghanistan, Islamabad, and Ciudad Juarez, Mexico. SEC is focusing on Iraq, Southern Sudan, and Yemen. For Southern Sudan and Yemen, SEC is soliciting additional manpower from USAID institutional contractors.

The primary responsibilities of the PSLO are:

- Provide implementing partners with best security practices;
- Provide implementing partners security upgrades and the funding/contract modification for the upgrades;
- Provide the Regional Security Officer (RSO) information flows to/from the implementing partners;
- Provide the RSO implementing partners security capabilities/limitations;
- Provide physical and operational security expertise to mission staff, implementing partners, and RSO;
- Provide "technical support" (via a certified contracting officer technical representative (COTR)) to the contracting officer on security-related contract modifications;
- Assist RSO in identifying travel constraints for USAID staff;
- Provide liaison services between RSO, USAID staff, embassy staff, implementing partners, the Department of Defense, and relevant ministries; and
- Assist implementing partners' staff with anti-terrorism driver training and Foreign Affairs Counter Threat (FACT) equivalent training for expat partners.

**Actions Remaining and Expected Completion Date**

Responsibility for specific operations and management strategies action plan will be finalized at the December conference. This will include proposals for revised policies, protocols, and frameworks to address deficiencies in the implementation and monitoring of USAID programs in HTEs.

**Target Completion Date:** December 31, 2011

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**FMFIA SIGNIFICANT DEFICIENCIES AND CORRECTIVE ACTION PLANS (continued)**

**OPERATIONS (continued)**

**Deficiency** **Enterprise Architecture: Human Resources information system.** The current personnel/ payroll system for USAID is built on the 30-year-old U.S. Department of Agriculture (USDA) National Finance Center (NFC) platform, supplemented by over 20 stand-alone applications. This has made the integration of information and reporting very challenging. In some areas, personnel data has to be re-entered from one system to another. Not only is this inefficient, it results in errors. For example, the Office of the CFO's Payroll Division has noticed a significant increase in requests from employees concerning the accuracy of their pay and deductions. When employees assigned overseas are moved from one location to another, delays in recording the new duty station have resulted in overpayments or underpayments of differentials and other allowances. Overpayments and underpayments impact employee morale, drive additional manual workload, and increase the potential loss of government funds.

**Actions Taken** Pursuant to Office of Personnel Management (OPM) and OMB mandates, USAID is in the process of migrating to one or more of the OPM-approved Human Resources (HR) Line of Business (HR-LOB) Shared Service Providers. The new HR information system will cover employees from recruitment to retirement, and streamline and improve the accuracy of all processes within the Office of Human Resources (OHR).

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

**Deficiency** **Credit program.** USAID's reconciliation of loans receivable is not adequate and does not resolve differences between USAID and its loan services provider. As of June 30, 2011, USAID continues to have large unreconciled differences between amounts recorded in the Phoenix general ledger and amounts recorded in its loan services provider's (Midland Loan Services) financial accounting system. Management continues to resolve the interface and reconciliation processes and noted an absolute difference of \$165 million with Phoenix vs. Midland.

**Actions Taken** During FY 2011, the Office of the CFO continued:

- Working closely with its loan services provider to develop a consolidated reconciliation report;
- Developing a Microsoft Access database tool to ensure proper posting into Phoenix via a data interface process to facilitate the monthly reconciliation of Midland credit program loan activities;
- Developing and implementing procedures to reconcile loan activity maintained in the Phoenix accounting system with records maintained by loan servicer; and
- Performing necessary research of past debt restructuring reconciliations which significantly reduce identified differences from the prior year.

**Actions Remaining and Expected Completion Date** Management will continue to complete past debt restructuring reconciliations.  
**Target Completion Date:** June 30, 2014

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**FMFIA SIGNIFICANT DEFICIENCIES AND CORRECTIVE ACTION PLANS (continued)**

**INTERNAL CONTROL OVER FINANCIAL RERPORTING (continued)**

**Deficiency** **Large balances in unliquidated obligations (ULO) remain.** A significant amount of program funds will be lost to the Agency unless aggressive steps are taken to address the backlog of contractor audits and the insufficient funding of closeout and deobligation activities. The Agency's Office of Acquisition and Assistance's contract closeout process, as well as required annual audits by the Defense Contract Audit Agency, have been historically under-funded because of the limited availability of operating expense funds. This under-funding has led to a backlog of awards awaiting closeout and deobligation of residual funds. Specifically, as of September 2011, approximately \$112 million of unliquidated obligations remain in contracts awaiting closeout. Additional review is also necessary for operating expense obligations for potential deobligation.

**Actions Taken** During FY 2011, USAID:

- Reduced the backlog of contract closeouts resulting in deobligation of \$45 million of unliquidated contract balances.
- Identified and deobligated about 5,800 travel-related balances totaling approximately \$9.5 million of recovered funds.
- Identified and deobligated about \$2.7 million of worldwide operating expense funds that can be reprogrammed in future years.

**Actions Remaining and Expected Completion Date** USAID will continue to identify and reduce the closeout backlog, and will target both operating and program-funded obligations for further reviews. The Agency will use automated tools and focus groups to identify and reduce specific program and other unliquidated obligation balances.

**Target Completion Date:** September 30, 2014

**Deficiency** **Inaccurate salary and entitlement payments.** During FY 2011, the Payroll Division in the Office of the CFO noted an unusual increase in inquiries from USAID employees concerning salary and entitlement overpayments and underpayments. Internal investigations revealed that erroneous payments were made due to inaccurate (e.g., wrong retirement codes), late, or missing SF-50s, Request for Personnel Action. SF-50s are typically initiated by the OHR; however, they are not being entered into the NFC Payroll system in a timely manner. The resulting payroll overpayments and underpayments represent a significant research workload on the part of CFO Payroll staff, necessitating the need for workarounds and additional manual pay processes that increase the potential for loss of government funds. These payment errors also impact employee morale, especially those who receive bills of collection. Some employees who were overpaid have submitted waiver requests to excuse them from liability and responsibility for repayment of funds.

**Actions Taken** USAID is taking a business analysis approach to identifying OHR training issues and some systematic edits. The Agency is in the process of conducting interviews to resolve OHR vs. Payroll issues. It is also reviewing remedy inquiries and statistics, policy, NFC software system changes, and training requirements.

Preliminary results have indicated that the Agency workforce has grown 5 to 10 percent every six months since March 2009, particularly in the Foreign Service direct-hire component which represents an increase of 1,000 direct-hire personnel over a two-year period. That growth, in some cases, has out-paced OHR/Payroll support capabilities resulting in late, inaccurate, or missing SF-50s. The success of the Development Leadership Initiative program and the surge support for Critical Priority Countries have resulted in increased on-boarding of new employees which corresponds to a 20 percent increase in webTA (the Agency's time and attendance system) remedy inquiries, increases in frequency and amount of pay related to bills of collection, and a 60 percent increase in employee payroll inquiries.

**Actions Remaining and Expected Completion Date** USAID will review and update its policies and procedures related to this subject as well as develop and deploy an electronic tool to assist stakeholders in managing pay caps. Additionally, USAID will conduct a workflow analysis which will consider reorganizing and augmenting payroll processes and capabilities.

**Target Completion Date:** June 30, 2012

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## FMFIA SIGNIFICANT DEFICIENCIES AND CORRECTIVE ACTION PLANS (continued)

### INTERNAL CONTROL OVER FINANCIAL REPORTING (continued)

<b>Deficiency</b>	<b>USAID's FMFIA annual certification process is inconsistent, weak, or non-existent at the bureau/independent office level.</b> In USAID's review of the FY 2010 FMFIA certifications, the Agency identified inconsistencies among offices as to the level of efforts and support created and maintained for the annual FMFIA certification. One office could provide no support for its FMFIA certification. Other offices could not provide validation of risk assessment procedures or other management reviews conducted. Further, as of September 23, 2011, eight bureaus and independent offices had not submitted their FY 2011 annual certifications to the Administrator. These certifications were due by August 19, 2011. However, they did submit them by year end.
<b>Actions Taken</b>	During FY 2011, USAID's Office of the CFO: <ul style="list-style-type: none"><li>• Developed an FMFIA annual certification sample letter;</li><li>• Developed an FMFIA corrective action plan template and instructions; and</li><li>• Issued an Agency General Notice policy reminder to bureaus, independent offices, and overseas field missions.</li></ul>
<b>Actions Remaining and Expected Completion Date</b>	The Office of the CFO will update Agency policies and procedures on Management's Responsibility for Internal Control, including the risk assessment guidance and checklist for bureaus and missions as well as the MCRC charter. Specifically, guidance will be provided on program evaluations, management reviews, control testing, and the required documents that must be maintained for certification purposes. The Agency will create an Executive-Info Phoenix Viewer report of all bureau and mission deficiencies entered in the Consolidated Audit and Compliance System (CACS) for senior management. In addition, the Office of the CFO will engage bureaus and missions in training outreach.  <b>Target Completion Date:</b> September 30, 2012

## FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT (FFMIA)

The FFMIA was designed to improve federal financial management and reporting by requiring that financial management systems comply substantially with three requirements: (1) federal financial management systems requirements, (2) applicable federal accounting standards, and (3) the U.S. Standard General Ledger (USSGL) at the transaction level. Further, the act requires independent auditors to report on agency compliance with the three requirements as part of the financial statement audit. USAID has evaluated its financial management systems and determined that they substantially comply with federal financial management systems requirements, appli-

cable federal accounting standards, and the USSGL at the transaction level.

## FINANCIAL MANAGEMENT SYSTEMS

USAID has a robust portfolio of financial management systems and tools that help Agency staff effectively manage taxpayer funds. All accounting transactions at USAID are processed in a single, worldwide financial management system called Phoenix. Worldwide deployment of Phoenix enabled USAID to improve financial operations by automating processes and allowing for necessary controls. The worldwide deployment of the Global Acquisition and Assistance System (GLAAS) to more than 80 USAID missions was completed in 2011,

with Afghanistan scheduled to go live on GLAAS on November 20. This major milestone in the Agency's commitment to streamlining international assistance means that more than 3,000 users now have a single, automated acquisitions and assistance system and the Agency can benefit from the real-time Phoenix-GLAAS integration so that standard financial and procurement data that is entered only once can be shared across operating units. The integrated systems enforce standard business processes and workflow, and reduce the opportunity for errors.

As pressure mounts to do more with less, Phoenix answers the call as a core financial management system that provides easily accessible, comprehensive financial information that is the basis for Agency-wide financial reporting and financial control.

## GOALS AND THE SUPPORTING FINANCIAL SYSTEM STRATEGIES

USAID’s financial systems framework continues to evolve in support of ongoing efforts to improve financial management and Agency operations. The systems framework is a suite of interconnected systems and tools that enable users to effectively process transactions and provide useful and reliable information for programmatic and operational decision making. The financial systems framework supports the Agency’s financial management goals, including:

### Alignment with U.S. Government Initiatives

As the Federal Government undertakes new initiatives to improve financial management, USAID is updating its systems and processes accordingly, to improve coordination with other federal agencies and compliance with new standards.

### Open Government

Recent enhancements to financial reporting and data validation have not only increased the efficiency of Agency financial management, but also supported transparency into USAID’s financial status, benefiting internal and external stakeholders alike. USAID, in partnership with the Department of State, recently launched the Foreign Assistance Dashboard, which provides a view of U.S. Government foreign assistance funds and enables users to examine, research, and track aid investments in a standard and easy-to-understand format.

Often, governments and citizens in developing countries know very little about how much foreign assistance is provided, for what purposes, and with what results. This lack of information impedes development planning and budgeting for the U.S. and foreign governments, hinders effective

investments from donors, and decreases the accountability of foreign and local governments. The Foreign Assistance Dashboard, created in response to the principles of the Paris Declaration on Aid Effectiveness, is a significant contribution to the success of President Obama’s Open Government Initiative. By providing a wide variety of stakeholders with the ability to examine, research, and track U.S. Government foreign assistance investments in an accessible and easy-to-understand format, the dashboard:

- Enables a clearer understanding of foreign assistance funding activities;
- Helps ensure that investments are well managed and consistent with broader objectives;
- Makes foreign aid more useful for development;
- Allows foreign governments to better manage their aid flows; and
- Promotes international accountability.

The dashboard is still in its early stages of development, currently only containing Department of State and USAID budget and appropriation data. However, the dashboard is leading the drive across the government to adopt common reporting standards for foreign assistance information. Future versions of the Foreign Assistance Dashboard will incorporate budget, financial, program, and performance data in a standard form from all U.S. Government agencies receiving or implementing foreign assistance, humanitarian, and/or development funds.

FOREIGN ASSISTANCE DASHBOARD STAKEHOLDERS
U.S. Citizens
Congress
U.S. Government Agencies
Foreign Assistance Donors
Partner Country Governments

The Foreign Assistance Dashboard can be accessed at [www.foreignassistance.gov](http://www.foreignassistance.gov).

In addition, USAID is increasing the transparency of foreign aid by implementing a standardized “unit of aid.” This unit of aid will enable more efficient tracking of project spending against budgetary planning, helping to create more informative reports.

### Achieving Operational Efficiency

The Federal CIO has tasked federal agencies to shift their mindsets from building large, complex custom systems to adopting light technologies and shared solutions. USAID is ahead of this curve with Phoenix, a commercial off-the-shelf (COTS), Web-based financial management system that has been configured to meet USAID’s unique business needs. USAID partners with the Department of State to run the Joint Financial Management System (JFMS), an initiative to collaborate on financial management system planning and support between USAID and the Department of State. Because today’s technology allows data to be shared where needed without also sharing a database, JFMS is able to provide usability and flexibility for the distinct user communities while maintaining a common COTS application platform in support of federal mandates.

Recently, as part of the Memorandum M-10-26 that launched a government-wide review of financial systems information technology (IT) projects in support of an IT project management reform effort, OMB established the Financial Systems Advisory Board consisting of experts from various financial communities to review federal financial system modernization projects and make recommendations to OMB. In FY 2011, thanks in large part to the Agency’s financial modernization efforts and the Office of the CFO’s management practices,

this board commended USAID on its financial system collaboration with the Department of State and OMB noting that they approved of the approach the Office of the CFO was taking with the financial management system.

## Improving Accountability

The Streamlining Project, a joint effort between USAID and the Department of State, aims to improve the quality of financial data in order to create a transparent view that enables quick, well-informed decision making. At completion, this project will reduce the overall types of financial data available to only those that present the best, most effective description of foreign assistance progress, while increasing the usefulness of data collected for decisions about program planning and implementation. Ultimately, USAID's internal and external stakeholders will be able to track funds across the accounting lifecycle to validate that funds are being used and managed efficiently and, if the situation warrants, intervene early if a project is not achieving desired results.

## Worldwide Operations

USAID's workforce consists of a diverse group of employees from around the world. Although the leadership in the Office of the CFO is stationed in USAID headquarters, the CFO encourages innovation in the overseas missions, and helps Agency staff in the field leverage and scale solutions that can improve financial management around the world.

USAID is continually reviewing its financial management strategies to best serve the Agency's goals. In 2011, USAID reorganized its accounting classification structure in Phoenix to more effectively manage the Agency's largest assistance missions, and financial accounting and

reporting in Phoenix were updated to reflect this change. This reorganization gives USAID independent budget and hiring authorities to effectively provide services to citizens and enhance the long-term sustainability of development efforts in these missions.

## Workforce Development

USAID is supporting staff development by providing resources, training, and ongoing support. In addition to providing technical education for foreign assistance staff, USAID holds training around the world to teach its employees about financial management, internal controls, acquisition and assistance management, and other topics that help them effectively manage U.S. Government funds.

Financial staff in missions worldwide are now able to play an increasingly important role in local capacity building and aid effectiveness goals, particularly in support of the USAID *Forward* Implementation and Procurement Reform objectives. As USAID aims to increase the percentage of funds obligated through partner country systems, mission financial staff are being asked to assess host government capacity and risk, and play an important role in the related capacity building for host government financial management. Likewise, financial experts in the missions can contribute to similar assessments and capacity-building exercises with new, local implementing partners.

## FINANCIAL MANAGEMENT SYSTEMS FRAMEWORK

The Phoenix accounting system is the core of USAID's financial systems framework. USAID's financial management needs and technical and regulatory environments are continually evolving. To keep Phoenix aligned with Agency hardware

and software standards, federal financial management practices, regulatory compliance, and emerging security risks, USAID plans to upgrade to its software in the next fiscal year. Implementing newer software versions enables financial management staff to work more effectively and allows USAID to take advantage of newer IT technology to improve system performance, while complying with evolving federal requirements and best practices. Several USAID-specific enhancements will be included in upcoming releases of the COTS software, which helps the Agency reduce customizations and reduces the downstream cost of maintaining and enhancing the software in the future.

In addition to Phoenix, the Agency has implemented a suite of systems and tools that contribute to effective financial management:

## GLAAS

GLAAS manages awards throughout the acquisition and assistance lifecycle, including reporting and administration. The Agency benefits from GLAAS in multiple ways:

- *Improved Accountability:* GLAAS maintains a permanent record and audit trail of all acquisition and assistance transactions for increased transparency. It also enhances compliance with federal reporting requirements and Presidential Initiatives. Because it integrates in real time with Phoenix, it helps USAID maintain accountability of funds.
- *Accurately Tracking Development Programs:* GLAAS improves the monitoring of grants and acquisitions from beginning to end, and allows users to more easily and accurately monitor the status of acquisition and assistance actions.

- *Supporting USAID Resource Stewardship:* GLAAS provides the quality data and tools necessary to exercise greater stewardship of public funds. It increases the transparency, accountability, disclosure, and accessibility of the Agency's spending of public funds.

The GLAAS and Phoenix systems are integrated so that procurement and financial data can be exchanged on a real-time basis, enabling efficient and accurate funds control validation for procurement actions. GLAAS, which has replaced the legacy New Management System (NMS), will be live at more than 80 missions worldwide by November 2011.

## E2

The E2 travel management tool coordinates approval, payment, and management of travel expenses. In 2011, USAID developed an interface between Phoenix and E2 interface called E2i, which is expected to improve data accuracy, streamline processes, and reduce workload for Agency staff. E2i is currently live at several missions and Washington offices, with full deployment expected to be complete in FY 2012.

## Internal Financial Management Tools

These systems are complemented by tools that help financial management staff in the field with their planning and accounting. In many cases, these tools were developed by employees in USAID missions and scaled to fit worldwide needs.

For example, USAID/Peru developed a budget tracking tool called OPS Master, which integrates program budget planning data with financial management information. OPS Master is now being upgraded and deployed to all USAID locations worldwide.

USAID/Egypt is responsible for the CART, an automated tool that helps financial management staff reconcile Agency posted transactions with the Department of Treasury and USDO transactions. The tool, which has proven successful, is currently getting a Web-based makeover, which will be called eCART. Deployment of eCART is expected to further reduce manual workload for USAID employees, thus resulting in a cost savings for USAID.

In addition, a field support application, known as FS-AID, helps program management staff plan and manage requirements for technical support agreements that are centrally managed from USAID headquarters.

## External Financial Management Support

In some cases, the Agency has found it more cost effective to rely on U.S. Government and private sector partners to provide certain business support functions. HHS processes letter of credit transactions for grantee advances and liquidations. USAID has a cross-servicing agreement with the USDA's NFC to process payroll for some categories of employees. The servicing of USAID loans is outsourced to Midland Loan Services, which tracks loan activities ranging from collections and write-offs to fee applications and recoveries. And USAID's credit card transactions are managed by Citibank. Each of these business support services interfaces with the Phoenix accounting system so that data are accurately and efficiently transferred.

# OTHER MANAGEMENT INFORMATION, INITIATIVES, AND ISSUES

## IMPLEMENTING THE RECOVERY ACT

Pursuant to Division A, Title XI of the Recovery Act, USAID received \$38 million for IT systems, where appropriate, to increase efficiencies and eliminate redundancies, to include co-location of backup information management facilities. USAID is using Recovery Act funds to complete the rollout of GLAAS. GLAAS is a new enterprise business system that will, for the first time, give USAID the ability to process more than \$11.5 billion annually in acquisition and assistance transactions worldwide.

Investment in GLAAS serves two essential functions: expansion of E-Government initiatives and Agency business modernization. GLAAS maximizes interoperability and minimizes redundancy through integration with a host of internal and external systems. The real-time integration of GLAAS with USAID's financial management system allows the Agency to provide comprehensive, timely, and accurate reports to OMB, Congress, and other stakeholders. GLAAS also integrates with external government systems including FPDS-NG, FedBizOpps, FAADS, and Grants.gov, simplifying the acquisition and assistance process and enhancing USAID's ability to provide important financial information to the public.

Recovery Act funds have enabled USAID to complete all major software development and the worldwide deployment of GLAAS. USAID released GLAAS 3.2 in December 2009 to provide critical functionality for headquarters offices and overseas missions. GLAAS 3.3 was released in August 2010 to accommodate changes necessary to maintain an interface with the updated version of USAID's financial management system, Phoenix. From October 2009 through March

2010, USAID completed deployment of GLAAS to all 21 headquarters bureaus and offices requiring access.

During FY 2011, USAID also deployed GLAAS to three new headquarters bureaus that were established, bringing the total to 24 bureaus and offices with access to GLAAS. This accomplishment was followed by GLAAS deployments to an additional 80 missions from November 2009 through August 2011: November 2009 – Africa Region (Ethiopia); March 2010 – Latin America and the Caribbean Region (Barbados, Dominican Republic, El Salvador, Guatemala, Guyana, Honduras, Jamaica, Mexico, Nicaragua, and Panama); and July 2010 – Asia Region (Bangladesh, India, Indonesia, Central Asia Republics (Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan), Mongolia, Philippines, and Sri Lanka); December 2010 – Europe and Eurasia Region (Albania, Belarus, Bosnia-Herzegovina, Cyprus, Hungary, Kosovo, Macedonia, Moldova, Russia, Serbia-Montenegro, and Ukraine) and Middle East Region (Egypt, Iraq, Jordan, Lebanon, Morocco, and Yemen); March 2011 – Africa Region (Benin, Ghana, Guinea, Liberia, Mali, Nigeria, and Senegal), Asia

Region (Pakistan), and Middle East Region (West Bank/Gaza); June 2011 – Africa Region (Angola, Madagascar, Malawi, Mozambique, Namibia, South Africa, Sudan (Juba and Khartoum), Tanzania, Zambia, and Zimbabwe); and August 2011 – Latin American and the Caribbean Region (Haiti). These deployments raised the total number of overseas missions with GLAAS access to 80, representing the completion of deployment to USAID missions covered by Recovery Act funding.

The deployments completed through August 2011 resulted in the Agency's continued increase in the use of GLAAS for managing acquisitions and assistance projects. During FY 2011, USAID obligated \$9.7 billion through GLAAS, reflecting a 25 percent increase over the amount obligated during FY 2010. Now that it is deployed, GLAAS provides significant benefits to the Agency and its stakeholders through staff workload optimization, legacy system retirement, and enhancements to reporting and project management capabilities.

For more details on Recovery Act material activities, please go to the Agency's Recovery Web site at <http://www.usaid.gov/recovery/>.

## FINANCIAL STATEMENT AUDIT FINDINGS

The auditor identified one material weakness and six significant deficiencies. The material weakness is a repeat finding from FY 2010. The significant deficiencies related to reconciling loans receivable; accounting for and accurately reporting property, plant, and equipment; and reconciling intragovernmental transactions are also repeat findings from the previous fiscal year. The following table lists the open findings as well as planned actions to resolve them.

SUMMARY OF INDEPENDENT AUDITOR'S REPORT FINDINGS FY 2011		
Material Weakness	Planned Corrective Actions	Target Completion Date
USAID does not reconcile its Fund Balance with Treasury account with the U.S. Treasury and resolve reconciling items in a timely manner (repeat finding)	The Office of the CFO will continue to focus on strengthening its reconciliation procedures to identify the transactions that cause the Fund Balance with Treasury (FBWT) differences. Strengthening the reconciliation processes to significantly reduce differences will require the Web-based Cash Reconciliation Tool (CART) as a means and, as noted by OIG, the Agency will work to accelerate implementation and stabilization of Web-based CART. To address legacy differences, USAID and OIG will reach agreement with Treasury on an acceptable approach to eliminate old FBWT differences and to resolve very old suspense items. USAID will clear current period suspense transactions within 60 days.	February 29, 2012
Significant Deficiencies	Planned Corrective Actions	Target Completion Date
USAID's process for reconciling loans receivable is not effective and does not resolve differences in a timely manner (repeat finding)	USAID will continue to work with the loan services provider to investigate and resolve differences between the Phoenix accounting system and balances maintained by the loan services provider. USAID's progress in reconciling loan restructurings was limited in FY 2011 due to the large turnover of staff in the Credit Program. It will take approximately two and a half years to complete past debt restructuring reconciliations.	June 30, 2014
USAID's process for reviewing and deobligating unliquidated obligations is not effective	USAID will continue to identify and reduce the current contract and obligation closeout and as noted, the Office of the CFO will collaborate with the Office of Acquisition and Assistance to evaluate and utilize service providers available to expedite the close-out audit process. The Office of the CFO will continue to target specific areas for batched processing, including low-dollar, miscellaneous, and travel-related obligations. USAID will also evaluate the use and functionality of requiring period of performance dates for all procurement contracts.	September 30, 2014
USAID's process for accounting for and accurately reporting property, plant, and equipment (PP&E) is not effective (repeat finding)	USAID will evaluate whether policy revisions are required and will revise its procedures accordingly. During FY 2011, the Office of the CFO reconciled its records directly with the various missions. USAID will (a) institute additional processes to improve the reconciliation and coordination among the Overseas Management Division, Office of Foreign Disaster Assistance, and Office of the Chief Information Officer to resolve reporting differences, and (b) coordinate with the Overseas Management Division to obtain quarterly disposal reports when performing the mission data call and data validation.	June 30, 2012
USAID's process for accounting for accounts receivable is not effective	The Office of the CFO will review and revise desktop procedures as necessary and provide training to system accountants on posting receivable write-off transactions correctly. In addition, USAID will issue a memorandum to all relevant users to reiterate the proper procedures when posting write-offs.	September 30, 2012
USAID's process for accounting for advances is not effective	The Office of the CFO will review and update advance liquidation procedures, where applicable, as well as proactively monitor and liquidate advances through rigorous cyclical follow-up with Agency vendors to ensure that they submit their advance liquidation documents timely. USAID liquidated over \$16 million of the \$26 million identified by the OIG as outstanding advance transactions. Currently, the outstanding advance balance is approximately \$9.6 million.	September 30, 2012
Intragovernmental transactions remain unreconciled (repeat finding)	USAID will continue to coordinate with other Federal agencies to resolve the intragovernmental differences in a timely manner.	September 30, 2015

## AUDIT FOLLOW-UP

The OIG uses the audit process to help USAID managers improve the efficiency and effectiveness of operations and programs. USAID management and the OIG staff work in partnership to ensure timely and appropriate responses to audit recommendations. The OIG contracts with the Defense Contract Audit Agency to audit U.S.-based contractors and relies on non-federal auditors to audit U.S.-based grant recipients. Overseas, local auditing firms or the supreme audit institutions of host countries audit foreign-based organizations. The OIG staff conduct audits of USAID programs and operations, including the Agency's financial statements, related systems and procedures, and Agency performance in implementing programs, activities, or functions.

During the fiscal year, USAID received 551 audit reports; 484 of these reports covered financial audits of contractors and recipients, and 67 covered Agency programs or operations. The Agency closed 1,033 audit recommendations. Of these, 491 were from audits performed by the OIG staff and 542 were from financial audits of contractors or grant recipients. USAID took final action on recommendations with \$111.8 million in disallowed costs, and \$618,000 was put to better use during the fiscal year.

At the end of the fiscal year, there were 814 open audit recommendations. Of these, 57 were more than a year old. Twenty-four of the 57 were under formal administrative or judicial appeal with the Agency's procurement executive or the Civilian Board of Contract Appeals. The remaining 33, or 4.1 percent, were audit recommendations that could not be closed within a year of the management decision (i.e., corrective action plan) date. In addition, there was one audit recom-

mendation over six months old with no management decision. This concerned an audit of the adequacy of USAID's anti-terrorism vetting procedures.

The 33 audit recommendations that were over one year old included 13 recommendations requiring collection of funds from contractors and recipients, and 20 requiring improvements in Agency programs and operations. The latter were tied to an audit of USAID's E2 Solutions Travel System; an audit of USAID/Kenya's efforts to mitigate environmental impact in its project portfolio, an audit of USAID's financial statements for FY 2009 and FY 2008; Agency-contracted audits of USAID resources managed by K-Rep Development Agency and The Louis Berger Group Inc.; A-133 audits of USAID agreements with Care USA and KNCV Tuberculosis Foundation and Partners, and Inter-American Institute

of Human Rights; an audit of USAID's compliance with the Federal Information Security Management Act (FISMA) for FY 2009; and an audit of the adequacy of USAID's anti-terrorism vetting procedures.

The charts below show that USAID made management decisions to act on 235 audit recommendations with management efficiencies (funds put to better use) and planned recoveries (collection of disallowed costs) totaling more than \$52.3 million. In addition, final action was completed for 276 audit recommendations representing \$112.4 million in cost savings. Note: The data in these charts do not include procedural (non-monetary) audit recommendations. The ending balance is determined by adding management decisions (decisions made on an appropriate course of action) to the beginning balance and subtracting final actions (closed audit recommendations).

### MANAGEMENT ACTION ON RECOMMENDATION THAT FUNDS BE PUT TO BETTER USE

	Recommendations	Dollar Value (\$000)
Beginning balance 10/1/2010	9	\$1,178
Management decisions during the fiscal year	4	2,018
Final action	3	618
Recommendations implemented	3	618
Recommendations not implemented	—	—
Ending Balance 9/30/2011	10	\$2,578

### MANAGEMENT ACTION ON AUDITS WITH DISALLOWED COSTS

	Recommendations	Dollar Value (\$000)
Beginning balance 10/1/2010	228	\$379,935
Management decisions during the fiscal year	231	50,300
Final action	273	111,791
Collections/Offsets/Other	243	11,248
Write-offs	30	100,543
Ending Balance 9/30/2011	186	\$318,444

## FEDERAL REAL PROPERTY INITIATIVE

USAID seeks to manage real property assets at the right size, in the right condition, and at the right cost.

The Agency's real property inventory holdings consist of 1,467 assets with a total plant replacement value of \$3.4 billion as of December 15, 2010. The oversight of this portfolio is overseen by USAID's Senior Real Property Officer in collaboration with the Department of State's Overseas Buildings Operations Bureau.

The Executive Office of the President has given wide attention to the efficient and effective management of real property in recent years, beginning with Executive Order 13327 in 2004, and moving forward with the 2010 Presidential Memorandum on Cost Savings and Innovation for real property in 2010, and most recently the Civilian Property Realignment Act of 2011. Real property also plays a major role in federal sustainability goals, such as those laid out in Executive Orders 13423 and 13514; as well as via objectives from EISA2007, EPAct2005, and the Telework Enhancement Act of 2010.

USAID has a successful track record in meeting the challenges of the Federal Real Property Initiative. Over the past several years, the Agency has received recognition from OMB for maintaining an accurate inventory of real property, reporting of processes and strategy through the annual Asset Management Plan, and accelerating the identification and disposal of surplus assets. Today USAID is addressing new challenges to support expanding development and diplomatic missions in a challenging budget environment. USAID is accomplishing this through continuous improvement areas such as implementing innovative design concepts for the workplace, improving management efficiencies, and identifying cost savings and cost avoidance opportunities for real property.

## ACCOUNTABLE GOVERNMENT INITIATIVE

### ATTRACTING AND MOTIVATING TOP TALENT

Like many federal agencies, USAID has an aging workforce and is beginning now to prepare for the expected retirement of many of its senior level executives in the foreign and civil service in the decade ahead. Consistent with OPM directives, USAID has streamlined its civil service hiring process. To ensure a diverse workforce, USAID has expanded its recruitment efforts and outreach to populations of Americans underrepresented in USAID's workforce, including establishing a portal to increase veteran hiring. Efficient and responsive HR services and support, including employee assistance and wellness programs, improvements to performance feedback and appraisal processes, and improving the effectiveness of leadership and technical training and development programs, are all vital to USAID's ability to retain and motivate top talent. Efforts in FY 2012 will emphasize continued progress on all these fronts and an overall strengthening of USAID's HR staff and processes supporting employees to do the best work they have ever done, and make USAID a "best place, best people" organization.

## PURSUING OPERATIONAL STABILITY

### IMPLEMENTING THE FEDERAL LEADERSHIP ON ENVIRONMENTAL, ENERGY AND ECONOMIC PERFORMANCE, EXECUTIVE ORDER 13514

Executive Order 13514, Federal Leadership on Environmental, Energy, and Economic Performance, requires federal agencies to adopt measures to increase energy efficiency, reduce greenhouse gas emissions and water consumption, purchase and utilize environmentally preferable products and services, and reduce generation of solid waste. USAID has taken steps in each of these areas to address these requirements. The Agency has established goals to reduce greenhouse gas emissions from its operations domestically and overseas. As part of its first Agency Sustainability Plan, USAID set a goal of reducing carbon emissions from international air travel by 7 percent. To date, carbon emissions from air travel have been reduced by 3,339 metric tons from FY 2008 to FY 2010. This is equivalent to the 33 acres of forest preserved from deforestation, annual energy use of 290 houses, and 374,327 gallons of gas consumed. Other actions taken to reduce the impact of its domestic operations include enhancing the recycling program in Washington-based facilities, by tripling collection capacity, to include paper, plastic, and aluminum products. A new telework program permits employees to telework more frequently, thereby further reducing emissions of greenhouse gases.

USAID is also promoting energy conservation measures in overseas mission facilities that reduce energy usage, water consumption, and solid waste generation. For example, the mission in Bolivia has switched from disposable toner cartridges to refillable locally obtained cartridges resulting in less solid waste generation and a costs savings of \$10 thousand per year. The mission is also transitioning from diesel fuel generators and boilers to more efficient, cleaner burning natural gas. Water consumption reduction is being achieved through installing water efficient faucets and water displacers in toilets.

Current USAID energy and conservation activities not only reduce greenhouse gas emissions and pollution but have the added benefit of cost savings throughout the Agency.

## **COST SAVINGS**

USAID remains committed to the central focus of improving the efficiency of the Agency and attaining cost savings. The Agency has undertaken ambitious cost saving reforms in an effort to improve management processes and operational efficiencies. In FY 2011, the Agency realized cost savings, which included cost avoidance of over \$57.7 million. These efficiencies were accomplished in FY 2011, through reductions in administrative costs, in-sourcing, and the disposal of unneeded real property. Additionally, as part of the President's Securing Americans' Value and Efficiency Campaign (SAVE), USAID submitted several cost savings proposals for implementation. USAID continues to pursue both short and long-term savings opportunities while maintaining focus on mission strategic priorities.

# FINANCIAL SECTION



*Then...*



# Now.

**(Above)** Less than 5 percent of Afghani citizens have a physical bank account, but more than half of the population uses a mobile phone. To bridge this gap, a team within USAID's Afghan Social Outreach Program created "Mobile Money," which enables the transfer of money via mobile phones, reducing the cost of banking as well as improving efficiency. PHOTO: JAN CHIPCHASE

**(Preceding page)** USAID-financed consultants worked with the Korea Productivity Center (KPC), a consulting company, to modernize Korea's industry and commerce through the improvement of management and manufacturing skills. KPC now offers training to 2,500 people a year. PHOTO: USAID

# A MESSAGE FROM THE CHIEF FINANCIAL OFFICER



It is with great pride that I announce that the U.S. Agency for International Development (USAID) received its ninth consecutive unqualified audit opinion on its financial statements for FY 2011. The USAID Office of Inspector General's (OIG) opinion reports that the statements have presented fairly, in all material respects, the financial position of the Agency as of September 30, 2011 and 2010 and its net cost, net position, and budgetary resources are in conformity with generally accepted accounting principles (GAAP).

The Agency Financial Report (AFR) for FY 2011 is the Agency's principal publication and report to the President and the American people on its stewardship and management of the public funds to which we have been entrusted. In addition to financial information, this report also includes a high level discussion of performance information.

During FY 2011, USAID achieved an important milestone by significantly reducing the unexplained cash balance differences between its general ledger and the U.S. Treasury between September 30, 2010 and September 30, 2011. Although the OIG acknowledged the continued progress made by USAID, they classified this deficiency as a material weakness again this year. The Agency plans to resolve this finding by February 29, 2012. The major



**David D. Ostermeyer**

impediments to eliminating this weakness were the delay in implementing a Web-based cash reconciliation system and strengthening our comprehensive Treasury-General Ledger Reconciliation analysis that identifies unexplained cash differences for review and reconciliation.

Some of the additional noteworthy improvements that contributed to the drastic reduction of fund balance differences during FY 2011 include:

- Completing the implementation of a process that uses the Cash Reconciliation Tool (CART) to ensure that (1) monthly, all U.S. Disbursing Office vouchers charged to USAID/Washington are either posted or sent

to a mission by Interagency Payment and Collection (IPAC), and (2) cash is moved at the U.S. Treasury so that its charges match the appropriations charged by USAID;

- Improving the payroll reconciliation procedures by creating a new Access database and a new posting model for correcting payroll differences between Phoenix and the U.S. Treasury in order to compare Phoenix and National Finance Center transactions at the U.S. Treasury and at the transaction level;
- Reducing the number of suspense account items over 60 days old from approximately 3,000 to 1,800 and eliminating most unexplained legacy differences recorded in other appropriation accounts; and
- Creating a comprehensive Treasury-General Ledger Reconciliation analysis that identifies unexplained cash differences in order to help eliminate them.

The OIG identified six significant deficiencies in FY 2011. They pertain to (1) reconciling loans receivable, (2) reviewing and deobligating unliquidated obligations; (3) accounting for and reporting property, plant, and equipment; (4) accounting for accounts receivable; (5) accounting for advances; and (6) reconciling intragovernmental transactions. A summary of corrective actions to resolve these deficiencies, including target completion dates, are provided on page 43 in the Management's Discussion and Analysis section of this report.

During FY 2011, the Office of the CFO assessed the effectiveness of the Agency's internal control over financial reporting, including compliance with laws and programs, management of the government

charge card program, and the effectiveness of its measurement and remediation of improper payments, in Washington and six missions. This assessment was based on the requirements of Office of Management and Budget (OMB) Circular A-123, *Management's Responsibility for Internal Control*, and related appendices. One material weakness was identified; however, four significant deficiencies were reported as part of this assessment and the annual Federal Managers' Financial Integrity Act (FMFIA) review. Two of the four significant deficiencies are new for FY 2011: (1) inaccurate salary and entitlement payments, and (2) the Agency's FMFIA certification process is inconsistent at the bureau and independent office level. The two significant deficiencies reported last year related to loans receivable reconciliation and unliquidated obligations remain open. The A-123 assessment also determined that the FY 2010 material weakness of the Agency's "large unreconciled differences between the Fund Balance with Treasury account recorded in its financial accounting system (Phoenix) and the Fund Balance reported by the U.S. Department of the Treasury" showed significant improvements; however, this was not sufficient to downgrade it to a significant deficiency for FY 2011.

The Office of the CFO also coordinated the FMFIA overall compliance effort, which identified two significant deficiencies: (1) limited ability to implement and monitor activities in high threat environments, and (2) Enterprise Architecture: Human Resources information system solution needs to be implemented to manage employee information and actions. Corrective action plans are in place to manage and resolve all six significant deficiencies.

I am pleased to confirm that both the Agency and auditors noted no issues affecting overall substantial compliance with the Federal Financial Management Improvement Act (FFMIA).

USAID is committed to minimizing the risk of making erroneous or improper payments to contractors, grantees, and customers. In FY 2011, under the Improper Payment Elimination and Recovery Act (IPERA), USAID's error rate for the programs tested is 0.16 percent which is far below OMB's 2.5 percent threshold for erroneous payments. The Agency remains vigilant in its efforts to reduce payment errors by focusing its efforts on identifying, reporting, and recovering its high-dollar overpayments. In FY 2011, the Agency identified three high-dollar overpayments which were fully recovered as of September 30, 2011.

The Office of the CFO continues its leadership role in advancing Objective 1 of the Administrator's initiative *Building Local Development Leadership* through Implementation and Procurement Reform (IPR). IPR is one of seven key areas of reform under the USAID *Forward* initiative. IPR Objective 1 requires the strengthening of partner country capacity to improve aid effectiveness and sustainability. To accomplish this objective, USAID will (1) increase its use of reliable partner country systems and institutions using a risk-based approach, and (2) enhance its governance programs in order to provide further support to partner countries in strengthening public accountability, including public financial management and procurement systems. IPR Objective 1 reflects U.S. Government commitments to make greater use of reliable partner country systems under the

Paris Declaration on Aid Effectiveness and Accra Agenda for Action, and as set forth in the first Quadrennial Diplomacy and Development Review (QDDR). During FY 2011, the Office of the CFO led the IPR Objective 1 team with participation from mission personnel and USAID/ Washington representatives and achieved the following results:

- USAID collaborated with numerous donors through workshops and trainings, increasing communications within the wider USAID community and socializing IPR Objective 1, ultimately increasing and making better use of partner country systems in its development programs.
- New policy on the use of reliable partner country systems for direct management and implementation of assistance (Automated Directives System Chapter 220, <http://www.usaid.gov/policy/ads/200/220.pdf>), was completed and issued. The new chapter provides the policy directives and required procedures for determining the suitability of using partner

country systems for implementation of USAID-funded assistance and highlights the Agency's commitment to promote country ownership.

- Development and implementation of USAID's Public Financial Management Risk Assessment Framework (PFMRAF) continued. The PFMRAF is USAID's tool for assessing partner country systems' capacity and reliability. PFMRAF Stage 1 Rapid Appraisals have been completed in 10 countries to date. Six of these countries have proceeded or are planning to proceed to the PFMRAF Stage 2 Risk Assessment.
- IPR Objective 1 pilot training was completed for two of four newly developed courses designed to provide the knowledge and tools necessary to support USAID missions and USAID/ Washington in the achievement of IPR Objective 1 goals.

The Agency has also made continued and measurable progress toward providing information to the U.S. taxpayer about its programs and performance through the

government-wide Open Government initiative and reporting under the American Recovery and Reinvestment Act. USAID is committed to upholding the values of transparency, participation, and collaboration in tangible ways that benefit the American people.

While we are pleased with our FY 2011 accomplishments, we will strive to improve all aspects of financial performance and to maintain higher financial management standards in FY 2012. We are committed to promoting effective internal controls and resolving any impediments to assure fairly presented financial statements and improve the auditor's ability to issue an unqualified audit opinion next year.



David D. Ostermeyer  
Chief Financial Officer  
November 15, 2011



FINANCIAL SECTION

# INDEPENDENT AUDITOR'S REPORT

*Then...*





# Now.

**(Above)** In a USAID-funded research program, a pioneering, safe and effective vaccine against malaria is in its third phase of testing in Dar es Salaam, Tanzania. In the past five years, an organized effort to combat malaria has saved 1.1 million in sub-Saharan Africa. PHOTO: TONY KARUMBA / AFP

**(Preceding page)** Indoor residual spraying is an effective malaria control technique that involves spraying the interior walls of a house with insecticides. USAID has also distributed insecticide-treated bed nets and medicines for malaria prevention. PHOTO: RICHARD NYBERG / USAID

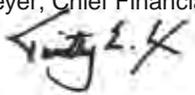


*Office of Inspector General*

November 15, 2011

**MEMORANDUM**

**TO:** David D. Ostermeyer, Chief Financial Officer

**FROM:** Tim Cox, AIG/A 

**SUBJECT:** Audit of USAID's Financial Statements for Fiscal Years 2011 and 2010

The Office of Inspector General (OIG) is transmitting its report on the Audit of USAID's Financial Statements for Fiscal Years 2011 and 2010. Pursuant to the Government Management Reform Act of 1994, Public Law 103-356, USAID is required to prepare consolidated financial statements for the fiscal year. Office of Management and Budget (OMB) Circular A-136, Financial Reporting Requirements, requires USAID to submit a Performance and Accountability Report, including audited financial statements, to OMB, Department of the Treasury and the Government Accountability Office by November 15, 2011. In accordance with the requirements of OMB Circular A-136, USAID has elected to prepare an alternative Agency Financial Report that includes an Agency Head Message, Management's Discussion and Analysis, and a Financial Section.

OIG has issued unqualified opinions on each of USAID's principal financial statements for fiscal years 2011 and 2010. With respect to internal control, we identified one deficiency that we consider a material weakness. The material weakness pertains to USAID's process for reconciling its fund balance with the U.S. Treasury. Additionally, we identified six deficiencies in internal control that we consider significant deficiencies. The significant deficiencies pertain to USAID's processes for (1) reconciling loan receivables; (2) deobligating unliquidated obligations; (3) accounting for property, plant, and equipment; (4) accounting for accounts receivable; (5) accounting for advances; and (6) reconciling intragovernmental transactions.

We found no instances of substantial noncompliance with requirements for federal financial management systems, federal accounting standards, or the U.S. Standard General Ledger at the transaction level as a result of our tests required under Section 803(a) of the Federal Financial Management Improvement Act of 1996.

This report contains six recommendations to improve USAID's internal control over financial reporting.

We have considered your response to the draft report and the recommendations included therein and have reached management decisions on the recommendations. Please forward all information to your Office of Audit, Planning and Coordination for final action. (*See Appendix II for USAID's Management comments.*)

U.S. Agency for International Development  
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Washington, DC 20523  
<http://www.usaid.gov/oig>

We appreciate the cooperation and courtesies extended to us during the audit. OIG is looking forward to working with you on our audit of USAID's fiscal year 2012 financial statements.

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# SUMMARY OF RESULTS

USAID's consolidated balance sheets, consolidated statements of net cost, consolidated statements of changes in net position, and combined statements of budgetary resources present fairly, in all material respects, the financial position of USAID as of September 30, 2011 and 2010 and its net cost, net position, and budgetary resources for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

This audit identified one deficiency in internal control that the audit team considered a material weakness, related to USAID's process for reconciling its fund balance with the U.S. Treasury. The audit also identified six significant deficiencies in internal control related to the following aspects of USAID's financial management processes:

- Reconciling loans receivable
- Accounting for unliquidated obligations
- Accounting for property, plant, and equipment
- Accounting for accounts receivable
- Accounting for advances
- Reconciling intragovernmental transactions

This audit identified no instances of substantial noncompliance with requirements for federal financial management systems, federal accounting standards, or the U.S. Standard General Ledger at the transaction level as a result of the tests required by Section 803(a) of the Federal Financial Management Improvement Act of 1996, Public Law 104-208.

# BACKGROUND

USAID was created in 1961 to advance U.S. foreign policy interests by promoting broad-based sustainable development and providing humanitarian assistance. USAID has missions in more than 100 countries, 46 of which have full accounting operations with USAID controllers. For the fiscal year ended September 30, 2011, USAID reported total budgetary resources of approximately \$24 billion.

Pursuant to the Government Management Reform Act of 1994 (GMRA), Public Law 103-356, USAID is required to submit audited financial statements to the Office of Management and Budget (OMB) annually. Accordingly, for fiscal year (FY) 2011, USAID has prepared the following:

- Consolidated Balance Sheet
- Consolidated Statement of Net Cost
- Consolidated Statement of Changes in Net Position
- Combined Statement of Budgetary Resources
- Notes to the Principal Financial Statements
- Required Supplementary Information
- Other Accompanying Information

## AUDIT OBJECTIVE

The Office of Inspector General (OIG) performed these audits to determine whether USAID's principal financial statements present fairly the assets, liabilities, net position, net costs, changes in net position, and budgetary resources for FYs 2011 and 2010.

In our opinion, the financial statements referred to above present fairly, in all material respects and in conformity with accounting principles generally accepted in the United States of America, USAID's assets, liabilities, and net position; net costs; changes in net position; and budgetary resources as of September 30, 2011 and 2010, and for the years then ended.

In accordance with *Government Auditing Standards*,<sup>1</sup> OIG has also issued reports, dated November 15, 2011, on its consideration of USAID's internal control over financial reporting and on its tests of USAID's compliance with certain provisions of laws and regulations. These reports are an integral part of an overall audit conducted in accordance with *Government Auditing Standards* and should be read in conjunction with the independent auditor's report.

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<sup>1</sup> GAO-07-731G (July 2007 Revision)

# INDEPENDENT AUDITOR'S REPORT ON USAID'S FINANCIAL STATEMENTS

We have audited the accompanying consolidated balance sheets of USAID as of September 30, 2011, and 2010, and the consolidated statements of net cost, consolidated statements of changes in net position, and combined statements of budgetary resources of USAID for the years ended September 30, 2011, and 2010. These financial statements are the responsibility of USAID's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted the audits in accordance with auditing standards generally accepted in the United States; generally accepted *Government Auditing Standards* issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. Those standards and OMB Bulletin 07-04 require that we plan and perform the audits to obtain reasonable assurance that the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that these audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects and in conformity with accounting principles generally accepted in the United States of America, USAID's assets, liabilities, and net position; net costs; changes in net position; and budgetary resources as of September 30, 2011, and 2010, and for the years then ended.

As discussed in note 20 of the FY 2011 financial statements, the FY 2010 Statement of Budgetary Resources has been restated to reflect the correction of an error in Distributed Offsetting Receipts which is reported in Net Outlays.

The Management's Discussion and Analysis and Required Supplementary Information sections are not required parts of the consolidated financial statements but represent supplementary information required by OMB Circular A-136, *Financial Reporting Requirements*. We have applied certain limited procedures to this information, primarily consisting of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information, and accordingly, we do not express an opinion on it.

In accordance with generally accepted *Government Auditing Standards*, we have also issued reports, dated November 15, 2011, on our consideration of USAID's internal control over financial reporting and on our tests of USAID's compliance with certain provisions of laws and regulations. These reports are an integral part of an overall audit conducted in accordance with *Government Auditing Standards* and should be read in conjunction with this report.

This report is intended solely for the information and use of those charged with governance at USAID (the USAID Administrator, Deputy Administrator, Assistant Administrator for Management, and Chief Financial Officer) and others within USAID, as well as for OMB and Congress, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.

A handwritten signature in black ink that reads "Office of Augusta Samuel". The signature is written in a cursive, flowing style.

USAID, Office of Inspector General  
November 15, 2011

# REPORT ON INTERNAL CONTROL

We have audited the consolidated balance sheets of USAID as of September 30, 2011 and 2010. We have also audited the consolidated statements of net cost, consolidated statements of changes in net position, and combined statements of budgetary resources for the fiscal years ended September 30, 2011 and 2010, and have issued our report thereon dated November 15, 2011. We conducted the audits in accordance with auditing standards generally accepted in the United States; generally accepted *Government Auditing Standards* issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended.

In planning and performing our audits of USAID's financial statements for the fiscal years ended September 30, 2011 and 2010, we considered USAID's internal control over financial reporting by obtaining an understanding of USAID's system of internal control, determined whether internal controls had been placed in operation, assessed control risk, and tested controls to determine which auditing procedures to use for expressing our opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 07-04, as amended. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982 (FMFIA), Public Law 97-225, such as those controls relevant to ensuring efficient operations. The objective of our audit was not to provide an opinion on internal control. Accordingly, we do not express an opinion on internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. However, as discussed below, we identified a material weakness and significant deficiencies in USAID's internal control.

A material weakness is a deficiency or a combination of deficiencies in internal control that presents a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected in a timely manner. We identified one deficiency in internal control that we consider a material weakness, as defined above, relating to USAID's reconciliation of its Fund Balance with the U.S. Treasury.

A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet is important enough to merit attention by those charged with governance. We identified six significant deficiencies in internal control related to USAID's financial management processes. Specifically, USAID's process to:

- Reconcile loans receivable is not effective and does not resolve differences in a timely manner.
- Review and deobligate unliquidated obligations is not effective.
- Account for and accurately report property, plant, and equipment is not effective.

- Account for accounts receivable is not effective.
- Account for advances is not effective.
- Reconcile intragovernmental transactions remains a challenge.

The Management's Discussion and Analysis and Required Supplementary Information sections are not required parts of the consolidated financial statements but represent supplementary information required by OMB Circular A-136, *Financial Reporting Requirements*. We have applied certain limited procedures to this information, primarily consisting of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information, and accordingly, we do not express an opinion on it.

We also noted other matters involving internal control over financial reporting which we reported to USAID's management in a separate letter dated November 15, 2011.

## Material Weakness

### **USAID Does Not Reconcile Its Fund Balance With Treasury Account With the U.S. Treasury and Resolve Reconciling Items in a Timely Manner (*Repeat Finding*)**

USAID continues to have large unreconciled differences between the Fund Balance with Treasury (FBWT) account recorded in the financial accounting system (Phoenix) and the Fund Balance reported by the Department of the Treasury (Treasury). As of September 30, 2011, the differences were \$96 million net (\$2.1 billion absolute value). These differences persist because USAID and its missions did not consistently perform monthly reconciliations of its FBWT account and research and resolve differences in a timely manner. Instead of investigating and resolving the differences, USAID adjusted its FBWT account by \$125 million as of September 30, 2011. However, only \$96 million was necessary to ensure that its FBWT account agreed with the balance reported on Treasury's Form 2108, Year End Closing Statement. Therefore, USAID will report the difference of \$29 million as an unadjusted misstatement and make the correction in FY 2012.

Additionally, our audit revealed that USAID recorded transactions in the suspense accounts that could not be readily identified when USAID received notification of these transactions from Treasury. However, USAID did not research and resolve these items within the 60-day requirement established by Treasury and acknowledged that it did not meet this requirement in its annual certification to Treasury for the periods ending September 30, 2010 and 2011 but committed to do so by the end of FY 2012. As of September 30, 2011, the net value of the suspense items over 60 days old was \$32 million, of which \$28 million related to items that occurred between 2001 and 2007 and require an inordinate amount of resources for resolution.

*Treasury Reconciliation Procedures, a Supplement to the Treasury Financial Manual, Volume I Part 2-5100, Section V, stipulates that federal agencies must reconcile their account and any related subaccounts at least monthly and must resolve all differences between the balances reported on their general ledger FBWT accounts and balances reported in the Government-wide*

*Accounting system.* In addition, *Treasury Reconciliation Procedures* specifically states that an agency may not arbitrarily adjust its FBWT account and only after clearly establishing the causes of errors and properly documenting those errors should an agency adjust the balance of its FBWT account.

Since USAID developed and implemented the Cash Reconciliation Tool (CART), some progress has been made to identify, track, and reconcile differences between Phoenix and Treasury and to research and properly record transactions that were previously recorded in its suspense accounts. USAID has strengthened the reconciliation process for payments made by third parties such as the Department of Health and Human Services, the National Finance Center and the Department of State and plans to implement a Web-based version of CART by the middle of FY 2012 that will aid in identifying specific missions' transactions that are part of the differences between Phoenix and Treasury and in seeing the list of reconciling items of every USAID accounting station in the world. This enhancement of CART will enable USAID to resolve reconciling items more effectively and significantly reduce the differences between Phoenix and Treasury.

**Recommendation 1.** *We recommend that the Chief Financial Officer accelerate the implementation of the Web-based CART, perform complete and timely fund balance reconciliations in accordance with the procedures established by the U.S. Department of the Treasury, and maintain documentation to adequately support all reconciliations performed.*

## Significant Deficiencies

### **USAID's Process for Reconciling Loans Receivable Is Not Effective and Does Not Resolve Differences in a Timely Manner (Repeat Finding)**

During our audit of the Loans Receivable account, we noted that USAID continues to have a large number of loan transactions that have not been reconciled. USAID contracted with PNC Financial Services Group Inc. (PNC) to service its loan portfolio and to maintain accurate loan balances. PNC processes USAID's loan transactions in its Enterprise Loan System (ELS) and generates a monthly report of loan transactions that is uploaded into USAID's accounting system (Phoenix) through an interface. This interface is necessary to transmit accounting information to Phoenix for the loans that are recorded and maintained in ELS. As of September 30, 2011, USAID's unreconciled differences between amounts recorded in Phoenix and amounts recorded in ELS totaled approximately \$29 million net (\$202 million absolute value).

Although USAID has made improvements in investigating and resolving these differences, a large unreconciled difference between the two systems remains. This difference results from unrecorded debt restructuring transactions that were not captured by the Phoenix accounting system during the interface and from some loan transactions recorded in ELS that were not designed to be included in the interface transmission process. According to USAID's management, these transactions are recorded with a supplemental journal entry following the interface. As a result, USAID recorded an adjustment of approximately \$29 million to bring the loans receivable balance in Phoenix as of September 30, 2011, into agreement with ELS.

Generally Accepted Accounting Principles require that the sum of the account balances in the subsidiary ledger equal the total of each line item in the general ledger at the end of the

accounting period. Additionally, Statements of Federal Financial Accounting Standards, Technical Release No. 6, *Preparing Estimates for Direct Loan and Loan Guarantee Subsidies under the Federal Credit Reform Act*, requires that agencies maintain an audit trail from individual transactions in the subsidiary ledger to the general ledger.

In our prior year's audit,<sup>2</sup> we recommended that USAID's CFO (a) intensify efforts to reconcile loan balances with PNC's ELS, (b) ensure that all transactions transmitted to Phoenix via the interface are properly posted to Phoenix, and (c) complete debt restructuring reconciliations within 90 days after PNC records debt restructurings in ELS. Because USAID continues to have large unreconciled differences between the amounts recorded in its Phoenix accounting system and the amounts recorded in ELS, we make the following recommendation.

**Recommendation 2.** *We recommend that the Office of the Chief Financial Officer (a) develop and implement a plan to complete its reconciliation of loan balances in the Phoenix accounting system with the balances maintained in the PNC Enterprise Loan System and (b) ensure that all Enterprise Loan System transactions transmitted to Phoenix via the interface are properly accounted for and recorded in Phoenix.*

## **USAID's Process for Reviewing and Deobligating Unliquidated Obligations Is Not Effective**

USAID does not consistently review and analyze its unliquidated obligations (ULOs) to determine whether those without activity for 3 years or more are still required or should be deobligated. Although USAID headquarters and its missions performed annual reviews of ULOs, they did not complete the process for analyzing and deobligating excess or unneeded funds in a timely manner. When funds are deobligated, they are made available in the Phoenix accounting system for reprogramming. During our audit, we analyzed USAID's ULOs and determined that, as of September 30, 2011, USAID had approximately \$70 million in unliquidated obligations with no disbursement activity for more than 3 years that should be evaluated for deobligation. Of the \$70 million, we determined that approximately \$17 million in unliquidated obligations (itemized in the table on the following page) had no disbursement activity since they were established).

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<sup>2</sup> "The Audit of USAID's Financial Statements for Fiscal Years 2010 and 2009," November 12, 2010, p. 8, <http://www.usaid.gov/oig/public/fy11rpts/0-000-11-001-c.pdf>.

**Table 1: Analysis of ULOs by Fiscal Years**

<b>FY Established</b>	<b>Obligation Amounts With No Activity Since Establishment (\$)</b>	<b>Unliquidated Amounts With No Activity in 3 years (\$)</b>
2000	204,954	1,860,280
2001	3,151,508	22,931,438
2002	291,993	3,559,176
2003	844,349	3,112,673
2004	1,408,997	5,977,728
2005	2,286,048	9,461,686
2006	1,782,047	7,836,576
2007	3,178,966	8,706,829
2008	3,557,993	6,753,142
<b>Total</b>	<b>16,706,854</b>	<b>70,199,526</b>

In addition, our audit determined that USAID had 79,800 obligations valued at approximately \$411 million in its Phoenix accounting system and its Global Acquisition and Assistance System (GLAAS) that lacked critical procurement information. Obligation details were lacking because contracting officers and obligation officials were not including all relevant information in the acquisition system when recording awards. Missing information included performance period start and end dates, which are necessary to facilitate an effective periodic review and evaluation of ULOs. In January 2011, management mandated that performance dates be included in all awards but our review identified several awards initiated after January 2011 that did not have this information.

These conditions occurred because USAID continues to have a large number of awards with unliquidated obligations that are pending closeout audits, and because obligation officials did not consistently include the period of performance in GLAAS for all awards so that performance dates could be recorded in the Phoenix accounting system.

USAID's Automated Directives System (ADS) Chapter 621.3.9, "Obligations," requires USAID and its missions to initiate and coordinate reviews of all ULOs at least annually to determine whether the unliquidated obligation balances should be retained or deobligated. In conducting reviews of unliquidated obligations to identify funds that must be deobligated, obligation officials and others involved in the review process must consider circumstances that could result in excessive or unneeded obligation balances.

By not evaluating ULOs, USAID risks losing program and operating expense funds that may expire before they are deobligated. Because USAID has approximately \$70 million in ULOs with no disbursement activity for more than 3 years, we make the following recommendation.

**Recommendation 3.** We recommend that the Chief Financial Officer coordinate with the Office of Acquisition and Assistance and with Bureau Assistant Administrators to (a) initiate targeted reviews of non-GLAAS obligations and batch obligations for automatic deobligation for small-dollar obligation balances, travel, operating-expense funded obligations, and program-funded obligations that are older than 5 years; (b) utilize services of independent public accounting firms to expedite the close out audit process, and (c) ensure that all obligation officials include period of performance dates for all procurement-type awards.

## **USAID's Process for Accounting for and Accurately Reporting Property, Plant, and Equipment Is Not Effective (Repeat Finding)**

USAID does not maintain an accurate listing of property, plant, and equipment (PP&E) or adequate documentation to support the PP&E recorded in its general ledger. During our audit, we found that USAID's Financial Management Division did not periodically reconcile the PP&E account balances in its general ledger with those reported by the Overseas Management Division (OMD); the Office of Foreign Disaster Assistance (OFDA); and the Office of the Chief Information Officer (CIO), which monitors and approves requests for property and equipment. As a result, USAID did not report capitalized assets totaling \$180,218 that were reported by the CIO.

Further, although USAID's Financial Management Division performed reconciliation of vehicles, it did not investigate and resolve differences totaling \$11,524,615 among the general ledger, the Vehicle Management Information System<sup>3</sup>, managed by OMD, and vehicle records reported by OFDA. As a result, the USAID Financial Management Division recorded a vehicle with book value of \$50,772 as a disposition, although it was purchased on January 7, 2011.

These discrepancies and errors occurred because USAID's Financial Management Division does not (1) follow established policies and procedures outlined in ADS 629 to ensure that complete supporting documentation is maintained for PP&E items recorded in its general ledger, (2) completely reconcile the PP&E account balances annually to ensure that assets accounted for by its Financial Management Division correspond to the asset information maintained by OMD, OFDA, and CIO, and (3) review its PP&E listing to ensure that all additions and dispositions are accounted for accurately and in a timely manner.

OMB Circular A-123, *Management's Responsibility for Internal Controls*, December 31, 2004, states that the reliability of financial reporting requires management to provide the assertion that documentation exists for all transactions and other significant events and is readily available for examination. Additionally, OMB A-136, *Financial Reporting Requirements*, September 29, 2010, states that periodic analyses, reconciliations, or comparisons of data should be included as a part of the regular duties of financial management offices. Because of the internal control deficiencies noted above, we make the following recommendation.

**Recommendation 4.** *We recommend that the Office of the Chief Financial Officer revise its policy and procedures to ensure that the Financial Management Division (a) reconciles property, plant, and equipment records with those of the Overseas Management Division, the Office of Foreign Disaster Assistance, and the Office of the Chief Information Officer, and researches and resolves discrepancies in a timely manner and (b) coordinates with the Overseas Management Division to obtain quarterly disposal reports when performing the mission data call and data validation.*

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<sup>3</sup> This is the system that USAID uses to accumulate data on its fleet of vehicles.

## USAID's Process for Accounting for Accounts Receivable Is Not Effective

During our testing of accounts receivable written off during the year, we found that USAID used the wrong posting model to write off delinquent accounts receivable. Our audit determined that in fiscal year 2011 USAID's Financial Management Division incorrectly wrote off 27 accounts receivable valued at approximately \$7.3 million by using the wrong posting model—recording a debit to Allowance for Loss on Accounts Receivable and a credit to Advances & Prepayments. This occurred because USAID's financial management system provided several posting model options when initiating accounts receivable write-off transactions, and its Financial Management Division personnel chose the wrong posting model to process the write-offs. As a result, during fiscal year 2011, USAID understated its FY 2011 Advances & Prepayments balance and overstated accounts receivable by approximately \$7.3 million.

Additionally, we found that USAID does not accrue interest and penalty costs for delinquent accounts receivable. During our review, we judgmentally selected a sample of 44 outstanding accounts receivable totaling approximately \$9.6 million and found that interest and penalty costs were not consistently applied against 16 of the 44 delinquent accounts. As a result, USAID understated accounts receivable on its balance sheet by approximately \$176,480. This understatement could easily have been prevented because USAID's financial accounting system has the capability to calculate interest. Section 2.1 of USAID's Phoenix Procedure Guide Version 4.3, "Accounts Receivable," states that Phoenix has a system setting that will automatically generate a due date for accounts receivable based on the date of entry of the billing document. The system will calculate interest and penalty charges daily on a 360-day calendar. However, USAID has opted not to use this functionality.

*Treasury Financial Manual* Supplement S2-09-01 states that the proper transaction to record the write-off of accounts receivable consists of a debit to Allowance for Loss on Accounts Receivable and a credit to Accounts Receivable. Also, USAID's ADS 625.3.4.10, Accounts Receivable and Debt Collection, states that if USAID does not receive payment by the due date, the receivable becomes delinquent and interest is computed back to the date of the original demand. Penalty costs must also be accrued and added to the indebtedness as outlined in 22 CFR 213.12. During the course of the audit, the CFO took action to implement the functionality for applying interest and penalty costs in the Phoenix accounting system. Therefore, we are not including a recommendation to accrue interest and penalty costs for delinquent accounts receivable in this report.

**Recommendation 5.** *We recommend that the Chief Financial Officer develop and implement procedures to ensure that the correct posting model is used when writing off accounts receivable.*

## USAID's Process for Accounting for Advances Is Not Effective

USAID's process for accounting for pooled advances continues to be problematic. Our review of advances found that, as of September 30, 2011, 50 obligations recorded on the Department of Health and Human Services Payments Management System (PMS) Synchronization Report, valued at approximately \$7.2 million, were deobligated twice by USAID. The obligations were deobligated once by USAID when the funds were removed manually from PMS after the Cash Management and Payments Division received notification that those grants were completed and that the grantees would no longer be incurring expenses against those obligations. The same

obligations were deobligated from PMS a second time when the USAID Office of Acquisition and Assistance recorded a deobligation in the Phoenix accounting system after receiving notification that the period of performance had expired. This second deobligation took place when the daily Phoenix outbound interface with PMS occurred. Therefore, the obligations that were manually removed from PMS were removed a second time and the closed grants were reestablished in PMS. As a result, the obligations recorded for those grants in PMS were lower than the expenses that the grantees were supposed to report in their quarterly reports. The grantees were therefore forced to report expenses to the extent of the obligations available, and not all the expenses that were incurred could be reported. Therefore, the outstanding advances on the balance sheet were overstated by \$7.2 million.

Our tests of advances determined that as of September 30, 2011, 164 advance transactions totaling \$26 million remained outstanding for over 90 days. Because the original advance payment document needed to perform the final deobligation was not referenced, the advance liquidation transactions were incorrectly recorded in the Phoenix accounting system. As a result, the wrong advances totaling \$26 million were liquidated. ADS 636.3 states that the Cash Management and Payments Division is required to ensure that outstanding advances are reviewed periodically so that advanced funds are not in excess of immediate disbursement needs.

Statements of Federal Financial Accounting Standards No. 1, paragraph 59, states that advances should be recorded as assets and subsequently reduced when services are received or expenses are actually incurred. USAID did not comply with this requirement. The Cash Management and Payments Division coordinated with the Office of the Chief Information Officer during the course of the audit and implemented an enhancement to the Phoenix accounting system that would omit closed Letter of Credit transactions from the outbound interface process. This change to the Phoenix accounting system was implemented on October 19, 2011. Because USAID's CFO has taken action to ensure that the final deobligations of advances from the PMS interface are recorded correctly in USAID's accounting system, we are not including a recommendation in this report.

**Recommendation 6.** *We recommend that the Office of the Chief Financial Officer develop and implement procedures to liquidate all outstanding advances in a timely manner.*

### **Intragovernmental Transactions Remain Unreconciled (Repeat Finding)**

USAID continues to have a large number of intragovernmental transactions that have not been reconciled. As of September 30, 2011, the U.S. Treasury (Treasury) reported a net difference of \$3.5 billion in intragovernmental transactions between USAID and other federal agencies. Of this amount, USAID was required to reconcile and confirm \$340 million in intragovernmental activity in accordance with OMB Circular A-136, *Financial Reporting Requirements*, and Treasury's *Federal Intragovernmental Transactions Accounting Policies Guide*, Section 17.1. These differences, which Treasury reports each quarter in the Material Differences/Status of Disposition Certification Report,<sup>4</sup> represent differences identified by Treasury between USAID's records and those of its federal trading partners that exceed a \$250 million assurance threshold

<sup>4</sup> The Material Differences/Status of Disposition Certification Report allows agencies to identify differences with trading partners by reciprocal categories that are greater than or equal to a respective reconciliation assurance level.

that is established by Treasury. In the fourth quarter report on material differences, Treasury reported only one difference of \$340 million that was greater than the \$250 million threshold. Although USAID has increased its efforts to resolve unreconciled amounts, significant differences still exist, including the \$340 million that should have been reconciled with one federal agency. These differences occurred because USAID's trading partners recorded the transactions in different accounting periods or used different accounting methodologies.

USAID continuously researches intragovernmental activity to improve USAID's reconciliation process and eliminate the differences. Although some timing differences may ultimately be resolved, differences caused by accounting errors or different accounting methodologies require a special effort by USAID and its trading partners for timely resolution. The *Federal Intragovernmental Transactions Accounting Policies Guide* suggests that agencies work together to estimate accruals and to record corresponding entries in each set of records to ensure that they agree and that long-term accounting policy differences can be eliminated.

Although approximately \$3.2 billion of the \$3.5 billion in net differences reported between USAID and the Treasury general fund does not have to be reconciled, Treasury does suggest that federal agencies confirm that these differences represent general fund activities. USAID is making an effort to confirm the general fund activity and plans to continue its efforts to collaborate with Treasury to research and reconcile these differences.

We identified similar conditions related to USAID's reconciliation of intragovernmental transactions in a previous audit<sup>5</sup> and recognize that this process requires continuing coordination with other federal agencies. Therefore, we are not making a new recommendation, but we will continue to monitor USAID's progress in reducing intragovernmental differences in future audits.

USAID management's written response to the material weakness and significant deficiencies identified in our audit has not been subjected to the audit procedures applied in the audit of the financial statements, and accordingly, we express no opinion on it.

This report is intended solely for the information and use of those charged with governance at USAID (the USAID Administrator, Deputy Administrator, Assistant Administrator for Management, and Chief Financial Officer) and others within USAID, as well as for OMB and Congress, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.



USAID, Office of Inspector General  
November 15, 2011

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<sup>5</sup> "Audit of USAID's Financial Statements for Fiscal Years 2010 and 2009," November 12, 2010, p. 9, <http://www.usaid.gov/oig/public/fy11rpts/0-000-11-001-c.pdf>.

# REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS

We have audited the consolidated balance sheets of USAID as of September 30, 2011, and 2010. We have also audited the consolidated statements of net cost, consolidated statements of changes in net position, and combined statements of budgetary resources for the fiscal years ended September 30, 2011, and 2010, and have issued our report thereon. We conducted the audits in accordance with auditing standards generally accepted in the United States; generally accepted *Government Auditing Standards* issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended.

The management of USAID is responsible for complying with laws and regulations applicable to USAID. As part of obtaining reasonable assurance about whether USAID's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts and with certain other laws and regulations specified in OMB Bulletin 07-04, including the requirements referred to in the Federal Financial Management Improvement Act of 1996 (FFMIA). We limited our tests of compliance to these provisions and did not test compliance with all laws and regulations applicable to USAID.

Our tests did not disclose instances of noncompliance considered to be reportable under *Government Auditing Standards*. Our objective was not to provide an opinion on overall compliance with laws and regulations, and accordingly, we do not express such an opinion.

## **OMB Circular A-123**

OMB Circular A-123, *Management's Responsibility for Internal Control*, implements the requirements of Federal Managers' Financial Integrity Act of 1982 (FMFIA). Appendix A of OMB Circular A-123 contains a process that management should implement to assess and improve internal controls over financial reporting. The assessment process should provide management with the information needed to support a separate assertion on the effectiveness of the internal controls over financial reporting, as a subset of the overall FMFIA report.

In 2011, USAID monitored key business processes and followed up on recommendations made in prior years. For FY 2011, USAID, in its Management Assurance Report to the President and Congress, identified and reported one material weakness related to its process for reconciling Fund Balance with the U.S. Treasury and the following significant deficiencies:

- Loan Receivable Reconciliation
- Unliquidated Obligations
- Inaccurate Salary and Entitlement Payments
- Inconsistent FMFIA Certification Process

## Federal Financial Management Improvement Act of 1996

Under FFMIA, we are required to report on whether USAID's financial management systems substantially comply with federal financial management systems requirements, applicable federal accounting standards, and the U.S. Government Standard General Ledger (USSGL) at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA Section 803(a) requirements. During our tests, nothing came to our attention to cause us to believe that USAID did not substantially comply with the federal financial management systems requirements, federal accounting standards, or USSGL accounting at the transaction level. In our Report on Internal Control, we identified the following areas for improvement in several financial system processes, not affecting substantial compliance:

- Reconciliation of Fund Balance With the U.S. Treasury
- Reconciliation of Loans Receivable
- Accounting for Unliquidated Obligations
- Accounting for Property, Plant, and Equipment
- Accounting for Accounts Receivable
- Accounting for Advances
- Reconciliation of Intragovernmental Transactions

This report is intended solely for the information and use of those charged with governance at USAID (the USAID Administrator, Deputy Administrator, Assistant Administrator for Management, and Chief Financial Officer) and others within USAID, as well as for OMB and Congress, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



USAID, Office of Inspector General  
November 15, 2011

# EVALUATION OF MANAGEMENT COMMENTS

We have received USAID's management comments on the findings and recommendations included in our draft report. We have evaluated USAID's management comments on the recommendations and have reached management decisions on all of the recommendations. The following is a summary of USAID's management comments and our evaluation of them.

USAID management agreed to implement recommendation 1 and stated that the Office of the Chief Financial Officer will continue to focus on strengthening its reconciliation procedures to identify the transactions that caused the differences with the Fund Balance with Treasury (FBWT). USAID management also noted that strengthening their reconciliation processes to significantly reduce differences will require the web-based Cash Reconciliation Tool (CART) as a means and, as noted by the OIG, the Agency will work to accelerate implementation and stabilization of the web-based CART. To address legacy differences, USAID and the OIG will reach agreement with Treasury on an acceptable approach to eliminate old FBWT differences and to resolve very old suspense items. USAID will clear current period suspense transactions within 60 days. The target completion date is February 29, 2012. We agree with the management decision on this recommendation and will review USAID's implementation of this recommendation during our FY 2012 GMRA audit.

USAID management agreed to implement recommendation 2 and noted that USAID will continue to work with the loan service provider to investigate and resolve differences between the Phoenix accounting system and balances maintained by their loan service provider. USAID management also stated that their progress in reconciling loan restructurings was limited in FY 2011 because of large turnover of staff in the Credit Program office. Management estimates that it will take 2½ more years to complete past debt restructuring reconciliations. The target completion date is June 30, 2014. We agree with the management decision on this recommendation and will review USAID's progress on the implementation of this recommendation during our FY 2012 GMRA audit.

USAID management agreed to implement recommendation 3 and stated that USAID will continue to identify and reduce the number of current contracts and obligations in closeout, and will look into the use of additional sources to expedite reviews. USAID management also noted that the Office of CFO will continue to target specific areas for batched processing, including low-dollar, miscellaneous, and travel-related obligations. USAID management committed to evaluating the use and functionality of requiring performance dates on all future procurement contracts. The target completion date is September 30, 2014. We agree with the management decision on this recommendation and will review USAID's progress on the implementation of this recommendation during our FY 2012 GMRA audit.

USAID management agreed to implement recommendation 4, stating that USAID will revise its procedures. USAID management also noted that during FY 2011 the Central Accounting and Reporting Division reconciled its records directly with the various missions. USAID management agreed to (a) institute additional processes to improve the reconciliation and coordination among the Overseas Management Division, the Office of Foreign Disaster

Assistance, and the Office of the Chief Information Officer to resolve reporting differences; and will (b) coordinate with the Overseas Management Division to obtain quarterly disposal reports when performing the mission data call and data validation. The target completion date is June 30, 2012. We agree with the management decision on this recommendation and will review USAID's implementation of this recommendation during our FY 2012 GMRA audit.

USAID management agreed to implement recommendation 5 and stated that the Office of the CFO will review and revise desktop procedures as necessary and provide training to system accountants on posting receivable write-off transactions correctly. USAID management also agreed to issue a memorandum to all users to reiterate the proper procedures when posting write-offs. The target completion date is September 30, 2012. We agree with the management decision on this recommendation and will review USAID's implementation of this recommendation during our FY 2012 GMRA audit.

USAID management agreed to implement recommendation 6 and stated that the Office of the CFO will (a) review and update advance liquidation procedures as applicable and (b) proactively monitor and liquidate advances through rigorous cyclical follow-up with Agency vendors to ensure that they submit their advance liquidation documents on time. USAID management also reported liquidating over \$16 million of the \$26 million identified by the OIG as outstanding advance transactions for FY 2011 and reported that the current outstanding advance balance is approximately \$9.6 million. The target completion date is September 30, 2012. We agree with the management decision on this recommendation and will review USAID's implementation of this recommendation during our FY 2012 GMRA audit.

Although we did not include a recommendation for the intragovernmental transaction reconciliation finding in our report, USAID management committed to continue to coordinate with other federal agencies to resolve the Intragovernmental differences in a timely manner. The target completion date is September 30, 2015. We agree with management's proposed action and will review USAID's progress on its implementation during our FY 2012 GMRA audit.

# SCOPE AND METHODOLOGY

USAID management is responsible for (1) preparing the financial statements in accordance with generally accepted accounting principles; (2) establishing, maintaining, and assessing internal control to provide reasonable assurance that the broad control objectives of the Federal Managers' Financial Integrity Act of 1982 (FMFIA) are met; (3) ensuring that USAID's financial management systems substantially comply with the requirements of the Federal Financial Management Improvement Act of 1996 (FFMIA); and (4) complying with other applicable laws and regulations.

The Office of Inspector General (OIG) is responsible for obtaining reasonable assurance about whether the financial statements are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America. The OIG is also responsible for: (1) obtaining a sufficient understanding of internal control over financial reporting and compliance to plan the audit; (2) testing whether USAID's financial management systems substantially comply with FFMIA requirements; (3) testing compliance with selected provisions of laws and regulations that have a direct and material effect on the financial statements and laws for which Office of Management and Budget's (OMB) audit guidance requires testing; and (4) performing limited procedures with respect to certain other information appearing in the Agency Financial Report.

To fulfill these responsibilities, OIG:

- Examined, on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- Assessed the accounting principles used and significant estimates made by management;
- Evaluated the overall presentation of the financial statements;
- Obtained an understanding of internal control related to financial reporting (including safeguarding assets) and compliance with laws and regulations, (including execution of transactions in accordance with budget authority);
- Tested relevant internal controls over financial reporting and compliance, and evaluated the design and operating effectiveness of internal controls;
- Considered the process for evaluating and reporting on internal control and financial management systems under FMFIA; and
- Tested USAID's compliance with FFMIA requirements.

We also tested USAID's compliance with selected provisions of the following laws and regulations:

- Anti-Deficiency Act, "July 12, 1870; codified at 31 U.S.C. 1341, 1342, 1349 to 1351, 1511 to 1519."

- Improper Payments Information Act of 2002, Public Law 107-300
- Prompt Payment Act, Public Law 97-177
- Debt Collection Improvement Act of 1996, Public Law 104-134
- Federal Credit Reform Act of 1990, Public Law 93-344
- OMB Circular A-136
- OMB Circular A-123

We did not evaluate all internal controls relevant to operating objectives as broadly defined by the FMFIA, such as those controls relevant to preparing statistical reports and ensuring efficient operations. We limited our internal control testing to controls over financial reporting and compliance. Because of inherent limitations in internal control, misstatements due to error or fraud, losses, or noncompliance may occur and may not be detected. We also caution that projecting our evaluation to future periods is subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with controls may deteriorate. In addition, we caution that our internal control testing may not be sufficient for other purposes.

We did not test compliance with all laws and regulations applicable to USAID. We limited our tests of compliance to those laws and regulations required by OMB audit guidance that we deemed applicable to the financial statements for the fiscal years ended September 30, 2011, and 2010. We caution that noncompliance may occur and not be detected by these tests, and that such testing may not be sufficient for other purposes.

In forming our opinion, we considered potential aggregate errors exceeding \$312 million for any individual statement to be material to the presentation of the overall financial statements.

### **Federal Financial Management Improvement Act of 1996 (FFMIA)**

We assessed whether USAID was substantially compliant with section 803(a) of the FFMIA, which requires agencies to implement and maintain financial management systems substantially comply with (1) federal financial management systems requirements, (2) applicable federal accounting standards, and (3) the United States Government Standard General Ledger (USSGL) at the transaction level. To perform our review, we conducted assessments, of USAID's Phoenix financial management systems updates, its posting models effectiveness, and its budget module postings to the general ledger to determine whether the systems substantially complied with selected mandatory requirements contained in the Financial Systems Integration Office, formerly known as the Joint Financial Management Improvement Program, *Acquisition/Financial Systems Interface Requirements* dated June 2002. We evaluated USAID's financial transactions that were recorded in Phoenix to determine if they were compatible with federal accounting standards and the USSGL at the transaction level, and we did not observe any exceptions. Therefore, we concluded that our review found no instances of substantial noncompliance with any of the three FFMIA section 803(a) requirements.

# MANAGEMENT COMMENTS



November 14, 2011

## MEMORANDUM

TO: AIG/A, Timothy E. Cox

FROM: M/CFO, David D. Ostermeyer 

SUBJECT: Management Response to Draft Independent Auditor's Report on USAID's Financial Statements for Fiscal Years 2011 and 2010 (Report No. 0-000-12-001-C)

Thank you for your draft report on the *Audit of USAID's Financial Statements for Fiscal Years 2011 and 2010* and for the professionalism and dedication exhibited by your staff throughout this entire process.

Fiscal Year (FY) 2011 was another significant year for federal financial management at USAID. We are gratified that the USAID Inspector General will issue unqualified opinions on all four principal financial statements. The acknowledgments of the Agency's improvements in financial systems and processes throughout the report are greatly appreciated.

Following are our comments and management decisions regarding the findings and proposed audit recommendations:

**Material Weakness: USAID Does Not Reconcile its Fund Balance with Treasury Account with the U.S. Treasury and Resolve Reconciling Items in a Timely Manner (Repeat Finding)**

Recommendation No 1: We recommend that the Chief Financial Officer accelerate the implementation of the web-based CART and perform complete and timely fund balance reconciliations in accordance with the procedures established by the U.S. Department of the Treasury and maintain documentation to adequately support all reconciliations performed.

Management Decision: The CFO will continue to focus on strengthening its reconciliation procedures to identify the transactions that cause the Fund balance with Treasury (FBWT) differences. Strengthening our reconciliation processes to significantly reduce differences will require the web-based Cash Reconciliation Tool (CART) as a means and, as noted by OIG, the Agency will work to accelerate implementation and stabilization of the web-based CART. To address legacy differences, USAID and OIG will reach agreement with Treasury on an acceptable approach to eliminate old FBWT differences and to resolve very old suspense items. We will clear current period suspense transactions within 60 days.

Target completion date: February 29, 2012

**Significant Deficiency: USAID's Process for Reconciling Loans Receivable Is Not Effective and Does Not Resolve Differences in a Timely Manner (Repeat Finding)**

Recommendation No. 2: We recommend that the Office of the Chief Financial Officer (a) develop and implement a plan to complete its reconciliation of loan balances in the Phoenix accounting system with the balances maintained in the PNC Enterprise Loan System and (b) ensure that all Enterprise Loan System transactions transmitted to Phoenix via the interface are properly accounted for and recorded in Phoenix.

Management Decision: USAID will continue to work with the service provider to investigate and resolve differences between the Phoenix accounting system and balances maintained by our loan service provider. Our progress in reconciling loan restructurings was limited in FY 2011 due to large turnover of staff in the Credit Program and we estimate that it will take two and a half more years to complete past debt restructuring reconciliations.

Target completion date: June 30, 2014

**Significant Deficiency: USAID's Process for Reviewing and Deobligating Unliquidated Obligations Is Not Effective**

Recommendation No. 3: We recommend that the Chief Financial Officer coordinate with the Office of Acquisition and Assistance and with Bureau Assistant Administrators to (a) initiate targeted reviews of non-GLAAS obligations and batch obligations for automatic deobligation for small-dollar obligation balances, travel, operating-expense funded obligations and program funded obligations that are older than five years; (b) utilize services of independent public accounting firms to expedite the close out audit process, and (c) ensure obligation officials include period of performance dates for all procurement type awards.

Management Decision: USAID will continue to identify and reduce the current contract and obligation closeout, and research the use of additional sources to expedite review. As noted, the Office of the CFO will also collaborate with the Office of Acquisition and Assistance to evaluate alternative service providers to expedite the close-out audit process. The Office of CFO will continue to target specific areas for batched processing, including low-dollar, miscellaneous and travel-related obligations. We will also evaluate the use and functionality of requiring performance date on all future procurement contracts.

Target completion date: September 30, 2014

**Significant Deficiency: USAID's Process for Accounting for and Accurately Reporting Property, Plant, and Equipment Is Not Effective (Repeat Finding)**

Recommendation No. 4: We recommend that the Chief Financial Officer revise its policy and procedures to ensure that the Financial Management Division (a) reconciles property, plant, and equipment records with those of the Overseas Management Division, the Office of Foreign Disaster Assistance, and the Office of the Chief Information Officer, and researches and resolves discrepancies in a timely manner and (b) coordinates with the Overseas Management Division to obtain quarterly disposal reports when performing the mission data call and data validation.

Management Decision: USAID will evaluate whether policy revisions are required. USAID will revise its procedures. During FY 2011, the Central Accounting Division reconciled its records directly with the various missions. USAID will (a) institute additional processes to improve the reconciliation and coordination between the Overseas Management Division, the Office of Foreign Disaster Assistance, and the Office of the Chief Information Officer to resolve reporting differences; and will (b) coordinate with the Overseas Management Division to obtain quarterly disposal reports when performing the mission data call and data validation.

Target completion date: June 30, 2012

**Significant Deficiency: USAID's Process for Accounting for Accounts Receivable Is Not Effective**

Recommendation No. 5: We recommend that the Chief Financial Officer develop and implement procedures to ensure that the correct posting model is used when writing off accounts receivable.

Management Decision: The Office of the CFO will review and revise desktop procedures as necessary and provide training to system accountants on posting receivable write-off transactions correctly. In addition, we will issue a memorandum to all relevant users to reiterate the proper procedures when posting write-offs.

Target completion date: September 30, 2012

**Significant Deficiency: USAID's Process for Accounting for Advances Is Not Effective**

Recommendation No. 6: We recommend that the Office of the Chief Financial Officer develop and implement procedures to liquidate all outstanding advances in a timely manner.

Management Decision: The Office of the CFO will review and update advance liquidation procedures where applicable; as well as, proactively monitor and liquidate advances through rigorous cyclical follow-up with Agency vendors to ensure that they submit their advance liquidation documents timely.

USAID liquidated over \$16 million of the \$26 million identified by the OIG as outstanding advance transactions for FY2011. Currently, the outstanding advance balance is approximately \$9.6 million.

Target completion date: September 30, 2012

**Significant Deficiency: Intragovernmental Transactions Remain Unreconciled (Repeat Finding)**

USAID will continue to coordinate with other federal agencies to resolve the Intragovernmental differences in a timely manner.

Target completion date: September 30, 2015

In closing, I would like to confirm USAID's commitment to continual improvement in financial management. I intend to ensure that all necessary steps are taken to institutionalize strong financial management performance throughout the Agency. We will continue the improvements made in the last few years as we work hard to develop and implement long-term solutions to address the issues cited in your report.

# STATUS OF PRIOR YEARS FINDINGS AND RECOMMENDATIONS

OMB Circular A-50 states that a management decision on audit recommendations shall be made within a maximum of 6 months after a final report is issued. Corrective action should proceed as rapidly as possible.

## **Status of 2010 Findings and Recommendations**

Recommendation No 1: We recommend that the Chief Financial Officer (a) provide changes in its crosswalk to the Department of Health and Human Services in a timely manner to ensure that the Department of Health and Human Services charges all third-party transactions to appropriate appropriations; and (b) research and resolve all suspense items within the time stipulated by Treasury.

Status: This recommendation is still pending final action. The Chief Financial Officer noted that the auditor's acknowledged that progress has been made in the reconciliation of current transactions with the implementation of the fund balance reconciliation tool. The CFO will focus on eliminating legacy differences, correcting the Health and Human Services crosswalk, and clearing items from the suspense accounts within 60 days. Target completion date: February 29, 2012

Recommendation: No. 2: We recommend that the Chief Financial Officer (a) intensify efforts to reconcile loan balances with Midland's ELS; (b) ensure that all transactions transmitted to Phoenix via the interface are properly posted to Phoenix; and (c) complete debt restructuring reconciliations within 90 days after Midland records debt restructurings in ELS.

Status: This recommendation is still pending final action. The Chief Financial Officer agreed to implement the recommendation and will continue to work with the service provider to investigate and resolve differences. The CFO will complete new debt restructuring reconciliations within the timeframe described above by training additional personnel, but it will take an estimated 2½ more years to complete past debt restructuring reconciliations. Target completion date: June 30, 2014

Recommendation No. 3: We recommend that the Chief Financial Officer develop and implement procedures to ensure that: (a) adequate supporting documentation is maintained for all purchases, transfers, and disposals of property, plant and equipment; (b) communication between USAID's Overseas Management Division and Financial Management Division is maintained to ensure that all the equipment are reconciled annually; and (c) disposed property and equipment is removed from its financial records in a timely manner.

Status: This recommendation is still pending final action. The Chief Financial Officer agreed to implement the recommendation. The CFO will institute processes to improve the

internal control procedures regarding property, plant and equipment. Target completion date: June 30, 2012

### **Status of 2009 Findings and Recommendations**

Recommendation No. 1: We recommend that USAID's Chief Financial Officer intensify efforts to reconcile current monthly transactions with Treasury and identify, track, and resolve legacy differences recorded in the suspense accounts and in other appropriation accounts.

Status: This recommendation is still pending final action. The Chief Financial Officer noted that the auditor's acknowledged that progress has been made in the reconciliation of current transactions with the implementation of the fund balance reconciliation tool. The CFO will focus on eliminating legacy differences, correcting the Health and Human Services crosswalk, and clearing items from the suspense accounts within 60 days. Target completion date: February 29, 2012.

### **Status of 2005 Findings and Recommendations**

In the FY 2005 audit report, OIG recommended that USAID's Chief Financial Officer direct the Financial Management Office to conduct quarterly intragovernmental reconciliations of activity and balances with its trading partners in accordance with the requirements of the Federal Intragovernmental Transactions Accounting Policies Guide, issued by the Department of Treasury's Financial Management Service.

Status: The IG has made no recommendations in the last few years. However, USAID is continuously researching intragovernmental activity and developing new tools in order to improve its reconciliation process and eliminate the differences.

FINANCIAL SECTION

# FINANCIAL STATEMENTS AND NOTES

*Then...*





# Now.

**(Above)** A solar energy company in Nepal has installed over 24,000 solar panels for home systems such as this one. This is just one of the many companies supported by a \$1.5 million loan guaranteed by USAID to an energy-promoting organization known as E+Co. PHOTO: E+CO.

**(Preceding page)** In a USAID-supported project to bring electricity to rural villages throughout Vietnam, quality of life increased in this small village of Duc Tu. The goal was to establish 40 cooperatives throughout the country to enable the use of modern technologies such as electric pumps, refrigerators, radios, and television sets. PHOTO: USAID

# INTRODUCTION TO PRINCIPAL FINANCIAL STATEMENTS



**T**he **Principal Financial Statements** have been prepared to report the financial position and results of operations of the U.S. Agency for International Development (USAID). The Statements have been prepared from the books and records of the Agency in accordance with formats prescribed by the Office of Management and Budget (OMB) in OMB Circular A-136, *Financial Reporting Requirements*. The Statements are in addition to financial reports prepared by the Agency in accordance with OMB and U.S. Department of the Treasury directives to monitor and control the status and use of budgetary resources, which are prepared from the same books and records. The Statements should be read with the understanding that they are for a component of the U.S. Government, a sovereign entity. The Agency has no authority to pay liabilities not covered by budgetary resources. Liquidation of such liabilities requires enactment of an appropriation. Comparative data for FY 2010 have been included. USAID's principal financial statements and additional information for FY 2011 and FY 2010 consist of the following:

The **Consolidated Balance Sheet** presents as of September 30, 2011 and 2010 those resources owned or managed by USAID, that are available to provide future economic benefits (assets); amounts owed by USAID that will require payments from those resources or future resources (liabilities); and residual amounts retained by USAID, comprising the difference (net

position). Comparative data for FY 2010 are included and intra-agency balances have been eliminated from the amounts presented.

The **Consolidated Statement of Net Cost** presents the net cost of USAID operations for the years ended September 30, 2011 and 2010. USAID's net cost of operations includes the gross costs incurred by USAID less any revenue earned from USAID activities. Due to the complexity of USAID's operations, the classification of gross cost and earned revenues by major program and suborganization is presented in Note 17, Suborganization Program Costs/Program Cost by Segment, to the consolidated financial statements. Comparative data for FY 2010 are included and intra-agency balances have been eliminated from the amounts presented.

The **Consolidated Statement of Changes in Net Position** presents the change in USAID's net position resulting from the net cost of USAID operations, budgetary financing sources other than exchange revenues, and other financing sources for the years ended September 30, 2011 and 2010. The components of net position are separately displayed in two sections, Cumulative Results of Operations and Unexpended Appropriations, to clearly identify the components of and changes to net position. Comparative data for FY 2010 are included and intra-agency balances have been eliminated from the amounts presented.

The **Combined Statement of Budgetary Resources** presents the budgetary resources available to USAID during FY 2011 and FY 2010, the status of these resources at year-end, the change in obligated balance during FY 2011 and FY 2010 and outlays of budgetary resources for the years ended September 30, 2011 and 2010. Information in this statement is reported on the budgetary basis of accounting. Comparative data for FY 2010 are included.

The **Notes to Principal Financial Statements** are an integral part of the financial statements. They provide explanatory information to help financial statement users to understand, interpret, and use the data presented. Comparative FY 2010 Note data may have been restated or recast to enable comparability with the FY 2011 presentation.

**Required Supplementary Information** contains a Combining Schedule of Budgetary Resources for FY 2011 that provides additional information on amounts presented in the **Combined Statement of Budgetary Resources**.

## HISTORY OF USAID'S FINANCIAL STATEMENTS

In accordance with the Government Management Reform Act (GMRA) of 1994, USAID has prepared consolidated fiscal year-end financial statements since FY 1996. The USAID Office of Inspector General (OIG) is required to audit these statements, related internal controls, and Agency compliance with applicable laws and regulations. From FY 1996 through FY 2000, the OIG was unable to express

an opinion on USAID's financial statements because the Agency's financial management systems could not produce complete, reliable, timely, and consistent financial information.

For FY 2001, the OIG was able to express qualified opinions on three of the five principal financial statements of the Agency, while continuing to issue a disclaimer of opinion on the remaining two. For FY 2002, the OIG expressed unqualified opinions on four of the five principal financial statements and a qualified opinion on the fifth. This marked the first time since enactment of the GMRA that USAID received an opinion on all of its financial statements. USAID is extremely pleased that the efforts of both Agency and OIG staff have resulted in an unqualified opinion on all of the financial statements since FY 2003.

# FINANCIAL STATEMENTS

## CONSOLIDATED BALANCE SHEET

As of September 30, 2011 and 2010 (In Thousands)

	2011	2010
<b>ASSETS:</b>		
Intragovernmental:		
Fund Balance with Treasury (Notes 2 and 15)	\$ 27,758,936	\$ 27,221,485
Accounts Receivable (Note 3)	220	220
Other Assets (Note 4)	96,219	67,653
<b>Total Intragovernmental</b>	<b>27,855,375</b>	<b>27,289,358</b>
Cash and Other Monetary Assets (Note 5)	306,635	265,375
Accounts Receivable, Net (Note 3)	94,467	121,101
Direct Loans and Loan Guarantees, Net (Note 6)	3,392,381	3,472,065
Inventory and Related Property, Net (Note 7)	43,679	16,394
General Property, Plant, and Equipment, Net (Notes 8 and 9)	74,102	117,056
Advances (Note 4)	549,169	789,121
<b>Total Assets</b>	<b>\$ 32,315,808</b>	<b>\$ 32,070,470</b>
<b>LIABILITIES:</b>		
Intragovernmental:		
Accounts Payable (Notes 10 and 15)	\$ 15,597	\$ 37,773
Debt (Note 11)	478,380	478,280
Liability for Capital Transfers to the General Fund of the Treasury (Note 11)	3,198,706	3,202,384
Other Liabilities (Note 12)	1,445,425	667,713
<b>Total Intragovernmental</b>	<b>5,138,108</b>	<b>4,386,150</b>
Accounts Payable (Note 10)	1,734,158	2,075,047
Loan Guarantee Liability (Note 6)	1,694,195	2,265,591
Federal Employee and Veteran's Benefits (Note 13)	22,175	26,035
Other Liabilities (Notes 10, 12, and 13)	495,857	435,789
<b>Total Liabilities</b>	<b>9,084,493</b>	<b>9,188,612</b>
Commitments and Contingencies (Note 14)		
<b>NET POSITION:</b>		
Unexpended Appropriations	21,202,085	21,108,712
Cumulative Results of Operations	2,029,230	1,773,146
<b>Total Net Position (Note 15)</b>	<b>\$ 23,231,315</b>	<b>\$ 22,881,858</b>
<b>Total Liabilities and Net Position</b>	<b>\$ 32,315,808</b>	<b>\$ 32,070,470</b>

The accompanying notes are an integral part of these statements.

## CONSOLIDATED STATEMENT OF NET COST

For the Years Ended September 30, 2011 and 2010  
(In Thousands)

OBJECTIVES	2011	2010
<b>Peace and Security:</b>		
Gross Costs	\$ 941,773	\$ 1,079,389
Less: Earned Revenue	(4,729)	(6,895)
Net Program Costs	937,044	1,072,494
<b>Governing Justly and Democratically:</b>		
Gross Costs	1,844,205	1,792,493
Less: Earned Revenue	(9,379)	(24,286)
Net Program Costs	1,834,826	1,768,207
<b>Investing in People:</b>		
Gross Costs	3,266,444	3,162,339
Less: Earned Revenue	(203,361)	(313,925)
Net Program Costs	3,063,083	2,848,414
<b>Economic Growth:</b>		
Gross Costs	4,137,161	2,913,573
Less: Earned Revenue	(887,933)	(203,394)
Net Program Costs	3,249,228	2,710,179
<b>Humanitarian Assistance:</b>		
Gross Costs	1,639,786	1,637,038
Less: Earned Revenue	(8,146)	(7,951)
Net Program Costs	1,631,640	1,629,087
<b>Operating Unit Management:</b>		
Gross Costs	530,837	381,361
Less: Earned Revenue	(2,965)	(3,446)
Net Program Costs	527,872	377,915
<b>Net Cost of Operations (Notes 16 and 17)</b>	<b>\$ 11,243,693</b>	<b>\$ 10,406,296</b>

The accompanying notes are an integral part of these statements.

## CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

For the Years Ended September 30, 2011 and 2010  
(In Thousands)

	2011 Consolidated Total	2010 Consolidated Total
<b>Cumulative Results of Operations:</b>		
Beginning Balances	\$ 1,773,146	\$ 1,005,741
Beginning Balances, as Adjusted	1,773,146	1,005,741
<b>Budgetary Financing Sources:</b>		
Appropriations Used	11,361,601	11,080,790
Donations and Forfeitures of Cash and Cash Equivalents	122,076	83,066
Transfers-in/out Without Reimbursement	–	10
<b>Other Financing Sources (Non-Exchange):</b>		
Imputed Financing	16,100	9,835
Total Financing Sources	11,499,777	11,173,701
Net Cost of Operations	(11,243,693)	(10,406,296)
Net Change	256,084	767,405
<b>Cumulative Results of Operations</b>	2,029,230	1,773,146
<b>Unexpended Appropriations:</b>		
Beginning Balance	21,108,712	16,464,124
Beginning Balance, as Adjusted	21,108,712	16,464,124
<b>Budgetary Financing Sources:</b>		
Appropriations Received	11,737,457	15,786,352
Appropriations Transferred in/out	(8,906)	94,900
Other Adjustments	(273,577)	(155,874)
Appropriations Used	(11,361,601)	(11,080,790)
Total Budgetary Financing Sources	93,373	4,644,588
Total Unexpended Appropriations	21,202,085	21,108,712
<b>Net Position</b>	<b>\$ 23,231,315</b>	<b>\$ 22,881,858</b>

The accompanying notes are an integral part of these statements.

## COMBINED STATEMENT OF BUDGETARY RESOURCES

For the Years Ended September 30, 2011 and 2010  
(In Thousands)

	2011		2010 (Restated)	
	Budgetary	Non-Budgetary Credit Reform	Budgetary	Non-Budgetary Credit Reform
<b>Budgetary Resources:</b>				
Unobligated Balance, Brought Forward, October 1	\$ 6,897,561	\$ 2,384,581	\$ 5,360,402	\$ 1,643,447
Changes to Beginning Balance Due to Adjustment from OMB	(7,718)	(2,592)	-	-
Unobligated Balance, Brought Forward, as Adjusted	6,889,843	2,381,989	5,360,402	1,643,447
Recoveries of Prior Year Unpaid Obligations	2,046,388	310	676,857	-
Budget Authority:				
Appropriations	11,874,718	-	15,855,309	-
Borrowing Authority (Note 11)	-	96	-	900
Spending Authority from Offsetting Collections:				
Earned:				
Collected	748,476	281,133	706,108	800,209
Change in Receivables from Federal Sources	(231)	-	(174)	-
Change in Unfilled Customer Orders:				
Unfilled Customer Orders With Advance	217,836	-	460,853	-
Without Advance from Federal Sources	9,718	-	(2,633)	-
Subtotal	12,850,517	281,229	17,019,463	801,109
Nonexpenditure Transfers, Net, Anticipated and Actual	11,557	(7)	(109,472)	(54)
Permanently Not Available	(669,907)	-	(434,727)	-
<b>Total Budgetary Resources</b>	<b>\$ 21,128,398</b>	<b>\$ 2,663,521</b>	<b>\$ 22,512,523</b>	<b>\$ 2,444,502</b>
<b>Status of Budgetary Resources:</b>				
Obligations Incurred (Note 18):				
Direct	\$ 13,057,051	\$ 242,156	\$ 15,431,921	\$ 59,921
Reimbursable	195,901	-	183,041	-
Subtotal	13,252,952	242,156	15,614,962	59,921
Unobligated Balance:				
Apportioned (Note 2)	7,265,534	310,302	6,013,474	30,939
Subtotal	7,265,534	310,302	6,013,474	30,939
Unobligated Balance Not Available (Note 2)	609,912	2,111,063	884,087	2,353,642
<b>Total Status of Budgetary Resources (Note 18)</b>	<b>\$ 21,128,398</b>	<b>\$ 2,663,521</b>	<b>\$ 22,512,523</b>	<b>\$ 2,444,502</b>

(continued on next page)

## COMBINED STATEMENT OF BUDGETARY RESOURCES *(continued)*

For the Years Ended September 30, 2011 and 2010  
(In Thousands)

	2011		2010 (Restated)	
	Budgetary	Non-Budgetary Credit Reform	Budgetary	Non-Budgetary Credit Reform
<b>Change in Obligated Balance:</b>				
Obligated Balance, Net				
Unpaid Obligations, Brought Forward, October 1	\$ 17,924,611	\$ (2,751)	\$ 14,422,096	\$ (640)
Changes to Beginning Balance Due to Adjustment from OMB	7,718	2,592	-	-
Unobligated Balance, Brought Forward, as Adjusted	17,932,329	(159)	14,422,096	(640)
Less: Uncollected Customer Payments from Federal Sources, Brought Forward, October 1	(24,908)	34	(27,714)	35
Total Unpaid Obligated Balance, Net (Note 18)	17,907,421	(125)	14,394,382	(605)
Obligations Incurred, Net (+/-)	13,252,952	242,156	15,614,962	59,921
Less: Gross Outlays	(11,633,785)	(241,968)	(11,435,590)	(62,033)
Less: Recoveries of Prior Year Unpaid Obligations, Actual	(2,046,388)	(310)	(676,857)	-
Change in Uncollected Customer Payments from Federal Sources (+/-)	(9,486)	-	2,806	-
Obligated Balance, Net, End of Period				
Unpaid Obligations	17,505,109	(282)	17,924,611	(2,751)
Less: Uncollected Customer Payments from Federal Sources	(34,395)	35	(24,908)	34
Total, Unpaid Obligated Balance, Net, End of Period	\$ 17,470,714	\$ (247)	\$ 17,899,703	\$ (2,717)
<b>Net Outlays:</b>				
Gross Outlays	11,633,785	241,968	11,435,590	62,033
Less: Offsetting Collections (Note 18)	(966,312)	(281,133)	(1,166,959)	(800,209)
Less: Distributed Offsetting Receipts (Note 18 and Note 20)	(377,859)	-	(96,395)	-
<b>Net Outlays</b>	<b>\$ 10,289,614</b>	<b>\$ (39,165)</b>	<b>\$ 10,172,236</b>	<b>\$ (738,176)</b>

The accompanying notes are an integral part of these statements.

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### A. BASIS OF PRESENTATION

The accompanying principal financial statements report USAID's financial position and results of operations. They have been prepared using USAID's books and records in accordance with Agency accounting policies, the most significant of which are summarized in this note. The statements are presented in accordance with the guidance and requirements of the Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements*.

USAID accounting policies follow generally accepted accounting principles for the Federal government, as established by the Federal Accounting Standards Advisory Board (FASAB). The FASAB has been recognized by the American Institute of Certified Public Accountants (AICPA) as the official accounting standard setting authority for the Federal government. These standards have been agreed to, and published by the Director of the OMB, the Secretary of the Treasury, and the Comptroller General.

### B. REPORTING ENTITY

Established in 1961 by President John F. Kennedy, USAID is the independent U.S. Government agency that provides economic development and humanitarian assistance to advance United States economic and political interests overseas.

### American Recovery and Reinvestment Act

Recovery Act funds are for information technology security and upgrades to support mission-critical operations. Due to Agency IT priorities and to maximize job creation with the Recovery Act funds, USAID determined that the funding should be dedicated to the Global Acquisition and Assistance System (GLAAS) project.

### Programs

The statements present the financial activity of various programs and accounts managed by USAID. The programs include Assistance for Europe, Eurasia, and Central Asia; Civilian Stabilization Initiative; Capital Investment Fund; Economic Support Fund; Development Assistance; International Disaster Assistance; Global Health and Child Survival; Complex Crisis Fund; Transition Initiatives; and Direct and Guaranteed Loan Programs. This classification is consistent with the Budget of the United States.

### Assistance for Europe, Eurasia, and Central Asia

Funds appropriated under this heading are considered to be economic assistance under the Foreign Assistance Act of 1961.

This account provides funds for a program of assistance to the independent states that emerged from the former Soviet Union. These funds support the U.S. foreign policy goals of consolidating improved U.S. security; building a lasting partnership with the New Independent States; and providing access to each other's markets, resources, and expertise.

### Civilian Stabilization Initiative

This fund provides support for the necessary expenses needed to establish, support, maintain, mobilize, and deploy a civilian response corps in coordination with the USAID. This fund is also used for related reconstruction and stabilization assistance to prevent or respond to conflict or civil strife in foreign countries or regions, or to enable transition from such strife.

### Capital Investment Fund

This fund provides for the necessary expenses for overseas construction and related costs, and for the procurement and enhancement of information technology and related capital investments. Specifically, this fund provides assistance in supporting the GLAAS system.

### **Economic Support Fund**

The Economic Support Fund (ESF) supports U. S. foreign policy objectives by providing economic assistance to allies and countries in transition to democracy. Programs funded through this account promote stability and U.S. security interests in strategic regions of the world.

### **Development Assistance**

This program provides economic resources to developing countries with the aim of bringing the benefits of development to the poor. The program promotes broad-based, self-sustaining economic growth, opportunity, and supports initiatives intended to stabilize population growth, protect the environment and foster increased democratic participation in developing countries. The program is concentrated in those areas in which the United States has special expertise and which promise the greatest opportunity for the poor to better their lives.

### **International Disaster Assistance**

Funds for the International Disaster Assistance Program provide relief, rehabilitation, and reconstruction assistance to foreign countries struck by disasters such as famines, floods, hurricanes and earthquakes. The program also provides assistance in disaster preparedness, prevention and mitigation; providing emergency commodities and services for immediate healthcare and nutrition. Additionally, this fund supports the capability to provide timely emergency response to disasters worldwide.

### **Global Health and Child Survival**

This fund provides economic resources to developing countries to support programs to improve infant and child nutrition, with the aim of reducing infant and child mortality

rates; to reduce HIV transmission and the impact of the HIV/AIDS pandemic in developing countries; to reduce the threat of infectious diseases of major public health importance such as polio, and malaria; and to expand access to quality basic education for girls and women.

### **Complex Crisis Fund**

This fund provides for necessary expenses to carry out the provisions of the Foreign Assistance Act of 1961 to enable USAID to support programs and activities to prevent or respond to emerging or unforeseen complex crises overseas.

### **Transition Initiatives**

This fund provides for humanitarian programs that provide post-conflict assistance to victims of both natural and man-made disasters. This program supports U.S. foreign policy objectives by helping local partners advance peace and democracy in priority countries in crisis. Seizing critical windows of opportunity, the Office of Transition Initiatives (OTI) works on the ground to provide fast, flexible, short-term assistance targeted at key political transition and stabilization needs.

### **Direct and Guaranteed Loans**

#### **• Direct Loan Program**

These loans are authorized under the Foreign Assistance Acts, various predecessor agency programs, and other foreign assistance legislation. Direct Loans are issued in both U.S. dollars and the currency of the borrower. Foreign currency loans made “with maintenance of value” place the risk of currency devaluation on the borrower, and are recorded 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 the borrower.

#### **• Urban and Environmental Program**

The Urban and Environmental (UE) Program, formerly the Housing Guarantee Program, extends guarantees to U.S. private investors who make loans to developing countries to assist them in formulating and executing sound housing and community development policies that meet the needs of lower income groups.

#### **• Micro and Small Enterprise Development Program**

The Micro and Small Enterprise Development (MSED) Program supports private sector activities in developing countries by providing direct loans and loan guarantees to support local micro and small enterprises. Although the MSED program is still active, the bulk of USAID’s new loan guarantee activity is handled through the Development Credit Authority (DCA) Program.

#### **• Israel Loan Guarantee Program**

Congress authorized the Israel Loan Guarantee Program in Section 226 of the Foreign Assistance Act to support the costs for immigrants resettling to Israel from the former Soviet Union, Ethiopia, and other countries. Under this program, the U.S. Government guaranteed the repayment of up to \$10 billion in loans from commercial sources. Borrowing was completed under the program during FY 1999, with approximately \$9.2 billion being guaranteed, of which \$7.5 billion is currently outstanding. Guarantees were made by USAID on behalf of the U.S. Government.

In FY 2003, Congress authorized a second Israeli Loan Guarantee Program of up to \$9.0 billion to support Israel’s comprehensive economic program to overcome economic difficulties and create conditions for higher and sustainable growth. \$4.1 billion has

been borrowed under this program, of which the entire \$4.1 billion is currently outstanding.

- **Development Credit Authority**

The first obligations for USAID's Development Credit Authority (DCA) were made in FY 1999. The DCA allows missions and other offices to use loans and loan guarantees to achieve their development objectives when it can be shown that (1) the project generates enough revenue to cover the debt service including USAID fees, (2) there is at least 50% risk-sharing with a private-sector institution, and (3) the DCA guarantee addresses a financial market failure in-country and does not "crowd-out" private sector lending. The DCA can be used in any sector and by any USAID operating unit whose project meets the DCA criteria. DCA projects are approved by the Agency Credit Review Board and the Chief Financial Officer.

- **Loan Guarantees to Egypt Program**

The Loan Guarantees to Egypt Program was established under the Emergency Wartime Supplemental Appropriations Act of 2003. Under this program, the U.S. Government was authorized to issue an amount not to exceed \$2 billion in loan guarantees to Egypt during the period beginning March 1, 2003 and ending September 30, 2005. New loan guarantees totaling \$1.25 billion were issued in fiscal year 2005 before the expiration of the program.

## Fund Types

The statements include the accounts of all funds under USAID's control. Most of the fund accounts relate to general fund appropriations. USAID also has a special fund, revolving funds, trust funds, deposit funds, a capital investment fund, receipt account, and budget clearing accounts.

General fund appropriations and the Special fund are used to record financial transactions under Congressional appropriations or other authorization to spend general revenue.

Revolving funds are established by law to finance a continuing cycle of operations, with receipts derived from such operations usually available in their entirety for use by the fund without further action by Congress.

Trust funds are credited with receipts generated by the terms of the trust agreement or statute. At the point of collection, these receipts are unavailable, depending upon statutory requirements, or available immediately.

The capital investment fund contains no-year (non-expiring) funds to provide the Agency with greater flexibility to manage investments in technology systems and facility construction that the annual appropriation for Operating Expenses does not allow.

Deposit funds are established for (1) amounts received for which USAID is acting as a fiscal agent or custodian, (2) unidentified remittances, (3) monies withheld from payments for goods or services received, and (4) monies held waiting for distribution on the basis of legal determination.

## C. BASIS OF ACCOUNTING

Transactions are recorded on both an accrual and budgetary basis. Under the accrual basis, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal constraints on, and controls of, the use of federal funds. The accompanying Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position

have been prepared on an accrual basis. The Statement of Budgetary Resources has been prepared in accordance with budgetary accounting rules.

## D. BUDGETS AND BUDGETARY ACCOUNTING

The components of USAID's budgetary resources include current budgetary authority (that is, appropriations and borrowing authority) and unobligated balances remaining from multi-year and no-year budget authority received in prior years. Budget authority is the authorization provided by law to enter into financial obligations that result in immediate or future outlays of federal funds. Budgetary resources also include reimbursement and other income (that is, spending authority from offsetting collections credited to an appropriation of fund account) and adjustments (that is, recoveries of prior year obligations).

Unobligated balances associated with appropriations that expire at the end of the fiscal year remain available for obligation adjustments, but not new obligations, until that account is canceled. When accounts are canceled five years after they expire, amounts are not available for obligations or expenditure for any purpose and are returned to Treasury.

The "Department of Defense and Full-Year Continuing Appropriations Act, 2011" signed into law as P.L. 112-10 provides to USAID extended authority to obligate funds. USAID's appropriations have consistently provided essentially similar authority, commonly known as "511/517" authority, a name that is based on references to the previous appropriations acts. Under this authority, funds shall remain available for obligation for an extended period if such funds are initially obligated within their initial period of availability.

## **E. REVENUES AND OTHER FINANCING SOURCES**

USAID receives the majority of its funding through congressional appropriations—annual, multi-year, and no-year (non-expiring) appropriations—that may be used within statutory limits. Appropriations are recognized as a financing source (i.e. Appropriations used) on the Statement of Changes in Net Position at the time the related program or administrative expenses are incurred. Appropriations expended for capitalized property and equipment are not recognized as expenses. In addition to funds warranted directly to USAID, the agency also receives allocation transfers from the U.S. Department of Agriculture (USDA) Commodity Credit Corporation, the Executive Office of the President, the Department of State, and Millennium Challenge Corporation (MCC).

Amounts received from other Federal agencies under reimbursable agreements are recognized as revenue as related expenditures are incurred.

Additional financing sources for USAID's various credit programs and trust funds include amounts obtained through collection of guaranty fees, interest income on rescheduled loans, penalty interest on delinquent balances, permanent indefinite borrowing authority from U.S. Treasury, proceeds from the sale of overseas real property acquired by USAID, and advances from foreign governments and international organizations.

Revenues are recognized as financing sources to the extent that they are received by USAID from other agencies, other governments and the public. Imputed revenues are reported in the financial statements to offset the imputed costs.

## **F. FUND BALANCE WITH THE U.S. TREASURY**

Cash receipts and disbursements are processed by the U.S. Treasury. The fund balances with Treasury are primarily appropriated funds that are available to pay current liabilities and finance authorized purchase commitments, but they also include revolving, deposit, and trust funds.

## **G. FOREIGN CURRENCY**

The Direct Loan Program has foreign currency funds, which are used to disburse loans in certain 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. Additionally, some USAID host countries contribute funds for the overhead operation of the host mission and the execution of USAID programs. These funds are held in trust and reported in U.S. dollar equivalents on the Balance Sheet and Statement of Net Costs.

## **H. ACCOUNTS RECEIVABLE**

Accounts receivable consist of amounts due mainly from foreign governments but also from other Federal agencies and private organizations. USAID regards amounts due from other Federal agencies as 100 percent collectible. The Agency establishes an allowance for uncollectible accounts receivable for non-loan or revenue generating sources based on historical analysis of collectability.

## **I. DIRECT LOANS AND LOAN GUARANTEES**

Loans are accounted for as receivables after funds have been disbursed. For loans obligated before 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 a net present value method prescribed by OMB that takes into account country risk and projected cash flows.

For loans obligated on or after October 1, 1991, the loans receivable are reduced by an allowance equal to the net present value of the cost to the United States Government of making the loan. This cost, known as "subsidy", takes into account all cash inflows and outflows associated with the loan, including the interest rate differential between the loans and Treasury borrowing, the estimated delinquencies and defaults net of recoveries, and offsets from fees and other estimated cash flows. This allowance is re-estimated when necessary and changes reflected in the operating statement.

Loans have been made in both U.S. dollars and foreign currencies. Loans extended in foreign currencies can be with or without "Maintenance of Value" (MOV). Those with MOV place the currency exchange risk upon the borrowing government; those without MOV place the risk on USAID. Foreign currency exchange gain or loss is recognized on those loans extended without MOV, and reflected in the net credit programs receivable balance.

Credit program receivables also include origination and annual fees on outstanding guarantees, interest on rescheduled loans and late charges. Claims receivables (subrogated and rescheduled) are due from foreign governments as a result of defaults for pre-1992 guaranteed loans. Receivables are stated net of an allowance for uncol-

lectible accounts; determined using an OMB approved net present value default methodology.

While estimates of uncollectible loans and interest are made using methods prescribed by OMB, the final determination as to whether a loan is collectible is also affected by actions of other U.S. Government agencies.

## **J. ADVANCES**

Funds disbursed in advance of incurred expenditures are recorded as advances. Most advances consist of funds disbursed under letters of credit to contractors and grantees. The advances are liquidated and recorded as expenses upon receipt of expenditure reports from the recipients.

## **K. INVENTORY AND RELATED PROPERTY**

USAID's inventory and related property is comprised of operating materials and supplies. Some operating materials and supplies are held for use and consist mainly of computer paper and other expendable office supplies not in the hands of the user. USAID also has materials and supplies in reserve for foreign disaster assistance stored at strategic sites around the world. These consist of tents, vehicles, and water purification units. The Agency also has birth control supplies stored at several sites.

USAID's office supplies are deemed items held for use because they are tangible personal property to be consumed in normal operations. Agency supplies held in reserve for future use are not readily available in the market, or there is more than a remote chance that the supplies will be needed, but not in the normal course of operations. Their valuation is based on cost and they are not considered

"held for sale." USAID has no supplies categorizable as excess, obsolete, or unserviceable operating materials and supplies.

## **L. PROPERTY, PLANT AND EQUIPMENT**

USAID capitalizes all property, plant and equipment that have an acquisition cost of \$25,000 or greater and a useful life of two years or more. Acquisitions that do not meet these criteria are recorded as operating expenses. Assets are capitalized at historical cost, depending on when the asset was put into production and depreciated using the straight-line method (mid-year and mid-quarter). Real property is depreciated over 20 years, nonexpendable personal property is depreciated over three to five years, and capital leases are depreciated according to the terms of the lease. The Agency operates land, buildings, and equipment that are provided by the General Services Administration. Rent for this property is expensed. Internal use software that has development costs of \$300,000 or greater is capitalized. Deferred maintenance amounts are immaterial with respect to the financial statements.

## **M. LIABILITIES**

Liabilities represent the amount of monies or other resources that are likely to be paid by USAID as the result of transactions or events that have already occurred. However, no liability can be paid by the Agency without an appropriation or borrowing authority. Liabilities for which an appropriation has not been enacted are therefore classified as liabilities not covered by budgetary resources (unfunded liabilities), and there is no certainty that the appropriations will be enacted. Also, these liabilities can be abrogated by the U.S. Government, acting in its sovereign capacity.

## **N. LIABILITIES FOR LOAN GUARANTEES**

The Credit Reform Act (CRA) of 1990, which became effective on October 1, 1991, significantly changed the manner in which USAID's loan programs finance their activities. The main purpose of CRA was to more accurately measure the cost of Federal credit programs and to place the cost of such programs on a budgetary basis equivalent to other Federal spending. Consequently, commencing in fiscal 1992, USAID can only make new loans or guarantees with an appropriation available to fund the cost of making the loan or guarantee. This cost is known as "subsidy."

For USAID's loan guarantee programs, when guarantee commitments are made, an obligation for subsidy cost is recorded in the program account. This cost is based on the net present value of the estimated net cash outflows to be paid by the Program as a result of the loan guarantees, except for administrative costs, less the net present value of all cash inflows to be generated from those guarantees. When the loans are disbursed, the subsidy cost is disbursed from the program account to a financing account.

For loan guarantees made before the CRA (pre-1992), the liability for loan guarantees represents an unfunded liability. Footnote 6 presents the unfunded amounts separate from the post-1991 liabilities. The amount of unfunded liabilities also represents a future funding requirement for USAID. The liability is calculated using a reserve methodology that is similar to OMB prescribed method for post-1991 loan guarantees.

## **O. ANNUAL, SICK, AND OTHER 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. Sick leave and other types of leave are expensed as taken.

## **P. RETIREMENT PLANS AND POST EMPLOYMENT BENEFITS**

USAID recognizes its share of the cost of providing future pension benefits to eligible employees over the period of time the employees provide the related services. The pension expense recognized in the financial statements equals the current service cost for USAID employees for the accounting period less the amount contributed by the employees. The measurement of the service cost requires the use of an actuarial cost method and assumptions. The Office of Personnel Management (OPM) administers these benefits and provides the factors that USAID applies to report the cost. The excess of the pension expense over the amount contributed by USAID and employees represents the amount being financed directly through the Civil Service Retirement and Disability Fund administered by OPM. This cost is considered imputed cost to USAID.

USAID recognizes a current-period expense for the future cost of post retirement health benefits and life insurance for its employees while they are still working. USAID accounts for and reports this expense in its financial statements in a manner similar to that used for pensions, with the exception that employees and

USAID do not make contributions to fund these future benefits.

Federal employee benefit costs paid by OPM and imputed by USAID are reported on the Statement of Net Cost.

## **Q. COMMITMENTS AND CONTINGENCIES**

A contingency is an existing condition, situation or set of circumstances involving uncertainty as to possible gain or loss to USAID. The uncertainty will ultimately be resolved when one or more future events occur or fail to occur. For pending, threatened or potential litigation, a liability is recognized when a past transaction or event has occurred, a future outflow or other sacrifice of resources is likely, and the related future outflow or sacrifice of resources is measurable. For other litigations, a contingent liability is recognized when similar events occur except that the future outflow or other sacrifice of resources is more likely than not. Footnote 14 identifies commitments and contingency liabilities.

## **R. NET POSITION**

Net position is the residual difference between assets and liabilities. It is composed of unexpended appropriations and cumulative results of operations.

- Unexpended appropriations are the portion of the appropriations represented by undelivered orders and unobligated balances.
- Cumulative results of operations are also part of net position. This account reflects the net difference between (i) expenses and losses and (ii) financing sources, including appropriations, revenues and gains, since the inception of the activity.

## **S. NON-ENTITY ASSETS**

Non-entity fund balances are amounts in Deposit Fund accounts. These include such items as: funds received from outside sources where the government acts as fiscal agent, monies the government has withheld awaiting distribution based on legal determination, and unidentified remittances credited as suspense items outside the budget. For USAID, non-entity assets are minimal in amount as reflected in Note 3, composed solely of accounts receivables net of allowances.

## **T. AGENCY COSTS**

USAID costs of operations are comprised of program and operating expenses. USAID/Washington program and Mission related expenses by objective are obtained directly from Phoenix, the Agency general ledger. A cost allocation model is used to distribute operating expenses, including Management Bureau, Global Development Alliance, Trust Funds and Support Offices costs to specific goals. Expenses related to Credit Reform and Revolving Funds are directly applied to specific agency goals based on their objectives.

## **U. PARENT/CHILD REPORTING**

USAID is a party to allocation transfers with other federal agencies as both a transferring (parent) entity and receiving (child) entity. Allocation transfers are legal delegations by one department of its ability to obligate budget authority and outlay funds to another department. A separate fund account (allocation account) is created in the U.S. Treasury as a subset of the parent fund account for tracking and reporting purposes. All allocation transfers of balances are credited to this account, and subsequent obligations and outlays incurred by the child entity are charged to

this allocation account as they execute the delegated activity on behalf of the parent entity. Generally, all financial activity related to these allocation transfers (e.g. budget authority, obligations, outlays) is reported in the financial statements of the parent entity, from which the underlying legislative authority, appropriations, and budget apportionments are derived. Per OMB guidance, child transfer activities are to be included and parent transfer activities are to be excluded in trial balances. Exceptions to this general rule affecting USAID include the Executive Office of the President, for whom USAID is the child in the allocation transfer but, per OMB guidance, will report all activity relative to these allocation transfers in USAID's financial statements. In addition to these funds, USAID allocates funds as the parent to:

- Department of Energy
- Department of Justice
- Department of Labor
- Department of State
- Department of the Treasury
- Nuclear Regulatory Commission.

USAID receives allocation transfers as the child from:

- Department of State
- Executive Office of the President
- Millennium Challenge Corporation
- United States Department of Agriculture, Commodity Credit Corporation.

## NOTE 2. FUND BALANCE WITH TREASURY

Fund Balance with Treasury as of September 30, 2011 and 2010 consisted of the following:

<b>FUND BALANCE WITH TREASURY</b>		
<i>(In Thousands)</i>		
<b>Fund Balance</b>	<b>2011</b>	<b>2010</b>
Trust Funds	\$ 142,393	\$ 83,825
Revolving Funds	5,790,820	5,245,751
Appropriated Funds	21,825,809	21,936,849
Other Funds	(86)	(44,940)
<b>Total</b>	<b>\$ 27,758,936</b>	<b>\$ 27,221,485</b>
<b>Status of Fund Balance with Treasury</b>	<b>2011</b>	<b>2010</b>
Unobligated Balance		
Available	\$ 7,575,836	\$ 6,044,413
Unavailable	2,720,975	3,237,729
Obligated and Other Balances Not Yet Disbursed (Net)	17,462,125	17,939,343
<b>Total</b>	<b>\$ 27,758,936</b>	<b>\$ 27,221,485</b>

Unobligated balances become available when apportioned by the OMB for obligation in the current fiscal year. Obligated and other balances not yet disbursed (net) include balances for non-budgetary funds and unfilled customer orders without advances. The unobligated and obligated balances are reflected on the Combined Statement of Budgetary Resources.

The FY 2011 Fund Balance with Treasury in the "Other" category is reported as \$86 thousand abnormal (credit balance). This abnormal balance is due to transactions posted into Suspense accounts that were not applied to the applicable appropriations as of the end of the accounting period.

### NOTE 3. ACCOUNTS RECEIVABLE, NET

The primary components of USAID's accounts receivable as of September 30, 2011 and 2010 are as follows:

<b>ACCOUNTS RECEIVABLE, NET</b>				
<i>(In Thousands)</i>				
	<b>Receivable Gross</b>	<b>Allowance Accounts</b>	<b>Receivable Net 2011</b>	<b>Receivable Net 2010</b>
<b>Intragovernmental</b>				
Appropriation Reimbursements from Federal Agencies	\$ 356	N/A	\$ 356	\$ 587
Accounts Receivable from Federal Agencies	31,410	N/A	31,410	73,489
Less Intra-Agency Receivables	(31,546)	N/A	(31,546)	(73,856)
<b>Total Intragovernmental Accounts Receivable</b>	<b>220</b>	<b>N/A</b>	<b>220</b>	<b>220</b>
Accounts Receivable from the Public	104,179	(9,712)	94,467	121,101
<b>Total Receivables</b>	<b>\$ 104,399</b>	<b>\$ (9,712)</b>	<b>\$ 94,687</b>	<b>\$ 121,321</b>

Entity intragovernmental accounts receivable consist of amounts due from other U.S. Government agencies. No allowance accounts have been established for the intragovernmental accounts receivable, which are considered to be 100% collectible.

All other entity accounts receivable consist of amounts managed by missions or USAID/Washington. These receivables consist of overdue advances, unrecovered advances, and audit findings. The allowance for uncollectable accounts related to these receivables is calculated

based on a historical analysis of collectability. Accounts receivable from missions are collected and recorded to the respective appropriation.

Interest receivable is calculated separately, and there is no interest included in the accounts receivable listed above.

### NOTE 4. OTHER ASSETS

Advances as of September 30, 2011 and 2010 consisted of the following:

<b>ADVANCES</b>		
<i>(In Thousands)</i>		
	<b>2011</b>	<b>2010</b>
<b>Intragovernmental</b>		
Advances to Federal Agencies	\$ 96,219	\$ 67,653
<b>Total Intragovernmental</b>	<b>96,219</b>	<b>67,653</b>
Advances to Contractors/Grantees	433,078	555,135
Advances to Host Country Governments and Institutions	113,123	231,411
Advances, Other	2,968	2,575
<b>Total with the Public</b>	<b>549,169</b>	<b>789,121</b>
<b>Total Other Assets</b>	<b>\$ 645,388</b>	<b>\$ 856,774</b>

Advances to Contractors/Grantees are amounts that USAID pays to them to cover their immediate cash needs related to program implementation until they submit expense reports to USAID and USAID records those expenses. Advances to Host Country Governments and Institutions represent amounts advanced by USAID missions to host country governments and other in-country organizations, such as educational institutions and voluntary organizations. Advances, Other consist primarily of amounts advanced for living quarters, travel, and home service.

## NOTE 5. CASH AND OTHER MONETARY ASSETS

Cash and Other Monetary Assets as of September 30, 2011 and 2010 are as follows:

<b>CASH AND OTHER MONETARY ASSETS</b>		
<i>(In Thousands)</i>		
<b>Cash and Other Monetary Assets</b>	<b>2011</b>	<b>2010</b>
Imprest Fund-Headquarters	\$ 5	\$ 5
UE and Micro and Small Enterprise Fund Cash w/Fiscal Agent	50	50
Foreign Currencies	306,580	265,320
<b>Total Cash and Other Monetary Assets</b>	<b>\$ 306,635</b>	<b>\$ 265,375</b>

USAID has imprest funds in various overseas locations. These funds are provided by the Department of State

overseas U.S. Disbursing Officers to which USAID is liable for any shortages. The cumulative balance of imprest funds

provided to USAID by the Department of State was \$5 thousand in FY 2011 and FY 2010.

## NOTE 6. DIRECT LOANS AND LOAN GUARANTEES, NET

USAID operates the following loan and/or loan guarantee programs:

- Direct Loan Program (Direct Loan)
- Urban and Environmental Program (UE)
- Micro and Small Enterprise Development Program (MSED)
- Israel Loan Guarantee Program (Israel Loan)
- Development Credit Authority Program (DCA)
- Egypt Loan Guarantee Program

Direct loans resulting from obligations made prior to 1992 are reported net of allowance for estimated uncollectible loans. Estimated losses from defaults on loan

guarantees resulting from obligations made prior to 1992 are reported as a liability.

The Credit Reform Act of 1990 prescribes an alternative method of accounting for direct loans and guarantees resulting from obligations made after 1991. Subsidy cost, which is the net present value of the cash flows (i.e. interest rates, interest supplements, estimated defaults, fees, and other cash flows) associated with direct loans and guarantees, is required by the Act to be recognized as an expense in the year in which the direct loan or guarantee is disbursed. Subsidy cost is calculated by agency program offices prior to obligation using a model prescribed by the Office of Management and Budget (OMB). Subsidy relating to existing loans and guarantees is generally required to be reestimated on

an annual basis to adjust for changes in risk and interest rate assumptions. Direct loans are reported net of an allowance for this subsidy cost (allowance for subsidy). The subsidy costs associated with loan guarantees are reported as loan guarantee liability.

An analysis of loans receivable, loan guarantees, liability for loan guarantees, and the nature and amounts of the subsidy costs associated with the loans and loan guarantees are provided in the following sections.

The following net loan receivable amounts are not the same as the proceeds that USAID would expect to receive from selling its loans. Actual proceeds may be higher or lower depending on the borrower and the status of the loan.

<b>SUMMARY OF LOANS RECEIVABLES, NET</b>		
<i>(In Thousands)</i>		
	<b>2011</b>	<b>2010</b>
Net Direct Loans Obligated Prior to 1992 (Allowance for Loss Method)	\$ 2,953,161	\$ 3,007,169
Net Direct Loans Obligated After 1991 (Present Value Method)	232,992	255,287
Defaulted Guaranteed Loans from Pre-1992 Guarantees (Allowance for Loss Method)	206,228	209,609
<b>Total Loans Receivable, Net as reported on the Balance Sheet</b>	<b>\$ 3,392,381</b>	<b>\$ 3,472,065</b>

## DIRECT LOANS

### DIRECT LOANS

(In Thousands)

Loan Programs	Loans Receivable Gross	Interest Receivable	Allowance for Loan Losses	Value of Assets Related to Direct Loans, Net
<b>Direct Loans Obligated Prior to 1992 (Allowance for Loss Method) as of September 30, 2011:</b>				
Direct Loans	\$ 3,240,399	\$ 330,519	\$ (617,757)	\$ 2,953,161
MSED	29	11	(40)	–
<b>Total</b>	<b>\$ 3,240,428</b>	<b>\$ 330,530</b>	<b>\$ (617,797)</b>	<b>\$ 2,953,161</b>

<b>Direct Loans Obligated Prior to 1992 (Allowance for Loss Method) as of September 30, 2010:</b>				
Direct Loans	\$ 3,654,136	\$ 321,079	\$ (968,046)	\$ 3,007,169
MSED	29	32	(61)	–
<b>Total</b>	<b>\$ 3,654,165</b>	<b>\$ 321,111</b>	<b>\$ (968,107)</b>	<b>\$ 3,007,169</b>

Loan Programs	Loans Receivable Gross	Interest Receivable	Allowance for Subsidy Cost (Present Value)	Value of Assets Related to Direct Loans, Net
<b>Direct Loans Obligated After 1991 as of September 30, 2011:</b>				
Direct Loans	\$ 720,734	\$ 14,251	\$ (567,953)	\$ 167,032
UE - Subrogated Claims	34,990	12,203	18,950	66,143
MSED	150	(150)	(183)	(183)
<b>Total</b>	<b>\$ 755,874</b>	<b>\$ 26,304</b>	<b>\$ (549,186)</b>	<b>\$ 232,992</b>

<b>Direct Loans Obligated After 1991 as of September 30, 2010:</b>				
Direct Loans	\$ 985,163	\$ 13,518	\$ (798,927)	\$ 199,754
UE - Subrogated Claims	38,580	5,124	12,012	55,716
MSED	150	(150)	(183)	(183)
<b>Total</b>	<b>\$ 1,023,893</b>	<b>\$ 18,492</b>	<b>\$ (787,098)</b>	<b>\$ 255,287</b>

### TOTAL AMOUNT OF DIRECT LOANS DISBURSED

(In Thousands)

Direct Loan Programs	2011	2010
Direct Loans	\$ 3,961,133	\$ 4,639,299
UE - Subrogated Claims	34,990	38,580
MSED	179	179
<b>Total</b>	<b>\$ 3,996,302</b>	<b>\$ 4,678,058</b>

## SCHEDULE FOR RECONCILING SUBSIDY COST ALLOWANCE BALANCES (POST-1991 DIRECT LOANS)

(In Thousands)

	2011				2010			
	Direct Loan	UE - Sub. Claims	MSED	Total	Direct Loan	UE - Sub. Claims	MSED	Total
Beginning Balance, Changes, and Ending Balance								
Beginning Balance of the Subsidy Cost Allowance	\$ 798,927	\$(12,012)	\$ 183	\$ 787,098	\$ 800,470	\$ (5,480)	\$ 333	\$ 795,323
Add: Subsidy Expense for Direct Loans Disbursed During the Reporting Years by Component:								
(A) Interest Rate Differential Costs	-	-	-	-	-	-	-	-
(B) Default Costs (Net of Recoveries)	-	-	-	-	-	-	-	-
(C) Fees and Other Collections	-	-	-	-	-	-	-	-
(D) Other Subsidy Costs	-	-	-	-	-	-	-	-
Total of the Above Subsidy Expense Components	-	-	-	-	-	-	-	-
Adjustments:								
(A) Loan Modifications	-	-	-	-	-	-	-	-
(B) Fees Received	-	-	-	-	-	-	-	-
(C) Foreclosed Property Acquired	-	-	-	-	-	-	-	-
(D) Loans Written Off	-	-	-	-	-	-	-	-
(E) Subsidy Allowance Amortization	(21,896)	-	-	(21,896)	(21,896)	-	-	(21,896)
(F) Other	(209,078)	(6,938)	-	(216,016)	20,353	(6,532)	(150)	13,671
Ending Balance of the Subsidy Cost Allowance Before Reestimates	\$ 567,953	\$(18,950)	\$ 183	\$ 549,186	\$ 798,927	\$(12,012)	\$ 183	\$ 787,098
Add or Subtract Subsidy Reestimates by Component:								
(A) Interest Rate Reestimate	-	-	-	-	-	-	-	-
(B) Technical/Default Reestimate	-	-	-	-	-	-	-	-
Total of the Above Reestimate Components	-	-	-	-	-	-	-	-
Ending Balance of the Subsidy Cost Allowance	\$ 567,953	\$(18,950)	\$ 183	\$ 549,186	\$ 798,927	\$(12,012)	\$ 183	\$ 787,098

## DEFAULTED GUARANTEED LOANS

(In Thousands)

Loan Guarantee Programs	Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Allowance For Loan Losses	Value of Assets Related to Defaulted Guaranteed Loans Receivable, Net
<b>Defaulted Guaranteed Loans from Pre-1992 Guarantees (Allowance for Loss Method): 2011</b>				
UE	\$ 222,020	\$ 88,051	\$ (103,843)	\$ 206,228
Total	\$ 222,020	\$ 88,051	\$ (103,843)	\$ 206,228
<b>Defaulted Guaranteed Loans from Pre-1992 Guarantees (Allowance for Loss Method): 2010</b>				
UE	\$ 235,268	\$ 84,719	\$ (110,378)	\$ 209,609
Total	\$ 235,268	\$ 84,719	\$ (110,378)	\$ 209,609

## DEFAULTED GUARANTEED LOANS FROM POST-1991 GUARANTEES

In 2011, the UE Program experienced \$3.8 million in defaults on payments.

In 2010, the UE Program experienced \$3.8 million in defaults on payments.

## GUARANTEED LOANS OUTSTANDING

<b>GUARANTEED LOANS OUTSTANDING</b> <i>(In Thousands)</i>		
Loan Guarantee Programs	Outstanding Principal, Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
<b>Guaranteed Loans Outstanding (2011):</b>		
UE	\$ 817,179	\$ 817,179
MSED	14,760	7,380
Israel	11,615,776	11,615,776
DCA	303,495	151,748
Egypt	1,250,000	1,250,000
<b>Total</b>	<b>\$ 14,001,210</b>	<b>\$ 13,842,083</b>
<b>Guaranteed Loans Outstanding (2010):</b>		
UE	\$ 909,509	\$ 909,509
MSED	14,760	7,380
Israel	11,928,719	11,928,719
DCA	243,313	102,399
Egypt	1,250,000	1,250,000
<b>Total</b>	<b>\$ 14,346,301</b>	<b>\$ 14,198,007</b>
<b>New Guaranteed Loans Disbursed (2011):</b>		
DCA	\$ 111,894	\$ 55,947
<b>Total</b>	<b>\$ 111,894</b>	<b>\$ 55,947</b>
<b>New Guaranteed Loans Disbursed (2010):</b>		
DCA	\$ 37,676	\$ 18,838
<b>Total</b>	<b>\$ 37,676</b>	<b>\$ 18,838</b>

## LIABILITY FOR LOAN GUARANTEES

(In Thousands)

Loan Guarantee Programs	Liabilities for Losses on Pre-1992 Guarantees, Estimated Future Default Claims	Liabilities for Loan Guarantees for Post-1991 Guarantees, Present Value	Total Liabilities for Loan Guarantees
<b>Liability for Loan Guarantees (Estimated Future Default Claims for pre-1992 guarantees) as of September 30, 2011:</b>			
UE	\$ 54,977	\$ 162,947	\$ 217,924
MSED	-	(661)	(661)
Israel	-	1,314,845	1,314,845
DCA	-	30,206	30,206
Egypt	-	131,881	131,881
<b>Total</b>	<b>\$ 54,977</b>	<b>\$ 1,639,218</b>	<b>\$ 1,694,195</b>

<b>Liability for Loan Guarantees (Estimated Future Default Claims for pre-1992 guarantees) as of September 30, 2010:</b>			
UE	\$ 64,869	\$ 137,074	\$ 201,943
MSED	-	(649)	(649)
Israel	-	1,856,214	1,856,214
DCA	-	15,035	15,035
Egypt	-	193,048	193,048
<b>Total</b>	<b>\$ 64,869</b>	<b>\$ 2,200,722</b>	<b>\$ 2,265,591</b>

## SUBSIDY EXPENSE FOR LOAN GUARANTEES BY PROGRAM AND COMPONENT

### SUBSIDY EXPENSE FOR LOAN GUARANTEES BY PROGRAM AND COMPONENT

(In Thousands)

Loan Guarantee Programs	Interest Supplements	Defaults	Fees and Other Collections	Other	Total
<b>Subsidy Expense for New Loan Guarantees (2011):</b>					
DCA	\$ -	\$ 7,189	\$ -	\$ -	\$ 7,189
<b>Total</b>	<b>\$ -</b>	<b>\$ 7,189</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 7,189</b>
<b>Subsidy Expense for New Loan Guarantees (2010):</b>					
DCA	\$ -	\$ 1,728	\$ -	\$ -	\$ 1,728
<b>Total</b>	<b>\$ -</b>	<b>\$ 1,728</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,728</b>

(continued on next page)

## SUBSIDY EXPENSE FOR LOAN GUARANTEES BY PROGRAM AND COMPONENT *(continued)*

*(In Thousands)*

Loan Guarantee Programs	Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates
<b>Modifications and Reestimates (2011):</b>				
UE	\$ -	\$ -	\$ 230	\$ 230
Israel	-	-	5,769	5,769
Egypt	-	-	-	-
<b>Total</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 5,999</b>	<b>\$ 5,999</b>
<b>Modifications and Reestimates (2010):</b>				
UE	\$ -	\$ -	\$ -	\$ -
Israel	-	-	32,812	32,812
Egypt	-	-	5,737	5,737
<b>Total</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 38,549</b>	<b>\$ 38,549</b>

## TOTAL LOAN GUARANTEE SUBSIDY EXPENSE

*(In Thousands)*

Loan Guarantee Programs	2011	2010
DCA	\$ 7,189	\$ 1,728
UE	230	-
MSED	-	-
Israel	5,769	32,812
Egypt	-	5,737
<b>Total</b>	<b>\$ 13,188</b>	<b>\$ 40,277</b>

## SUBSIDY RATES FOR LOAN GUARANTEES BY PROGRAM AND COMPONENT:

### BUDGET SUBSIDY RATES FOR LOAN GUARANTEES FOR THE CURRENT YEAR'S COHORTS

*(Percent)*

Loan Guarantee Programs	Interest Supplements (%)	Defaults (%)	Fees and Other Collections (%)	Other (%)	Total (%)
DCA	-	6.28%	-	-	6.28%

## SCHEDULE FOR RECONCILING LOAN GUARANTEE LIABILITY BALANCES

(In Thousands)

(Post-1991 Loan Guarantees)	DCA	MSED	UE	Israel	Egypt	Total
<b>2011</b>						
Beginning Balance, Changes, and Ending Balance						
Beginning Balance of the Loan Guarantee Liability	\$ 15,035	\$ (649)	\$ 137,074	\$ 1,856,214	\$ 193,048	\$2,200,722
Add: Subsidy Expense for Guaranteed Loans Disbursed During the Reporting Years by Component:						
(A) Interest Supplement Costs	-	-	-	-	-	-
(B) Default Costs (Net of Recoveries)	-	-	-	-	-	-
(C) Fees and Other Collections	-	-	-	-	-	-
(D) Other Subsidy Costs	7,189	-	-	-	-	7,189
Total of the Above Subsidy Expense Components	7,189	-	-	-	-	7,189
Adjustments:						
(A) Loan Guarantee Modifications	-	-	-	-	-	-
(B) Fees Received	1,164	-	1,153	-	-	2,317
(C) Interest Supplements Paid	-	-	-	-	-	-
(D) Foreclosed Property and Loans Acquired	-	-	-	-	-	-
(E) Claim Payments to Lenders	(27,566)	(1,297)	(30,463)	(135,134)	-	(194,460)
(F) Interest Accumulation on the Liability Balance	1,464	-	3,706	115,750	8,282	129,202
(G) Other	29,892	1,285	65,993	135,135	(1)	232,304
Ending Balance of the Loan Guarantee Liability Before Reestimates	27,178	(661)	177,463	1,971,965	201,329	2,377,274
Add or Subtract Subsidy Reestimates by Component:						
(A) Interest Rate Reestimate	-	-	-	-	-	-
(B) Technical/Default Reestimate	3,028	-	(14,516)	(657,120)	(69,448)	(738,056)
Total of the Above Reestimate Components	3,028	-	(14,516)	(657,120)	(69,448)	(738,056)
Ending Balance of the Loan Guarantee Liability	\$ 30,206	\$ (661)	\$ 162,947	\$ 1,314,845	\$ 131,881	\$1,639,218
<b>2010</b>						
Beginning Balance, Changes, and Ending Balance						
Beginning Balance of the Loan Guarantee Liability	\$ 34,071	\$ 693	\$ 154,794	\$ 1,824,892	\$ 178,029	\$2,192,479
Add: Subsidy Expense for Guaranteed Loans Disbursed During the Reporting Years by Component:						
(A) Interest Supplement Costs	-	-	-	-	-	-
(B) Default Costs (Net of Recoveries)	-	-	-	-	-	-
(C) Fees and Other Collections	-	-	-	-	-	-
(D) Other Subsidy Costs	1,728	-	-	-	-	1,728
Total of the Above Subsidy Expense Components	1,728	-	-	-	-	1,728
Adjustments:						
(A) Loan Guarantee Modifications	-	-	-	-	-	-
(B) Fees Received	1,618	3	1,379	-	-	3,000
(C) Interest Supplements Paid	-	-	-	-	-	-
(D) Foreclosed Property and Loans Acquired	-	-	-	-	-	-
(E) Claim Payments to Lenders	-	-	(2,169)	-	-	(2,169)
(F) Interest Accumulation on the Liability Balance	-	-	6,124	115,791	7,637	129,552
(G) Other	(13,884)	(1,345)	(12,460)	-	-	(27,689)
Ending Balance of the Loan Guarantee Liability Before Reestimates	23,533	(649)	147,668	1,940,683	185,666	2,296,901
Add or Subtract Subsidy Reestimates by Component:						
(A) Interest Rate Reestimate	-	-	-	-	-	-
(B) Technical/Default Reestimate	(8,498)	-	(10,594)	(84,469)	7,382	(96,179)
Total of the Above Reestimate Components	(8,498)	-	(10,594)	(84,469)	7,382	(96,179)
Ending Balance of the Loan Guarantee Liability	\$ 15,035	\$ (649)	\$ 137,074	\$ 1,856,214	\$ 193,048	\$2,200,722

## ADMINISTRATIVE EXPENSE

(In Thousands)

Loan Programs	2011	2010
DCA	\$ 18,262	\$ 10,519
<b>Total</b>	<b>\$ 18,262</b>	<b>\$ 10,519</b>

### OTHER INFORMATION

- Allowance for Loss for Liquidating account (pre-Credit Reform Act) receivables have been calculated in accordance with OMB guidance using a present value method which assigns risk ratings to receivables based upon the country of debtor. Seven countries are in violation of Section 620q of the Foreign Assistance Act (FAA), owing \$10.6 million that is more than six months delinquent. Seven countries are in violation of the Brooke-Alexander Amendment to the Foreign Operations Export Financing and Related Programs Appropriations Act, owing \$56 million that is more than one year delinquent. Outstanding direct loans receivable for countries in violation of Section 620q totaled \$10.6 million. Outstanding direct loans receivable for countries in violation of the Brooke Amendment totaled \$56 million.
- The MSED Liquidating Account general ledger has a loan receivable balance of \$29 thousand. This includes a loan pending closure. This loan is being carried at 100% bad debt allowance.
- Reestimate amounts are subject to approval by the Office of Management and Budget (OMB), and any adjustments, if necessary, will be made in Fiscal Year 2012.

## NOTE 7. INVENTORY AND RELATED PROPERTY, NET

USAID's Inventory and Related Property, Net is comprised of Operating Materials and Supplies. Operating Materials and Supplies as of September 30, 2011 and 2010 are as follows:

### INVENTORY AND RELATED PROPERTY

(In Thousands)

	2011	2010
<b>Items Held for Use</b>		
Office Supplies	\$ 6,046	\$ 5,117
<b>Items Held in Reserve for Future Use:</b>		
Disaster Assistance Materials and Supplies	11,620	3,300
Birth Control Supplies	26,013	7,977
<b>Total Inventory and Related Property</b>	<b>\$ 43,679</b>	<b>\$ 16,394</b>

Operating Materials and Supplies are considered tangible properties that are consumed in the normal course

of business and not held for sale. The valuation is based on historical acquisition costs. There are no items obsolete or

unserviceable, and no restrictions on their use. Items costing less than \$25,000 are expensed as incurred.

## NOTE 8. GENERAL PROPERTY, PLANT AND EQUIPMENT, NET

The components of Property, Plant & Equipment (PP&E) as of September 30, 2011 and 2010 are as follows:

<b>GENERAL PROPERTY, PLANT AND EQUIPMENT, NET</b>					
<i>(In Thousands)</i>					
	<b>Useful Life</b>	<b>Cost</b>	<b>Accumulated Depreciation</b>	<b>Net Book Value 2011</b>	<b>Net Book Value 2010</b>
<b>Classes of Fixed Assets:</b>					
Equipment	3 to 5 years	\$ 83,370	\$ (72,465)	\$ 10,905	\$ 11,572
Buildings, Improvements, and Renovations	20 years	71,928	(48,078)	23,850	53,356
Land and Land Rights	N/A	7,203	N/A	7,203	9,178
Assets Under Capital Lease (Note 9)		900	(900)	–	3,777
Construction in Progress	N/A	–	–	–	–
Internal Use Software	3 to 5 years	104,857	(72,713)	32,144	39,173
<b>Total PP&amp;E</b>		<b>\$ 268,258</b>	<b>\$ (194,156)</b>	<b>\$ 74,102</b>	<b>\$ 117,056</b>

The threshold for capitalizing assets is \$25,000 except for Internal Use Software which is capitalized and amortized at \$300,000. Assets are depreciated using the straight line depreciation method. USAID uses the mid-year convention for assets purchased prior to FY 2003 and the mid-quarter convention for assets purchased during FY 2003 and beyond. Depreciable assets are assumed to have no remaining salvage value. There are currently no restrictions on PP&E assets.

USAID PP&E includes assets located in Washington, D.C. offices and overseas field missions.

Equipment consists primarily of electric generators, Automatic Data Processing (ADP) hardware, vehicles and copiers located at the overseas field missions. Note 9 discusses USAID leases.

Buildings, Improvements, and Renovations, in addition to Land and Land Rights include USAID owned

office buildings and residences at foreign missions, including the land on which these structures reside. These structures are used and maintained by the field missions. USAID does not separately report the cost of the building and the land on which the building resides.

Land consists of property owned by USAID in foreign countries. Land is generally procured with the intent of constructing buildings.

## NOTE 9. LEASES

As of September 30, 2010 and 2011 Leases consisted of the following::

<b>LEASES</b> (In Thousands)		
<b>Entity as Lessee</b>		
<b>Capital Leases:</b>	<b>2011</b>	<b>2010</b>
Summary of Assets Under Capital Lease:		
Buildings	\$ 900	\$ 13,442
Accumulated Depreciation	(900)	(9,665)
<b>Net Assets under Capital Leases</b>	<b>\$ -</b>	<b>\$ 3,777</b>

**Description of Lease(s) Arrangements.** Capital leases consist of rental agreements entered into by missions for warehouses, parking lots, residential space, and office buildings. These leases are one year or more in duration. During FY 2011, the majority of the capital lease agreements converted to International Cooperative Administrative Support Services agreements and no longer meet the criteria of capital lease.

<b>Operating Leases:</b>		
<b>Future Payments Due:</b>	<b>2011</b>	<b>2010</b>
<b>Fiscal Year</b>	<b>Future Costs</b>	<b>Future Costs</b>
2011	\$ -	\$ 82,567
2012	101,044	78,876
2013	87,684	67,254
2014	78,777	63,146
2015	74,365	67,823
2016	29,828	-
After 5 Years	69,474	167,993
<b>Lease Liabilities Covered by Budgetary Resources</b>	<b>\$ 441,172</b>	<b>\$ 527,659</b>

Operating lease payments total \$441 million in future lease payments of which \$208 million is for the USAID headquarters in Washington, D.C. The current lease agreements are for approximately 802,417 sq. feet and with expiration dates of FY 2013, FY 2015, FY 2016 and FY 2020. The lessor, General Services Administration (GSA), charges commercial rates for USAID's occupancy. Lease payments for FY 2011 and FY 2010 amounted to \$66.2 million and \$48.2 million, respectively.

## NOTE 10. LIABILITIES COVERED AND NOT COVERED BY BUDGETARY RESOURCES

USAID records liabilities for amounts that are likely to be paid as the direct result of events that have already occurred. USAID considers the Intragovernmental accounts payable as liabilities covered under budgetary resources. These accounts payable are those payable to other federal agencies and consist mainly of unliquidated obligation balances related to interagency agreements between USAID and other federal agencies. The accounts payable

with the public represent liabilities to other non-federal entities.

Liabilities not covered by budgetary resources include accrued unfunded annual leave, workers' compensation benefits and separation pay. Although future appropriations to fund these liabilities are probable and anticipated, Congressional action is needed before budgetary resources can

be provided. The Contingent Liabilities for Loan Guarantees is in the pre-Credit Reform Urban and Environmental (UE) Housing Loan Guarantee liquidating fund. As such, it represents the estimated liability to lenders for future loan guarantee defaults in that program.

As of September 30, 2011 and 2010 liabilities covered and not covered by budgetary resources were as follows:

### LIABILITIES COVERED AND NOT COVERED BY BUDGETARY RESOURCES

(In Thousands)

	2011	2010
<b>Liabilities Covered by Budgetary Resources:</b>		
Intragovernmental:		
Accounts Payable	\$ 15,597	\$ 37,773
Debt (Note 11)	478,380	478,280
Liability for Capital Transfers to the General Fund of the Treasury (Note 11)	3,198,706	3,202,384
Other Liabilities (Note 12)	701,303	489,347
Total Intragovernmental	4,393,986	4,207,784
Accounts Payable	1,722,872	2,063,359
Disbursements in Transit	11,286	11,688
Total Accounts Payable with Public	1,734,158	2,075,047
Loan Guarantee Liability (Note 6)	1,639,218	2,200,721
Other Liabilities with Public	459,909	391,123
<b>Total Liabilities Covered by Budgetary Resources</b>	<b>\$ 8,227,271</b>	<b>\$ 8,874,675</b>
<b>Liabilities Not Covered by Budgetary Resources:</b>		
Intragovernmental:		
IPAC Suspense	\$ 4,968	\$ (10,050)
Unfunded FECA Liability (Note 13)	8,073	10,005
Other Unfunded Employment Related Liability	107	109
Other Liabilities (Note 12)	730,974	178,302
Total Intragovernmental (Note 12)	\$ 744,122	\$ 178,366
Accrued Annual Leave	35,948	44,361
FSN Separation Pay Liability	—	305
Total Accrued Unfunded Annual Leave and Separation Pay	35,948	44,666
Future Workers' Compensation Benefits (Note 13)	22,175	26,035
Debt - Contingent Liabilities for Loan Guarantees (Note 6)	54,977	64,870
Total Liabilities with Public Not Covered by Budgetary Resources	857,222	313,937
<b>Total Liabilities</b>	<b>\$ 9,084,493</b>	<b>\$ 9,188,612</b>

## NOTE II. DEBT

USAID Intragovernmental Debt as of September 30, 2011 and September 30, 2010 consisted of the following borrowings from Treasury for post-1991 loan programs, which is classified as other debt:

<b>INTRAGOVERNMENTAL DEBT</b>					
<i>(In Thousands)</i>					
<b>Debt Due to Treasury</b>	<b>2010 Beginning Balance</b>	<b>Net Borrowing</b>	<b>2010 Ending Balance</b>	<b>Net Borrowing</b>	<b>2011 Ending Balance</b>
Direct Loans	\$ 477,295	\$ 900	\$ 478,195	\$ –	\$ 478,195
DCA	85	–	85	100	185
<b>Total Treasury Debt</b>	<b>\$ 477,380</b>	<b>\$ 900</b>	<b>\$ 478,280</b>	<b>\$ 100</b>	<b>\$ 478,380</b>

Pursuant to the Federal Credit Reform Act of 1990, agencies with credit programs have permanent indefinite authority to borrow funds from the Treasury. These funds are used to disburse new direct loans to the public and, in certain situations, to cover credit reform program costs. Liquidating (pre-1992) accounts have permanent indefinite borrowing authority to be used to cover program costs when they exceed account resources.

For FY 2011, \$4 thousand accrued interest was included in DCA and no accrued interest was included for Direct Loans.

The above disclosed debt is principal payable to Treasury, which represents financing account borrowings from Treasury under the Federal Credit Reform Act and net liquidating account equity in the amount of \$3.2 billion, which

under the Act is required to be recorded as Liability for Capital Transfers to the General Fund of the Treasury. All debt shown is intragovernmental debt.

## NOTE 12. OTHER LIABILITIES

As of September 30, 2011 and 2010 Other Liabilities consisted of the following:

<b>OTHER LIABILITIES</b>		
<i>(In Thousands)</i>		
	<b>2011</b>	<b>2010</b>
<b>Intragovernmental</b>		
IPAC Suspense	\$ 4,968	\$ (10,050)
Unfunded FECA Liability	8,073	10,005
Custodial Liability	12,543	7,424
Employer Contributions & Payroll Taxes Payable	10,070	9,237
Other Unfunded Employment Related Liability	107	109
Liability for Advances and Prepayments	678,690	472,686
Other Liabilities	730,974	178,302
<b>Total Intragovernmental</b>	<b>\$ 1,445,425</b>	<b>\$ 667,713</b>
Accrued Funded Payroll and Leave	39,753	41,615
Unfunded Leave (Note 10)	35,948	44,666
Advances From Others	2,688	2,485
Deferred Credits	21,388	19,071
Foreign Currency Trust Fund	307,726	266,465
Capital Lease Liability (Note 9)	–	6,310
Other Liabilities	88,354	55,177
<b>Total Liabilities With the Public</b>	<b>\$ 495,857</b>	<b>\$ 435,789</b>
<b>Total Other Liabilities</b>	<b>\$ 1,941,282</b>	<b>\$ 1,103,502</b>

Intragovernmental Liabilities represent amounts due to other federal agencies. All remaining Other Liabilities are liabilities to non-federal entities.

## NOTE 13. FEDERAL EMPLOYEES AND VETERAN'S BENEFITS

The provision for workers' compensation benefits payable, as of September 30, 2011 and 2010 are indicated in the table below.

<b>ACCRUED UNFUNDED WORKERS' COMPENSATION BENEFITS</b>		
<i>(In Thousands)</i>		
	<b>2011</b>	<b>2010</b>
<b>Liabilities Not Covered by Budgetary Resources</b>		
Future Workers' Compensation Benefits	\$ 22,175	\$ 26,035
Unfunded FECA Liability	8,073	10,005
<b>Total Accrued Unfunded Workers' Compensation Benefits</b>	<b>\$ 30,248</b>	<b>\$ 36,040</b>

The Federal Employees' Compensation Act (FECA) provides income and medical cost protection to covered federal civilian employees injured on the job and to beneficiaries of employees whose deaths are attributable to job-related injury or disease. The FECA program is administered by the Department of Labor (DOL). DOL initially pays valid FECA

claims for all Federal government agencies and seeks reimbursement two fiscal years later from the Federal agencies employing the claimants.

For FY 2011, USAID's total FECA liability was \$30.2 million, comprised of unpaid FECA billings for \$8.1 million and estimated future FECA costs of \$22.2 million.

The actuarial estimate for the FECA unfunded liability is determined by the DOL using a method that utilizes historical benefit payment patterns. The projected annual benefit payments are discounted to present value using economic assumption for 10-year Treasury notes and bonds and the amount is further adjusted for inflation.

## NOTE 14. COMMITMENTS AND CONTINGENCIES

USAID is involved in certain claims, suits, and complaints that have been filed or are pending. These matters are in the ordinary course of the Agency's operations and are not expected to have a material adverse effect on the Agency's financial operations.

As of September 30, 2011 a total of eight cases were pending.

Seven cases have been designated as reasonably possible totaling \$26.5 million:

- The first case is a retroactive price adjustment application. USAID is not a party to the case; however, Title II funds may be the source of funding if the plaintiff's claims are successful. The estimated loss is \$10 million.
- The second case is a claim that USAID has willfully violated the Fair Labor Standards Act by failing to compensate employees for overtime worked. The estimated loss is \$7 million.

- The third case is a contract claim that USAID wrongfully withheld payment for invoices submitted under the "Hurricane Mitch" host-country. The estimated loss is \$2.2 million.
- The fourth case is a contract claim for approximately \$2 million in damages sought.
- In the fifth case a contractor entered into a firm fixed-price contract for the construction of a road but contends that it discovered differing site conditions while constructing the road. In particular, it alleges that USAID instructed it to use swampy embankment fill in areas not included in a pre-bid document estimating areas of land covered by a swamp. The plaintiff claims that USAID owes it an equitable adjustment of \$2 million.

- The sixth case is a companion to a prior case, in which a contractor seeks compensation for efforts and expenses it claims to have incurred under a terminated host country contract with an estimated loss of \$1.8 million.
- The seventh case is a claim for damages suffered allegedly as a result of USAID-caused delay in relation to the delivery and off-loading of grain. Filings to date with the Board of Contract Appeals have not quantified damages; however, in pre-litigation correspondence with the Agency the contractor identified \$1.5 million in damages.

The remaining case has a remote likelihood of unfavorable outcome.

During FY 2011 there was one settlement and one dismissal.

- The first case was dismissed in the first quarter. The case was originally identi-

fied as a remote loss of \$1.6 million, in which the plaintiff was suing on grounds of a breach of contract seeking relief.

- In the third quarter there was one settlement in which the Agency paid the contractor \$0.50 million inclusive of interest. The case was then dismissed by the Court.

USAID's normal course of business involves the execution of project agreements with foreign governments that are a type of treaty. All of these agreements give rise to obligations that are fully reported on USAID's financial statements, and none of which are contingent. It is not USAID's normal business practice

to enter into other types of agreements or treaties with foreign governments that create contingent liabilities.

## NOTE 15. RECOVERY ACT FUNDS

### RECOVERY ACT ASSETS, LIABILITIES AND NET POSITION

(In Thousands)

	Recovery Act Assets, Liabilities and Net Position	
	2011	2010
Fund Balance With Treasury	\$ 976	\$ 15,862
<b>Total Assets</b>	<b>976</b>	<b>15,862</b>
Accounts Payable	853	5,624
<b>Total Liabilities</b>	<b>853</b>	<b>5,624</b>
Unexpended Appropriations	123	10,238
Cumulative Results of Operations	—	—
<b>Total Net Position</b>	<b>123</b>	<b>10,238</b>
<b>Total Liabilities and Net Position</b>	<b>\$976</b>	<b>\$ 15,862</b>
	<b>Status of Recovery Act Funds</b>	
<b>Total Budgetary Resources</b>	<b>\$ 8</b>	<b>\$ 17,948</b>
Obligations Incurred	—	17,948
Unobligated Balance	8	—
<b>Total Status of Budgetary Resources</b>	<b>\$ 8</b>	<b>\$ 17,948</b>
Total, Unpaid Obligated Balance, Net, End of Period	968	15,854
<b>Net Outlays</b>	<b>\$ 14,886</b>	<b>\$ 18,517</b>

In February, 2009 Congress passed the American Recovery and Reinvestment Act of 2009 with the goal to create jobs, spur economic activity and invest in long term economic growth. This \$787 billion Recovery plan includes federal tax cuts and incentives, an expansion of unemployment benefits, and other spending on social entitlement programs. In addition, federal agencies are using Recovery funds to award contracts, grants, and loans around the country.

USAID received \$38 million for information technology security and upgrades to support mission-critical operations. Due to Agency IT priorities and toward maximizing job creation with the Recovery Act funds, USAID determined that the funding should be dedicated to the Global Acquisition and Assistance System (GLAAS) project. There is one fund in association with the Recovery Act Funds.

The balances for each line item in this footnote are included in the cumulative balances presented in their respective financial statements.

## NOTE 16. INTRAGOVERNMENTAL COSTS AND EARNED REVENUE

The Consolidated Statement of Net Cost reports the Agency's gross costs less earned revenues to arrive at net cost of operations by Objective and Program Area, as of September 30, 2011. These objectives are consistent with the State/USAID's Strategic Planning Framework.

The format of the Consolidated Statement of Net Cost is consistent with OMB Circular A-136 guidance.

Note 16 shows the value of transactions between USAID and other federal entities as well as non-federal entities. These are also categorized by Objectives, Program Areas and Responsibility Segments.

Responsibility Segments are defined in Note 17.

Intragovernmental costs and earned revenue sources relate to transactions between USAID and other federal entities. Public costs and earned revenues relate to transactions between USAID and non-federal entities.

### INTRAGOVERNMENTAL COSTS AND EARNED REVENUE BY RESPONSIBILITY SEGMENT

For the Years Ended September 30, 2011 and 2010  
(In Thousands)

Objective	Afghani- stan & Pakistan	Africa	Asia	DCHA	EGAT	Europe & Eurasia	Global Health	Latin America & Caribbean	Middle East	2011 Total	2010 Total
<b>Peace and Security</b>											
Intragovernmental Costs	15,659	2,796	–	8,667	2,728	2,764	–	4,965	248	37,827	\$ 36,133
Public Costs	306,965	97,252	144,014	175,959	4,177	47,876	–	129,481	(1,778)	903,946	1,043,256
Total Program Costs	322,624	100,048	144,014	184,626	6,905	50,640	–	134,446	(1,530)	941,773	1,079,389
Intragovernmental Earned Revenue	(1,125)	(322)	(370)	(695)	(51)	(297)	–	(555)	1	(3,414)	(5,780)
Public Earned Revenue	(431)	(124)	(144)	(268)	(20)	(114)	–	(214)	–	(1,315)	(1,115)
Total Earned Revenue	(1,556)	(446)	(514)	(963)	(71)	(411)	–	(769)	1	(4,729)	(6,895)
<b>Net Program Costs</b>	<b>321,068</b>	<b>99,602</b>	<b>143,500</b>	<b>183,663</b>	<b>6,834</b>	<b>50,229</b>	<b>–</b>	<b>133,677</b>	<b>(1,529)</b>	<b>937,044</b>	<b>1,072,494</b>
<b>Governing Justly and Democratically</b>											
Intragovernmental Costs	22,657	9,672	–	4,405	4,477	12,554	–	9,380	8,840	71,985	59,680
Public Costs	512,971	245,334	245,680	90,988	5,180	179,974	–	184,121	307,972	1,772,220	1,732,813
Total Program Costs	535,628	255,006	245,680	95,393	9,657	192,528	–	193,501	316,812	1,844,205	1,792,493
Intragovernmental Earned Revenue	(1,680)	(945)	(602)	(444)	(70)	(1,158)	–	(923)	(951)	(6,773)	(22,445)
Public Earned Revenue	(655)	(364)	(222)	(171)	(27)	(446)	–	(355)	(366)	(2,606)	(1,841)
Total Earned Revenue	(2,335)	(1,309)	(824)	(615)	(97)	(1,604)	–	(1,278)	(1,317)	(9,379)	(24,286)
<b>Net Program Costs</b>	<b>533,293</b>	<b>253,697</b>	<b>244,856</b>	<b>94,778</b>	<b>9,560</b>	<b>190,924</b>	<b>–</b>	<b>192,223</b>	<b>315,495</b>	<b>1,834,826</b>	<b>1,768,207</b>
<b>Investing in People</b>											
Intragovernmental Costs	41,636	91,753	–	2,573	(25,591)	8,557	36,516	12,302	16,446	184,192	201,195
Public Costs	475,324	646,487	249,860	58,496	73,488	81,339	806,910	131,274	559,074	3,082,252	2,961,144
Total Program Costs	516,960	738,240	249,860	61,069	47,897	89,896	843,426	143,576	575,520	3,266,444	3,162,339
Intragovernmental Earned Revenue	(1,946)	(9,498)	(696)	(270)	(4,114)	(608)	(172,056)	(1,165)	(1,698)	(192,051)	(210,374)
Public Earned Revenue	(759)	9,919	(258)	(104)	(17,395)	(234)	(1,378)	(448)	(653)	(11,310)	(103,551)
Total Earned Revenue	(2,705)	421	(954)	(374)	(21,509)	(842)	(173,434)	(1,613)	(2,351)	(203,361)	(313,925)
<b>Net Program Costs</b>	<b>514,255</b>	<b>738,661</b>	<b>248,906</b>	<b>60,695</b>	<b>26,388</b>	<b>89,054</b>	<b>669,992</b>	<b>141,963</b>	<b>573,169</b>	<b>3,063,083</b>	<b>2,848,414</b>

(continued on next page)

## INTRAGOVERNMENTAL COSTS AND EARNED REVENUE BY RESPONSIBILITY SEGMENT

For the Years Ended September 30, 2011 and 2010  
(In Thousands)

Objective	Afghani- stan & Pakistan	Africa	Asia	DCHA	EGAT	Europe & Eurasia	Global Health	Latin America & Caribbean	Middle East	2011 Total	2010 Total
<b>Economic Growth</b>											
Intragovernmental Costs	65,177	50,456	–	10	91,167	12,836	–	50,564	18,867	289,077	155,945
Public Costs	818,316	550,365	421,708	503	1,105,863	183,029	–	231,371	536,929	3,848,084	2,757,628
<b>Total Program Costs</b>	<b>883,493</b>	<b>600,821</b>	<b>421,708</b>	<b>513</b>	<b>1,197,030</b>	<b>195,865</b>	<b>–</b>	<b>281,935</b>	<b>555,796</b>	<b>4,137,161</b>	<b>2,913,573</b>
Intragovernmental Earned Revenue	(7,545)	(1,929)	2,462	(l)	(158,705)	(1,097)	–	(1,064)	(1,788)	(169,667)	(108,929)
Public Earned Revenue	(1,466)	(742)	(489)	–	(714,050)	(422)	–	(409)	(688)	(718,266)	(94,465)
<b>Total Earned Revenue</b>	<b>(9,011)</b>	<b>(2,671)</b>	<b>1,973</b>	<b>(l)</b>	<b>(872,755)</b>	<b>(1,519)</b>	<b>–</b>	<b>(1,473)</b>	<b>(2,476)</b>	<b>(887,933)</b>	<b>(203,394)</b>
<b>Net Program Costs</b>	<b>874,482</b>	<b>598,150</b>	<b>423,681</b>	<b>512</b>	<b>324,275</b>	<b>194,346</b>	<b>–</b>	<b>280,462</b>	<b>553,320</b>	<b>3,249,228</b>	<b>2,710,179</b>
<b>Humanitarian Assistance</b>											
Intragovernmental Costs	5,609	729	464	139,284	–	154	–	911	4,699	151,850	120,415
Public Costs	93,525	256	42,322	1,254,364	5,980	2,361	–	24,332	64,796	1,487,936	1,516,623
<b>Total Program Costs</b>	<b>99,134</b>	<b>985</b>	<b>42,786</b>	<b>1,393,648</b>	<b>5,980</b>	<b>2,515</b>	<b>–</b>	<b>25,243</b>	<b>69,495</b>	<b>1,639,786</b>	<b>1,637,038</b>
Intragovernmental Earned Revenue	(264)	(l)	(95)	(5,250)	–	(17)	–	(98)	(157)	(5,882)	(6,664)
Public Earned Revenue	(103)	(l)	(35)	(2,020)	–	(7)	–	(38)	(60)	(2,264)	(1,287)
<b>Total Earned Revenue</b>	<b>(367)</b>	<b>(l)</b>	<b>(130)</b>	<b>(7,270)</b>	<b>–</b>	<b>(24)</b>	<b>–</b>	<b>(136)</b>	<b>(217)</b>	<b>(8,146)</b>	<b>(7,951)</b>
<b>Net Program Costs</b>	<b>98,767</b>	<b>983</b>	<b>42,656</b>	<b>1,386,378</b>	<b>5,980</b>	<b>2,491</b>	<b>–</b>	<b>25,107</b>	<b>69,278</b>	<b>1,631,640</b>	<b>1,629,087</b>
<b>Operating Unit Management</b>											
Intragovernmental Costs	34,270	11,061	–	40,781	27,585	19,232	–	13,019	2,647	148,595	106,684
Public Costs	73,505	82,326	4	75,628	35,931	38,597	–	49,055	27,196	382,242	274,677
<b>Total Program Costs</b>	<b>107,775</b>	<b>93,387</b>	<b>4</b>	<b>116,409</b>	<b>63,516</b>	<b>57,829</b>	<b>–</b>	<b>62,074</b>	<b>29,843</b>	<b>530,837</b>	<b>381,361</b>
Intragovernmental Earned Revenue	(118)	(682)	(42)	(345)	(461)	(261)	–	(241)	(73)	(2,223)	(2,888)
Public Earned Revenue	(45)	(151)	(16)	(133)	(176)	(100)	–	(93)	(28)	(742)	(558)
<b>Total Earned Revenue</b>	<b>(163)</b>	<b>(833)</b>	<b>(58)</b>	<b>(478)</b>	<b>(637)</b>	<b>(361)</b>	<b>–</b>	<b>(334)</b>	<b>(101)</b>	<b>(2,965)</b>	<b>(3,446)</b>
<b>Net Program Costs</b>	<b>107,612</b>	<b>92,554</b>	<b>(54)</b>	<b>115,931</b>	<b>62,879</b>	<b>57,468</b>	<b>–</b>	<b>61,740</b>	<b>29,742</b>	<b>527,872</b>	<b>377,915</b>
<b>Net Cost of Operations</b>	<b>\$2,449,477</b>	<b>\$1,783,647</b>	<b>\$1,103,545</b>	<b>\$1,841,957</b>	<b>\$435,916</b>	<b>\$584,512</b>	<b>\$669,992</b>	<b>\$835,172</b>	<b>\$1,539,475</b>	<b>\$11,243,693</b>	<b>\$10,406,296</b>

## NOTE 17. SUBORGANIZATION PROGRAM COSTS/PROGRAM COSTS BY SEGMENT

The Suborganization Program Costs/ Program Costs by Segment categorizes costs and revenues by Objectives, Program Areas and Responsibility Segment.

A responsibility segment is the component that carries out a mission or major line of activity, and whose managers report directly to top management. The geographic and technical bureaus of USAID (below) meet the criteria of a responsibility segment. These bureaus

directly support the Agency goals while the remaining bureaus and offices support the operations of these bureaus. To report the full cost of program outputs, the cost of support bureaus and offices are allocated to the outputs of the geographic and technical bureaus. Intra-agency eliminations are allocated to Program Areas to reflect total costs.

The FY 2011 Consolidated Statement of Net Cost major responsibility segments

are (i) the Geographic Bureaus and (ii) the Technical Bureaus. The Geographic Bureaus include: Africa; Asia; Middle East; Latin America and the Caribbean; and Europe and Eurasia; and Afghanistan and Pakistan (OAPA). Prior to FY 2011 OAPA was included in the Asia Bureau. Technical Bureaus consist of: Democracy, Conflict, and Humanitarian Assistance (DCHA); Economic Growth, Agriculture, and Trade (EGAT) and Global Health (GH).

### SCHEDULE OF COSTS BY RESPONSIBILITY SEGMENT

For the Year Ended September 30, 2011  
(In Thousands)

Objective	Afghanistan & Pakistan	Africa	Asia	DCHA	EGAT	Europe & Eurasia	Global Health	Latin America & Caribbean	Middle East	Consolidated Total
<b>Peace and Security</b>										
Counter-Terrorism										
Gross Costs	\$ 264	\$ 25,362	\$ 88	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,630	\$ 29,344
Less: Earned Revenues	(1)	(96)	-	-	-	-	-	-	(10)	(107)
Net Program Costs	263	25,266	88	-	-	-	-	-	3,620	29,237
Combating Weapons of Mass Destruction (WMD)										
Gross Costs	-	-	1	-	-	13,789	-	-	-	13,790
Less: Earned Revenues	-	-	-	-	-	(165)	-	-	-	(165)
Net Program Costs	-	-	1	-	-	13,624	-	-	-	13,625
Stabilization Operations and Security Sector Reform										
Gross Costs	12,392	4,883	5,089	-	-	2,894	-	17,533	(6,393)	36,398
Less: Earned Revenues	(4)	(22)	(2)	-	-	(20)	-	(100)	9	(139)
Net Program Costs	12,388	4,861	5,087	-	-	2,874	-	17,433	(6,384)	36,259
Counter-Narcotics										
Gross Costs	124,715	18	66,325	-	-	175	-	112,095	(2)	303,326
Less: Earned Revenues	(987)	-	(311)	-	-	(1)	-	(644)	-	(1,943)
Net Program Costs	123,728	18	66,014	-	-	174	-	111,451	(2)	301,383
Transnational Crime										
Gross Costs	5,339	176	1,731	-	852	5,001	-	340	2,044	15,483
Less: Earned Revenues	(7)	(1)	(2)	-	(9)	(38)	-	(3)	(7)	(67)
Net Program Costs	5,332	175	1,729	-	843	4,963	-	337	2,037	15,416
Conflict Mitigation and Reconciliation										
Gross Costs	179,913	69,609	70,777	184,627	6,054	28,782	-	4,478	(808)	543,432
Less: Earned Revenues	(556)	(327)	(196)	(964)	(63)	(188)	-	(22)	8	(2,308)
Net Program Costs	179,357	69,282	70,581	183,663	5,991	28,594	-	4,456	(800)	541,124
<b>Total Peace &amp; Security</b>	<b>321,068</b>	<b>99,602</b>	<b>143,500</b>	<b>183,663</b>	<b>6,834</b>	<b>50,229</b>	<b>-</b>	<b>133,677</b>	<b>(1,529)</b>	<b>937,044</b>

(continued on next page)

## SCHEDULE OF COSTS BY RESPONSIBILITY SEGMENT (continued)

For the Year Ended September 30, 2011

(In Thousands)

Objective	Afghanistan & Pakistan	Africa	Asia	DCHA	EGAT	Europe & Eurasia	Global Health	Latin America & Caribbean	Middle East	Consolidated Total
<b>Governing Justly and Democratically</b>										
Rule of Law and Human Rights										
Gross Costs	44,406	32,757	19,659	2,487	3,234	36,292	-	62,375	31,888	233,098
Less: Earned Revenues	(161)	(183)	(57)	(41)	(45)	(299)	-	(352)	(107)	(1,245)
Net Program Costs	44,245	32,574	19,602	2,446	3,189	35,993	-	62,023	31,781	231,853
Good Governance										
Gross Costs	396,888	86,092	179,565	69,131	5,675	45,976	-	76,636	160,196	1,020,159
Less: Earned Revenues	(1,727)	(418)	(609)	(345)	(43)	(383)	-	(574)	(688)	(4,787)
Net Program Costs	395,161	85,674	178,956	68,786	5,632	45,593	-	76,062	159,508	1,015,372
Political Competition and Consensus-Building										
Gross Costs	50,895	95,041	29,072	8,105	-	27,457	-	37,305	9,937	257,812
Less: Earned Revenues	(345)	(494)	(122)	(108)	-	(247)	-	(253)	(71)	(1,640)
Net Program Costs	50,550	94,547	28,950	7,997	-	27,210	-	37,052	9,866	256,172
Civil Society										
Gross Costs	43,438	41,116	17,384	15,670	748	82,803	-	17,185	114,792	333,136
Less: Earned Revenues	(101)	(214)	(36)	(121)	(9)	(675)	-	(99)	(452)	(1,707)
Net Program Costs	43,337	40,902	17,348	15,549	739	82,128	-	17,086	114,340	331,429
<b>Total Governing Justly and Democratically</b>	<b>533,293</b>	<b>253,697</b>	<b>244,856</b>	<b>94,778</b>	<b>9,560</b>	<b>190,924</b>	<b>-</b>	<b>192,223</b>	<b>315,495</b>	<b>1,834,826</b>
<b>Investing in People</b>										
Health										
Gross Costs	113,819	462,833	63,955	10,547	12,184	51,507	843,426	40,946	160,610	1,759,827
Less: Earned Revenues	(1,145)	1,724	(404)	(65)	(147)	(536)	(173,434)	(1,044)	(577)	(175,628)
Net Program Costs	112,674	464,557	63,551	10,482	12,037	50,971	669,992	39,902	160,033	1,584,199
Education										
Gross Costs	165,809	231,305	84,344	14,678	9,998	22,740	-	61,387	155,781	746,042
Less: Earned Revenues	(984)	(1,047)	(347)	(88)	(97)	(170)	-	(297)	(525)	(3,555)
Net Program Costs	164,825	230,258	83,997	14,590	9,901	22,570	-	61,090	155,256	742,487
Social and Economic Services and Protection for Vulnerable Populations										
Gross Costs	237,332	44,102	101,561	35,843	25,715	15,650	-	41,243	259,129	760,575
Less: Earned Revenues	(576)	(256)	(203)	(220)	(21,265)	(137)	-	(272)	(1,249)	(24,178)
Net Program Costs	236,756	43,846	101,358	35,623	4,450	15,513	-	40,971	257,880	736,397
<b>Total Investing in People</b>	<b>514,255</b>	<b>738,661</b>	<b>248,906</b>	<b>60,695</b>	<b>26,388</b>	<b>89,054</b>	<b>669,992</b>	<b>141,963</b>	<b>573,169</b>	<b>3,063,083</b>
<b>Economic Growth</b>										
Macroeconomic Foundation for Growth										
Gross Costs	6,460	11,587	37,105	3	412,358	13,609	-	3,405	236,316	720,843
Less: Earned Revenues	(741)	(16)	(256)	-	(396,765)	(83)	-	(4)	(1,249)	(399,114)
Net Program Costs	5,719	11,571	36,849	3	15,593	13,526	-	3,401	235,067	321,729
Trade and Investment										
Gross Costs	40,115	27,747	14,802	1	4,308	11,352	-	22,936	15,932	137,193
Less: Earned Revenues	(204)	(132)	(64)	-	(67)	(76)	-	(113)	(58)	(714)
Net Program Costs	39,911	27,615	14,738	1	4,241	11,276	-	22,823	15,874	136,479
Financial Sector										
Gross Costs	16,522	13,671	8,310	1	480,255	16,942	-	53	30,787	566,541
Less: Earned Revenues	(78)	(64)	(27)	-	(471,959)	(139)	-	-	(131)	(472,398)
Net Program Costs	16,444	13,607	8,283	1	8,296	16,803	-	53	30,656	94,143
Infrastructure										
Gross Costs	409,622	125,896	198,014	1	14,315	45,590	-	12,601	64,756	870,795
Less: Earned Revenues	(6,310)	(623)	2,901	-	(151)	(382)	-	(93)	(257)	(4,915)
Net Program Costs	403,312	125,273	200,915	1	14,164	45,208	-	12,508	64,499	865,880

(continued on next page)

## SCHEDULE OF COSTS BY RESPONSIBILITY SEGMENT (continued)

For the Year Ended September 30, 2011

(In Thousands)

Objective	Afghanistan & Pakistan	Africa	Asia	DCHA	EGAT	Europe & Eurasia	Global Health	Latin America & Caribbean	Middle East	Consolidated Total
<b>Agriculture</b>										
Gross Costs	255,321	290,990	96,050	1	161,346	26,979	-	61,148	43,431	935,266
Less: Earned Revenues	(1,144)	(1,259)	(399)	-	(2,417)	(202)	-	(335)	(155)	(5,911)
Net Program Costs	254,177	289,731	95,651	1	158,929	26,777	-	60,813	43,276	929,355
<b>Private Sector Competitiveness</b>										
Gross Costs	69,086	30,192	31,055	393	5,170	69,999	-	45,133	50,440	301,468
Less: Earned Revenues	(296)	(133)	(98)	(1)	(72)	(562)	-	(249)	(189)	(1,600)
Net Program Costs	68,790	30,059	30,957	392	5,098	69,437	-	44,884	50,251	299,868
<b>Economic Opportunity</b>										
Gross Costs	41,614	18,782	18,986	1	27,483	6,867	-	14,607	60,583	188,923
Less: Earned Revenues	(175)	(72)	(60)	-	(332)	(47)	-	(100)	(214)	(1,000)
Net Program Costs	41,439	18,710	18,926	1	27,151	6,820	-	14,507	60,369	187,923
<b>Environment</b>										
Gross Costs	44,752	81,958	17,384	113	91,795	4,528	-	122,051	53,551	416,132
Less: Earned Revenues	(62)	(374)	(22)	(1)	(992)	(29)	-	(578)	(223)	(2,281)
Net Program Costs	44,690	81,584	17,362	112	90,803	4,499	-	121,473	53,328	413,851
<b>Total Economic Growth</b>	<b>874,482</b>	<b>598,150</b>	<b>423,681</b>	<b>512</b>	<b>324,275</b>	<b>194,346</b>	<b>-</b>	<b>280,462</b>	<b>553,320</b>	<b>3,249,228</b>
<b>Humanitarian Assistance</b>										
<b>Protection, Assistance and Solutions</b>										
Gross Costs	96,661	(10)	40,286	1,271,456	-	2,398	-	23,435	69,497	1,503,723
Less: Earned Revenues	(348)	1	(124)	(6,730)	-	(22)	-	(125)	(217)	(7,565)
Net Program Costs	96,313	(9)	40,162	1,264,726	-	2,376	-	23,310	69,280	1,496,158
<b>Disaster Readiness</b>										
Gross Costs	1,434	994	1,280	122,192	5,980	86	-	1,808	(2)	133,772
Less: Earned Revenues	(1)	(2)	(1)	(541)	-	(1)	-	(11)	-	(557)
Net Program Costs	1,433	992	1,279	121,651	5,980	85	-	1,797	(2)	133,215
<b>Migration Management</b>										
Gross Costs	1,039	-	1,221	1	-	30	-	-	-	2,291
Less: Earned Revenues	(18)	-	(6)	-	-	-	-	-	-	(24)
Net Program Costs	1,021	-	1,215	1	-	30	-	-	-	2,267
<b>Total Humanitarian Assistance</b>	<b>98,767</b>	<b>983</b>	<b>42,656</b>	<b>1,386,378</b>	<b>5,980</b>	<b>2,491</b>	<b>-</b>	<b>25,107</b>	<b>69,278</b>	<b>1,631,640</b>
<b>Operating Unit Management</b>										
<b>Cross-cutting Management and Staffing</b>										
Gross Costs	17,072	4,901	-	1,026	(711)	2,851	-	499	1,126	26,764
Less: Earned Revenues	(48)	(45)	(17)	(3)	7	(15)	-	-	(3)	(124)
Net Program Costs	17,024	4,856	(17)	1,023	(704)	2,836	-	499	1,123	26,640
<b>Program Design and Learning</b>										
Gross Costs	21,884	28,490	-	5,321	16,225	5,376	-	6,574	9,485	93,355
Less: Earned Revenues	(27)	(139)	(9)	(25)	(203)	(45)	-	(29)	(38)	(515)
Net Program Costs	21,857	28,351	(9)	5,296	16,022	5,331	-	6,545	9,447	92,840
<b>Administration and Oversight</b>										
Gross Costs	68,819	59,996	4	110,061	48,003	49,602	-	55,000	19,233	410,718
Less: Earned Revenues	(88)	(649)	(32)	(449)	(442)	(301)	-	(304)	(61)	(2,326)
Net Program Costs	68,731	59,347	(28)	109,612	47,561	49,301	-	54,696	19,172	408,392
<b>Total Operating Unit Management</b>	<b>107,612</b>	<b>92,554</b>	<b>(54)</b>	<b>115,931</b>	<b>62,879</b>	<b>57,468</b>	<b>-</b>	<b>61,740</b>	<b>29,742</b>	<b>527,872</b>
<b>Net Cost of Operations</b>	<b>\$2,449,477</b>	<b>\$1,783,647</b>	<b>\$1,103,545</b>	<b>\$1,841,957</b>	<b>\$435,916</b>	<b>\$584,512</b>	<b>\$669,992</b>	<b>\$835,172</b>	<b>\$1,539,475</b>	<b>\$11,243,693</b>

## NOTE 18. STATEMENT OF BUDGETARY RESOURCES

The Combined Statement of Budgetary Resources presents information about total budgetary resources available to USAID and the status of those resources, as of September 30, 2011 and 2010.

USAID's total budgetary resources were \$23.8 and \$24.9 billion for the years ended September 30, 2011 and 2010, respectively.

### D. Legal Arrangements Affecting the Use of Unobligated Balances:

The "Department of Defense and Full-Year Continuing Appropriations Act, 2011" signed into law as Public Law 112-10 provides to USAID extended authority to obligate funds. USAID's appropriations acts for years have consistently provided essentially similar authority. It is commonly known as "511/517" authority, a name that is based on references to the sections of the previous appropriations acts. Under this authority funds shall remain available for obligation for an extended period if such funds are obligated within their initial period of availability. Any subsequent recoveries (deobligations) of these funds become unobligated balances that are available for reprogramming by USAID (subject to OMB approval through the apportionment process).

### A. Apportionment Categories of Obligations Incurred:

APPORTIONMENT CATEGORIES OF OBLIGATIONS INCURRED		
<i>(In Thousands)</i>		
	2011	2010
Category A, Direct	\$ 1,430,019	\$ 1,335,392
Category B, Direct	11,869,188	14,156,447
Category A, Reimbursable	38,866	56,747
Category B, Reimbursable	157,035	126,297
<b>Total</b>	<b>\$ 13,495,108</b>	<b>\$ 15,674,883</b>

### B. Borrowing Authority, End of Period and Terms of Borrowing Authority Used:

The Agency had \$96 thousand in borrowing authority in FY 2011 and \$900 thousand in borrowing authority in FY 2010. Borrowing authority is indefinite and authorized under the Federal Credit Reform Act of 1990 (Title XIII, Subtitle B, P.L. 101-508), and is used to finance obligations during the current year, as needed.

### C. Permanent Indefinite Appropriations:

USAID has permanent indefinite appropriations relating to specific Federal Credit Reform Program and Liquidating appropriations. USAID is authorized permanent indefinite authority for Federal Credit Reform Program appropriations for subsidy reestimates and Federal Credit Reform Act of 1990. At year-end FY 2011, there is \$2.7 billion in availability related to Federal Credit Reform Program and Liquidating appropriations.

### E. Unpaid Obligations:

Unpaid Obligations for the periods ended September 30, 2011 and 2010 were \$17.5 and \$17.9 billion, respectively.

**F. Difference between the Statement of Budgetary Resources and the Budget of the U.S. Government:**

There are no material differences between the Statement of Budgetary Resources for FY 2011 and the President’s Budget submission for FY 2011. The President’s

Budget with actual numbers for 2011 has not yet been published. USAID expects no material difference between the President’s Budget “actual” column and the

FY 2011 reported results when the budget becomes available in February 2012.

**DIFFERENCE BETWEEN THE STATEMENT OF BUDGETARY RESOURCES AND THE BUDGET OF THE U.S. GOVERNMENT**

*(In Thousands)*

<b>2011</b>	<b>Budgetary Resources</b>	<b>Obligations</b>	<b>Distributed Offsetting Receipts</b>	<b>Net Outlays</b>
Combined Statement of Budgetary Resources	\$ 23,791,919	\$ 13,495,108	\$ (377,859)	\$ 10,628,308
Difference #1: Funds Reported by Other Federal Entities	(1,020,246)	(697,997)	–	(586,931)
Difference #2: Child Activity Reported in FACTS II by USAID	7,154,622	5,924,994	–	5,512,644
Difference #3: Reported in the SBR but Excluded from SF-133s	9,475	137	–	–
Difference #4: Parent/Child Reporting Differences	–	–	–	–
Difference #5: Reporting Difference between the SBR and SF-133s	133,278	165,956	–	(3,936)
Difference #6: Credit Financing and Suspense	(417,939)	(73,360)	–	49,169
<b>Budget of the U.S. Government</b>	<b>\$ 29,651,109</b>	<b>\$ 18,814,838</b>	<b>\$ (377,859)</b>	<b>\$ 15,599,254</b>

## NOTE 19. RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET

USAID presents the Consolidated Statement of Net Cost using the accrual basis of accounting. This differs from the obligation-based measurement of total resources supplied, both budgetary and from other sources, on the Combined Statement of Budgetary Resources. The Federal Financial Accounting Standard No. 7 requires “a reconciliation of proprietary and budgetary information in a way that helps users relate the two.” The focus of this presentation is to reconcile budgetary net obligations to the net cost of operations. The objective of this information is to categorize the differences between budgetary and financial (proprietary) accounting.

### RECONCILIATION OF OBLIGATIONS INCURRED TO NET COST OF OPERATIONS

For the Years Ended September 30, 2011 and 2010  
(In Thousands)

	2011	2010
<b>Resources Used to Finance Activities:</b>		
Budgetary Resources Obligated		
Obligations Incurred	\$ 13,495,108	\$ 15,674,883
Spending Authority From Offsetting Collections	(1,029,378)	(1,506,143)
Change in Unfilled Customer Orders	(227,554)	(458,220)
Downward Adjustments of Obligations	(2,046,698)	(676,857)
Offsetting Receipts	(377,859)	(96,395)
Net Obligations	9,813,619	12,937,268
Other Resources Used to Finance Activities	16,100	9,845
Resources Used to Finance Activities	9,829,719	12,947,113
Resources Used to Finance Items Not Part of Net Cost of Operations	1,813,777	(1,890,335)
Total Resources Used to Finance Net Cost of Operations	11,643,496	11,056,778
<b>Components of the Net Cost of Operations:</b>		
Components of Net Cost of Operations That Will Require or Generate Resources in Future Periods	(34,054)	(593,889)
Components of Net Cost of Operations That Will Not Require or Generate Resources	(365,749)	(56,593)
Net Cost of Operations	\$ 11,243,693	\$ 10,406,296

## NOTE 20. RESTATEMENT OF THE STATEMENT OF BUDGETARY RESOURCES FOR FY 2010

The Statement of Budgetary Resources for 2010 has been restated to reflect the correction of an error in Net Outlays. In 2010, Distributed Offsetting Receipts was reported as \$71.7 million when it should have been \$(96.4) million a reporting difference of \$(168.1) million. The correction does not impact any of the other principal statements and has no impact on Assets, Liabilities, Net Position or Net Cost of Operations for FY 2010 of the Agency.

### RESTATEMENT OF FY 2010 NET OUTLAYS (In Thousands)

	Reported in 2010			Reported in 2011	
	2010		Reporting Difference	2010	
	Budgetary	Non- Budgetary Credit Reform		Budgetary	Non- Budgetary Credit Reform
<b>Net Outlays:</b>					
Gross Outlays	\$ 11,435,590	\$ 62,033	\$ –	\$ 11,435,590	\$ 62,033
Less: Offsetting Collections	(1,166,959)	(800,209)	–	(1,166,959)	(800,209)
Less: Distributed Offsetting Receipts	71,742	–	(168,137)	(96,395)	–
<b>Net Outlays</b>	<b>\$ 10,340,373</b>	<b>\$ (738,176)</b>	<b>\$ (168,137)</b>	<b>\$ 10,172,236</b>	<b>\$ (738,176)</b>

FINANCIAL SECTION

# REQUIRED SUPPLEMENTARY INFORMATION

*Then...*





# Now.

**(Above)** South Sudan became the world's newest independent country on July 9, 2011. USAID aided in the voting referendum process in February by providing polling materials and voting support. PHOTO: MICHELE SIBILONI / AFP

**(Preceding page)** USAID has provided food aid and other types of assistance to what is now South Sudan, including promoting civil society and supporting the end of the civil war, since 2003. Efforts led to the country's independence in mid-2011.

PHOTO: (UNKNOWN)

# STATEMENT OF BUDGETARY RESOURCES

## REQUIRED SUPPLEMENTARY INFORMATION: COMBINING SCHEDULE OF BUDGETARY RESOURCES

For the Year Ended September 30, 2011

(In Thousands)

	Recovery	Operating	Program							Credit-Financing	Other	Parent Fund	Combined Total
	Act		1010	1021	1035	1037	1093	1095					
	302	1000	305	1010	1021	1035	1037	1093	1095				
<b>Budgetary Resources:</b>													
Unobligated Balance, Brought Forward, October 1	\$ 8	\$ 442,238	\$ 8,535	\$ 24,921	\$ 677,892	\$ 407,115	\$ 3,838,036	\$ 22,663	\$ 20,312	\$ 2,384,581	\$ 905,861	\$ 549,980	\$ 9,282,142
Changes to Beginning Balance Due to Adjustment from OMB	-	(8,057)	-	-	(1,423)	(295)	-	(1,759)	-	(2,592)	3,816	-	(10,310)
Unobligated Balance, Brought Forward, as Adjusted	8	434,181	8,535	24,921	676,469	406,820	3,838,036	20,904	20,312	2,381,989	909,677	549,980	9,271,832
Recoveries of Prior Year Unpaid Obligations	-	51,547	2,281	22,730	255,508	193,983	390,140	189,391	93,329	310	766,486	80,993	2,046,698
<b>Budget Authority:</b>													
Appropriations	-	1,350,000	5,000	-	2,525,000	865,000	5,958,101	-	-	-	1,171,617	-	11,874,718
Borrowing Authority	-	-	-	-	-	-	-	-	-	96	-	-	96
<b>Spending Authority from Offsetting Collections:</b>													
<b>Earned:</b>													
Collected	-	32,182	1,280	-	4,675	47	(81,781)	-	-	281,133	789,330	2,743	1,029,609
Change in Receivables from Federal Sources	-	(215)	-	-	-	-	-	-	-	-	-	(16)	(231)
<b>Change in Unfilled Customer Orders:</b>													
Unfilled Customer Orders With Advance	-	-	-	-	-	-	-	-	-	-	217,836	-	217,836
Without Advance from Federal Sources	-	(287)	-	-	(117)	(2)	(4,318)	-	-	-	14,442	-	9,718
Subtotal	-	1,381,680	6,280	-	2,529,558	865,045	5,872,002	-	-	281,229	2,193,225	2,727	13,131,746
Nonexpenditure Transfers, Net, Anticipated and Actual	-	6,500	(1,016)	-	(5,435)	-	(541,164)	-	-	(7)	166,125	386,547	11,550
Permanently Not Available	-	(5,442)	(10)	(1,170)	(6,102)	(5,963)	(137,424)	(14,933)	(747)	-	(498,116)	-	(669,907)
<b>Total Budgetary Resources</b>	<b>\$ 8</b>	<b>\$ 1,868,466</b>	<b>\$ 16,070</b>	<b>\$ 46,481</b>	<b>\$ 3,449,998</b>	<b>\$ 1,459,885</b>	<b>\$ 9,421,590</b>	<b>\$ 195,362</b>	<b>\$ 112,894</b>	<b>\$ 2,663,521</b>	<b>\$ 3,537,397</b>	<b>\$ 1,020,247</b>	<b>\$ 23,791,919</b>
<b>Status of Budgetary Resources:</b>													
<b>Obligations Incurred:</b>													
Direct	\$ -	\$ 1,399,558	\$ 7,220	\$ 42,779	\$ 2,352,955	\$ 1,222,565	\$ 4,864,994	\$ 181,000	\$ 81,126	\$ 242,156	\$ 2,206,857	\$ 697,997	\$ 13,299,207
Reimbursible	-	31,895	1,280	-	4,558	44	(86,098)	-	-	-	244,222	-	195,901
Subtotal	-	1,431,453	8,500	42,779	2,357,513	1,222,609	4,778,896	181,000	81,126	242,156	2,451,079	697,997	13,495,108
<b>Unobligated Balance:</b>													
Apportioned	-	299,031	7,396	2,511	1,032,694	236,656	4,620,300	11,716	30,195	310,302	772,991	252,044	7,575,836
Subtotal	-	299,031	7,396	2,511	1,032,694	236,656	4,620,300	11,716	30,195	310,302	772,991	252,044	7,575,836
Unobligated Balance Not Available	8	137,982	174	1,191	59,791	620	22,394	2,646	1,573	2,111,063	313,327	70,206	2,720,975
<b>Total, Status of Budgetary Resources</b>	<b>\$ 8</b>	<b>\$ 1,868,466</b>	<b>\$ 16,070</b>	<b>\$ 46,481</b>	<b>\$ 3,449,998</b>	<b>\$ 1,459,885</b>	<b>\$ 9,421,590</b>	<b>\$ 195,362</b>	<b>\$ 112,894</b>	<b>\$ 2,663,521</b>	<b>\$ 3,537,397</b>	<b>\$ 1,020,247</b>	<b>\$ 23,791,919</b>

(continued on next page)

**REQUIRED SUPPLEMENTARY INFORMATION: COMBINING SCHEDULE OF BUDGETARY RESOURCES (continued)**

For the Year Ended September 30, 2011

(In Thousands)

	Recovery Act	Operating	Program							Credit-Financing	Other	Parent Fund	Combined Total
	302	1000	305	1010	1021	1035	1037	1093	1095				
<b>Change in Obligated Balance:</b>													
Obligated Balance, Net													
Unpaid Obligations, Brought Forward, October 1	\$ 15,854	\$ 649,225	\$ 13,640	\$ 5,728	\$ 3,627,510	\$ 1,107,946	\$ 9,605,177	\$ 109,517	\$ 240,039	\$ (2,751)	\$ 1,882,161	\$ 667,814	\$ 17,921,860
Changes to Beginning Balance Due to Adjustment from OMB	–	8,057	–	–	1,425	294	–	1,758	–	2,592	(3,816)	–	10,310
Unobligated Balance, Brought Forward, as Adjusted	15,854	657,282	13,640	5,728	3,628,935	1,108,240	9,605,177	111,275	240,039	(159)	1,878,345	667,814	17,932,170
Less: Uncollected Customer Payments from Federal Sources, Brought Forward, October 1	–	(10,386)	–	(35)	(2,389)	(205)	(4,316)	(38)	(1,006)	34	(6,171)	(362)	(24,874)
Total Unpaid Obligated Balance, Net	15,854	646,896	13,640	5,693	3,626,546	1,108,035	9,600,861	111,237	239,033	(125)	1,872,174	667,452	17,907,296
Obligations Incurred, Net (+/-)	–	1,431,453	8,499	42,779	2,357,514	1,222,610	4,778,895	181,000	81,126	242,156	2,451,079	697,997	13,495,108
Less: Gross Outlays	(14,886)	(1,245,354)	(14,312)	19,269	(1,613,918)	(1,223,087)	(5,089,305)	(32,135)	(150,503)	(241,968)	(1,679,880)	(589,674)	(11,875,753)
Less: Recoveries of Prior Year Unpaid Obligations, Actual	–	(51,547)	(2,281)	(22,730)	(255,508)	(193,983)	(390,140)	(189,391)	(93,329)	(310)	(766,486)	(80,993)	(2,046,698)
Change in Uncollected Customer Payments from Federal Sources (+/-)	–	502	–	–	117	2	4,318	–	–	–	(14,441)	16	(9,486)
Obligated Balance, Net, End of Period													
Unpaid Obligations	968	791,833	5,546	45,046	4,117,023	913,780	8,904,627	70,750	77,333	(282)	1,883,059	695,144	17,504,827
Less: Uncollected Customer Payments from Federal Sources	–	(9,883)	–	(35)	(2,272)	(203)	2	(39)	(1,006)	35	(20,613)	(346)	(34,360)
<b>Total, Unpaid Obligated Balance, Net, End of Period</b>	<b>968</b>	<b>781,950</b>	<b>5,546</b>	<b>45,011</b>	<b>4,114,751</b>	<b>913,577</b>	<b>8,904,629</b>	<b>70,711</b>	<b>76,327</b>	<b>(247)</b>	<b>1,862,446</b>	<b>694,798</b>	<b>17,470,467</b>
<b>Net Outlays:</b>													
Gross Outlays	14,886	1,245,354	14,312	(19,269)	1,613,918	1,223,087	5,089,305	32,135	150,503	241,968	1,679,880	589,674	11,875,753
Less: Offsetting Collections	–	(32,182)	(1,280)	–	(4,675)	(47)	81,781	–	–	(281,133)	(1,007,166)	(2,743)	(1,247,445)
Less: Distributed Offsetting Receipts	–	–	–	–	–	–	–	–	–	–	(377,859)	–	(377,859)
<b>Net Outlays</b>	<b>\$ 14,886</b>	<b>\$ 1,213,172</b>	<b>\$ 13,032</b>	<b>\$ (19,269)</b>	<b>\$ 1,609,243</b>	<b>\$ 1,223,040</b>	<b>\$ 5,171,086</b>	<b>\$ 32,135</b>	<b>\$ 150,503</b>	<b>\$ (39,165)</b>	<b>\$ 294,855</b>	<b>\$ 586,931</b>	<b>\$ 10,250,449</b>

## MAJOR FUNDS

### Operating Funds

1000 Operating Expenses of USAID

### Program Funds

1010 Special Assistance Initiatives  
1021 Development Assistance  
1035 International Disaster Assistance  
1037 Economic Support Fund  
1093 Assistance for the N.I.S. of the Former Soviet Union  
1095 Child Survival and Disease Programs Funds

## CREDIT-FINANCING FUNDS

4119 Israel Guarantee Financing Fund  
4137 Direct Loan Financing Fund  
4266 DCA Financing Fund  
4342 MSED Direct Loan Financing Fund  
4343 MSED Guarantee Financing Fund  
4344 UE Financing Fund  
4345 Ukraine Financing Fund  
4491 Egypt Guarantee Financial Fund

## OTHER FUNDS

### Operating Funds

0300 Capital Investment Fund (CIF)  
0302 Capital Investment Fund-Recovery Act  
0306 Assistance for Europe, Eurasia and Central Asia  
1007 Operating Expenses of USAID Inspector General  
1036 Foreign Service Retirement and Disability Fund

### Program Funds

0305 Civilian Stabilization Initiative  
1012 Sahel Development Program  
1015 Complex Crisis Fund  
1023 Food and Nutrition Development Assistance  
1024 Population and Planning & Health Dev.Asst.  
1025 Education and Human Resources, Dev.Asst.  
1027 Transition Initiatives  
1028 Global Fund to Fight HIV / AIDS  
1029 Tsunami Relief and Reconstruction Fund  
1038 Central American Reconciliation Assistance  
1040 Sub-Saharan Africa Disaster Assistance  
1096 Latin American/Caribbean Disaster Recovery  
1500 Demobilization and Transition Fund

### Trust Funds

8342 Foreign Natl. Employees Separation Liability Fund  
8502 Tech.Assist. - U.S. Dollars Advance from Foreign  
8824 Gifts and Donations

### Credit Program Funds

0301 Israel Program Fund  
0304 Egypt Program Fund  
0400 MSED Program Fund  
0401 UE Program Fund  
0402 Ukraine Program Fund  
1264 DCA Program Fund  
4103 Economic Assistance Loans - Liquidating Fund  
4340 UE Guarantee Liquidating Fund  
4341 MSED Direct Loan Liquidating Fund  
5318 Israel Admin Expense Fund

### Revolving Funds

4175 Property Management Fund  
4513 Working Capital Fund  
4590 Acquisition of Property, Revolving Fund

## ALLOCATIONS TO OTHER AGENCIES

1010 Special Assistance Initiatives  
1021 Development Assistance  
1027 Transition Initiatives  
1035 International Disaster Assistance  
1037 Economic Support Fund  
1093 Assistance for the N.I.S. of the Former Soviet Union  
1095 Child Survival and Disease Programs Funds

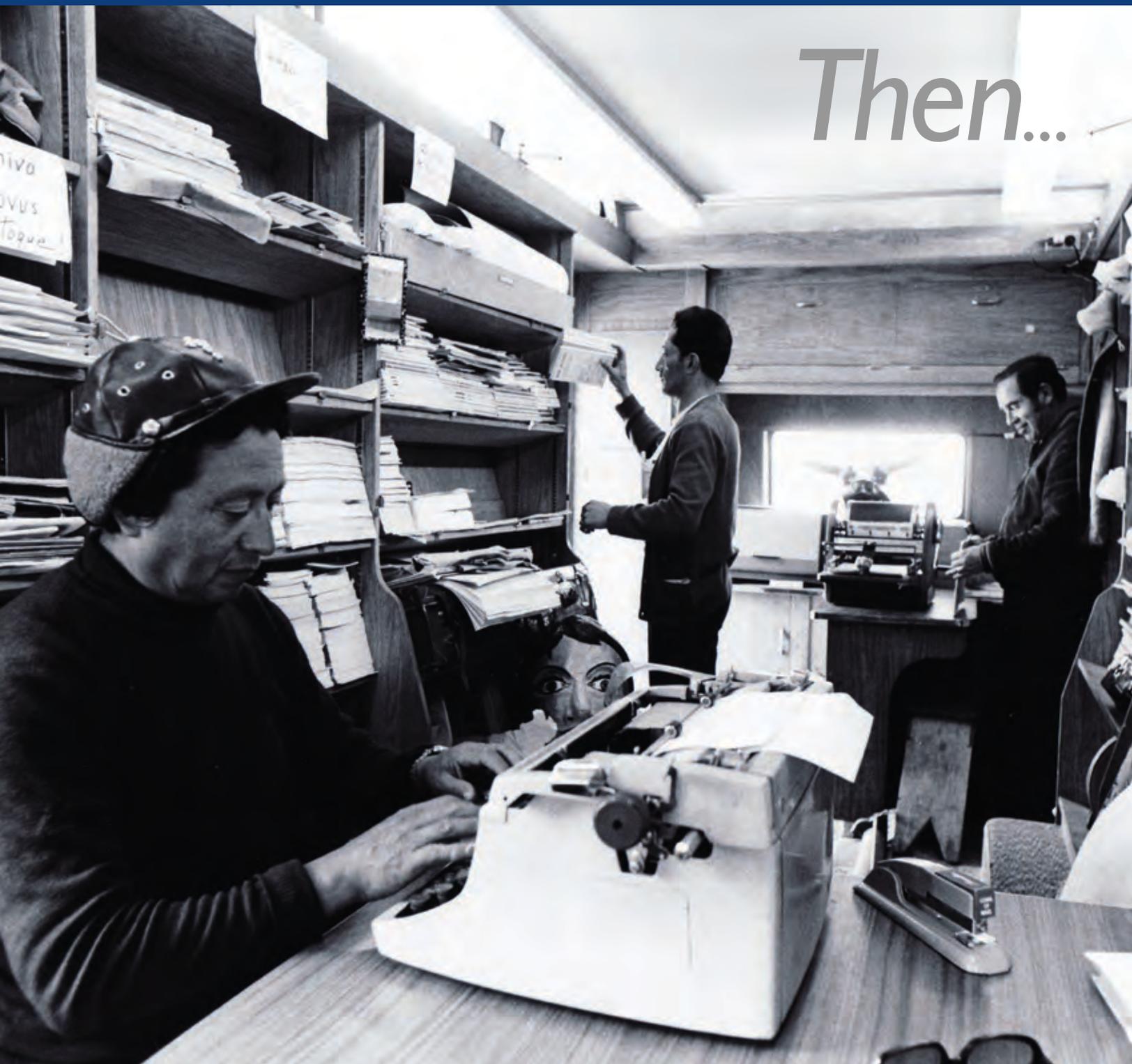
## ALLOCATIONS FROM OTHER AGENCIES

1000 Operating Expenses of USAID  
1014 Africa Development Assistance  
1030 Global HIV/AIDS Initiative-Appropriations Carry Over  
1031 Global Health and Child Survival  
1096 International Organizations and Programs



# OTHER ACCOMPANYING INFORMATION

*Then...*





# Now.

**(Above)** Selima, above, is just one of the many women in Hamata, Egypt benefitting from the work of the USAID Egypt LIFE Red Sea program. Project activities in town include the reconstruction of the local school, improving waste management, and installing generators to bring electricity to the village. PHOTO: JORDAN GANTZ / CHEMONICS

**(Preceding page)** The Bibliobus was part of a unique USAID-led effort to bring education to adults in Ecuador during the Agency's early years. The bus was stocked with resources to teach parents how to improve their own lives by utilizing the knowledge they already possess. PHOTO: (UNKNOWN)

# MANAGEMENT AND PERFORMANCE CHALLENGES



According to USAID’s Inspector General (IG), the most serious management and performance challenges facing the Agency are in the following four areas:

- Working in Critical Priority Countries and Disaster Areas
- Managing for Results
- Managing Acquisition and Assistance
- Managing Information Technology

A summary of the issue, actions taken this year, and those remaining are presented for each challenge. USAID aggressively pursues corrective actions for all significant challenges, whether identified by the Office of Inspector General (OIG), Government Accountability Office (GAO), or other sources.



*Office of Inspector General*

OCT 14 2011

**MEMORANDUM FOR THE ADMINISTRATOR**

FROM: Donald A. Gambatesa  
Inspector General

A handwritten signature in blue ink, appearing to read "Donald A. Gambatesa".

SUBJECT: Most Serious Management and Performance Challenges for the U.S. Agency for International Development (USAID)

This memorandum summarizes what the Office of Inspector General (OIG) considers the most serious management and performance challenges facing USAID.

The Reports Consolidation Act of 2000 (Public Law 106–531) requires that agency performance and accountability reports include a statement prepared by each agency’s Inspector General that summarizes what the Inspector General considers the most serious management and performance challenges facing the agency and an assessment of the agency’s progress in addressing those challenges. Our statement for inclusion in USAID’s fiscal year 2011 Agency Financial Report is attached.

We have discussed the management and performance challenges summarized in this statement with the responsible USAID officials. If you have any questions or wish to discuss this document further, I would be happy to meet with you.

Attachment

U.S. Agency for International Development  
1300 Pennsylvania Avenue, NW  
Washington, DC 20523  
[www.usaid.gov](http://www.usaid.gov)

**STATEMENT BY THE OFFICE OF INSPECTOR GENERAL:  
USAID’S MOST SERIOUS MANAGEMENT AND PERFORMANCE CHALLENGES**

**Fiscal Year 2011**

USAID faces its most serious management and performance challenges in the following four areas:

1. Working in Critical Priority Countries and Disaster Areas
2. Managing for Results
3. Managing Acquisitions and Assistance
4. Managing Information Technology

Last year, OIG reported human capital management as a serious management challenge because of issues such as the need to recruit, retain, and train a diverse workforce to respond to the various requirements throughout the world. The demands of working in high-threat areas in Afghanistan, Pakistan, and Iraq have further compounded USAID’s human capital challenges.

We no longer consider human capital management a serious management challenge because USAID has addressed Government Accountability Office (GAO) findings regarding USAID’s 5-year workforce plan for fiscal years (FYs) 2009–13 (in box). According to USAID, it now has a comprehensive, automated Competency Management System, including an electronic Individual Development Plan, allowing individuals to assess their competencies against job requirements and identify gaps that indicate a need for training, thus facilitating career development. The system now covers the Foreign Service and Civil Service, as well as U.S. personal services contractors. Foreign Service Nationals will be covered by 2013. Consistent with GAO audit recommendations, USAID is developing a 2-year workforce plan, along with a Human Resources Information System with data on staffing that supports worldwide workforce analyses, hiring and deployment, and budget formulation. OIG will continue to monitor human capital issues through audits of USAID programs and projects.

**Working in Critical Priority Countries and Disaster Areas**

USAID continues to face enormous challenges in implementing its programs and activities in Afghanistan, Pakistan, Iraq, Sudan, and Haiti.

**GAO Findings**

“USAID’s 5-year workforce plan . . . lacks several key elements that GAO has identified as critical . . . . For example, the plan generally does not include a major portion of USAID’s workforce—U.S. and foreign national personal services contractors. In particular, it is not comprehensive in its analysis of workforce and competency gaps and the staffing levels that the agency requires to meet its program needs and goals.

“USAID has not fully met its Foreign Service hiring targets nor developed plans for how it will meet its hiring goals, and it has not planned the required overseas training assignments for all new hires to help ensure that missions have the necessary resources and mentors.”

“USAID Needs to Improve Its Strategic Planning to Address Current and Future Workforce Needs,” GAO-10-496, June 2010.

Security concerns, weaknesses in governance, and corruption are persistent problems. Moreover, as USAID provides more of its assistance directly to host-country institutions to help build capacity at the national, provincial, and local levels, questions concerning accountability for those funds may arise.

**Afghanistan and Pakistan.** The greatest challenge to carrying out development programs in Afghanistan and Pakistan is the high-threat environment in these areas. In general, USAID personnel cannot travel outside the capital city of either country without approval from the Regional Security Office. Travel to some areas can be delayed for long periods, and personnel implementing projects outside the capitals are at risk of being targeted by insurgents.

Consequently, monitoring the progress of USAID programs in these countries has become more difficult. USAID/Afghanistan and USAID/Pakistan require contract and agreement officers' technical representatives to conduct site visits to verify the progress of activities, where possible. Where security constraints make it difficult to conduct regular site visits to oversee the work of implementing partners—in Pakistan, for example—USAID engages contractors to perform monitoring to ensure that program objectives are met, intended recipients are receiving USAID program benefits, and reported results are validated.

Yet monitoring difficulties remain. OIG's performance audits in Afghanistan and Pakistan have found instances of inadequate contract and management oversight. Findings include commodity spoilage caused by mismanagement, nonexistent beneficiaries, and inaccurate performance reporting to USAID management and external parties.

An additional challenge for USAID is managing increased risk associated with the U.S. Government's strategy of providing assistance to partner-country institutions in Afghanistan and Pakistan at the national, provincial, and local levels. For example, USAID has entered into agreements with the Afghan Ministries of Public Health and Finance to provide \$236 million and \$72 million, respectively. USAID disbursed \$190 million to the Government of Pakistan for the multidonor Citizen's Damage Compensation Program to provide cash grants to approximately 1.6 million families in flood-affected areas.

Providing funds directly to these governments poses a heightened risk in both countries, where corruption is pervasive. In 2010, Transparency International's Corruption Perceptions Index, which measures the perceived level of public sector corruption, ranked Afghanistan 176 and Pakistan 143 out of 178 countries surveyed (with 178 being perceived as the most corrupt). In recent months, corruption scandals involving Afghan officials have captured media attention.

To mitigate the increased risk of providing assistance directly to host-government institutions, USAID is performing preaward assessments to determine whether these institutions can properly administer the assistance. In Afghanistan, USAID launched a program to (1) vet Afghan recipients and subrecipients receiving over \$150,000, including those subrecipients of host-government institutions, for ties to terrorist organizations and (2) achieve extensive audit coverage of costs incurred in Afghanistan, including funds expended by the partner government. In Pakistan, one key step taken by the mission was to contract with international and local accounting firms to conduct preaward assessments of potential first-time recipients of USAID funds.

Like USAID, OIG has taken steps to address these concerns. OIG audited USAID's management of the preaward assessments in Afghanistan, and the OIG has audited the Ministry of Finance and the Ministry of Public Health, as well as other host-government institutions. OIG is using local accounting firms to conduct financial audits of funds provided directly to Afghanistan Government ministries. In Pakistan, the OIG also audited USAID's management of the preaward assessments.

In Pakistan, OIG and USAID signed a memorandum of understanding with the country's Supreme Audit Institution (similar to the U.S. Government Accountability Office) that establishes a framework for conducting financial audits of USAID funds awarded to government organizations. As of September 30, 2011, the Auditor General of Pakistan was conducting four financial audits of USAID funds provided to Government of Pakistan organizations, all of which are over a year behind schedule; the Auditor General conducts financial audits of all USAID funds provided to the Government of Pakistan, including cash transfers, in coordination with OIG's office in Pakistan. OIG also provided audit training to 19 Pakistan Auditor General staff in September 2011.

OIG completed 10 audits or reviews in Afghanistan in FY 2011 and plans to conduct 15 audits or reviews in FY 2012. In addition, OIG completed six audits in Pakistan in FY 2011 and plans to conduct ten audits in FY 2012.

**Iraq.** The precarious security situation in Iraq continues to limit USAID/Iraq's ability to implement and monitor its development activities. All travel outside the International Zone (both in Baghdad and in the rest of the country) requires approval from the Regional Security Office and depends on the availability of security details—increasingly made up of private security contractors—to accompany staff on site visits. Even when they are not traveling, implementing partners are subject to hostile action: within the last half year, Iraqi-led security forces conducted raids of two implementing partners' compounds, resulting in arrests and confiscated property. Violence also makes counterparts reluctant to visit USAID staff in the International Zone and even more reluctant to receive visits from USAID staff because of the unwanted attention resulting from a security convoy.

Furthermore, it is still extremely dangerous for Iraqis to work for the U.S. Government or USAID partners. Although many Iraqis continue to work for the U.S. Government, the dangerous environment has kept many away, creating a deficit of skilled professionals to fill Foreign Service National (FSN) vacancies. In addition, potential FSN employees face a security vetting process that includes multiple interviews and one or more polygraph examinations and takes 6 to 8 months to complete. Once hired, the FSNs are subjected to polygraph testing and retesting annually or semiannually. These requirements make it difficult to recruit and retain Iraqi professionals for key positions.

With the drawdown of the U.S. military, the U.S. Embassy disbanded all of its provincial reconstruction teams, as of September 2011. To fill much of the resulting void in program monitoring, USAID is in the process of hiring some 25 Iraqi field monitors; however, the vetting process remains a concern. Not surprisingly, OIG performance audits have disclosed inadequate contract oversight and activity management.

Oversight of USAID programs is also complicated by widespread corruption. In 2010, Transparency International's Corruption Perception Index ranked Iraq 175 out of 178 countries. USAID/OIG audits and investigations have identified corrupt schemes that have hindered program accomplishments.

OIG completed three audits and two reviews in Iraq in FY 2011 and plans to conduct three audits and one review in FY 2012.

**Sudan.** With the emergence on July 9, 2011, of a new country, the Republic of South Sudan, the challenges USAID faces in delivering assistance to the people of Sudan have multiplied. The division of one country into two has weakened the economy of the north (the Republic of Sudan), which lost much of the oil revenue it formerly received. The south, which was neglected during decades of civil war, needs to build infrastructure both physical and civil and unite groups that fought together for independence but are now jockeying for power. Conflict between and within the two countries continues.

As in other conflict and postconflict settings, security threats impede project implementation and monitoring in the Republic of Sudan and the Republic of South Sudan. Approval from the Regional Security Office is generally required for travel outside the main cities of Khartoum and Juba because of highway banditry and intermittent clashes with the Lord's Resistance Army, a rebel group that has abducted and killed civilians in several Central African countries. Extremely high staff turnover and staff shortages at both USAID missions and in implementing partner offices, lack of local skilled personnel, and transportation and logistics difficulties also hinder implementation and monitoring of U.S. foreign assistance projects in Sudan. In 2010, Transparency International's Corruption Perceptions Index ranked Sudan 172 out of 178.

In FY 2011, the OIG issued two performance audits of Sudan programs and one performance review. In FY 2012, OIG plans to issue two performance audits of USAID/South Sudan programs.

**Haiti.** More than a year after a powerful earthquake hit Haiti, hundreds of thousands of people still live in temporary camps and makeshift homes, and much rubble remains to be cleared. Compounding these problems, the nation has had to deal with a cholera epidemic, which has killed thousands of people and continues to spread. Haiti also struggled through a turbulent presidential election, with rumors of fraud by the ruling party sparking violent demonstrations.

USAID faces a vast array of challenges to reaching its development goals for infrastructure, health, agriculture, and governance in Haiti. Although Haitian-led development is imperative, the limited capacity and weak infrastructure of the government complicate this goal. Property rights and land tenure are also major challenges in Haiti. National government policies on property rights need to be reformed and enforced transparently and fairly. Until reform occurs, USAID is limited in resettling people from camps to permanent shelters. Land tenure issues also impede USAID's ability to achieve its agricultural goals. In addition, the limited capacity of local nongovernmental organizations will make it difficult for USAID to award grants and contracts directly to them, as the Agency seeks to do to advance its procurement goals. These are some of the challenges that USAID needs to overcome to have a sustainable development impact in Haiti.

In January 2011, OIG established a Port-au-Prince satellite office, staffed by two auditors and two investigators, and regularly dispatches additional audit teams to Haiti to provide expanded oversight of USAID operations. OIG conducted five audits in FY 2011, covering USAID's shelter, education, health, and agriculture programs, and one review addressing the financial management controls of a USAID implementer. In FY 2012, OIG plans to conduct six audits of USAID/Haiti's programs.

USAID continues to take steps to meet the challenges in critical priority countries and disaster areas. For example, USAID established a team to develop Agency policy on counterinsurgency, combating terrorism, and combating violent extremism. USAID also established the Office of Civilian Response to allow the rapid deployment of sufficient numbers of trained officers to support U.S. Government reconstruction and stabilization activities abroad. The Office of Civilian Response has 34 active members and 169 standby members working for USAID who can be deployed. The Agency developed several training courses to build knowledge and skills in the civilian response corps to operate in complex environments.

### **Managing for Results**

USAID manages a large portfolio of foreign assistance programs designed to help achieve long-term development, respond to humanitarian emergencies, and rebuild countries that

have experienced high levels of violent conflict. USAID faces challenges in ensuring that these programs achieve planned results.

**Assistance Planning.** The need for planning cannot be overemphasized. OIG audits frequently identify weaknesses in planning that can impair the effectiveness of USAID programs. Of the 80 performance audits OIG conducted in FY 2011, 25 disclosed problems with assistance planning:

- Program performance indicators and targets were not established, were not updated, or were not very closely related to USAID activities (21 cases).
- Performance targets were inconsistent in performance management plans, contracts and grants, and annual work plans or were not appropriate (2 cases).
- Performance indicators were not adequately defined, or data collection procedures were not uniform among partners (5 cases).

These deficiencies make it difficult for program implementers—USAID, partner-governments, contractors, and grantees—to track progress toward and achieve program objectives and results.

**Performance Management.** The Agency is committed to managing assistance programs to achieve the best possible development outcomes. Nonetheless, OIG audits have identified shortcomings in performance management.

For programs audited in FY 2011, a significant proportion of program performance targets were not met, or performance lagged behind targets in key areas. OIG reported this finding in 17 performance audit reports. For example, one audit report disclosed that a USAID program fell well short of its income generation targets for beneficiaries, attaining only 19 percent of its licit job creation target and 22 percent of its vocational training target for the year.

Also, 35 performance audit reports documented instances of inadequate contract or project management. In one audit, OIG reported that USAID program staff overrode management controls by performing responsibilities that are normally reserved for the agreement officer. For example, program staff directed the implementer to provide services that were not part of the implementer's scope of work. Consequently, program performance deteriorated.

**Results Reporting.** USAID operating units report results achieved by USAID-financed programs to the State Department's Office of the Director of U.S. Foreign Assistance. Operating units also make this information available to external stakeholders such as the Office of Management and Budget, Congress, and the public.

OIG audits have identified inaccurate or unsupported reported results. In 37 of the audit reports OIG issued in FY 2011, we noted that data reported by USAID operating units or their partners was misstated, not supported, or not validated. According to one audit report, USAID overstated the number of beneficiaries from activities in Colombia as follows:

- 357,209 individuals reportedly benefited from U.S. Government-supported social services, but supporting documentation showed that only 276,148 individuals actually received these services (a 29 percent difference).
- 2,442 jobs were reportedly created, but supporting documentation showed that only 1,833 jobs were actually created (a 33 percent difference).

**Sustainability.** Sustainability is the capacity of a host-country organization to achieve long-term success and stability and to serve its clients and consumers without interruption and without reducing the quality of services after external funding ends.

USAID places emphasis on sustainability. Agency policy requires that long-term development plans produce sustainable benefits after termination of USAID funding. In fact, in a February 2011 testimony before the Senate Committee on Foreign relations, Mark Feierstein, Assistant Administrator for Latin America and the Caribbean, said:

The hallmark of the Obama Administration's approach to development is sustainability. Of all the metrics we use to gauge our success, none is more important than reaching the point at which we can close up shop in a country. As President Obama said when he announced his new development policy in September, the purpose of development 'is creating the conditions where our assistance is no longer needed.'

OIG audits have identified obstacles to project sustainability, with 11 audit reports disclosing sustainability weaknesses in FY 2011. For example, one project in India was expected to build the capacity of a government agency, transforming it into an independent technical assistance agency by the end of the project. To demonstrate progress, the agency was to develop and implement a capacity-building and sustainability plan that would help it become independent of USAID support. However, no such plan had been developed at the time of the audit.

USAID has taken action to address weaknesses in planning, performance management, and results reporting. Actions include (1) developing a training workshop, "Managing for Results," and training over 350 individuals in planning and performance management as of March 2011, (2) piloting a new workshop called "Training of Technical Advisors," which targets Agency staff tasked with providing technical assistance to the field and teaches facilitation skills for developing results frameworks and selecting performance indicators, and (3) establishing the

Bureau for Policy, Planning, and Learning to support the Agency's efforts to manage for results. OIG audits in FY 2012 will review USAID efforts in these areas.

### **Managing Acquisitions and Assistance**

In the area of acquisition and assistance, USAID faces two main challenges, discussed below.

**Strategic Procurement Reforms.** USAID faces a major challenge in implementing procurement reforms. Current strategies emphasize using partner-country systems and strengthening local capacity and institutions. USAID has formed a Procurement Reform Group to explore ways to make significant changes in the way USAID's assistance is designed and delivered to build local capacity. The group has proposed reforms to increase competition; broaden the Agency's partner base; strengthen partner-country financial, management, and procurement systems; and strengthen local civil society and private sector capacity to improve aid effectiveness and sustainability.

To ensure that host-country and other local systems can provide accountability for U.S. Government funds before providing the funds to host-country institutions, in August 2011, USAID issued Automated Directives System Chapter 220, "Use of Reliable Partner Country Systems for Direct Management and Implementation of Assistance." The chapter requires USAID to assess the partner-country systems. To conduct this assessment, USAID established a Public Financial Management Risk Assessment Framework. The framework includes a (1) general appraisal of the country's systems, (2) in-depth risk assessment, (3) risk analysis, management, and mitigation, (4) conditions precedent, which, if complied with, would constitute formal approval for use of a partner financial system, and (5) negotiations with the partner country. Use of the framework will discharge USAID's fiduciary duties, advance USAID's broad development goals, and achieve measurable results jointly identified and agreed on with the partner country government.

Also, if USAID intends to use a partner country's supreme audit institution, USAID needs to coordinate with the USAID OIG to ensure that the supreme audit institution can conduct audits in accordance with U.S. Government Auditing Standards. USAID OIG will assist USAID in these efforts as requested, and will audit funds provided to host-government organizations as necessary.

**Cost-Reimbursement Contracts.** USAID commonly uses cost-reimbursement contracts, which allow for payment of allowable incurred costs. Federal Acquisition Regulation Subpart 16.301-2 states that cost-reimbursement contracts are suitable only when uncertainties involved in contract performance do not permit costs to be estimated with sufficient accuracy to use any type of fixed-price contract. Subpart 16.301-3 states that cost-reimbursement contracting may be used only when there is appropriate government surveillance during performance to provide reasonable assurance that

efficient methods and effective cost controls are used. Cost-reimbursement contracting places a heavy burden on USAID operating units to provide the monitoring necessary to provide reasonable assurance that American taxpayer funds are used efficiently and effectively and that the desired outcomes are achieved.

In response to the strategic procurement reforms challenge, USAID established a new USAID/Washington support team in the Office of the Chief Financial Officer to provide quality control by analyzing data, ensuring consistency in using a risk assessment framework for public financial management, proposing and monitoring exposure limits, and providing policy analysis and advice.

Regarding cost-reimbursement contracts, USAID responded that the Acquisition Savings Plan it submitted to the Office of Management and Budget in April 2011 reduces by 21 percent the number of new awards using high-risk contracting mechanisms. USAID hired a permanent chairperson of the Contract Review Board in August 2011, and developed guidelines for a new Acquisition and Assistance Board. The Acquisition and Assistance Board was created to ensure appropriate instrument selection and pricing arrangements.

### **Managing Information Technology**

USAID continues to face challenges in implementing Homeland Security Presidential Directive 12 (HSPD-12). In addition, USAID faces challenges in consolidating information technology (IT) personnel and infrastructure with the Department of State and in safeguarding classified material.

- Regarding HSPD-12, OIG reported that USAID lacked the resources to comply with this U.S. Government-wide directive. Although USAID has since met the requirements for credentials that allow access to buildings at headquarters, it has not yet met requirements for credentials that enable access to information systems. Future challenges in this area include tailoring an implementation plan for USAID/Washington and overseas posts.
- In FY 2010, USAID and the Department of State consolidated their IT personnel and infrastructure in Afghanistan and shifted USAID personnel to the Department of State's network, OpenNet. Subsequently, USAID conducted a business study for consolidating USAID and Department of State IT infrastructure at approximately 70 locations where both USAID and the Department of State have operations. The approach chosen as a result of this study involves total integration of hardware, software, and support personnel. USAID is planning to conduct pilots at three locations starting in October 2011: Lima, Peru; San Salvador, El Salvador; and Guatemala City, Guatemala. Although OIG has not performed any formal audit work in this area, USAID's study identified potential critical risks associated with the consolidation effort—including weakening of system security and not attaining projected savings—that will require management attention.

- A November 2010 Office of Management and Budget memorandum noted the “significant damage to our national security” caused by WikiLeaks disclosures. That memorandum set in motion a variety of activities conducted in 2011 to assess federal efforts to safeguard classified information against improper disclosure. At USAID, these efforts included a self-assessment of the Agency’s handling of classified material, an external review by the Information Security Oversight Office and the Office of the National Counterintelligence Executive, and a review by the Office of the Inspector General. All three of these efforts noted areas for improvement in safeguarding classified material. OIG plans to perform a follow-up review in FY 2012 to determine whether USAID has addressed these challenges adequately.

In response to these challenges, USAID continues to work with the State Department to consolidate IT infrastructure and is working to increase protection of classified material. OIG intends to monitor USAID activities to address the three challenges mentioned in the managing information technology area and may amend its annual plan as resources permit to initiate audit work in these areas.

## FY 2011 MANAGEMENT AND PERFORMANCE CHALLENGES

### WORKING IN CRITICAL PRIORITY COUNTRIES AND DISASTER AREAS

<b>Challenge</b>	<b>Program Implementation.</b> USAID continues to face enormous challenges in implementing its programs and activities in Afghanistan, Pakistan, Iraq, Sudan, and Haiti. Security concerns, weaknesses in governance, and corruption are persistent problems. Moreover, as USAID provides more of its assistance directly to host-country institutions to help build capacity at the national, provincial, and local levels, questions concerning accountability for those funds may arise.
<b>Actions Taken</b>	(See discussion on Federal Managers' Financial Integrity Act (FMFIA) significant deficiencies in the MD&A section under Management Assurances.)
<b>Actions Remaining</b>	(See discussion on FMFIA significant deficiencies in the MD&A section under Management Assurances.)

### MANAGING FOR RESULTS

<b>Challenge</b>	<b>Assistance Planning.</b> Office of Inspector General (OIG) audits frequently identified weaknesses in planning that can impair the effectiveness of USAID programs. Of the 80 performance audits the OIG conducted in FY 2011, 25 disclosed problems with assistance planning: (1) program performance indicators and targets were not established, updated, or were not very closely related to USAID activities; (2) performance targets were inconsistent in performance management plans, contracts and grants, and annual work plans or were not appropriate; and (3) performance indicators were not adequately defined, or data collection procedures were not uniform among partners. These deficiencies make it difficult for program implementers—USAID, partner-governments, contractors, and grantees—to track progress toward and achieve program objectives and results.
<b>Actions Taken</b>	In June 2010, the Administrator established a Bureau for Policy, Planning and Learning (PPL), which is leading USAID's efforts to enhance strategic and program planning and implementation as well as monitoring and evaluation processes. In January 2011, PPL began to implement its new evaluation policy and, in September 2011, the Bureau issued new guidance requiring missions to develop a Country Development Cooperation Strategy (CDCS) by FY 2013. This guidance includes requirements for indicator selection to ensure that indicators are directly related to strategic objectives. Nine missions in three regions (Africa, Europe and Eurasia, and Asia) are now implementing an approved CDCS, including country-level performance measures.
<b>Actions Remaining</b>	Following issuance of the CDCS guide, PPL will develop a new project design guidance which emphasizes the importance of establishing performance indicator targets that directly relate to USAID activities. New USAID program cycle guidance, including policy, strategy, project design and implementation, monitoring and evaluation and performance management phases, is being drafted. Each phase in the program cycle requires that USAID staff and program implementers consistently track progress toward achievement of strategy and program goals and expected results in partnership with relevant stakeholders. Training is planned in Washington and regional hubs in FY 2012 to continue staff skill building in planning, performance management, and target setting. Nine additional countries have a CDCS under review to be approved by December 2011 and a total of 76 countries and regions are on schedule to have completed CDCS by the end of FY 2013. Training will be emphasized for new Foreign Service Officers under the Development Leadership Initiative (DLI).

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## FY 2011 MANAGEMENT AND PERFORMANCE CHALLENGES (continued)

### MANAGING FOR RESULTS (continued)

**Challenge** **Performance Management.** For programs audited in FY 2011, a significant portion of program performance targets were not met, or performance lagged behind targets in key areas. The OIG reported this finding in 17 performance audit reports. Also, 35 performance reports documented instances of inadequate contract or program management.

**Actions Taken** The Agency continued its efforts to build its capacity in planning and performance management by delivering 10 Managing for Results (MfR) workshops in FY 2011. Over 462 people have been trained to date and have improved their MfR skills and indicator selection. Out of the 462 people trained, more than two-thirds work in missions currently preparing a CDCS. The remaining participants are members of the DLI. Four lessons of the MfR workshop focus specifically on indicator selection, data quality, setting baselines, targets, and program development with hands-on exercises that allow participants to apply what they learn to real life development assistance scenarios. As of FY 2011, the MfR workshop has become an institutionalized part of the Agency's capacity building efforts to support ongoing improvement in the areas of planning and performance management. The Agency updated the FY 2011 curriculum to include monitoring and evaluation in high threat environments in accordance with current USAID policy.

**Actions Remaining** Additional MfR training is planned in Washington and regional hubs in FY 2012 to continue staff skill building in planning, performance management, including modules on indicator definition and data quality assessment (DQA), project design, and evaluation. As of now, 11 workshops are planned for FY 2012 for about 275 participants. This will be completed by September 2012. In addition to the MfR training, two critical phases of the program cycle—Strategic Planning and Evaluation—have become an institutionalized part of the Agency's process for achieving development results. Improved guidance for Project Design and Implementation as well as for Performance Management will be fully implemented in FY 2012. To address adequate contract management, the Agency is revising the Contracting Officer Technical Representative (COTR) training to strengthen their role in overseeing performance management. A new mid-level COTR course is being developed and is scheduled to be piloted in February 2012.

**Challenge** **Results Reporting.** OIG audits have identified inaccurate or unsupported reported results. In 37 of the audit reports the OIG issued in FY 2011, they noted that data reported by USAID operating units or their partners were misstated, not supported, or not validated.

**Actions Taken** USAID and the Department of State (DOS) undertook a review and revision of the Foreign Assistance Standard Indicators as part of the streamlining initiative in FY 2011. These indicators are used by all USAID operating units to report on program performance. As a result of the review, major revisions were made to the indicator set, including elimination of some indicators, revisions to other indicators to improve the clarity and focus of the indicators, and creation of new indicators. A large component of this effort was the development of new indicator reference sheets which provide detailed definitions of the indicators, parameters for and limitations on data collection, and instructions to clarify the type of data expected to be submitted for each indicator. The *FY 2011 Performance Plan and Report* guidance also includes specific instructions to operating units on the standards for DQAs. These actions are designed to emphasize the importance of accurate data collection and reporting at the mission level, and provide tools for operating units to use to improve data collection and reporting. In addition, USAID is elevating the importance of program reporting and has strengthened the use and selection of indicators and targets in strategy and project development.

**Actions Remaining** In FY 2012, Agency policy on Assessing and Learning (Automated Directives System (ADS) 203) will be revised to incorporate new guidance and underscore the importance of selecting indicators that directly relate to the activities undertaken and the importance of accurate reporting.

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**FY 2011 MANAGEMENT AND PERFORMANCE CHALLENGES (continued)**

**MANAGING FOR RESULTS (continued)**

<b>Challenge</b>	<b>Sustainability.</b> Sustainability is the capacity of a host-country organization to achieve long-term success and stability and to serve its clients and consumers without interruption and without reducing the quality of services after external funding ends. OIG audits have identified obstacles to project sustainability, with 11 audit reports disclosing sustainability weaknesses in FY 2011.
<b>Actions Taken</b>	Under the USAID <i>Forward</i> reform, USAID is focusing on strengthening the capacity of host-country and local institutions by contracting with and providing grants to more varied local partners to ultimately create conditions where aid is no longer necessary. USAID realizes that enhancing local sustainability through foreign assistance is a long-term undertaking. Throughout the Agency, USAID is also building capabilities to facilitate capacity strengthening by providing Local Capacity Development training. During FY 2011, USAID trained 230 people in 27 different operating units. More specifically, in addressing the OIG’s audit finding that India did not have a sustainability plan, the India Mission stated that, in collaboration with the Government of Uttar Pradesh and Family Planning Services Agency (SIFPSA), the mission is currently developing a transition/sustainability plan for the state society in Uttar Pradesh to ensure that USAID maintains influence over how the \$40.1 million in accumulated savings is spent and ensures they are spent for purposes consistent with the original program. The mission is continuing a dialogue with SIFPSA that began in October 2011. They are currently taking the following actions: (1) consultations and discussions with the Government of India, Government of Uttar Pradesh, Governing Board of the State Innovations in SIFPSA, and SIFPSA leadership on transition plans; (2) consultations within USAID/India, including the Regional Legal Advisor, Controller, Program Support Office, Health Office, and Front Office, to develop a plan of action; (3) two firms, PricewaterhouseCoopers and R.M.Lall & Co., were hired to work on operationalization and financial/legal matters, respectively, regarding the SIFPSA transition; and (4) the USAID/India Mission Director met with the newly appointed Government of Uttar Pradesh Executive Director of SIFPSA to reach agreement on a planned course of action.
<b>Actions Remaining</b>	As part of the new project design guidance that will be rolled out in FY 2012, sustainability assessment will be mandatory. The USAID/India Mission has identified two remaining items: (1) in November 2011, review the reports from the two firms and present a planned course of action to SIFPSA and government counterparts, and (2) in December 2011, hold a Governing Board of SIFPSA meeting to review and approve the planned course of action.

**MANAGING ACQUISITIONS AND ASSISTANCE**

<b>Challenge</b>	<b>Strategic Procurement Reforms.</b> Current strategies emphasize the importance of using partner country systems and strengthening local capacity and institutions. To assess the partner country systems, USAID established a Public Financial Management Risk Assessment Framework (PFMRAF). Use of the framework will discharge USAID’s fiduciary duties, advance USAID’s broad development goals, and achieve measurable results jointly identified and agreed on with the partner country government. If USAID intends to use a partner country’s supreme audit institution (SAI), USAID needs to coordinate with the USAID OIG to ensure that the SAI can conduct audits in accordance with U.S. Government Auditing Standards.
<b>Actions Taken</b>	These broad strategic procurement reforms are intended to capacitate and use local country systems that agree with international standards of public financial management—not with U.S. standards, per se. In accordance with international agreements reached in Paris and Accra (2005 Paris Declaration and 2008 Accra Agenda for Action), USAID’s reform effort is not designed to bend partner country systems, including with regard to accounting and auditing disciplines, to the Agency’s own specific rules and standards—but rather to generally recognized (developed-world) international standards, as implemented locally. While USAID would expect there to be substantial overlap between U.S. Government Auditing Standards and those of the international community, these would not necessarily be identical in all respects.
<b>Actions Remaining</b>	Subject to the above clarification, coordination with the USAID OIG on the Agency’s strategic procurement reforms is most welcome, and the Agency looks forward to the OIG’s review and input into these efforts. In accordance with Agency policy on the PFMRAF that was created by the Office of the Chief Financial Officer with substantial input from the General Counsel, Office of Acquisition and Assistance, and other bureaus, is a multi-stage, iterative process that deeply reviews and assesses broad elements of a partner country’s public financial management capacities, including those of the SAI to conduct audits, before conclusions are reached as to both capacities and risk mitigation measures needed before reliance on a partner-country’s systems is commenced. In this connection, there are many opportunities to coordinate with the OIG within its statutory duty to coordinate and recommend policies designed to “promote economy, efficiency and effectiveness” in the administration of the Agency’s programs and operations (Inspector General Act of 1978, as amended, Sec. 2) as well as with its oversight and enforcement functions.

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**FY 2011 MANAGEMENT AND PERFORMANCE CHALLENGES (continued)**

**MANAGING ACQUISITIONS AND ASSISTANCE (continued)**

<b>Challenge</b>	<b>Cost-Reimbursement Contracts.</b> USAID commonly uses cost-reimbursement contracts, which allow for payment of allowable incurred costs. However, these types of contracts place a heavy burden on USAID operating units to provide the monitoring necessary to provide reasonable assurance that U.S. taxpayer funds are used efficiently and effectively and that the desired outcomes are achieved.
<b>Actions Taken</b>	In April 2011, USAID reported in its Acquisition Savings Plan to the Office of Management and Budget (OMB) a 21 percent reduction of total new awards in high-risk contracting mechanisms. In August 2011, a permanent chair was named for the new Acquisition and Assistance Review Board (AARB), formerly Contract Review Board (CRB). The Agency has begun developing guidance for the new AARB.
<b>Actions Remaining</b>	The Agency will continue to monitor and reduce the number of cost-reimbursement type contracts whenever feasible and justifiable. The guidance for the new AARB will be issued in October 2012, with initial applicability to acquisition actions. During the following six months, the Agency will assess the effectiveness of the new procedures and make decisions on including assistance actions in AARB reviews.

**MANAGING INFORMATION TECHNOLOGY**

<b>Challenge</b>	<b>Implementing Homeland Security Presidential Directive-12 (HSPD-12).</b> The OIG reported that USAID lacked the resources to comply with this U.S. Government-wide directive. Although USAID has since met the requirements for credentials that allow access to the buildings at headquarters, it has not yet met requirement for credentials that enable access to information systems. Future challenges in this area include tailoring an implementation plan for USAID/Washington and overseas posts.
<b>Actions Taken</b>	Under OMB's policy on continued implementation of HSPD-12 for a common identification standard for federal employees and contractors, the Office of the Chief Information Officer, in coordination with the Office of Security, formed a HSPD-12 Steering Committee to assure continuity of physical and logical access. An analysis of vendors was completed in the fourth quarter of FY 2011.
<b>Actions Remaining</b>	During the first quarter of FY 2012, USAID will begin the pilot to implement logical access to the Agency's information technology (IT) infrastructure. USAID's intent is to issue federal Personal Identity Verification (PIV) and PIV-I cards to USAID employees ahead of OMB's scheduled time line.
<b>Challenge</b>	<b>Consolidating IT Personnel and Infrastructure with the Department of State.</b> In FY 2010, USAID and DOS consolidated their IT personnel and infrastructure in Afghanistan and shifted USAID personnel to DOS's network, OpenNet. Subsequently, USAID conducted a business study for consolidating USAID and DOS IT infrastructure at approximately 70 locations where both USAID and DOS have operations. The approach chosen as a result of this study invokes total integration of hardware, software, and support personnel. USAID is planning to conduct pilots at three locations starting in October 2011. USAID's study identified potential critical risks associated with the consolidation effort—including weakening of system security and not attaining projected savings—that will require management attention.
<b>Actions Taken</b>	USAID and DOS are in the process of jointly (1) implementing pilots at three mission locations—Lima, Guatemala, and San Salvador—to validate the findings of the study and architecture, and (2) developing architecture for the Foreign Area Network as well as developing an overall governance structure for the solution.
<b>Actions Remaining</b>	Pending the results of pilots, USAID and DOS may decide to continue this infrastructure solution and extend it to all USAID missions.

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## FY 2011 MANAGEMENT AND PERFORMANCE CHALLENGES (continued)

### MANAGING INFORMATION TECHNOLOGY (continued)

#### Challenge

**Safeguarding Classified Material.** In response to a November 2010 OMB memorandum that noted the “significant damage to our national security” caused by WikiLeaks disclosures, USAID conducted: (1) a self-assessment of the Agency’s handling of classified material; (2) an external review by the Information Security Oversight Office and the Office of the National Counterintelligence Executive; and (3) a review by the OIG. All three of these efforts noted areas for improvement in safeguarding classified material.

#### Actions Taken

**Policy.** During the Office of the Director of National Intelligence (ODNI) assessment, policy, standards, operating procedures, processes and guideline recommendations were documented and presented to USAID, to include incorporating classified operations. USAID reviewed all local documentation and drafted new management policies for classified operations, communications security, cable room operations, conducting secure meetings and conferences, and personal electronic device management. USAID hired policy technical writers in mid-October to review, finalize, and formalize Agency classified operations policies.

**Safeguard and Protection.** To assure secure system baselines, USAID re-imaged 131 classified system hard drives to the latest DOS ClassNet operating system baseline, between July and October 2011. Further, all system hard drive antivirus signatures were validated and current. The software was validated to ensure it actively monitors ClassNet systems. USAID performed an internal assessment of current infrastructure against future requirements. This assessment spanned user-classified processing systems, secure video telecommunications, secure voice, and controlled, secure print capability and protected distribution systems at future planned secure operations locations to harden protective capabilities of physical connections. USAID planned, researched, and invested in thin client infrastructure, personal identification number (PIN)-secured networked print devices, TEMPEST-certified secure video teleconference with TEMPEST-certified secure Voice Over Internet Phone (VOIP) for both Secret and Top Secret-Sensitive Compartmented Information environments. USAID also purchased encryption device upgrades with appropriate administrative training packages to reinforce proper administrative capability within the Agency. USAID plans to be fully migrated to a thin client-managed environment by June 2012. In addition, USAID is developing a local model that adopts and mirrors the Defense Information System Agency safeguard and protective measures, to include implementation of minimum required, limited, designated Agency “trusted agents,” who will be authorized to reproduce classified documentation, and will be accountable for tracking, documenting, transferring to internal and external bureaus and/or agencies, and dispositioning media on behalf of USAID.

**Continuity of Operations Program.** USAID has initiated actions to fully implement thin client infrastructure to support classified computer processing and upgrade to Internet Protocol-based secure video telecommunications and voice capability no later than March 2012. The protected distribution systems will be installed to protect classified computing connections during non-operations hours.

**Accountability.** USAID developed a local inventory and labeling mechanism that resulted in 100 percent accountability of classified hardware, printers, and hard disk drives. All stand-alone computing devices were removed from the operational environment in July 2011.

**Training and Awareness.** The Chief Information Security Office and the Office of Security training coordinators jointly revamped initial and annual refresher training and tracking mechanisms. A baseline, automated training program will be developed, customized and implemented throughout the Agency, aimed at increasing awareness, automating annual training, and tracking and sending training reminders to users.

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## FY 2011 MANAGEMENT AND PERFORMANCE CHALLENGES (continued)

### MANAGING INFORMATION TECHNOLOGY (continued)

#### Actions Taken (continued)

**Information Security.** Under Executive Order 13526, training has been developed for Original Classification Authorities (OCA). The training is designed to ensure OCAs are familiar with their roles and responsibilities in the classification, safeguarding, and declassification of classified national security information. Employees or contractors must not remove classified material from official premises except when necessary in the conduct of official meetings, conferences, or consultations and must return the material to an authorized U.S. Government-owned/controlled facility and security container immediately upon the conclusion of the meeting, conference, or consultation. Individuals authorized to hand-carry classified materials must carry with them a Form AID 500-7, Courier Authorization Card. To ensure the safeguarding, control, and accountability of classified material and courier cards, effectively October 15, 2011, the Office of Security is the only office authorized to issue Courier Authorization Cards to USAID-designated couriers.

**Portable Electronic Devices (PED).** USAID developed policy which encompasses a risk-management approach that combines the use of security technology products with user awareness and procedural controls and measures to minimize the vulnerabilities inherent with PEDs.

**Counterintelligence and Insider Threat.** USAID identified a need for an Insider Threat program, as outlined in Executive Order 13587, *Structural Reforms to Improve the Security of Classified Networks and the Responsible Sharing and Safeguarding of Classified Information*.

#### Actions Remaining

**Culture.** In response to ODNI, the OIG, and internal assessments, USAID formed a steering committee to oversee, recommend, and guide the Agency's unified activities to address, direct and improve protection, safeguard, administration, accountability, inventory, and effective use of classified information and systems. The target completion date is June 2012.

**Capability.** USAID is soliciting expertise and input from all Agency security offices, business units, and bureaus to assure policies, culture, and activities support Agency business goals and objectives, encompass all 10 security domains, and result in well-rounded, vetted, and unified actions across the Agency.

**Competency.** USAID is reviewing strategy to align with Department of Defense 8570 Information Assurance training requirements to increase, train, and retain well-qualified, knowledgeable information assurance and IT staff. Classified equipment issue, safeguard, and protection responsibility will be assigned at the highest level in each USAID bureau. The target implementation date is June 2012. Agency policies related to personnel, physical, and industrial security programs; counterintelligence program; and PED are under technical review. USAID expects to formally approve them by June 2012. In addition, USAID will implement an Insider Threat Detection and Prevention program under Executive Order 13587.

# SUMMARY OF FINANCIAL STATEMENT AUDIT AND MANAGEMENT ASSURANCES

The Office of Management and Budget (OMB) requires all agencies to prepare Table 1 (Summary of Financial Statement Audit) and Table 2 (Summary of Management Assurances). Table 1 shows that the Independent Auditor gave the Agency an unqualified opinion on the financial

statements with one material weakness. Table 2 shows the Agency has a qualified Federal Managers' Financial Integrity Act (FMFIA) Assurance Statement with one material weakness and no non-conformances with financial management systems requirements. In addition, both the Agency and the Auditor have

determined that the Agency is in compliance with the Federal Financial Management Improvement Act (FFMIA). These tables correspond with the information presented in the Management's Discussion and Analysis (MD&A) Section of the report.

## SUMMARY OF FINANCIAL STATEMENT AUDIT

**Table 1. SUMMARY OF FINANCIAL STATEMENT AUDIT**

**Audit Opinion: Unqualified**

**Restatement: No**

Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
USAID does not reconcile its Fund Balance with Treasury Account	1	0	0	0	1
<b>Total Material Weaknesses</b>	<b>1</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1</b>

## SUMMARY OF MANAGEMENT ASSURANCES

**Table 2. SUMMARY OF MANAGEMENT ASSURANCES**

**Effectiveness of Internal Control over Financial Reporting (FMFIA § 2) (App A, OMB Cir A-123)**

**Statement of Assurance: Qualified**

Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
USAID continues to have large unreconciled differences and outstanding suspense items older than 60 days	1	0	0	0	0	1
<b>Total Material Weaknesses</b>	<b>1</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1</b>

**Effectiveness of Internal Control over Operations (FMFIA § 2)**

**Statement of Assurance: Unqualified**

Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
None	0	0	0	0	0	0
<b>Total Material Weaknesses</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

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**Table 2. SUMMARY OF MANAGEMENT ASSURANCES (continued)**

**Conformance with Financial Management System Requirements (FMFIA § 4)**

**Statement of Assurance: Systems conform to financial management system requirements**

<b>Non-Conformances</b>	<b>Beginning Balance</b>	<b>New</b>	<b>Resolved</b>	<b>Consolidated</b>	<b>Reassessed</b>	<b>Ending Balance</b>
None	0	0	0	0	0	0
<b>Total non-conformances</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

**Compliance with Federal Financial Management Improvement Act (FFMIA)**

	<b>Agency</b>	<b>Auditor</b>
Overall Substantial Compliance	Yes	Yes
1. System Requirements	Yes	Yes
2. Accounting Standards	Yes	Yes
3. USSGL at Transaction Level	Yes	Yes

**DEFINITION OF TERMS**

**Beginning Balance:** The ending balance of material weaknesses from the prior year.

**New:** The total number of material weaknesses that have been identified during the current year.

**Resolved:** The total number of material weaknesses that have dropped below the level of materiality in the current year.

**Consolidated:** The combining of two or more findings.

**Reassessed:** The removal of any finding not attributable to corrective actions (e.g., management has re-evaluated and determined a material weakness does not meet the criteria for materiality or is redefined as more correctly classified under another heading [e.g., FMFIA Section 2 to a FMFIA Section 4 and vice versa]).

**Ending Balance:** The agency's year-end balance.

# IMPROPER PAYMENTS

## IMPROPER PAYMENT COMPLIANCE

To improve the integrity of the Federal Government's payments and the efficiency of its programs and activities, Congress enacted the Improper Payments Information Act (IPIA) of 2002 (P.L. 107-300). The IPIA requires federal agencies to:

- Review their programs and activities annually;
- Identify programs that may be susceptible to significant improper payments;
- Perform testing of programs considered high risk; and
- Develop and implement corrective action plans for high risk programs.

The Office of Management and Budget (OMB) Circular A-123, Appendix C, *Requirements for Effective Measurement and Remediation of Improper Payments, Part I*, provides requirements for identification and reporting. OMB Circular A-136 revised, *Financial Reporting Requirements*, provides the final reporting tables for IPIA and Recapture of Improper Payments reporting. During July 2010, Congress passed the Improper Payments Elimination and Recovery Act (IPERA) which amended IPIA. IPERA is designed to cut waste, fraud, and abuse due to improper payments by Federal Government agencies.

USAID is dedicated to reducing fraud, waste, and abuse by adequately reviewing

and reporting programs susceptible to improper payments in accordance with IPIA and OMB Circular A-123. USAID took significant steps to reduce or eliminate the Agency's improper payments through comprehensive annual internal control reviews and substantive testing of payments. USAID requires the staff associated with payments to exercise the highest degree of quality control in all facets of the payment process, and holds employees accountable for improper payments.

Appendix C, Part I of OMB Circular A-123 requires all executive branch agencies to determine whether the risk of improper payments is significant and to provide valid annual estimates of improper payments.

Appendix C, Part I of OMB Circular A-123 defines an improper payment as any payment that should not have been made or that was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements. Incorrect amounts are overpayments or underpayments that are made to eligible recipients (including inappropriate denials of payment or service, any payment that does not account for credit for applicable discounts, payments that are for the incorrect amount, and duplicate payments). An improper payment also includes any payment that was made to an ineligible recipient or for an ineligible good or service, or payments for

goods or services not received (except for such payments authorized by law). In addition, when an agency's review is unable to discern whether a payment was proper as a result of insufficient or lack of documentation, this payment must also be considered an improper payment.

## USAID'S PROCESS

The process for complying with the IPIA and OMB Circular A-123, Appendix C, Part I consists of four steps:

1. Review all programs and activities and identify those that are susceptible to significant improper payments.
2. Obtain a statistically valid estimate of the annual amount of improper payments in programs and activities for those programs that are identified as susceptible to significant improper payments.
3. Implement a plan to reduce erroneous payments.
4. Report estimates of the annual amount of improper payments in programs and activities and progress in reducing them.

The Office of the Chief Financial Officer (CFO) is responsible for reviewing all of the Agency's payments and for reporting erroneous payments annually. The above four-step process was conducted for the 12-month reporting period July 1, 2010 through June 30, 2011.

## IMPROPER PAYMENTS REPORTING DETAILS

### I. RISK ASSESSMENT

In FY 2011, the Office of the CFO implemented its IPIA program review and risk assessment strategy by extracting the Agency's worldwide disbursement data files from its financial system, Phoenix, from July 1, 2010 to June 30, 2011. The Office of the CFO identified programs that are significantly susceptible to improper payments under the IPIA and OMB Circular A-123, Appendix C, through the results of the risk assessment. The Agency's risk assessment methodology consisted of weighing, scoring, and rating each of USAID's 27 programs based on risk factors; probability; impact of risk; and by assigning a risk rating of low, medium, or high. The ratings, which were based on the same risk factors as the prior reporting period consisted of: (1) Total value of disbursements, (2) Total number of disbursement transactions (by accounting line), (3) Total number of unique contractors and vendors, (4) Total value of cancelled and returned payments, (5) Total value of interest payments, (6) Degree of maturity or stability, (7) FY 2011 budgeted costs for each program; and (8) Critical Priority Country (CPC) program payments. In addition, the following new risk factors were added for the current IPIA reporting period:

- Percentage of total CPC dollars
- Total value of known duplicate payments
- Prior year (PY) significant risk indicators
- Program payment complexity.

Based on the results of applying the aforementioned risk factors, the Office of the CFO populated a risk matrix with qualitative data and risk conditions for each program. The qualitative data were used in conjunction with the scoring criteria to assign a risk score to each risk condition. The Office of the CFO used the risk condition scores and weighting formulas to determine an overall risk score and identify programs at high risk of being susceptible to significant erroneous payments. As a result, no program met the OMB significant erroneous payments threshold defined as annual erroneous payments in the program exceeding both 2.5 percent of program payments and \$10 million or \$100 million regardless of percentage. However, based on the risk assessment results, the Office of the CFO deemed Good Governance; Health; Education; Agriculture; Economic Opportunities; and Protection, Assistance, and Solutions as programs susceptible to significant erroneous payments. In the prior IPIA reporting period, the Infrastructure program was considered high risk; the rating was reduced in the current year and procedures were not performed.

Agriculture; Economic Opportunities; and Protection, Assistance, and Solutions programs were not considered high risk in the prior IPIA reporting period, but were considered high risk in the current period and were subject to procedures performed.

### II. STATISTICAL SAMPLING

The objective of sampling the six mentioned programs for the period July 1, 2010 through June 30, 2011 did not change from the prior year. Therefore, the objective was to select:

- A statistically valid random sample of sufficient size to yield an estimate with a 90 percent confidence interval of plus or minus 2.5 percentage points around the estimate of the percentage of erroneous payments;
- A sample from the population that allows each item an opportunity for selection; and
- A representative sample to reach a conclusion on the error rate by projecting the results of the sample to the population and calculating the estimated amount of improper payments made in those programs (gross total of both over and underpayments (i.e., not the net of over and underpayments)).

**Table I. ANALYSIS OF SAMPLES BY PROGRAM AREA**

(\$ in Millions)

Code	Description	Samples Selected	Total Accounting Lines	Total Dollar Amount
A08	Good Governance	204	2,315	\$ 977
A11	Health	192	19,243	5,252
A12	Education	204	3,806	817
A18	Agriculture	212	2,750	798
A20	Economic Opportunity	544	701	201
A22	Protection, Assistance and Solutions	236	5,809	2,497
<b>Totals</b>		<b>1,592</b>	<b>34,624</b>	<b>\$ 10,542</b>

The sample size was determined using the formula provided in Part I of OMB Circular A-123, Appendix C. The error rate was based on prior year reported percentage of erroneous payments and thus met the precision requirements specified in Part I of OMB Circular A-123, Appendix C. The formula is seen below:

$$n \geq \frac{2.706(1-P)}{\left(\frac{.025}{P}\right)^2}$$

Where n is the required minimum sample size and P is the estimated percentage of erroneous payments.

An analysis of the total number of samples selected accounting lines, and dollar amounts by program can be found in Table 1.

### III. CORRECTIVE ACTIONS

OMB has defined three categories of reporting improper payments, root cause information, and associated corrective actions. Improper payments reported at USAID are part of the OMB defined category of Administrative and Documentation error; no improper payments in the categories of Authentication and Medical Necessity errors or Verification errors were identified.

The root cause of amounts identified within the category of Administrative and Documentation represented mathematical errors, erroneous payments of interest for non-late payments and the selection of the incorrect prompt payment type code, erroneous non-payment of interest for late payment, payments to the wrong vendor, payments for disallowed costs, lack of supporting documentation, or other incorrect payments to vendors.

To address the root causes of payment errors, the Office of the CFO and the field mission accounting stations have

identified improvements and corrective actions to reduce or eliminate occurrences of root causes. Those improvements and actions include:

1. The recalculation of invoice for arithmetical accuracy;
2. A review of payment instructions to ensure the proper vendor and vendor code are selected;
3. A review of contractor bank information for validity and agreement to the core financial management system (Phoenix) prior to payment;
4. An assessment of risk and review of management controls to assure that they are operating as intended;
5. Performance of periodic reviews of agreements and contracts on terms of payments; and
6. Periodic reviews of processed payments.

USAID has 27 programs and considers each one to be susceptible to improper payments, at some level. These programs continue to be analyzed, reconciled, and closely monitored by the Office of the CFO to ensure compliance with the provisions of IPIA, Part I of OMB Circular A-123, Appendix C, and Agency policies and governing agreements. These efforts ensure that the error rate for these programs continues to be less than OMB's significant erroneous payments error rate of 2.5 percent. The Agency emphasizes internal controls by developing strict guidelines and procedures for payments in an effort to eliminate improper payments. In addition, the Agency has skilled and experienced staff who have adopted a more consistent and reliable method for assessing and evaluating improper payments.

In a continuing effort to reduce improper payments, the Office of the CFO staff members are actively engaged in the ongoing identification, sampling, testing,

and implementation of the necessary internal controls. In addition, ongoing training is provided to staff for meeting the President's goal of eliminating improper payments. Additionally, work objectives related to eliminating improper payments are incorporated in relevant staff work plans to ensure compliance with IPIA and OMB Circular A-123, Appendix C.

### Status/Project Reviews of Grants

The following grant audit and resolution process serves to reduce improper payments by determining grantees have adequate oversight and accountability.

The Agency reviews audit reports relating to audits of grantees and sub-grantees for resolution of audit findings. The audits are performed by external auditors and the ensuing reports are submitted to the Office of Inspector General (OIG), grantees, and sub-grantees.

OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, requires an audit of federal awards, including sub-awards, meeting certain requirements. This process may identify excess billings or unallowable amounts. The auditor's report is sent to the clearinghouse for submission to the USAID OIG. Upon determination of identified questioned costs, the OIG will issue recommendations in a formal result of audit findings and direct those findings to the Agency for negotiations with the grant recipient or contractor and issuance of a demand payment request.

If the findings are procedural, the Agency asks the recipient to provide a corrective action plan with a time line for correcting the deficiencies. The Agency follows up on the action plan until the deficiencies are corrected and asks the audit firm to include a follow-up on the implementation of the corrective action plan to ascertain if the deficiencies were corrected appropriately.

#### IV. PROGRAM IMPROPER PAYMENT REPORTING

Table 2 reflects the outlays, improper payment percentage, and improper payment amounts for the FY 2010 and FY 2011 reporting periods. In addition, this table depicts estimates and improper payment reduction outlooks for FY 2012 through FY 2014.

**Table 2. IMPROPER PAYMENT REDUCTION OUTLOOK (\$ in Millions)**

Program Areas	PY Outlays <sup>(a)</sup>	PY IP % <sup>(b),(c)</sup>	PY IP \$ <sup>(c)</sup>	CY Outlays <sup>(a)</sup>	CY IP % <sup>(b)</sup>	CY IP \$	CY Overpayments \$	CY Underpayments \$
A01 – Counterterrorism	15	0.0000%	0.00	17	0.0000%	0.00	0.00	0.00
A02 – Combating Weapons of Mass Destruction (WMD)	39	0.0000%	0.00	19	0.0000%	0.00	0.00	0.00
A03 – Stabilization Operations and Security Sector Reform	49	0.0000%	0.00	42	0.0000%	0.00	0.00	0.00
A04 – Counternarcotics	419	0.0095%	0.04	294	0.0000%	0.00	0.00	0.00
A05 – Transnational Crime	14	0.0000%	0.00	16	0.0000%	0.00	0.00	0.00
A06 – Conflict Mitigation and Reconciliation	310	0.3548%	1.10	522	0.0000%	0.00	0.00	0.00
A07 – Rule of Law and Human Rights	169	0.4320%	0.73	206	0.0000%	0.00	0.00	0.00
A08 – Good Governance	869	0.1841%	1.60	965	0.0427%	0.41	0.41	0.00
A09 – Political Competition and Consensus Building	376	0.0160%	0.06	298	0.0000%	0.00	0.00	0.00
A10 – Civil Society	282	0.0709%	0.20	313	0.0000%	0.00	0.00	0.00
A11 – Health	4,836	0.1241%	6.00	5,102	0.2401%	12.25	12.25	0.00
A12 – Education	776	0.1933%	1.50	732	0.5807%	4.25	4.25	0.00
A13 – Social and Economic Services and Protection for Vulnerable Populations	718	0.0042%	0.03	752	0.0000%	0.00	0.00	0.00
A14 – Macroeconomic Foundation for Growth	381	0.0971%	0.37	209	0.0000%	0.00	0.00	0.00
A15 – Trade and Investment	132	0.0758%	0.10	129	0.0000%	0.00	0.00	0.00
A16 – Financial Sector	468	0.8419%	3.94	761	0.0000%	0.00	0.00	0.00
A17 – Infrastructure	601	0.0882%	0.53	764	0.0000%	0.00	0.00	0.00
A18 – Agriculture	464	0.2306%	1.07	769	0.2192%	1.69	1.69	0.00
A19 – Private Sector Competitiveness	299	0.0602%	0.18	289	0.0000%	0.00	0.00	0.00
A20 – Economic Opportunity	206	2.2573%	4.65	202	0.3333%	0.67	0.67	0.00
A21 – Environment	251	0.0319%	0.08	297	0.0000%	0.00	0.00	0.00
A22 – Protection, Assistance, and Solutions	2,213	0.3854%	8.53	2,381	0.3138%	7.47	7.47	0.00
A23 – Disaster Readiness	75	0.0933%	0.07	72	0.0000%	0.00	0.00	0.00
A24 – Migration Management	17	0.0000%	0.00	6	0.0000%	0.00	0.00	0.00
A25 – Crosscutting Management and Staffing	197	0.4670%	0.92	165	0.0000%	0.00	0.00	0.00
A26 – Program Design and Learning	19	0.8947%	0.17	75	0.0000%	0.00	0.00	0.00
A27 – Administration and Oversight	135	0.0963%	0.13	1,049	0.0000%	0.00	0.00	0.00
<b>Totals (rounded)</b>	<b>14,330</b>	<b>0.2233%</b>	<b>32.00</b>	<b>16,446</b>	<b>0.1626%</b>	<b>26.75</b>	<b>26.75</b>	<b>0.00</b>

(a) Source of the outlays is disbursements from USAID's financial system, Phoenix, for the OMB Circular A-123 reporting period of July 1 through June 30.

(b) The improper payment rates of 0.22 percent and 0.16 percent for high risk programs for FY 2010 and FY 2011, respectively, were calculated by dividing total actual improper payments by total outlays for each fiscal year based upon the results of the statistical sample. The improper payment error rate for each program for FY 2010 and FY 2011 was calculated by dividing the improper payment amount by the outlays for just the program area.

(c) Prior year improper payment amounts include interest payments properly made and transactions that were returned or cancelled without reaching any recipient. The prior year improper payments also included amounts that were reported as questioned costs in the Consolidated Audit and Compliance System (CACS), prior to concurrence and finalization of the amounts to be recovered. USAID, the Agency's OIG, and OMB reevaluated these types of transactions and agreed that they are no longer considered improper payments and are not reported as such in FY 2011. However, these transactions are still included in the FY 2010 improper payment amounts and are carried forward when current and prior year amounts are combined.

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**Table 2. IMPROPER PAYMENT REDUCTION OUTLOOK (\$ in Millions) (continued)**

Program Areas	CY +1			CY +2			CY +3		
	Est. Outlays <sup>(d)</sup>	CY +1 IP % <sup>(d)</sup>	CY +1 IP \$ <sup>(d)</sup>	Est. Outlays <sup>(d)</sup>	CY +2 IP % <sup>(d)</sup>	CY +2 IP \$ <sup>(d)</sup>	Est. Outlays <sup>(d)</sup>	CY +3 IP % <sup>(d)</sup>	CY +3 IP \$ <sup>(d)</sup>
A01 – Counterterrorism	18	0.0000%	0.00	19	0.0000%	0.00	20	0.0000%	0.00
A02 – Combating Weapons of Mass Destruction (WMD)	20	0.0000%	0.00	21	0.0000%	0.00	22	0.0000%	0.00
A03 – Stabilization Operations and Security Sector Reform	44	0.0000%	0.00	46	0.0000%	0.00	49	0.0000%	0.00
A04 – Counternarcotics	309	0.0000%	0.00	324	0.0000%	0.00	340	0.0000%	0.00
A05 – Transnational Crime	16	0.0000%	0.00	17	0.0000%	0.00	18	0.0000%	0.00
A06 – Conflict Mitigation and Reconciliation	548	0.0000%	0.00	575	0.0000%	0.00	604	0.0000%	0.00
A07 – Rule of Law and Human Rights	216	0.0000%	0.00	227	0.0000%	0.00	239	0.0000%	0.00
A08 – Good Governance	1,014	0.0027%	0.03	1,064	0.0000%	0.00	1,118	0.0000%	0.00
A09 – Political Competition and Consensus Building	313	0.0000%	0.00	329	0.0000%	0.00	345	0.0000%	0.00
A10 – Civil Society	328	0.0000%	0.00	345	0.0000%	0.00	362	0.0000%	0.00
A11 – Health	5,357	0.2001%	10.72	5,625	0.1601%	9.01	5,906	0.1201%	7.09
A12 – Education	769	0.5407%	4.16	807	0.5007%	4.04	848	0.4607%	3.90
A13 – Social and Economic Services and Protection for Vulnerable Populations	789	0.0000%	0.00	829	0.0000%	0.00	870	0.0000%	0.00
A14 – Macroeconomic Foundation for Growth	219	0.0000%	0.00	230	0.0000%	0.00	242	0.0000%	0.00
A15 – Trade and Investment	135	0.0000%	0.00	142	0.0000%	0.00	149	0.0000%	0.00
A16 – Financial Sector	799	0.0000%	0.00	839	0.0000%	0.00	881	0.0000%	0.00
A17 – Infrastructure	802	0.0000%	0.00	843	0.0000%	0.00	885	0.0000%	0.00
A18 – Agriculture	807	0.1792%	1.45	848	0.1392%	1.18	890	0.0992%	0.88
A19 – Private Sector Competitiveness	304	0.0000%	0.00	319	0.0000%	0.00	335	0.0000%	0.00
A20 – Economic Opportunity	212	0.2933%	0.62	223	0.2533%	0.56	234	0.2133%	0.50
A21 – Environment	312	0.0000%	0.00	327	0.0000%	0.00	344	0.0000%	0.00
A22 – Protection, Assistance, and Solutions	2,500	0.2738%	6.85	2,625	0.2338%	6.14	2,756	0.1938%	5.34
A23 – Disaster Readiness	75	0.0000%	0.00	79	0.0000%	0.00	83	0.0000%	0.00
A24 – Migration Management	7	0.0000%	0.00	7	0.0000%	0.00	7	0.0000%	0.00
A25 – Crosscutting Management and Staffing	173	0.0000%	0.00	182	0.0000%	0.00	191	0.0000%	0.00
A26 – Program Design and Learning	79	0.0000%	0.00	83	0.0000%	0.00	87	0.0000%	0.00
A27 – Administration and Oversight	1,101	0.0000%	0.00	1,156	0.0000%	0.00	1,214	0.0000%	0.00
<b>Totals (rounded)</b>	<b>17,268</b>	<b>0.1379%</b>	<b>23.82</b>	<b>18,132</b>	<b>0.1154%</b>	<b>20.93</b>	<b>19,038</b>	<b>0.0931%</b>	<b>17.72</b>

(d) It is estimated that the improper payment rate will reduce by 0.04 each year within each program area, until improper payments are 0 percent. A growth rate of five percent is estimated for FY 2012, FY 2013, and FY 2014.

## V. RECAPTURE OF IMPROPER PAYMENT REPORTING

The IPIA and recovery auditing review process is an ongoing activity under OMB, Circular A-123, *Management's Responsibility for Internal Control*, Appendix C – *Requirements for Effective Measurement and Remediation of Improper Payments*. USAID has implemented a series of activities to satisfy payment recapture audit efforts. While USAID does not consider these efforts a formal payment recapture audit, these efforts are considered more than sufficient to meet, and exceed, the Agency's need and requirements based on historical overpayment rates and amounts. The Recovery Audit Program establishes the overall plan for the performance of recovery audits and reviews of recovery activities. It is intended to be a comprehensive guide to assist in recovery auditing efforts as part of an overall program of effective internal control over contract payments. The efforts USAID has in place are outlined below.

- Select a statistically valid sample of contract transactions/accounting lines and review sample items for identifying improper payments, including overpayments to contractors;
- Perform quarterly IPIA and Recovery Auditing test of transactions; as outlined in instructional guidelines

and workbooks with test steps for mission personnel that are designed to determine, at a minimum, that:

- The recipients were eligible for payment from the U.S. Government;
- USAID Headquarters and overseas field missions received the goods or services for the payments made;
- The correct payment amounts were made to the payees; and
- The payments were executed timely;
- Perform monthly reviews of returned and cancelled payments and interest payments as an action to minimize the risk of improper payments; and
- Perform quarterly data calls to obtain other improper payments that were identified through other processes including IG audits, OMB Circular A-133 audits, and contract and grant close-outs. This results in the leverage of efforts performed by the OIG, Regional Inspectors General, and the Defense Contract Audit Agency in identifying overpayments and the status on recovery of these improper payments.

When the above activities result in identification of a payment that requires

recapture, a copy of the demand payment request is forwarded to the Office of the CFO to record a receivable and pursue collection action. Barring any debt compromise, suspension, termination of collection, and closeout or write-off, the recovery process makes full use of all collection tools available, including the U.S. Treasury collection service and/or the Department of Justice claims litigation process. The collection effort may take several months. If the overpayment is the result of a procedural problem, the Agency asks the payee to provide a corrective action plan with a time line for correcting the deficiencies. The Agency follows up on the corrective action plan until the deficiencies are corrected and follows up on the implementation of the corrective action plan to ascertain if the deficiencies were corrected appropriately.

The Agency continues to identify potential improper payments through post-payment methods and prepayment initiatives. Prepayment initiatives consist of multiple levels of completeness, existence, and accuracy reviews. Post-payment methods include monthly analytical reviews for duplicate payments and payments sent to wrong contractors/vendors. Additionally, Agency personnel perform monthly reviews of returned and cancelled payments for any improper payments.

**Table 3. PAYMENT RECAPTURE AUDIT REPORTING**

(\$ in Millions)

Program Area	Type of Payment	Amount Subject to Review for CY Reporting	Actual Amount Reviewed and Reported (CY)	Amount Identified for Recovery (CY)	Amount Recovered (CY)	% of Amount Recovered out of Amount Identified (CY)	Amount Outstanding (CY)	% of Amount Outstanding out of Amount Identified (CY)	Amount Determined Not to be Collectable (CY)
N/A <sup>(e)</sup>	Contracts	4,064	4,064	2	2	100.00%	–	0%	–
N/A <sup>(e)</sup>	Grants and Cooperative Agreements	10,600	10,600	2	2	100.00%	–	0%	–
N/A <sup>(e)</sup>	Other	2,688	2,688	7	5	71.43%	2	28.57%	–
	<b>Totals</b>	<b>17,352</b>	<b>17,352</b>	<b>11</b>	<b>9</b>	<b>81.82%</b>	<b>–</b>	<b>18.18%</b>	<b>–</b>

(e) Totals were not reported by program area. If amounts were reported at the program level, many programs with improper payment amounts would round down to zero resulting in a lower than actual improper payment amount. Further, if amounts were rounded up, the improper payment amount would be higher than actual. This is a result of the low improper payment amount at the Agency.

(continued on next page)

**Table 3. PAYMENT RECAPTURE AUDIT REPORTING (continued)**

(\$ in Millions)

Program Area	Type of Payment	% of Amount Determined Not to be Collectable out of Amount Identified (CY)	Amounts Identified for Recovery (PYs) <sup>(f)</sup>	Amounts Recovered (PYs) <sup>(f)</sup>	Cumulative Amounts Identified for Recovery (CY + PYs) <sup>(f)</sup>	Cumulative Amounts Recovered (CY + PYs) <sup>(f)</sup>	Cumulative Amounts Outstanding (CY + PYs) <sup>(f)</sup>	Cumulative Amounts Determined Not to be Collectable (CY + PYs) <sup>(f)</sup>
N/A <sup>(e)</sup>	Contracts	–	457	457	459	459	–	–
N/A <sup>(e)</sup>	Grants and Cooperative Agreements	–	51	51	53	53	–	–
N/A <sup>(e)</sup>	Other	–	5	5	12	10	2	–
	<b>Totals</b>	<b>–</b>	<b>513</b>	<b>513</b>	<b>524</b>	<b>522</b>	<b>2</b>	<b>–</b>

**Table 4. PAYMENT RECAPTURE AUDIT TARGETS**

(\$ in Millions)

Program Area	Type of Payment	CY Amount Identified	CY Amount Recovered	CY Recovery Rate (Amount Recovered/ Amount Identified)	CY + 1 Recovery Rate Target	CY + 2 Recovery Rate Target	CY + 3 Recovery Rate Target
N/A <sup>(e)</sup>	Contracts	2	2	100.00%	95.00%	95.00%	95.00%
N/A <sup>(e)</sup>	Grants and Cooperative Agreements	2	2	100.00%	95.00%	95.00%	95.00%
N/A <sup>(e)</sup>	Other	7	5	71.43%	95.00%	95.00%	95.00%
	<b>Totals</b>	<b>11</b>	<b>9</b>	<b>81.82%</b>			

**Table 5. AGING OF OUTSTANDING OVERPAYMENTS**

(\$ in Millions)

Program Area	Type of Payment	CY Amount Outstanding (0 - 6 months)	CY Amount Outstanding (6 months - 1 year)	CY Amount Outstanding (over 1 year)
N/A <sup>(e)</sup>	Contracts	–	–	–
N/A <sup>(e)</sup>	Grants and Cooperative Agreements	–	–	–
N/A <sup>(e)</sup>	Other	1	1	–
	<b>Totals</b>	<b>1</b>	<b>1</b>	<b>–</b>

(e) Totals were not reported by program area. If amounts were reported at the program level, many programs with improper payment amounts would round down to zero resulting in a lower than actual improper payment amount. Further, if amounts were rounded up, the improper payment amount would be higher than actual. This is a result of the low improper payment amount at the Agency.

(f) Previously issued AFRs from fiscal years 2004 through 2010 served as the basis for prior years improper payment amounts. As the Agency's IPIA program has evolved during that period, different types of payments may be included in some years, but not others (see footnote (d) for an example of this). Further, not all improper payment amounts were able to be identified by source or payment type. When identification was not possible, amounts were recorded as coming from the "Other" source and were classified as "Contract" payments.

**Table 6. DISPOSITION OF RECAPTURED FUNDS**

(\$ in Millions)

Program Area	Type of Payment	Agency Expenses to Administer the Program	Payment Recapture Auditor Fees	Financial Management Improvement Activities	Original Purpose	Office of the Inspector General	Returned to Treasury
N/A <sup>(e)</sup>	Contracts	-	-	-	2	-	-
N/A <sup>(e)</sup>	Grants and Cooperative Agreements	-	-	-	2	-	-
N/A <sup>(e)</sup>	Other	-	-	-	5	-	-
<b>Totals</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>9</b>	<b>-</b>	<b>-</b>

**Table 7. OVERPAYMENTS RECAPTURED OUTSIDE OF PAYMENT RECAPTURE AUDITS**

(\$ in Millions)

Agency Source	Amount Identified (CY)	Amount Recovered (CY)	Amount Identified (PY) <sup>(f)</sup>	Amount Recovered (PY) <sup>(f)</sup>	Cumulative Amount Identified (CY + PYs) <sup>(f)</sup>	Cumulative Amount Recovered (CY + PYs) <sup>(f)</sup>
IPIA Samples	2	2	218	218	220	220
Recovery Audit Sample	-	-	-	-	-	-
OIG Reviews	3	3	-	-	3	3
Other	6	4	295	295	301	299
<b>Self-Reported</b>	<b>11</b>	<b>9</b>	<b>513</b>	<b>513</b>	<b>524</b>	<b>522</b>

(e) Totals were not reported by program area. If amounts were reported at the program level, many programs with improper payment amounts would round down to zero resulting in a lower than actual improper payment amount. Further, if amounts were rounded up, the improper payment amount would be higher than actual. This is a result of the low improper payment amount at the Agency.

(f) Previously issued AFRs from fiscal years 2004 through 2010 served as the basis for prior years improper payment amounts. As the Agency's IPIA program has evolved during that period, different types of payments may be included in some years, but not others (see footnote (d) for an example of this). Further, not all improper payment amounts were able to be identified by source or payment type. When identification was not possible, amounts were recorded as coming from the "Other" source and were classified as "Contract" payments.

## VI. ACCOUNTABILITY

USAID currently has plans to ensure responsible personnel are held accountable for reducing and recovering improper payments. Below is a summary of the requirements in place.

- Existing control process and the implementation of the OMB Circular A-123, *Management's Responsibility for Internal Control*, revised Appendix A requirements continue to ensure that the Agency's internal control over financial reporting and systems are well documented, sufficiently tested, and properly assessed. In turn, improved internal controls enhance safeguards against improper payments, fraud, and waste and better ensure that the Agency's

resources continue to be used effectively and efficiently to meet the intended program objectives. The Internal Controls Program Team will continue to monitor internal controls throughout FY 2012 and subsequent years.

- The Office of the CFO has developed an OMB Circular A-123 Compliance Procedures Manual, which addresses Appendix C, *Requirements for Effective Measurement and Remediation of Improper Payments*.
- The Office of the CFO developed, implemented, and established sufficient procedures in lieu of a Payment Recapture Audit Program. The overall plan for the performance of recovery audits and review of recovery activi-

ties is intended to assist in successfully implementing recovery auditing as part of an overall program of effective internal control over payments. The Recovery Audit Program includes the planning, testing, documentation of results, and reporting phases. The program provides procedures to:

- Facilitate adherence to the requirements of the Recovery Audit Act and OMB Circular A-123, Appendix C, *Payment Recapture Audits*, with emphasis on identifying and preventing overpayments to contractors and OMB Circular A-136, *Recapture of Improper Payments*, reporting requirements;

- Provide direction in terms of determining the nature and extent of the test work, including the means to capture results;
  - Perform tests, reviews, and evaluation of results;
  - Facilitate annual reporting on the recovery auditing program in the Agency Financial Report (AFR); and
  - Ensure all steps are carried out to the satisfaction of USAID.
- Continued adherence to OMB’s guidance for reporting Recapture of Improper Payments information in the AFR.

## VII. AGENCY INFORMATION SYSTEMS AND OTHER INFRASTRUCTURE

The internal controls, information systems, and other infrastructure are sufficient to reduce improper payments to the levels targeted by USAID. The Agency’s core financial system is in a “steady state” phase that entails ongoing maintenance and support, implementing Phoenix enhancements and initiatives, developing interfaces between Phoenix and other systems, and extending Phoenix as an integral component of Agency operations and program management. Agency employees with authorized access to the worldwide financial system are now able to continuously monitor, review, analyze, and reconcile financial data. This process culminates in reducing the risk of improper payments.

The Agency further completely rolled out the Global Acquisition and Assistance System (GLAAS). GLAAS is a worldwide, Web-based system that manages awards throughout USAID’s acquisition and assistance lifecycle, including reporting and administration.

GLAAS supports E-Government initiatives, and streamlines and automates the acquisition and assistance processes and procedures. GLAAS helps to ensure quality control with automated validations and gives users easy access to templates and Agency-standard forms.

In 2010, USAID implemented Docu-mentum/Agency Secure Image and Storage Tracking System (ASIST) which is the Agency’s standard application for electronic document management. The transition to ASIST was an ideal time to develop an effective risk management and internal control system for implementing an efficient paperless payment environment. This system is capable of providing global access to stored documents using the Agency’s Web-based information network. The system streamlines the voucher payment process and helps mitigate the risk of improper payments.

Although, the information systems in place at USAID will considerably help in reducing improper payments to target levels, the benefit of the systems may be negated without proper staffing in place. Staff shortage continues to limit the Agency’s corrective actions in reducing improper payments in the future. The Agency’s senior management staff has identified the staff shortage as a control deficiency and is considering remedial steps that would mitigate the effects of the staff shortage in reducing improper payments.

## VIII. BARRIERS

Aside from funding limitations that impact staffing and the ability to properly implement internal controls, and monitor, report, and recover improper payments, the Agency has not identified any barriers that may limit its corrective actions in reducing improper payments. The Agency will seek to identify any areas where additional efficiencies may be

identified to reduce the burden of limited staffing.

## IX. ADDITIONAL COMMENTS

The Agency would like to offer the following additional comments:

- The availability of the Agency’s financial data in Phoenix has greatly enhanced internal controls and transparency of the entire Agency’s financial activities. It allowed implementation of procedures where current financial data is subject to various monthly reviews and cross referenced with other internal and external reports, including:
  - Funds returned from U.S. Treasury;
  - Late payment interest abstracted from Phoenix for the entire Agency; and
  - Several other systems reports and tools to aid in the identification and review of possible worldwide erroneous/duplicate payments.
- Internal and external payable reviews by the Office of the CFO resulted in:
  - Enhanced internal control procedures; and
  - Expanded approach of IPIA reviews.
- The Agency re-evaluated existing IPIA review processes and further defined IPIA approach and strategy for FY 2011; specifically:
  - Documented the Agency’s overall IPIA strategy and review practices;
  - Provided sample transactions based on an independent review and analysis of the program data provided by the Office of the CFO; and

- Learned the value of extending reviews to other internal and external reports. This allowed the Agency to leverage work and actions previously completed by individuals with expert knowledge leading to less duplication of effort, greater independence, and transparency.

In summary, the Agency considers actions to minimize improper payments as ongoing activities that should be performed continuously.

# APPENDICES



*Then...*



**(Above) Today, the USAID handclasp emblem is still recognized as a sign of peace. PHOTO: (UNKNOWN)**

**(Preceding page) Working in Lebanon since the 1960s, USAID has been promoting democracy and stability through humanitarian assistance efforts. PHOTO: (UNKNOWN)**

# APPENDIX A.

# PERFORMANCE INDICATORS

# DATA NOTES

1. Please note that results from funds requested for a given fiscal year frequently occur after the fiscal year for which they were requested. Therefore, funds requested for FY 2010 can be expected to also impact targets for FY 2011 and possibly beyond, just as results for FY 2008 were achieved using a combination of funding from current and previous fiscal years.
2. Data Source: FY 2010 Performance Reports as collected in the Foreign Assistance Coordination and Tracking System (FACTS Info) from Afghanistan, Bolivia, Colombia, Ecuador, and Peru. Collection on this indicator began in 2006; it was selected as representative of Agency programming in Peace and Security for FY 2009.
3. Data Quality: Performance data, verified using data quality assessments (DQA), must meet standards of validity, integrity, precision, reliability, and timeliness. Each operating unit must document the methodology used to conduct the DQAs. DQA and data source records are maintained in the Performance Management Plans; missions certify via the Performance Plan and Report that a DQA has occurred within the last three years. (For details, refer to USAID's Automated Directive System (ADS) Chapter 203.3.5, <http://www.usaid.gov/policy/ads/200/203.pdf>).
4. Data Source: FY 2010 Performance Plans and Reports from Afghanistan, Bosnia and Herzegovina, Burundi, Colombia, the Democratic Republic of Congo (DRC), Ecuador, Ethiopia, Ghana, Guatemala, Haiti, Indonesia, Iraq, Kenya, Kosovo, the Kyrgyz Republic, Mali, Nepal, Nigeria, Rwanda, Somalia, Sudan (pre-July 2011), Tajikistan, Timor-Leste, Uganda, the Bureau for Democracy, Conflict and Humanitarian Assistance (DCHA), USAID East Africa Regional Bureau, and USAID West Africa Regional Bureau as reported in FACTS Info.
5. Data Source: FY 2010 Performance Reports from Albania, Armenia, Azerbaijan, Bosnia and Herzegovina, Cambodia, China, Colombia, DRC, Dominican Republic, Egypt, El Salvador, Georgia, Guatemala, Guyana, Haiti, Indonesia, Kazakhstan, Kosovo, Liberia, Libya, Macedonia, Mexico, Moldova, Montenegro, Nepal, Nicaragua, Panama, Philippines, Somalia, Sudan (pre-July 2011), Tajikistan, Thailand, Timor-Leste, Tunisia, Ukraine, Vietnam, West Bank and Gaza, State Democracy, Human Rights, and Labor (DRL), and State Western Hemisphere Regional as collected in FACTS Info.
6. Data Source: FY 2010 Performance Reports from Afghanistan, Cambodia, Colombia, DRC, Georgia, Haiti, Jordan, Kosovo, Liberia, Macedonia, Mexico, Nepal, Pakistan, Philippines, Sudan (pre-July 2011), Thailand, and West Bank and Gaza as collected in FACTS Info.
7. Data Source: FY 2010 Performance Plans and Reports from Azerbaijan, Cambodia, Georgia, Guinea, Haiti, Honduras, Iraq, Lebanon, Nepal, Nicaragua, Nigeria, Philippines, Russia, Somalia, Sudan (pre-July 2011), Timor-Leste, Togo, African Union, State DRL, and USAID DCHA as collected in FACTS Info.
8. Results for this indicator are achieved jointly with the Department of State. Data Source: FY 2010 Performance Reports from Armenia, Azerbaijan, Belarus, Cambodia, Colombia, Haiti, Indonesia, Kenya, Kosovo, Morocco, Nepal, Nigeria, Peru, and State Democracy, and State DRL as collected in FACTS Info.
9. Data Source: FY 2010 Performance Plans and Reports from Albania, Armenia, Bangladesh, Belarus, Bosnia and Herzegovina, Burma, Cambodia, Ecuador, Georgia, Guinea, Honduras, Indonesia, Iran, Kazakhstan, Kenya, Kosovo, Kyrgyz Republic, Lebanon, Liberia, Moldova, Montenegro, Morocco, Nicaragua, Nigeria, Peru, Serbia, Uganda, Uzbekistan, Zimbabwe, Middle East Partnership Initiative, Near East Regional Bureau, State DRL, USAID DCHA, and USAID Office of Development Partners (ODP) as collected in the FACTS Info.

10. Data Source: The Non-governmental Organization (NGO) Sustainability Index (NGOSI) for Europe covers Southern Tier countries where the United States is providing assistance: Albania, Bosnia, Bulgaria, Croatia, Kosovo, Macedonia, Montenegro, Romania, and Serbia. Although a small number of the countries closed their programs in FY 2008, the United States will continue to monitor them for residual effects. NGOSI scores are measured on a scale of one to seven, with seven indicating a poor level of development and one indicating advanced progress. Each country report provides an in-depth analysis of the NGO sector and comparative scores for prior years. The full report and rating methodology are usually published in May for the prior year and can be found on USAID's Europe and Eurasia (E&E) Bureau Web site, [http://www.usaid.gov/locations/europe\\_eurasia/dem\\_gov/ngoindex/](http://www.usaid.gov/locations/europe_eurasia/dem_gov/ngoindex/).
11. Data Quality: This indicator has been used by USAID missions, in-country entities, and other donors and development agencies throughout the past 12 years. Individual country scores are reviewed by an editorial committee consisting of USAID and country experts.
12. Data Source: The NGOSI for Europe and Eurasia covers 12 countries in Eurasia where the United States provides assistance: Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine, and Uzbekistan. NGOSI scores are measured on a scale of one to seven, with seven indicating a poor level of development and one indicating advanced progress. Each country report provides an in-depth analysis of the NGO sector and comparative scores for prior years. The full report and rating methodology are usually published in May for the prior year and can be found on USAID's E&E Bureau Web site, [http://www.usaid.gov/locations/europe\\_eurasia/dem\\_gov/ngoindex/](http://www.usaid.gov/locations/europe_eurasia/dem_gov/ngoindex/).
13. Data Source: FY 2010 Performance Plans and Reports for Armenia, Azerbaijan, Bosnia and Herzegovina, Cambodia, Colombia, Egypt, Ethiopia, Jordan, Kazakhstan, Kosovo, Kyrgyz Republic, Lebanon, Macedonia, Mexico, Moldova, Montenegro, Serbia, Somalia, Tajikistan, Turkmenistan, Ukraine, Uzbekistan, Venezuela, Zimbabwe, Eurasia Regional, USAID DCHA, and USAID ODP as collected in FACTS Info.
14. Data Source: Semi-Annual and Annual Progress Reports as captured in the U.S. Government Country Operational Plan (COP) Report Systems. Most of the 34 operating units contribute to the treatment data. The 34 operating units include: Angola, Botswana, Cambodia, Caribbean Region, Central American Regional Programs, Central Asian Republics, China, Côte d'Ivoire, DRC, the Dominican Republic, Ethiopia, Ghana, Guyana, Haiti, India, Indonesia, Kenya, Lesotho, Malawi, Mozambique, Namibia, Nigeria, Russia, Rwanda, South Africa, Sudan, Tanzania, Thailand, Uganda, Ukraine, Vietnam, Zambia and Zimbabwe. HIV/AIDS results are achieved jointly by USAID and other U.S. Government agencies, such as the Departments of State and of Health and Human Services.
15. Data Quality: The data are verified through triangulation with annual reports by the United Nations (UN) Joint Program on HIV/AIDS and the World Health Organization (WHO) that identifies numbers of people receiving treatment. Country reports by UN agencies such as UNICEF and the UN Development Programme indicate the status of such human and social indicators as life expectancy and infant and under-five mortality rates.
16. The President's Emergency Plan for AIDS Relief (PEPFAR) legislative target from FY 2010-FY 2014 is to provide direct support for more than four million people on treatment.
17. Data Quality: Data are verified through triangulation with population-based surveys of care and support for orphans and vulnerable children; program monitoring of provider capacity and training; targeted program evaluations; and management information systems that integrate data from patient care, facility, and program management systems.
18. PEPFAR's legislative target from FY 2010-FY 2014 is to provide care for more than 12 million people.
19. Data Source: WHO Reports, Global Tuberculosis Control, Geneva. Countries covered are Afghanistan, Bangladesh, Brazil, Cambodia, DRC, Ethiopia, India, Indonesia, Kenya, Mozambique, Nigeria, Pakistan, Philippines, Russia, South Africa, Tanzania, Uganda, Ukraine, Zambia, and Zimbabwe. Targets are set three years in advance and results are reported from data that are two years old. This indicator tracks 20 Tier 1 countries for which progress can be monitored consistently over time. The rate provided here is the median of tuberculosis case detection rates (CDR) from the 20 Tier 1 countries.
20. Data Quality: The USAID Analysis, Information Management, and Communication Project examines all third-party data for this indicator and triangulates them with a variety of sources to verify their quality, validity, and reliability.

21. Data Source: WHO Report, Global Tuberculosis Control. Countries covered are Afghanistan, Bangladesh, Brazil, Cambodia, DRC, Ethiopia, India, Indonesia, Kenya, Mozambique, Nigeria, Pakistan, Philippines, Russia, South Africa, Tanzania, Uganda, Ukraine, Zambia, and Zimbabwe. Targets are set three years in advance and results are reported from data that are one year old. This indicator tracks 20 Tier 1 countries for which progress can be monitored consistently over time.<sup>1</sup>
22. Data Source: FY 2010 partner reports from President's Malaria Initiative (PMI) focus countries including Angola, Benin, Ethiopia, Ghana, Kenya, Liberia, Madagascar, Malawi, Mali, Mozambique, Rwanda, Senegal, Tanzania, Uganda, and Zambia. The 2006 results are based only on efforts in Angola, Tanzania, and Uganda. The FY 2007 results reflect activities completed in seven countries and rapid start-up activities initiated in eight new countries. The FY 2008 through FY 2010 results capture activities completed in all 15 PMI countries. The results account for double-counting people using insecticide-treated nets and indoor residual spraying by reducing the overall reported numbers by 10 percent to reflect the estimated percentage of the population in PMI countries that use indoor residual spraying.
23. Data Source: Treatment reports based on standardized reporting forms and methodologies completed during mass drug administration campaigns with support from U.S.-supported projects. The 18 Neglected Tropical Diseases countries are Bangladesh, Burkina Faso, Cameroon, DRC, Ghana, Guinea, Haiti, Indonesia, Mali, Niger, Philippines, Sierra Leone, Southern Sudan, Uganda, Nepal, Tanzania, Togo, and Vietnam. The four countries supported for specific needs are Bangladesh, Indonesia, Philippines, and Vietnam.
24. The data are verified through standardized validation surveys that are conducted after each mass drug administration campaign, with results analyzed by USAID-funded partners.
25. Data Source: Demographic Health Surveys (DHS) and Census Bureau (for population weights) for Maternal and Child Health priority countries: Afghanistan, Azerbaijan, Bangladesh, Benin, Bolivia, Cambodia, DRC, Ethiopia, Ghana, Guatemala, Haiti, India, Indonesia, Kenya, Liberia, Madagascar, Malawi, Mali, Mozambique, Nepal, Nigeria, Pakistan, Philippines, Rwanda, Senegal, Sudan, Tajikistan, Tanzania, Uganda, and Zambia. Data for Guatemala are from the U.S. Center for Disease Control and Prevention/Reproductive Health Surveys (CDC/RHS). Data for Afghanistan, Azerbaijan, Tajikistan, DRC, and Sudan are not included due to non-availability of trend data.
26. Data Source: DHS and Reproductive Health Surveys (RHS) data: Bangladesh, Benin, Bolivia, Cambodia, Ethiopia, Ghana, Guatemala (RHS), Guinea, Haiti, India,<sup>2</sup> Jordan, Kenya, Liberia, Madagascar, Malawi, Mali, Mozambique, Nepal, Nigeria, Pakistan, Peru, Philippines, Rwanda, Senegal, Tanzania, Uganda, and Zambia.<sup>3</sup>
27. Data Source: DHS and Health Surveys data for Bangladesh, Benin, Bolivia, Cambodia, Ethiopia, Ghana, Guatemala, Guinea, Haiti, India,<sup>2</sup> Jordan, Kenya, Liberia, Madagascar, Malawi, Mali, Mozambique, Nepal, Nigeria, Pakistan, Peru, Philippines, Rwanda, Senegal, Tanzania, Uganda, and Zambia. For India, data are from Uttar Pradesh where USAID's Family Planning/ Reproductive Health program is focused, rather than from India as a whole. Insufficient data available for Afghanistan, Angola, DRC, Russia, and Sudan. Unlike other indicators, data on this indicator are not available from the CDC/RHS surveys, resulting in the exclusion of Guatemala from the dataset.
28. Data Source: FY 2010 Performance Plans and Reports from Afghanistan, Angola, Armenia, Bangladesh, Burkina Faso, Burundi, DRC, Ecuador, Egypt, Ethiopia, Ghana, Haiti, India, Indonesia, Jordan, Kenya, Kosovo, Madagascar, Mozambique, Niger, Nigeria, Pakistan, Philippines, Senegal, Somalia, Sudan, Tanzania, Timor-Leste, West Bank and Gaza, Zambia, Africa Regional (USAID), Regional Development Mission-Asia (USAID), East Africa Regional (USAID), and the USAID West Africa Regional Bureau as captured in FACTS Info.
29. Data Source: DHS, Multiple Indicator Cluster Surveys (MICS), RHS, and Census Bureau (for population weights) for nutrition priority countries for Global Health Initiative (GHI) and Feed the Future (FTF): Bangladesh, Cambodia, Ethiopia, Ghana, Guatemala (RHS), Haiti, Kenya, Liberia, Malawi (MICS), Mali, Mozambique, Nepal, Rwanda, Senegal, Tanzania, Uganda, and Zambia.<sup>4</sup>

1. The calculation methodology for this indicator changed in FY 2008, which is now the new baseline year.

2. For India, data are from Uttar Pradesh, which is the geographic focus of USAID's Family Planning/Reproductive Health program, rather than India as a whole.

3. The baseline for this indicator was recalibrated to FY 2008 to better reflect program priorities and a change in the set of countries for which the targets are set.

4. The FY 2009 baseline was recalibrated based on the current set of priority countries for GHI and FTF.

30. Data Source: DHS, Micronutrient Initiative, and Census Bureau (for population weights) for nutrition priority countries for FTF and GHI: Bangladesh, Cambodia, Ethiopia, Ghana, Guatemala, Haiti, India, Kenya, Liberia, Malawi, Mali, Mozambique, Nepal, Niger, Rwanda, Senegal, Tanzania, Uganda, and Zambia. Data for Bangladesh, Kenya, and Nigeria are from the Micronutrient Initiative. Data are not available from Guatemala, Liberia, Mozambique, and Zambia.<sup>5</sup>
31. Data Source: UNESCO Institute of Statistics (UIS), which is responsible for collecting global education data. The USAID targets and results are based on a sub-sample of 10 countries across regions: Ethiopia, Ghana, Guatemala, Honduras, Mali, Pakistan, Senegal, Tanzania, Yemen, and Zambia.
32. Data Quality: Data come from the acknowledged third party organization (in this case a multilateral) responsible for collecting and maintaining global education data. Each country reports their country-level data to UIS, which reviews all data for errors. Because of lags at each stage, there is a two-year delay in reporting. Problems with reliability remain with all global education data, and data are often delayed or missing for countries. However, this is the most straightforward indicator for assessment and interpretation.
33. Data Source: FY 2010 Performance Reports from Afghanistan, Armenia, Belarus, Benin, Burundi, China, Colombia, DRC, Ecuador, Georgia, Jordan, Kosovo, Russia, Vietnam, Zambia, Zimbabwe, USAID DCHA, and USAID Global Health Bureau as collected in FACTS Info.
34. Data Source: FY 2010 Performance Reports from Afghanistan, Armenia, Bangladesh, Burkina Faso, Ethiopia, Haiti, Honduras, Kenya, Lebanon, Liberia, Madagascar, Malawi, Pakistan, Tanzania, West Bank and Gaza, and USAID Africa Regional Bureau as collected in Facts Info.
35. Data Source: International Monetary Fund's (IMF) World Economic Outlook (WEO) database for all countries except West Bank and Gaza. The 2006-2009 figures for West Bank and Gaza were gathered from the World Bank's World Development Indicators. Countries monitored for this indicator are: Afghanistan, Armenia, Egypt, El Salvador, Georgia, Haiti, Indonesia, Jordan, Kosovo, Kyrgyzstan, Lebanon, Mongolia, Nepal, Philippines, Sudan, Tajikistan, West Bank and Gaza, and Vietnam. In FY 2010, data were not available for West Bank and Gaza.
36. Data Quality: The WEO database contains selected macroeconomic data series and contains IMF analysis and projections of economic developments in many individual countries. The data are maintained jointly by the IMF's Research Department and regional departments, with the latter regularly updating country projections based on consistent global assumptions. The WEO database reflects information from both national source agencies and international organizations. World Development Indicators are part of the World Bank's annual compilation of data on development. Before publication, the data undergo a rigorous review and validation process by World Bank technical staff and country-level committees of statistical agencies. The USAID Economic Analysis and Data Service Project examines the data after public release and notifies IMF
- or World Bank if erroneous data are published. Some FY 2010 figures are IMF staff estimates.
37. Data Source: IMF WEO database. Prior to FY 2010, data were taken from the World Bank's World Development Indicator database, which no longer collects this information. Prior-year results have been adjusted to reflect information in the new data set for 17 countries where U.S. Government programs are having an impact on the macroeconomic foundation for growth. Countries monitored for this indicator are: Afghanistan, Armenia, Egypt, El Salvador, Georgia, Haiti, Indonesia, Jordan, Kosovo, Kyrgyzstan, Lebanon, Mongolia, Nepal, Philippines, Sudan, Tajikistan, and Vietnam.
38. Data Quality: The WEO database contains selected macroeconomic data series and contains IMF analysis and projections of economic developments in many individual countries. The data are maintained jointly by the IMF's Research Department and regional departments, with the latter regularly updating country projections based on consistent global assumptions. The WEO database reflects information from both national source agencies and international organizations. The USAID Economic Analysis and Data Service Project examines the data after public release and notifies the IMF if erroneous data are published.
39. Data Source: World Bank *Doing Business Report*. Countries monitored for this indicator are: Afghanistan, Georgia, Kazakhstan, Burkina Faso, Kenya, Haiti, Botswana, Macedonia, Columbia, Ghana, Tajikistan, Indonesia, and Guatemala. The value is the average time to comply with export procedures (days) and the time to

5. The FY 2009 baseline was recalibrated based on the current set of priority countries for GHI and FTF.

- comply with import procedures (days). Global reporting of these data started in FY 2005, but did not cover all listed countries until 2008.
40. Data Quality: The World Bank Doing Business Project provides objective measures of business regulations and their enforcement across 183 economies. Before publication, the data undergo a rigorous review and validation process by World Bank technical staff. The USAID Economic Analysis and Data Service Project examine data after public release and notify the World Bank if erroneous data are published. Prior-year numbers are often updated/corrected post publication. The 2010 target was based on a 2009 result which was subsequently updated. Therefore, the FY 2010 target is higher than the revised 2009 result.
41. Data Source: World Bank World Development Indicators. Data refer to the weighted average for all low and middle countries.
42. Data Quality: World Development Indicators are one of the World Bank's annual compilations of data about development. There is usually a one-year time delay in data reported such that data reported for FY 2009 reflected achievements in the 2008 Calendar Year. Before publication, the data undergo a rigorous review and validation process by World Bank technical staff and country-level committees of statistical agencies. Prior-year data are updated in light of new information. The USAID Economic Analysis and Data Service Project examine the data after public release and notify the World Bank if erroneous data are published.
43. Data Source: FY 2010 Performance Reports from Afghanistan, Armenia, Brazil, Georgia, Philippines, Sudan (pre-July 2011), USAID ODP, and USAID South Asia Regional as captured in FACTS Info.
44. Data Source: FY 2010 Performance Reports from Algeria, Philippines, USAID Africa Regional Bureau, and USAID ODP as collected in FACTS Info.
45. Data Source: FY 2010 Performance Reports from Afghanistan, Central Africa Republic, Madagascar, and Sudan (pre-July 2011) as collected in FACTS Info.
46. Data Source: UN International Telecommunications Union (UN/ITU), World Telecommunications/Information and Communications Technology Development Report 2010: *Monitoring the WSIS Targets, A mid-term review*.
47. Data Quality: The UN/ITU is the premier data source for global collection and normalization of information and communication technology-related data. The annual report includes the best quality of data available for the telecommunications sector.
48. Data Source: FY 2010 Performance Reports from Angola, Bangladesh, Bolivia, Burkina Faso, DRC, Georgia, Ghana, Guatemala, Haiti, Jordan, Kenya, Liberia, Macedonia, Madagascar, Malawi, Nepal, Nicaragua, Pakistan, Rwanda, Senegal, Sudan (pre-July 2011), Tanzania, Timor-Leste, Uganda, Vietnam, Yemen, Zambia, USAID DCHA, USAID Economic Growth, Agriculture, and Trade Bureau (EGAT), USAID ODP, USAID West Africa Regional Bureau as collected in FACTS Info.
49. Data Source: FY 2010 Performance Plans and Reports for Albania, Dominican Republic, Haiti, Indonesia, Macedonia, Mali, Senegal, Serbia, Tanzania, Timor-Leste, and Zambia as reported in FACTS Info.
50. Data Source: FY 2010 Performance Reports from Mozambique and Senegal as collected in FACTS Info.
51. Data Source: FY 2010 Performance Reports for Azerbaijan, Bosnia and Herzegovina, Burkina Faso, DRC, Dominican Republic, Georgia, Guinea, India, Jamaica, Kenya, Malawi, Mozambique, Nepal, Niger, Nigeria, Pakistan, Rwanda, Senegal, South Africa, Sri Lanka, Sudan (pre-July 2011), Tajikistan, Tanzania, Timor-Leste, Turkmenistan, Uzbekistan, Asia Middle East Regional Bureau, USAID DCHA, USAID EGAT, USAID ODP, and USAID Southern Africa Regional as reported in FACTS Info.
52. Data Source: FY 2010 Performance Reports for Egypt, Georgia, Kosovo, Macedonia, South Africa, and USAID ODP as collected in FACTS Info.
53. Data Source: *Global Competitive Index (GCI)* is a yearly report published by the World Economic Forum. Fewer countries were counted for in FY 2006, FY 2007, and FY 2008. This is a product of data available from the GCI. FY 2009 and FY 2010 had complete data for the 58 countries that USAID monitors. Though there was a difference in the number of countries tracked in the past years, USAID believes the difference is not great enough to discredit a year-to-year comparison. The countries monitored are: Albania, Angola, Armenia, Azerbaijan, Bangladesh, Bolivia, Bosnia and Herzegovina, Botswana, Brazil, Burundi, Cambodia, Dominican Republic, Ecuador, Egypt, El Salvador, Ethiopia, Georgia, Ghana, Guatemala, Guyana, Honduras, India, Indonesia, Jordan, Kazakhstan, Kenya, Kyrgyz Republic, Lebanon, Lesotho, Macedonia, Malawi, Mali, Moldova, Mongolia, Montenegro, Morocco, Mozambique, Nepal, Nicaragua, Pakistan, Panama, Paraguay, Peru,

- Philippines, Rwanda, Serbia, South Africa, Sri Lanka, Swaziland, Tajikistan, Thailand, Timor-Leste, Uganda, Ukraine, Uzbekistan, Vietnam, Zambia, and Zimbabwe.
54. Data Quality: GCI data represent the best available estimates at the time the GCI report is prepared. They are validated in collaboration with leading academics and a global network of partner institutes.
55. Data Source: *USAID Microenterprise Results Reporting (MRR) Annual Report to Congress*. The indicator is the number of U.S. Government-supported micro-finance institutions (MFI) that reported Operational Self-Sufficiency (OSS) of 100 percent or greater divided by the total number of U.S. Government-supported MFIs that reported OSS, expressed in percent. The indicator value shown for FY 2010 is based on the most recent data available, covering 181 MFI supported in FY 2009. The one-year lag in data availability results from the reporting process, which first gathers data from USAID operating units on their funding for each MFI in the last fiscal year, and then gathers results data directly from those MFIs based on their most recently completed fiscal year.
56. Data Quality: Performance data, verified using DQAs, must meet standards of validity, integrity, precision, reliability, and timeliness. Each operating unit must document the methodology used to conduct the DQAs. DQA and data source records are maintained in the Performance Management Plans; missions certify via the Performance Plan and Report that a DQA has occurred within the last three years. Data provided to the MRR is self-reported, and not necessarily based on externally audited financial statements. USAID is currently working with The Microfinance Information Exchange (MIX), the leading business information provider dedicated to strengthening the microfinance sector, to develop a systems approach for consolidating USAID and MIX data reporting that follows industry reporting standards. The bulk of MIX Market data is based on externally audited financial statements, and can provide a useful database against which to assess the validity and robustness of USAID's MRR data.
57. Data Source: USAID/EGAT Global Climate Change (GCC) team. Data reported for 2010 were collected through GCC team's online reporting tool. Results to be reported for FY 2011 will be collected through *Foreign Assistance Performance Reports* as reported in FACTS Info. Note: In FY 2010, numbers are results reported using new Web-based calculators developed by the GCC team. In previous years, the GCC team did rough calculations based on hectare data reported by operating units. This is a large step forward in improving the accuracy, completeness, and comparability of the estimated value of this indicator. The GCC team in Washington will continue to provide technical support to the field in order to ensure the timeliness and accuracy of annual reporting.
58. Data Quality: Greenhouse gas emissions reduced or sequestered as measured in carbon dioxide (CO<sub>2</sub>) equivalent is the standard measure of climate change mitigation used throughout the world. It is a common metric that allows comparison between many different types of activities and sectors, and can be added up to show program-wide impacts. This indicator combines the CO<sub>2</sub> equivalent for the energy/industry/transport sector with the land use/agriculture/forestry/conservation sector.
59. Data Source: FY 2010 Performance Reports for Afghanistan, Bangladesh, Bolivia, Brazil, Cambodia, China, Dominican Republic, Ecuador, Egypt, El Salvador, Ethiopia, Georgia, Guatemala, Guyana, Haiti, Indonesia, Kenya, Liberia, Malawi, Mali, Morocco, Mozambique, Nepal, Nicaragua, Panama, Paraguay, Peru, Philippines, Senegal, Sierra Leone, Sudan (pre-July 2011), Tanzania, Timor-Leste, Uganda, Asia Middle East Regional, Barbados and Eastern Caribbean, Joint Europe Regional, State Africa Regional, USAID Caribbean Regional, USAID EGAT, USAID Latin America and Caribbean Regional, USAID Middle East Regional, and USAID ODP.
60. Data Source: Data were compiled and analyzed by the UN Standing Committee on Nutrition, Nutrition Information in Crisis Situations from all sources, including the Complex Emergencies Database, UN High Commissioner for Refugees, World Food Program, WHO, other international organizations and NGOs, as well as the CDC.
61. Data Quality: Nutrition data were taken from surveys, which used a probabilistic sampling methodology that complies with agreed international standards (i.e., WHO, Standardized Monitoring and Assessment of Relief and Transition Methodology, and Doctors Without Borders). The data were taken from surveys that assessed children aged 6 to 59 months who were 65 to 110 centimeters tall.
62. Data Source: USAID's Office of U.S. Foreign Disaster Assistance (OFDA) proposal tracking system (Abacus) and field monitoring reports, as available. Note that projects funded through a transfer to USAID missions, UN agencies, or organizations (for which there is no tracking of whether or not

the project includes project main-streaming) have been omitted from the denominator since they are not represented in the numerator.

63. Data Quality: This indicator is reviewed by OFDA's internal systems for measurement and response and coordinated by individual Regional Teams and OFDA's Technical Advisory Group (TAG). In FY 2010, OFDA began undertaking improved field/program monitoring that includes ongoing DQAs.
64. Data Source: USAID's Office of Food for Peace (FFP) Summary Request and Beneficiary Tracking Table.

65. Data Quality: DQAs are not required for emergency programs, but FFP conducts them as a development best practice. DQAs are done on the data from the previous fiscal year, so the next FFP DQA will be done in FY 2011 drawing on FY 2010 data.

66. Data Source: USAID OFDA.

67. Data Quality: This indicator is reviewed by OFDA's internal systems for measurement and response and coordinated by individual Regional Teams and the TAG.

68. Data Source: USAID OFDA's proposal tracking system (Abacus) tracks targets; these were compared with partner reports as available.

69. Data Quality: Over-reporting due to double-counting is being addressed with improved monitoring and reporting systems and guidance. Overall, the quality of reporting on this indicator is Fair to Good.

# APPENDIX B.

## SUMMARY OF FMFIA DEFINITIONS AND REPORTING

SUMMARY OF FMFIA DEFINITIONS AND REPORTING		
DEFICIENCY TYPE	DEFINITION	REPORTING
<b>Material Weakness</b>	<p><b>FMFIA Overall.</b> Significant deficiencies in which the Agency head determined to be significant enough to report outside of the agency. Generally, such a weakness would: (1) impair the fulfillment of the Agency's mission; (2) significantly weaken the safeguards against waste, loss, unauthorized use, or misappropriation of funds, property, or other assets; (3) violate statutory or regulatory requirements; (4) result in a conflict of interest; (5) impair the Agency's ability to use reliable and timely information for decision making.</p> <p><b>FMFIA Reporting.</b> A deficiency or combination of control deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.</p>	Material weaknesses and a summary of corrective actions shall be reported to OMB and Congress through the Agency Financial Report. Progress against corrective action plans should be periodically assessed and reported to Agency management.
<b>Significant Deficiency</b>	<p><b>FMFIA Overall.</b> A control deficiency or a combination of control deficiencies that, in management's judgment, should be communicated because they represent significant weaknesses in the design or operation of internal control that could adversely affect the organization's ability to meet its internal control objectives.</p> <p><b>Financial Reporting.</b> A deficiency or combination of deficiencies in internal control that is less than a material weakness yet important enough to merit attention by those charged with governance.</p>	Internal to the organization and not reported externally. Progress against corrective action plans should be periodically assessed and reported to Agency management.
<b>Control Deficiency</b>	Control deficiencies exist when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A design deficiency exists when a control necessary to meet the control objective is missing or an existing control is not properly designed, so that even if the control operates as designed the control objective is not always met. An operation deficiency exists when a properly designed control does not operate as designed or when the person performing the control is not qualified or properly skilled to perform the control effectively.	Internal to the organization and not reported externally. Progress against corrective action plans should be periodically assessed and reported to Agency management.

# APPENDIX C. ABBREVIATIONS AND ACRONYMS

<b>A&amp;A</b>	Acquisition and Assistance	<b>CMP</b>	Cash Management and Payment Division
<b>AARB</b>	Acquisition and Assistance Review Board	<b>CMS</b>	Competency Management System
<b>ACCORD</b>	African Centre for the Constructive Resolution Disputes	<b>CO2</b>	Carbon Dioxide
<b>ADP</b>	Automated Data Processing	<b>COP</b>	Country Operational Plan
<b>ADS</b>	Automated Directives System	<b>COTR</b>	Contracting Officer Technical Representative
<b>AFR</b>	Africa Bureau	<b>COTS</b>	Commercial Off-The-Shelf
<b>AFR</b>	Agency Financial Report	<b>CPA</b>	Certified Public Accountant
<b>AFRICOM</b>	U.S. Africa Command	<b>CPC</b>	Critical Priority Country
<b>AICPA</b>	American Institute of Certified Public Accountants	<b>CRA</b>	Credit Reform Act
<b>AIM</b>	Analysis, Information Management and Communication	<b>CRC</b>	Civilian Response Corps
<b>AMP</b>	Asset Management Plan	<b>CY</b>	Current Year
<b>APC</b>	Audit, Performance and Compliance	<b>DCA</b>	Development Credit Authority
<b>APG</b>	Agency Performance Goals	<b>DCAA</b>	Defense Contract Audit Agency
<b>APR</b>	Annual Performance Report	<b>DCHA</b>	Democracy, Conflict, and Humanitarian Assistance Bureau
<b>ASIA</b>	Asia Bureau	<b>DFA</b>	Director, U.S. Foreign Assistance
<b>ASIST</b>	Agency Secure Image and Storage Tracking System	<b>DHS</b>	Demographic Health Survey
<b>BRM</b>	Bureau and Resource Management	<b>DLI</b>	Development Leadership Initiative
<b>BFS</b>	Bureau for Food Security	<b>DOL</b>	Department of Labor
<b>CACS</b>	Consolidated Audit Compliance System	<b>DOS</b>	Department of State
<b>CART</b>	Cash Reconciliation Tool	<b>DPT</b>	Diphtheria, Pertussis, and Tetanus
<b>CBCA</b>	Civilian Board of Contract Appeals	<b>DQA</b>	Data Quality Assessment
<b>CBJ</b>	Congressional Budget Justification	<b>DRC</b>	Democratic Republic of Congo
<b>CDC</b>	Centers for Disease Control and Prevention	<b>DRL</b>	Democracy, Human Rights, and Labor
<b>CDCS</b>	Country Development Cooperation Strategy	<b>E&amp;E</b>	Europe and Eurasia Bureau
<b>CDDEA</b>	Coordinating Director for Development and Economic Affairs	<b>EA</b>	Enterprise Architecture
<b>CDR</b>	Tuberculosis Case Detection Rate	<b>EGAT</b>	Economic Growth, Agriculture, and Trade Bureau
<b>CE-DAT</b>	Complex Emergencies Database	<b>ELS</b>	Enterprise Loan System
<b>CFO</b>	Chief Financial Officer	<b>ES</b>	Executive Secretariat
<b>CIDNE</b>	Combined Information Data Network Exchange	<b>ESF</b>	Economic Support Fund
<b>CIF</b>	Capital Investment Fund	<b>EVM</b>	Earned Value Management
<b>CIO</b>	Chief Information Officer	<b>FAA</b>	Foreign Assistance Act
		<b>FAADS</b>	Federal Assistance Award Data System
		<b>FACT</b>	Foreign Affairs Counter Threat

<b>FACTS</b>	Foreign Assistance Coordination and Tracking System	<b>IG</b>	Inspector General
<b>FALAH</b>	Family Advancement for Life and Health	<b>IMF</b>	International Monetary Fund
<b>FAR</b>	Federal Acquisition Regulation	<b>IPAC</b>	Intragovernmental Payment and Collection
<b>FASAB</b>	Federal Accounting Standards Advisory Board	<b>IPERA</b>	Improper Payments Elimination and Reporting Act
<b>FBWT</b>	Fund Balance with Treasury	<b>IPIA</b>	Improper Payments Information Act
<b>FECA</b>	Federal Employees Compensation Act	<b>IPR</b>	Implementation & Procurement Reform
<b>FedBizOpps</b>	Federal Business Opportunities	<b>IT</b>	Information Technology
<b>FFMIA</b>	Federal Financial Management Improvement Act	<b>JFMS</b>	Joint Financial Management System
<b>FFP</b>	Office of Food for Peace	<b>LAC</b>	Latin America and the Caribbean Bureau
<b>FIDA</b>	Ethiopian Fayyaa Integrated Development Association	<b>LEDS</b>	Low-Emission Development Strategies
<b>FISMA</b>	Federal Information Security Management Act	<b>LER</b>	Learning, Evaluation and Research
<b>FMFIA</b>	Federal Manager's Financial Integrity Act	<b>LPA</b>	Legislative and Public Affairs
<b>FPDS-NG</b>	Federal Procurement Data System – Next Generation	<b>M</b>	Management Bureau
<b>FSN</b>	Foreign Service National	<b>M&amp;E</b>	Monitoring and Evaluation
<b>FSO</b>	Foreign Service Officer	<b>MCC</b>	Millennium Challenge Corporation
<b>FTF</b>	Feed the Future Initiative	<b>MCH</b>	Maternal and Child Health
<b>FY</b>	Fiscal Year	<b>MCPR</b>	Modern Contraceptive Prevalence Rate
<b>GAAP</b>	Generally Accepted Accounting Principles	<b>MCRC</b>	Management Control Review Committee
<b>GAM</b>	Global Acute Malnutrition	<b>MD&amp;A</b>	Management's Discussion and Analysis
<b>GAO</b>	Government Accountability Office	<b>MDA</b>	Mass Drug Administration
<b>GC</b>	General Counsel	<b>ME</b>	Middle East Bureau
<b>GCC</b>	Global Climate Change	<b>MFI</b>	Microfinance Institutions
<b>GCI</b>	Global Competitive Index	<b>MfR</b>	Managing for Results
<b>GDP</b>	Gross Domestic Product	<b>MICS</b>	Multiple Indicator Cluster Survey
<b>GH</b>	Global Health Bureau	<b>MIX</b>	Microfinance Information Exchange
<b>GHFSI</b>	Global Hunger and Food Security Initiative	<b>MOV</b>	Maintenance of Value
<b>GHI</b>	Global Health Initiative	<b>MRR</b>	Microenterprise Results Reporting
<b>GLAAS</b>	Global Acquisition and Assistance System	<b>MSED</b>	Micro and Small Enterprise Development
<b>GMRA</b>	Government Management Reform Act	<b>N.I.S.</b>	Newly Independent States
<b>GSA</b>	General Services Administration,	<b>NASA</b>	National Aeronautics and Space Administration
<b>HHS</b>	Department of Health and Human Services	<b>NFC</b>	National Finance Center
<b>HIV/AIDS</b>	Human Immune Deficiency Virus/Acquired Immune Deficiency Syndrome	<b>NGO</b>	Non-Governmental Organization
<b>HPPG</b>	High Priority Performance Goals	<b>NGOSI</b>	Non-Governmental Organization Sustainability Index
<b>HR</b>	Human Resources	<b>NICS</b>	Nutrition Information in Crisis situations
<b>HR-LOB</b>	HR-Line of Business	<b>NMS</b>	New Management System
<b>HRIS</b>	Human Resources Information System	<b>NSF</b>	National Science Foundation
<b>HSPD</b>	Homeland Security Presidential Directive	<b>OAA</b>	Office of Acquisition and Assistance
<b>HTE</b>	High Threat Environment	<b>OAPA</b>	Office of Afghanistan and Pakistan Affairs
<b>ICASS</b>	International Cooperative Administrative Support Services	<b>OBO</b>	Overseas Building Operations Bureau
		<b>OCA</b>	Original Classification Authorization

<b>OCRD</b>	Office of Civil Rights and Diversity	<b>U.S.</b>	United States
<b>ODNI</b>	Office of the Director of National Intelligence	<b>U.S.C.</b>	United States Code
<b>ODP</b>	Office of Development Partners	<b>UE</b>	Urban and Environmental
<b>OFDA</b>	Office of U.S. Foreign Disaster Assistance	<b>UIS</b>	UNESCO Institute for Statistics
<b>OHR</b>	Office of Human Resources	<b>ULO</b>	Unliquidated Obligations
<b>OIG</b>	Office of Inspector General	<b>UN</b>	United Nations
<b>OMB</b>	Office of Management and Budget	<b>UN/ITU</b>	United Nations International Telecommunications Union
<b>OMS</b>	Office of Overseas Management Staff	<b>UN SCN</b>	United Nations Standing Committee on Nutrition
<b>OPM</b>	Office of Personnel Management	<b>UNAIDS</b>	United Nations Joint Program on HIV/AIDS
<b>OSDBU</b>	Office of Small Disadvantaged Business Utilization	<b>UNESCO</b>	United Nations Educational, Scientific and Cultural Organization
<b>OSS</b>	Operational Self-Sufficiency	<b>UNHCR</b>	United Nations High Commissioner on Refugees
<b>OTI</b>	Office of Transition Initiatives	<b>UNICEF</b>	United Nations Children's Fund
<b>P.L.</b>	Public Law	<b>USAID</b>	U.S. Agency for International Development
<b>PAR</b>	Performance and Accountability Report	<b>USDA</b>	U.S. Department of Agriculture
<b>PED</b>	Portable Electronic Devices	<b>USDH</b>	U.S. Direct Hire
<b>PEPFAR</b>	President's Emergency Plan for AIDS Relief	<b>USDO</b>	U.S. Disbursing Office
<b>PFMRAF</b>	Public Financial Management Risk Assessment Framework	<b>USG</b>	U.S. Government
<b>PMI</b>	President's Malaria Initiative	<b>USPSC</b>	U.S. Personal Services Contractor
<b>PMS</b>	Payment Management System	<b>USSGL</b>	U.S. Standard General Ledger
<b>PP&amp;E</b>	Property, Plant and Equipment	<b>VEI</b>	Violent Extremism and Insurgency
<b>PPL</b>	Planning, Policy and Learning	<b>VOIP</b>	Voice over Internet Protocol
<b>PSC</b>	Personal Services Contractor	<b>WEO</b>	World Economic Outlook
<b>PSLO</b>	Partner Security Liaison Officer	<b>WHO</b>	World Health Organization
<b>PY</b>	Prior Year	<b>WMD</b>	Weapons of Mass Destruction
<b>QDDR</b>	Quadrennial Diplomacy and Development Review		
<b>R&amp;S</b>	Reconstruction and Stabilization		
<b>RHS</b>	Demographic and Reproductive Health Survey		
<b>RSO</b>	Regional Security Officer		
<b>SAI</b>	Supreme Audit Institutions		
<b>SAVE</b>	Saving American's Value and Efficiency Campaign		
<b>SBR</b>	Statement of Budgetary Resources		
<b>SEC</b>	Office of Security		
<b>SF</b>	Standard Form		
<b>SIFPSA</b>	Government of Uttar Pradesh and Family Planning Services Agency		
<b>SMART</b>	Standardized Monitoring and Assessment of Relief and Transition		
<b>SNOE</b>	Security for Non-traditional Operating Environments		
<b>STI</b>	Sexually Transmitted Infections		
<b>TAG</b>	Technical Advisory Group		
<b>TOTA</b>	Training of Technical Advisors		
<b>TSR</b>	Treatment Success Rate		



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*We welcome your comments on how we can improve this report.*

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