



**USAID**  
FROM THE AMERICAN PEOPLE



# DELIVERING RESULTS

*From the American People,  
for the American People*

FISCAL YEAR 2012

# 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 Act of 1978 [Amended] – requires information on management actions in response to the Office of Inspector General (OIG) 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 Act (GPRA) Modernization Act (GPRAMA) 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 conjunction with the Congressional Budget Justification in February 2013];
- Joint State and USAID Summary of Performance and Financial Information Report – summarizes the AFR and APR in a brief, user-friendly format [available February 2013].

All three reports will be available at <http://www.usaid.gov/results-and-data/progress-data>.

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 CFO. The third section, Other Accompanying Information, includes the schedule of spending; a statement prepared by the OIG summarizing what the OIG 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.

**(Cover) Sara Maunda checks her mobile phone for the most up-to-date prices being paid by traders in Malawi's capital, Lilongwe, for groundnuts as well as other kinds of crops she grows on her farm near Madisi.** PHOTO: ACDI/VOCA, MALAWI

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# A MESSAGE FROM THE ADMINISTRATOR

Several years ago, we set ourselves the ambitious task of transforming the U.S. Agency for International Development (USAID) into the world's premier development agency—a modern development enterprise that could represent the best of American ideals abroad, while advancing the safety and prosperity of Americans at home. Our mission has remained unchanged: to advance broad-based economic growth, democracy, and human progress in developing countries. By expanding opportunity and reducing instability, this work also keeps America safe and energizes the global economy.

Under the strong leadership of President Obama and Secretary Clinton, USAID has made real progress in harnessing the power of American generosity and ingenuity to improve human welfare worldwide. We call this approach “open-source development,” and it reflects our desire to literally open development to problem solvers everywhere—from universities to non-governmental and faith-based organizations to private sector partners. Working together, we can unlock the expertise of a vast community and solve some of the greatest development challenges of our time.

## USAID FORWARD REFORM AGENDA

To meet this mission with renewed capacity, we embarked on an ambitious set of reforms called USAID Forward. This effort was aimed at making the



Rajiv Shah

Agency more effective by changing the way we partner with others, embracing a spirit of innovation, and strengthening the results of our work, saving money and reducing the need for U.S. assistance over time. Today, these reforms have moved well beyond their initial phases and have become an intrinsic part of the way we do business every day.

For the second year in a row, USAID has prepared and submitted to the Secretary of State its own humanitarian and development budget proposal, which included tough trade-offs that will strengthen our ability to deliver results against core priorities.

We have rebuilt our policy capacity, publishing new and updated policies in core areas like gender, counter-trafficking, and climate change. Our Policy, Planning, and Learning Bureau is also

working closely with countries and regional missions to produce multi-year Country or Regional Development Cooperation Strategies to better align our resources with the development plans of our partners' countries. By September 2013, 90 percent of our missions will have these strategic plans in place.

We are increasingly working with new communities and strengthening existing partnerships to create conditions where our assistance will no longer be necessary. When we partner with developing country institutions, we use sophisticated tools to assess their financial management capacity and safeguard U.S. resources. For example, the failure of Malawi to pass our financial management risk assessment in 2011 led the new President Joyce Banda to begin to take steps to strengthen Malawi's systems, including elevating the position of the Auditor General.

In Afghanistan, we partnered directly with the Ministry of Health to build it into an institute capable of serving its people and sustaining results beyond our assistance. Our investments helped expand access to basic services from only 9 percent to 64 percent of the country, leading to the largest increase in life expectancy and largest decreases in maternal and child mortality of any country in the world in the last decade.

We have taken the lead in strengthening monitoring and evaluation and setting a standard for high quality evaluations by January 2013. To ensure this data is publicly available, we have built an acces-

sible Web site—and accompanying mobile phone apps—where our evaluations and records are easy to read and share.

To recapture USAID's strong legacy of delivering progress through science, technology, and innovation, we have launched three Grand Challenges in Development to generate groundbreaking solutions to save lives at birth, get all children reading, and power agriculture through clean energy. We have received around 500 applications per challenge, with almost 50 percent of innovations coming from developing and emerging economies.

Through our Development Innovation Ventures, we invite problem solvers everywhere to contribute a cost-effective and cutting-edge idea that could scale to reach millions. More than 65 percent of these winners have never done business with USAID before, and many are generating new solutions to prevent electoral fraud, expand access to credit for underserved populations, or maximize the impact of migrant remittances.

Launched last year, our partnership with the National Science Foundation is connecting research fellows with their counterpart scientists in 25 countries in the developing world. We have recently built on this program to launch a similar partnership with the National Institutes of Health, encouraging more researchers and doctors to focus on the goal of ending preventable child death. We will also host 55 American Association of the Advancement of Science Fellows at USAID this year—the largest number of any federal agency.

Ultimately, the success of each of these reforms relies on our ability to proactively support our staff and ensure opportunities for them to apply their creativity and expertise in advance of our mission. With bipartisan support of Congress, USAID has increased its total Foreign Service staff by over 70 percent in the past

three years. A major strategic realignment of staff to priority countries has led to near-complete fill-rates in Afghanistan, Pakistan, South Sudan, and elsewhere in Africa.

We continue to work hard to meet serious performance and management challenges across the Agency. As the statement by the Office of Inspector General reports, we face challenges across six areas, including performance management and reporting, sustainability, and implementation and procurement. For example, we need to do a better job measuring and reporting accurate, evidence-based results across all our priorities, an effort that our new evaluation and monitoring policy is helping to strengthen. We have also taken steps to address the challenge of ensuring that these results are sustained after our project ends. We created a new Project Design Sustainability Analysis tool, which presents a series of focused questions on subjects like local capacity and financial costs to help missions maximize sustainable outcomes.

We also continue to face challenges in implementing programs and activities in high-risk environments. In August, we lost USAID Foreign Service Officer Regaei Abdelfattah, who died in a terrorist attack while working on a project to help local communities in Afghanistan improve governance and expand economic opportunities. We continue to work closely with the Department of State to coordinate on security and ensure that our staff remains safe and can effectively carry out our mission worldwide.

## **DELIVERING MEANINGFUL RESULTS**

Over the past year, we have applied a model of open-source development to deliver meaningful results for the American people and those in greatest need around the world. Although this letter only focuses on specific initiatives,

USAID is delivering results across a range of development priorities, from expanding access to clean water, to safeguarding our planet's biodiversity, to improving quality of education, especially for women and girls.

### **Feed the Future Initiative**

Launched in 2009 by President Obama, Feed the Future is the U.S. Government's global hunger and food security initiative. Designed to help unlock agricultural growth and transform economies, the presidential initiative works to improve the incomes of smallholder farmers, particularly women, in coordination with partner country-led development plans.

Although the initiative is still in its early days, we are beginning to see significant results, as well as evidence of the cost-effectiveness of those impacts. Thanks to a recently completed cost-benefit analysis of Feed the Future investments in six focus countries, we know that our projects are delivering a rate of return that averages 22 percent—with a range from 11 percent to 148 percent.

In October, we released the first Feed the Future Progress Report, which showcases these early results, including helping 1.8 million people adopt improved technologies or management practices. We have also reached 8.8 million children through nutrition programs that have reduced anemia, support community gardens, and treat acute malnutrition.

With support from Feed the Future, rice farmers in Senegal are planting an improved seed variety and have gone from having a rice deficit—actually needing to purchase additional rice to feed their families—to producing a surplus. In two seasons, we have seen a growth from 114 farmers using this new rice to 5 thousand farmers. We have also seen sales jump from \$12 thousand to \$365 thousand.

In Bangladesh, we helped more than 400 thousand rice farmers increase yields by 15 percent through the more efficient use of fertilizer, leading to the first-ever rice surplus in the country's poorest state.

To bring these results to an even greater scale, we helped design the New Alliance for Food Security and Nutrition, a significant new model of partnership that brings private sector companies and developing countries together to expand investment opportunities in African agriculture. Launched by President Obama ahead of this year's G8 Summit, the New Alliance aims to lift 50 million people in sub-Saharan Africa out of poverty in the next decade. So far, more than 70 global and local companies have committed more than \$4 billion to expand seed production and distribution, establish small-scale irrigation systems, and source food for global supply chains.

## **Humanitarian Response and Resilience**

Drawing on lessons learned during last year's food crisis in the Horn of Africa—as well as decades of experience responding to disasters—USAID is pioneering a fundamental new approach to help communities strengthen their resilience in the face of crises. For example, we established Joint Planning Cells to bring our humanitarian assistance and development experts together to create long-term solutions.

Today, we are utilizing this approach in the Sahel, where a devastating combination of drought, violence, and displacement placed 18 million people in 8 countries at risk of food security. Thanks to our early warning systems, we began responding as early as last November and have reached more than 3.2 million people with assistance. At the same time, we are investing in the resilience of local communities, helping

families plant highly-nutritious, drought-tolerant trees, and farmers improve water management and soil fertility to re-green their lands.

In the Middle East, USAID is responding to the humanitarian crises that have put hundreds of thousands at risk in Yemen and Syria. We are focusing on quick-impact programs in Yemen that deliver results against the most critical challenges facing the nation, as it navigates early stages of democracy. Our humanitarian assistance has helped feed nearly 1.2 million Yemeni people, even as we are training nearly 5 thousand farmers in good crop production and livestock management practices so their communities will not have to rely on food aid.

In Syria, we are helping provide food, water, and medical care to more than 975 thousand individuals, as well as providing humanitarian aid to help the more than 300 thousand people who have fled the violence into neighboring countries.

## **Global Health and the Call to Action**

Building on our Nation's long legacy of bipartisan leadership in global health, the Global Health Initiative is bringing disease-specific communities together to advance new, comprehensive solutions to saving lives and alleviating suffering. In 2011, over 10 million children were reached with nutrition programs, 58 million people were protected from malaria through bed nets and spraying, 84 million women had access to voluntary family planning, and millions of children were protected against killer diseases by vaccines. In June, USAID joined the United Nations Children's Fund (UNICEF) and the Governments of India and Ethiopia in hosting a Call to Action to accelerate progress and end preventable child death within a generation.

As a result, more than 150 governments—including the United States—have signed a pledge to end preventable child death. We helped form a major new interfaith partnership, and over 290 faith leaders from organizations around the world have committed to promoting 10 healthy behaviors critical to child survival. The Call to Action also helped forge more than 20 new partnerships with private sector companies. For example, we are partnering with mobile telecommunications companies, like Intel, Vodafon, and Qualcomm, to empower community health workers with cutting-edge mobile technologies.

In September, UNICEF released a progress report showing that—for the first time—fewer than 7 million children are dying from preventable diseases. We will continue to work closely across all these partnerships to reduce child mortality to 20 deaths per 1 thousand births in every country in the world by 2035. Achieving this goal will save an additional 5.6 million children's lives every year.

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

Across the world, we are strengthening democracy, human rights, and governance, with a special emphasis on marginalized populations, including women, youth, and individuals with disabilities. In February, we launched our new Center of Excellence for Democracy, Human Rights, and Governance, designed to become a core evidence-based resource in the field and strengthen our Agency's culture of data and evaluation.

We also continue to work across North Africa and the Middle East to help realize the democratic aspirations of the Arab Spring. In Yemen, our support of the nation's National Dialogue process is helping bring representatives of diverse

social and political groups together to define the future of their government and country. For example, we are helping the Ministry of Human Rights hold forums across the country to engage women and youth in the process, and we launched a training academy on the political process and constitutional reforms for roughly 165 civil society organizations.

## FINANCIAL REPORTING AND REPRESENTATION

The Agency Financial Report (AFR) is our principal report to convey to the President, Congress, and the American people our commitment to sound financial management and stewardship of public funds. USAID remains committed to effective governance and financial integrity and take seriously the responsibility to which we have been entrusted. To that end, we continue to work to improve our financial management and internal controls.

This year, USAID received a qualified audit opinion. We acknowledge the conclusions of the audit report and have prepared a management plan to address two material weaknesses as well as six significant deficiencies identified by the audit. In addition, the auditor concluded that the Federal Information Security Management Act (FISMA) significant deficiency related to management's implementation of its information security policies and procedures represented a lack of substantial compliance with the Federal Financial Management Improvement Act (FFMIA). Recognizing this as an issue, we are actively working to improve our information management systems while pursuing critical national security objectives in high threat environments. We will continue to invest resources effectively and efficiently to address these issues and ensure improved oversight of our funds.

We worked with the auditor to ensure that the financial and summary performance data included in this AFR are complete and reliable in accordance with guidance from the Office of Management and Budget. 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, are discussed in the Management Assurances section of this report. I hereby certify that the financial and performance data in the FY 2012 AFR 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

Once primarily led by large aid agencies and institutions, development today includes a diverse and creative community of grassroots activists, corporate chief executive officers, local change agents, and many others who bring unique ideas and new expertise to the mission of global development. Our Agency is increasingly on the forefront of efforts to engage this wide pool of creativity and dedication, channeling it toward measurable and meaningful impact.

In the fall of 2012, we launched a new online platform called USAID Fall Semester to help young Americans deepen their engagement with our Agency.

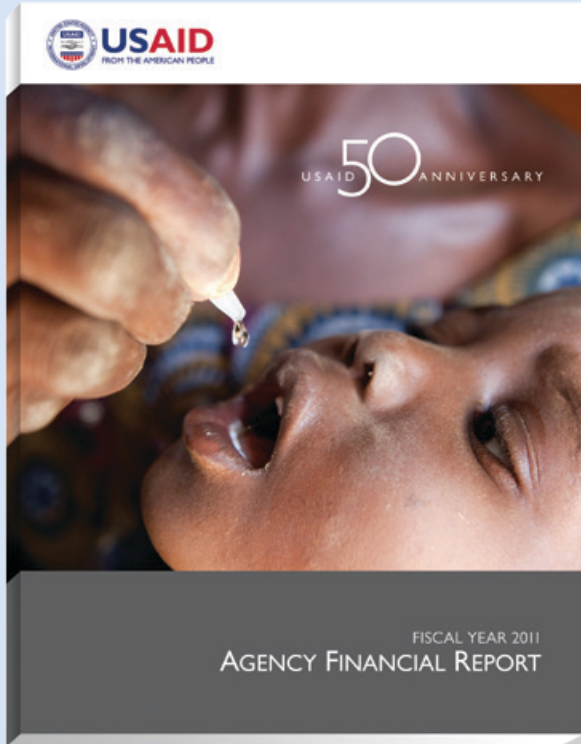
The site includes new opportunities and resources tailored just for students on key issues like food security, global health, and democracy and human rights. As part of this effort, I visited a number of colleges and universities around the country, and spoke with students about their ideas for making the world a better place. Wherever I went, students expressed a deep understanding of the importance of development to our own country's security and prosperity.

Today, our efforts to harness the ingenuity of our young people build on more than 50 years of engaging the American people and serving their interests by improving the lives of people everywhere. The challenge for us moving forward will be to focus the vast potential of the development community on achieving profound results at a greater scale than ever before.



Rajiv Shah  
Administrator  
November 16, 2012

# 2011 CERTIFICATE OF EXCELLENCE AWARDS



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In recognition of your outstanding efforts in preparing the Agency Financial Report and Summary of Performance and Financial Information for the fiscal year ended **September 30, 2011**.

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Executive Director, AGA



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Executive Director, AGA



# MANAGEMENT'S DISCUSSION AND ANALYSIS





**(Above) A patient receives drugs at Kabwohe Clinical Research Center in Mbarara, Uganda. USAID's Development Credit Authority backed a \$45,000 loan that allowed the center to establish an AIDS clinic.**

PHOTO: MORGANA WINGARD

**(Preceding page) Men and women in Mojo, Ethiopia, fill jerry cans with water thanks to the generosity of their neighbor, Abebaw Gessese. The poultry farmer received a \$132,000 loan backed by USAID's Development Credit Authority in 2007 to help him expand his business. He used part of the money to build a well, and now provides water free to 200 families.**

PHOTO: MORGANA WINGARD

# 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.<sup>1</sup>

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In 1961, the United States Congress passed the Foreign Assistance Act to administer long-range economic and humanitarian assistance to developing countries. Two months after passage of the act, President John F. Kennedy established the U.S. Agency for International Development (USAID). USAID unified pre-existing U.S. Government assistance programs and served as the U.S. Government's lead international development and humanitarian assistance agency.

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<sup>1</sup> 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/qddr>).

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 2012 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/results-and-data/progress-data/annual-performance-report> by February 15, 2013.

## ORGANIZATIONAL STRUCTURE

USAID is an independent federal agency that receives overall foreign policy guidance from the Secretary of State. With an official presence in 87 countries and programs in several other non-presence countries, the Agency accelerates human progress in developing countries by reducing poverty, advancing democracy, empowering women, building market economies, promoting security, responding to crises, and improving the quality of life through investments in health and education. USAID is headed by an Administrator and Deputy Administrator, both appointed by the President and confirmed by the Senate. USAID plans its development and assistance programs in close coordination with the Department of State (DOS), and collaborates with a variety of other U.S. Government agencies, multilateral and bilateral organizations, private companies, academic institutions, and non-governmental organizations (NGO).

To transform USAID into a modern development enterprise, the Agency continues to implement USAID Forward reforms initiated in 2010. This included a strengthening of the Agency's overseas workforce in key technical areas. In 2012, the Agency's mission was supported by 3,658 permanent and non-permanent direct hire employees including 2,136 in the Foreign Service and 1,522 in the Civil Service. Additional support came from 4,390 Foreign Service Nationals, and approximately 1,231 other non-direct hire employees (not counting institutional support contractors). Of these employees, 2,682 are based in Washington and 6,597 are deployed overseas.

USAID's workforce and culture continue to serve as a reflection of core American values—values that are rooted in a belief for doing the right thing.

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**“There is no escaping our obligations: our moral obligations as a wise leader and good neighbor in the interdependent community of free nations—our economic obligations as the wealthiest people in a world of largely poor people, as a nation no longer dependent upon the loans from abroad that once helped us develop our own economy—and our political obligations as the single largest counter to the adversaries of freedom.”** – *John F. Kennedy*

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### ORGANIZATIONAL STRUCTURE IN WASHINGTON

In Washington, USAID's geographic, functional, and central bureaus are responsible for coordinating the Agency's activities and supporting implementation of programs overseas. Independent offices support crosscutting or more limited services. The geographic bureaus are Africa, Asia, Middle East, Latin America and the Caribbean, Europe and Eurasia, and the Office of Afghanistan and Pakistan Affairs.

There are four functional bureaus that support the geographic bureaus and offices:

- Bureau for Democracy, Conflict, and Humanitarian Assistance (DCHA), which provides expertise in democracy and governance, conflict management

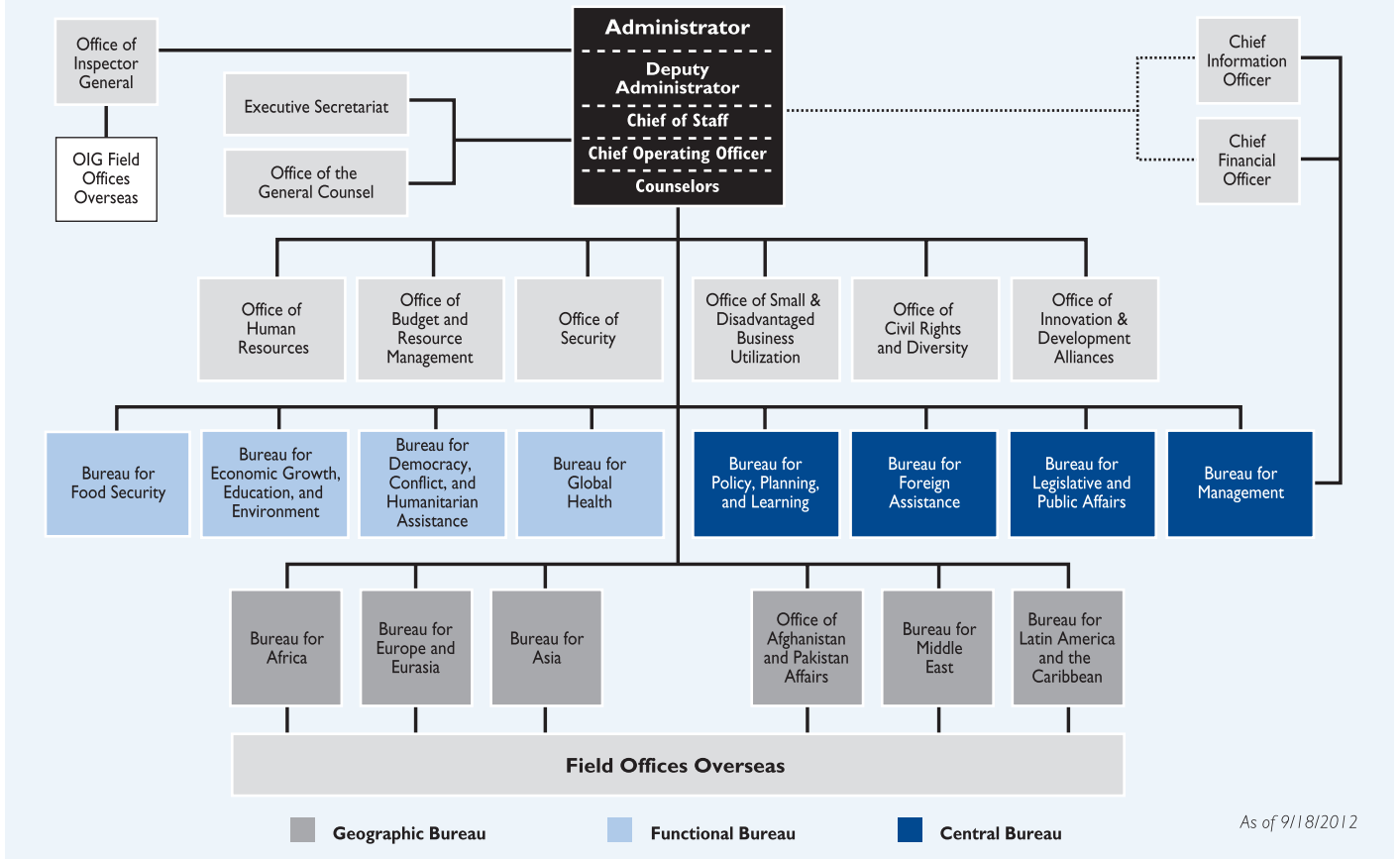
and mitigation, and humanitarian assistance;

- Bureau for Economic Growth, Education, and Environment (E3), which provides expertise in economic growth, trade opportunities, technology, education, and environment/natural resource development;
- Bureau for Global Health (GH), which provides expertise in global health challenges, such as maternal and child health and HIV/AIDS;
- Bureau for Food Security (BFS), which provides expertise in agricultural productivity and addressing hunger. DCHA and E3 have reorganized to focus on their new mandates.

Central bureaus include:

- Bureau for Policy, Program, and Learning (PPL), which oversees all program, policy, and development and promotes a learning environment;
- Bureau for Management (M), which administers centralized support services for the Agency's worldwide operations;
- Bureau for Foreign Assistance (FA), which provides strategic planning, regional coordination, and program budget formulation in coordination with PPL and Office of Budget and Resource Management (BRM);
- Bureau for Legislative and Public Affairs (LPA) manages the Agency's outreach programs to promote understanding of USAID's mission and programs.

## U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT



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, (2) the Office of Civil Rights and Diversity, (3) the Office of the General Counsel, (4) the Office of Small Disadvantaged Business Utilization, (5) the Office of Security, (6) the Office of Innovation and Development Alliances, (7) the Office of Human Resources, and (8) the Office of Budget and Resource Management. 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 Mission 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 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 NGOs or other partner organizations to promote sustainable economic growth, meet basic human needs, improve health, mitigate conflict, and enhance food security. All missions provide assistance based on integrated strategies that include clearly defined program objectives and performance targets.

# PROGRAM PERFORMANCE OVERVIEW

## USAID FORWARD

USAID Forward was conceived to achieve President Obama’s vision of the United States as the global leader in international development. This initiative is an early outcome of the Quadrennial Diplomacy and Development Review (QDDR) led by Secretary of State Hillary Rodham Clinton, and aims to modernize and strengthen USAID so that it can meet the most pressing development challenges and work more efficiently toward its ultimate goal—creating the conditions where its work is no longer needed. The USAID Forward initiative encompasses seven reforms:

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

Now in its second year of implementation, USAID Forward is changing the way the Agency is doing business—with new partnerships, an emphasis on innovation, and a relentless focus on results. It is giving USAID the opportunity to transform itself and unleash its full potential to achieve

high-impact development. Some of the most noteworthy accomplishments this past year include: instituting a Board of Acquisition and Assistance Review to increase competition and broaden the Agency’s partner base; issuing new policies on Education, Gender Equality, and Female Empowerment, and Global Climate Change; training 1,400 USAID staff in performance monitoring and evaluation; creating an Office of Budget and Resource Management to coordinate effectively with bureau program offices and Department of State (DOS) counterparts; implementing the Development Innovation Ventures to identify and test promising solutions and scale proven successes; and creating a Center for the Application of Geospatial Analysis for Development to improve the Agency’s ability to use geospatial information technology (IT) for transparent analysis, strategic planning, monitoring and evaluation of projects, and communicating results.

As a complement to USAID Forward, in FY 2011, USAID issued its first 2011-2015 *Policy Framework* which lays out the following core set of operational principles that are to be applied systematically with discipline and rigor to help the Agency focus on achieving and measuring results:

- Promote gender equality and female empowerment;

- Apply science, technology, and innovation strategically;
- Apply selectivity and focus;
- Measure and evaluate impact;
- Build in sustainability from the start;
- Apply integrated approaches to development;
- Leverage “solution holders” and partner strategically.

The document is the first in what will become a regular strategic exercise every four years, closely tracking the QDDR cycle. Its purpose is to provide USAID staff and partners worldwide with a clear sense of USAID’s core development priorities, translate the Presidential Policy Directive on Global Development (PPD-6) and the QDDR into more detailed operational principles, and explain how the Agency will apply these principles across its entire portfolio. These principles have already started to be applied across the Agency with the development of new analytical tools to build sustainability into every new project design, and creation of integrated country strategies that require missions to integrate development and diplomacy efforts at the country level under a unified strategy that is in harmony with local priorities.

## USAID FORWARD – INNOVATION IN ACTION

### All Children Reading: A Grand Challenge for Development

Grand Challenges for development are about doing development differently. Defined by a problem statement rather than specified solutions, the Grand Challenges for development model opens the door to inspire passionate, innovative, and intelligent approaches to solving problems that have not been effectively addressed by traditional solutions. With a focus on robust, cost-effective, and scalable solutions grounded in science and technology, a Grand Challenge is an opportunity to foster new ideas, engage new actors, and advance innovative solutions from across the globe.

Launched in November 2011, All Children Reading Grand Challenge for Development is a multi-year partnership to find and fund innovative solutions for illiteracy and to catalyze global action around this critical issue. Grand Challenge partners include USAID, the Australian Agency for International Development, and World Vision.

Across Radio has provided audio-only instruction to better equip untrained primary school teachers with professional teaching skills. Teaching Children to Read is a program using low-cost digital audio players (DAP) as instructional tools for both children



Children learning to read using low-cost digital audio players in South Sudan.

PHOTO: JOHN CHOL BOLAJAK OF ACROSS SUDAN

**574,415** Approximate Children Directly Reached by Pilots  
**32,140,000** Approximate Children Reached at Scale  
**18,200** Approximate Teachers Directly Reached by Pilots  
**4** Continents: Africa, Asia, Latin America, and Europe  
**20+** Countries being Impacted

and teachers. The program uses a solar-powered DAP as a teaching tool, supporting primary school teachers who are literate in their mother tongue but untrained as reading teachers. The project uses the DAPs to develop teachers' skills and allow them to use

the player to tutor students. Additionally, children who are unable to attend school can be gathered into community groups led by a local reader. The DAP will be used as a supplementary reading tutor supported by a mobile set of books.

## DISCIPLINE OF DEVELOPMENT

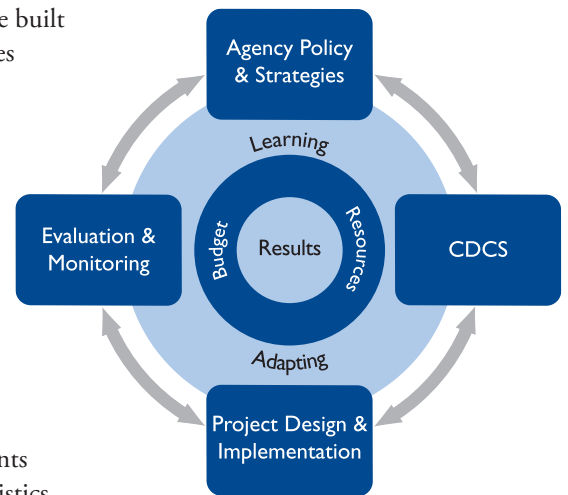
At USAID, the tools for assessing, learning, and sharing are interrelated through the concept of performance management. USAID missions and offices are responsible for establishing Performance Management Plans and targets to track progress toward intended objectives. They are also responsible for reporting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

indicator data in their annual performance reports. These performance reports inform decisions on funding, program development, and implementation. USAID is aggressively implementing the USAID Forward reforms in support of PPD-6 on Global Development and the QDDR. The Agency is incorporating these reforms into its operations through the core components of USAID's Program Cycle—Agency-wide policy and strategies,

strategic planning (through Country Development and Cooperation Strategies), project design and implementation, as well as evaluation and monitoring. These components, representing the discipline of development, are informed by continuous learning and adapting, influence the annual budget and resource management processes, and focus on achieving results.

The Program Cycle specifically delivers on the Agency’s QDDR commitment to “develop processes to define specific strategic priorities, evaluating results in light of those priorities, and incorporating our conclusions into budget, program management, and project design decisions.” A strengthened and integrated Program Cycle will enable more effective interventions and maximize development impacts. It will also allow the Agency to provide analysis and data on what is working, determine strategic opportunities and tradeoffs, evaluate projects, and feed knowledge back into programming and future policy development. The Program Cycle provides a more strategic and evidence-based approach to justify resources and serves as the basis for a more integrated budget cycle,

ensuring that resource decisions are built around strategic plans and priorities and performance and evaluation data. A good performance target is ambitious, measurable, and achievable. USAID follows a multi-step process to determine targets by examining 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 MONITORING AND EVALUATION

USAID manages public resources to promote sustainable development. To fulfill this responsibility, the Agency bases policy and investment decisions on the best available empirical evidence, and uses the opportunities afforded by project implementation to generate new knowledge for the wider community. Moreover, USAID commits to measuring and documenting project achievements and shortcomings through performance monitoring and evaluation so that the Agency’s multiple stakeholders gain an understanding of the return on investment in development activities. In January 2011, USAID released a new Evaluation Policy that sets ambitious standards for the quality and transparency of evaluation to demonstrate results, generate evidence to inform decisions, promote learning, and ensure accountability. Many of the policy requirements build on and update past USAID evaluation practices to bring the Agency up to date with, and in some cases surpass, international standards. Since release of the policy, the Bureau of Policy, Planning, and Learning has led the effort

to institutionalize the policy across the Agency by:

- Establishing and extending good practice by **communicating evaluation policy** standards and increasing the understanding and awareness of USAID staff and partners of what makes for good practice in development program evaluation. This includes, among other actions, integrating evaluation into the program cycle and working on new communications products to help staff understand and present on evaluation requirements.
- **Building USAID capacity** through training in evaluation methods and best practices for field and Washington-based staff. Already, a number of our staff have been trained, and by the end of FY 2013, approximately 1,500 staff members in total will be trained. In addition, evaluation training is now mandatory for all incoming Foreign Service Officers hired under the Development Leadership Initiative.
- **Providing technical assistance** to staff in bilateral and regional missions and Washington pillar bureaus in drafting evaluation scopes of work for impact and performance evaluations, developing mission evaluation orders, and drafting the monitoring and evaluation sections of mission Country Development and Cooperation Strategies.
- **Leveraging evidence and learning** by hosting a community of practice, the Evaluation Interest Group (EIG), which provides a broad forum for USAID staff to share evaluation experiences, best practices, and opportunities related to evaluation and learning. Membership is voluntary and open to any staff person, including from DOS. Before the Evaluation Policy, the group numbered around 100 members. As of September 2012, there are over 900 people on the EIG e-mail list. The group also manages an internal Share Point site that archives evaluation resources, available to USAID staff.



## PERFORMANCE INDICATORS AND TRENDS

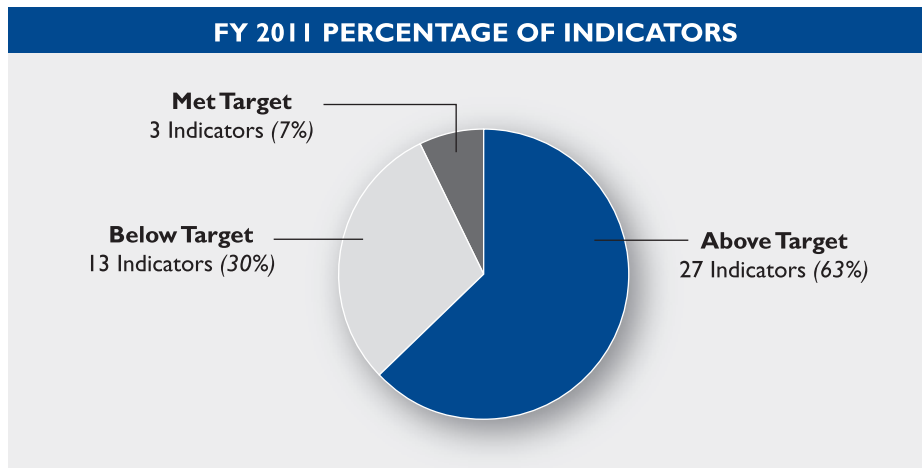
The Agency maintained a strong record of performance in FY 2011 as demonstrated by the results of a set of 43 indicators used to illustrate USAID performance from 2008-2011. These indicators measure USAID's contribution to the achievement of five State-USAID Joint Strategic Goals. (see the results on page 25). These indicators are a representative subset of the 90 indicators that are included in the APR, published in conjunction with the Congressional Budget Justification. The results of USAID and DOS programs for any period of FY 2012 are not reported by operating units until December 2012.

Accordingly, the most recent data in this report are for FY 2011.

In assessing performance, it is important to underscore the challenges faced by USAID's assistance programs. In many USAID countries, host government technical capacity is weak, private and public sector resources are scarce, and the legal framework and political climate make it difficult for civil society organizations to actively engage for positive change. In spite of these obstacles, most USAID programs met or exceeded their targets in FY 2011 and where they fell short it was largely due to external forces outside the Agency's management control.

## 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/ads/200/203>), USAID missions and offices are required to conduct annual 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 obtains performance data from three sources: (1) primary (data collected by USAID or where collection is funded by USAID), (2) partner (data compiled by USAID implementing partners but collected from other sources), and (3) third-party (data from other government agencies or development organizations). Primary and secondary data go through 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 are carefully chosen based on the organization's experience, expertise, credibility, and use of similar assessments.



## FUTURE CHALLENGES AND PRIORITIES

Several trends are reshaping the global development landscape and will continue to do so over time. In identifying key development trends, this section does not imply that USAID can or should try to meet every challenge mentioned here, or that this is a comprehensive catalogue of development issues. Instead, the trends highlighted are those that are changing the context in which USAID works, giving rise to new challenges, and are also new opportunities that affect the Agency's ability to achieve its core development objectives. These trends are also shaping the development priorities and perspectives of decision makers in developing countries. If USAID is to support them as they build a brighter future for their societies, the Agency must understand how the global context is shaping their development outlook.

### Demographic Trends Complicate Development Challenges

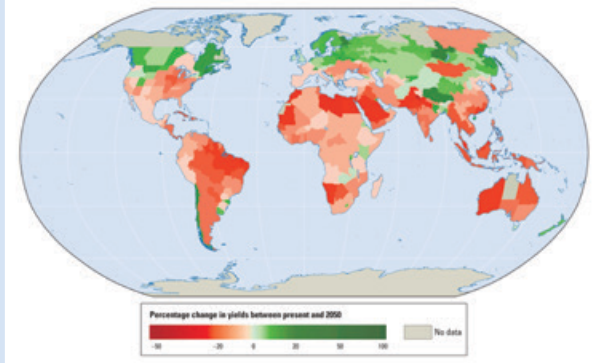
Meeting key development challenges will be made more difficult by demographic trends. By 2050, the world will add between two to four billion more people. The vast majority will be born in developing countries, including many fragile and conflict-affected ones. In addition, many countries have very large cohorts of young people (aged 15 to 24), and although the “youth bulge” will likely subside in some regions, it will remain prominent in others, especially Africa. Future economic growth, development, and political and social stability in these places will depend on ensuring that young people acquire knowledge and skills, find gainful employment, and participate more fully in society. Over time, the expanding population and the new global middle class will put significant pressure

on natural resources and the environment. Educating, training, and providing opportunities for youth can help countries transform the challenge of the “youth bulge” into an opportunity for robust growth and development. Depending on how the challenge of urbanization is managed, cities can be violent sites of poverty and inequality, or dynamic centers of productivity, opportunity, and hope for millions.

### Access to Knowledge Grows as the Developing World Becomes Connected

In the last several decades, development-relevant knowledge, information, and technology have spread widely across the developing world. Today developing countries, especially middle-income countries, have more innovators and entrepreneurs than ever before, and they have stronger local institutions to cultivate new talent. Indeed, many countries have progressed significantly in this regard since USAID first began training technical specialists in countries like India, Brazil, and Indonesia in the 1960s. At the same time, the new “solution holders” in developing countries are better connected than ever, even while the digital divide persists in many places. Cellular phone networks and the use of other mobile technologies have exploded.<sup>1</sup> Virtual libraries, global research networks, the Internet, and open-source software applications are giving communities in developing countries growing access to the world's knowledge and technical tools. Dense networks—both real and virtual—of

Climate change will depress agricultural yields in most countries by 2050 given current agricultural practices and crop varieties



Sources: Müller and others 2009; World Bank 2008c.

developing country academics, government officials, scientists, political activists, and entrepreneurs have emerged, allowing for the direct exchange of development solutions. This trend offers enormous opportunities for development cooperation. Donors can play a new, important role by setting up platforms to attract and aggregate solutions from large, open networks of solution holders, many of whom are in developing countries. These ideas can then be channeled strategically and scaled up to tackle specific development challenges in innovative ways.

### Shocks Reverberate More Quickly and Widely

Managing the impact of shocks, both natural and man made, will continue to be a key development challenge. Sudden, destabilizing events can quickly reverse hard-won development gains, and they tend to disproportionately affect the poor across and within countries. The potential effects of a changing climate on agricultural yields, disease vectors, water availability, and events such as hurricanes and drought have a high potential to roll back development gains in many parts of the world. The poor will be hit hardest. The World

1. International Telecommunication Union, “Key Global Telecom Indicators for the World Telecommunication Service Sector,” 2011.

Bank estimates that developing countries will bear between 75 and 80 percent of the costs of damage associated with climate change.<sup>2</sup> Developing countries and their development partners will increasingly have to devise smarter, more effective ways of predicting, preparing for, and mitigating economic and ecological shocks. For example, USAID will build on its work of predicting vulnerabilities, through systems such as the Famine Early Warning Systems Network, to better prepare for shocks. The Agency will need better tools and information for identifying and reducing vulnerabilities in a wide range of areas, from social safety nets and urban planning, to agricultural practices compatible with a changing climate, as well as better systems for responding to disasters in a timely way.

### Democratic Governance Expands Globally, but Haltingly

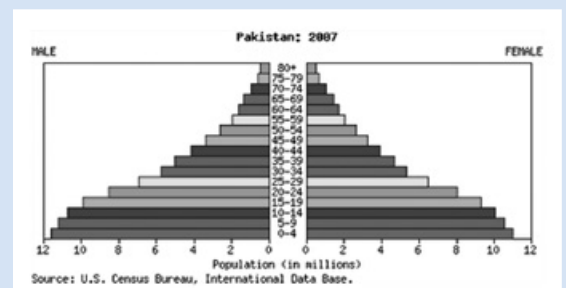
The last 30 years witnessed the greatest expansion of democracy in history, particularly following the collapse of the Soviet empire when democracies increased from about 40 percent of all states to 60 percent. Democracy flowered not only in Eastern and Central Europe; the number of African democracies grew from just three in 1989 to 23 today.<sup>3</sup> Democratic institutions have consolidated in much of Latin America and, in North Africa and the Middle East, the still-unfolding Arab Spring suggests that peoples' aspirations for democratic governance have brought fundamental

political change to that region. In contrast, many countries show signs that illiberal or authoritarian tendencies are reasserting themselves. Since 2005, the number of electoral democracies has declined from 123 to 115.<sup>4</sup> The expansion and strengthening of democratic institutions have resulted in greater development cooperation. They have resulted in more transitions of power that are peaceful and stable, giving rise to institutions that render governments more accountable, legitimate, and responsive to their citizens. They have also created new opportunities to enter into development partnerships that give true meaning to the phrase "country ownership," based on plans and processes that reflect the voices and aspirations of large segments of society.

### A New "aidscape" Emerges

The number of development actors has expanded considerably since USAID was established in 1961. Fifty years ago, there were only a handful of bilateral donors, of which USAID was by far the largest. Today, official development assistance flows through 263 multilateral agencies, 197 bilateral agencies, and 42 donor countries.<sup>5</sup> Assistance from "emerging donors" such as China, India, Brazil, and the Gulf states has grown rapidly.<sup>6</sup> Outside the official aid agencies, thousands of international non-governmental organizations (NGO), private companies,

and a new generation of foundations are now part of the development landscape. Enabled by Internet and mobile phone giving platforms, individuals are donating more than ever before, especially during humanitarian crises; private Americans alone donated \$3.7 billion to the 2004 Asian tsunami relief effort,<sup>7</sup> and more Americans donated to the Haiti relief effort than watched the Super Bowl.<sup>8</sup> This trend suggests several challenges and opportunities. When USAID was established, a developing country received aid, on average, from two donors. By 2006, the average was 28, with 20 donors accounting for less than 10 percent of a country's total aid allocation.<sup>9</sup> This trend presents a host of new challenges for coordination and collaboration with both an increased number of larger donors, as well as a proliferation of smaller donors. But more actors also mean more resources for development, as well as increased competition to innovate. New organizations also question established modes of aid delivery and introduce new models. A larger number of development actors may mean more opportunities for partnership, division of labor, and specialization in the field.



2. World Bank, *World Development Report 2010: Development and Climate Change*. Washington: World Bank, 2010.
3. Radelet, 2010. "Emerging Africa: How 17 Countries are Leading the Way," Center for Global Development 2010.
4. Freedom House, "Freedom in the World 2011: the Authoritarian Challenge to Democracy," 2011, p.2.
5. Kemal Dervis, Homi Kharas, and Noam Unger, *Aiding Development: Assistance Reform for the 21st Century*, Brookings Blum Roundtable 2010, p.17.
6. Kang-Ho Park, "New Development Partners and a Global Development Partnership," *Catalyzing Development: A New Vision for Aid*, edited by Homi Kharas et al. Washington: Brookings Press, 2010.
7. "The Center on Philanthropy Panel Study 2005," The Center on Philanthropy at Indiana University, 2005.
8. Caroline Preston and Nicole Wallace, "Donations to Help Haiti Exceed \$528 Million," *Chronicle of Philanthropy*, January 27, 2010.
9. Emmanuel Frot and Javier Santiso, "Development Aid and Portfolio Funds: Trends, Volatility, and Fragmentation," Working Paper No.275, OECD Development Centre.

## STRATEGIC GOALS AND RESULTS

The President's PPD-6, the first of its kind by a U.S. administration, recognizes that development is vital to U.S. national security interests and is a strategic, economic, and moral imperative for the United States. It calls for the elevation of development as a core pillar of American power and charts a course for development, diplomacy, and defense to mutually reinforce and complement one another in

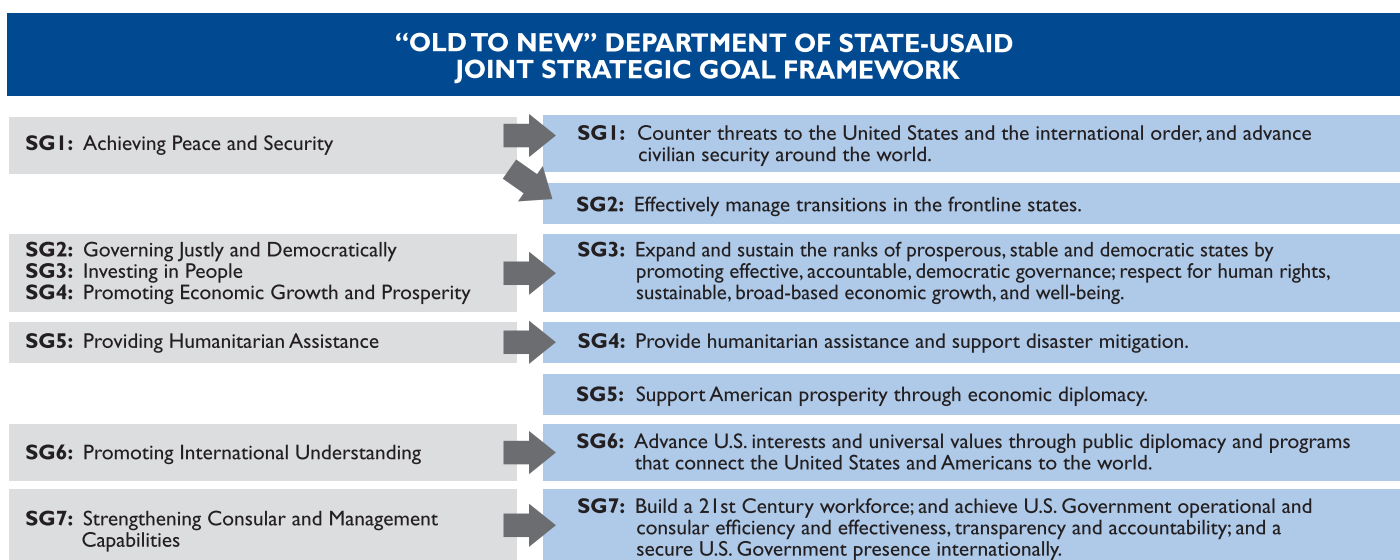
an integrated comprehensive approach to national security. Operationally, USAID and DOS implement this directive by working cooperatively to pursue U.S. national security objectives abroad through diplomacy and foreign assistance programs that are implemented by USAID and DOS.

In accordance with the Government Performance and Results Modernization Act,

USAID and DOS developed seven Joint Strategic Goals, of which USAID contributes directly to five. These goals reflect the U.S. Government's priorities for diplomacy and development: 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 everywhere. The five goals which USAID programs support are:

STATE-USAID STRATEGIC GOALS WHICH USAID PROGRAMS SUPPORT	
Strategic Goal (SG)	Goal Description
<b>SG 1: Achieving Peace and Security</b>	Preserve international peace by preventing regional conflicts and transnational crime, combating terrorism and weapons of mass destruction, and supporting homeland security and security cooperation.
<b>SG 2: Governing Justly and Democratically</b>	Advance the growth of democracy and good governance, including civil society, the rule of law, respect for human rights, political competition, and religious freedom.
<b>SG 3: Investing in People</b>	Ensure good health, improve access to education, and protect vulnerable populations to help nations create sustainable improvements in the well-being and productivity of their citizens.
<b>SG 4: Promoting Economic Growth and Prosperity</b>	Strengthen world economic growth and protect the environment, while expanding opportunities for U.S. businesses and ensuring economic and energy security.
<b>SG 5: Providing Humanitarian Assistance</b>	Save lives, alleviate suffering, and minimize the economic costs of conflict, disasters, and displacement.

Jointly, DOS and USAID have created new strategic goals that address key U.S. foreign policy and national security priorities. The goals will be applied starting in FY 2013. A crosswalk from the previous goals to the new State-USAID joint strategic goals is shown below. The Strategic Goals and Results section for this year's report is organized under the old strategic goal framework.



## ILLUSTRATIVE ACCOMPLISHMENTS

Below are illustrative accomplishments for FY 2012 in each of the five strategic goals.

### STRATEGIC GOAL I: ACHIEVING PEACE AND SECURITY (P&S)

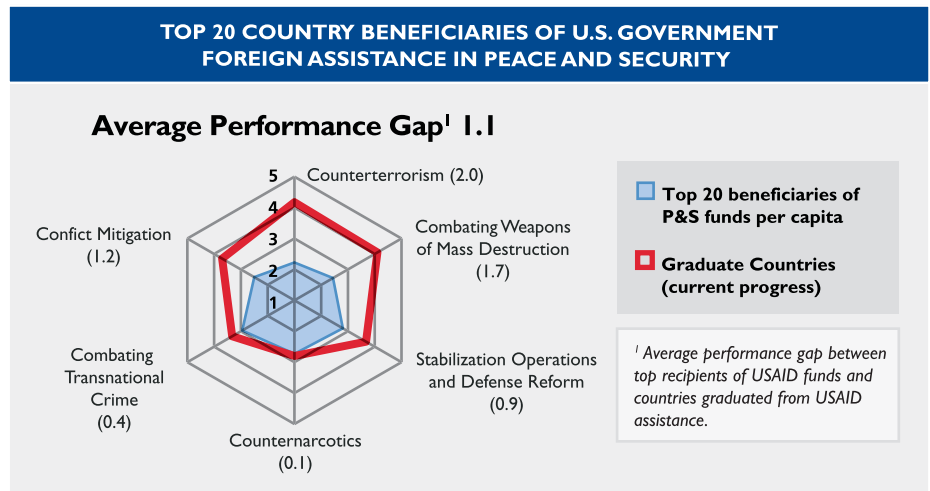
Preserve international peace by preventing regional conflicts and transnational crime, combating terrorism and weapons of mass destruction, and supporting homeland security and security cooperation.

#### Public Benefit

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 their partners seek to strengthen their diplomatic and development capabilities, as well as those of international partners and allies, to prevent or mitigate conflict, stabilize countries in crisis, promote regional stability, and protect civilians.

#### Closing the Gap

Through a number of integrated programs, the U.S. Government seeks to strengthen the capacity of local law enforcement and security authorities to combat illicit activity and weapons of mass destruction, terrorism, and transnational crime, and prevent and mitigate conflict. As noted below, except in the areas of counternarcotics and transnational crime, the top 20 beneficiaries of U.S. Government assistance (blue) score considerably lower in the other four areas as compared to a select group of countries that have graduated from U.S. Government assistance (red).<sup>10</sup> U.S. assistance efforts are making progress in improving the capacity of target countries to preserve peace and security.



#### Linking Activities to Outcomes

##### Conflict Mitigation and Reconciliation.

To meet U.S. foreign policy commitments for building peace and security, assistance resources must be used to prevent and manage violent conflict at the local level. Through training and technical assistance, USAID strengthened local capacity to help mitigate conflict in vulnerable communities around the world by building conflict mitigation skills and improving access to local institutions that play a role in addressing perceived grievances. USAID trained 52,935 persons which fell below the target of 98,867 because Nepal set an overly ambitious target that was more than double its previous target; all other operating units exceeded their targets by 15 percent.

**Alternative Crops.** A key element of U.S. support for counternarcotic effects is the Alternative Development and Livelihoods (ADL) program that promotes sustainable and equitable economic growth opportunities in regions vulnerable to drug

production and conflict, with the intent of permanently ending involvement in illicit drug production. ADL programs are funded in five countries: Afghanistan, Bolivia, Colombia, Ecuador, and Peru. An important part of the ADL effort is the assistance that USAID provides to farmers to help them cultivate alternative crops that can generate income and employment. These efforts helped increase the number of hectares under alternative crops by 112,632, exceeding the overall target of 106,936.

##### Stitching the Fabric of Reconciliation

A feast of color greets the eye as one enters the factory floor. The seamstresses favor bright-hued blouses, skirts, dresses, and *kurtas*. Recent hires wear yellow head scarves while older hands wear blue. In January, at Brandix Lanka Limited's new factory in Punani, Sri Lanka, lines of employees were turning out hundreds of ladies' tank tops in pink, white, and yellow. These days, the facility also

10. For more information on the Closing the Gap chart above go to <http://www.usaid.gov/results-and-data/progress-data/data/mcp-global-appendix>.



**In eastern Sri Lanka's former conflict zone, the USAID-Brandix partnership brings young people from divergent communities together for brighter futures.** PHOTO: KAI BEARD

produces school uniforms and children's wear for Tesco, an international retailer.

The project—a unique public-private alliance between USAID and Brandix—is one of several partnerships the Agency has forged with local Sri Lankan firms committed to reconciliation in the country's historically troubled Eastern province. Brandix is Sri Lanka's leading apparel exporter.

Combining opportunity and reconciliation, the pilot program, known as the Apparel Sector Training Partnership (ASTP), is building brighter futures in an economically lagging region rife with ethnic mistrust resulting from prolonged conflict. While imparting new skills and creating new jobs, the alliance is also fostering new neighborly attitudes.

Launched in 2008 and running until 2013, ASTP trains unskilled workers in former conflict areas, and hires them for Brandix's new factory in Punani, a town well located to draw trainees from all three major ethnic communities. In their segregated neighborhoods, these communities rarely fraternize with each other.

Some one thousand young people so far, representing Tamil, Muslim, and Sinhalese groups in rough parity, have

learned new skills, and 600 have started working together.

### Peace Brokers

A dusty town in the Somali region of Ethiopia, Hudet had been the focal point of a longstanding conflict. For decades, four clans—the Gari, Guji, Gebra, and Borena—had competed over scarce resources and fought over a vast territory along the disputed borderlands between Ethiopia's Somali and Oromiya regional states. Historically, these clashes included cattle raiding and revenge killing, driven by competition for control over key resource areas that support local livelihoods, as well as a culture that often rewards displays of violence.

For the previous two years, USAID and Mercy Corp's Strengthening Institutions for Peace and Development program had been supporting government, traditional institutions, and the wider community to build peace among the four clans of the Somali and Oromo people who make their living as pastoralists or farmers in these remote, arid lands.

Slowly, perceptions shifted; people began to view peace as a possibility and ceased to see violence as a necessity. Key leaders from the clans began drafting a peace

accord, which they repeatedly submitted to their communities for feedback and revision. After a year of community and government consultations, clan leaders ratified the final draft, and communities previously in conflict began successfully implementing a shared set of laws.

In his speech, during the ratification ceremony, the Borena clan leader reiterated the core reason they believed this peace would last: unlike previous, unsuccessful reconciliation efforts that were initiated by the government, the momentum this time came from the community.



**A Gari woman speaks at a community consultation on the draft peace accord in Hudet, Somali region, Ethiopia. USAID and Mercy Corps have supported government, traditional institutions, and the wider community to build peace among the four clans of the Somali and Oromo people who make their living as pastoralists or farmers in these remote, arid lands.**

PHOTO: MERCY CORPS

## STRATEGIC GOAL 2: GOVERNING JUSTLY AND DEMOCRATICALLY (GJD)

Advance the growth of democracy and good governance, including civil society, the rule of law, respect for human rights, political competition, and religious freedom.

### Public Benefit

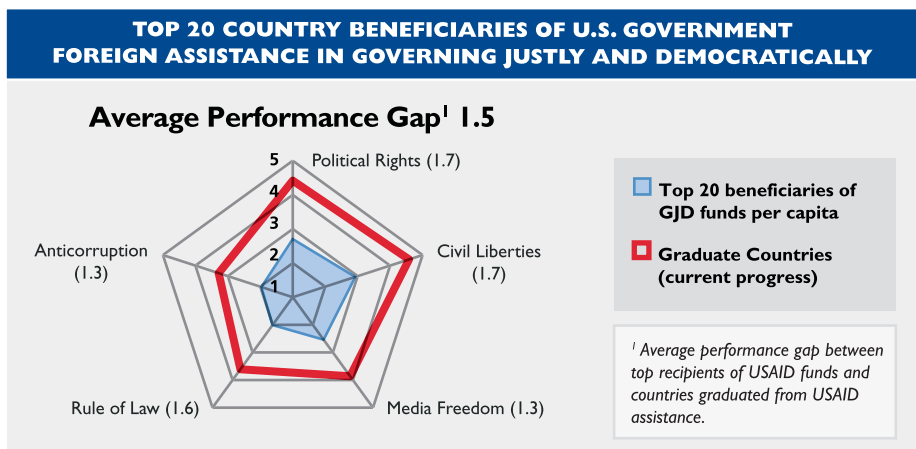
The U.S. Government supports just and democratic governance for three related reasons: (1) as a matter of principle, (2) as a contribution to U.S. national security, and (3) as a cornerstone of the broader development agenda. The National Security Strategy makes clear that supporting the expansion of democracy and human rights abroad is in the U.S. national interest. U.S. leadership in promoting capable, transparent, accessible, and accountable public institutions and economic growth is key to achieving successful and sustained transitions to democracies and universal freedoms around the globe.

### Closing the Gap

USAID works with governments and civil society to build and strengthen effective and responsive democratic governments that value and support good governance, political rights, civil liberties, media and religious freedom, and rule of law.

As noted below, the top 20 beneficiaries of U.S. Government assistance (blue) have considerable progress to make in order to attain the level of just and democratic governance achieved by a select group of countries that have graduated from U.S. Government assistance (red).<sup>11</sup>

The positive results of U.S. Government assistance for democracy and governance programs as reported below are helping to close the performance gap.



### Linking Activities to Outcomes

**Enhanced Rule of Law.** Well-trained justice personnel are a prerequisite for a legal system that is transparent and efficient, and guarantees respect for human rights. USAID programs aim to improve the rule of law by training judges, magistrates, prosecutors, advocates, inspectors, and court staff. More than 52 thousand justice sector personnel in 35 countries were trained, exceeding the target by nearly 10 percent.

**Strengthened Civil Society.** A legal and regulatory framework that protects and promotes an engaged civil society is a key precondition for democratic governance. Civil society participation in democratic policymaking improves the transparency and accountability of one's government and of the legislative process. USAID is helping strengthen more than 4,300 civil society organizations (CSO) around the world that are actively engaging in advocacy interventions.

### One Year On, the Arab Spring Continues to Inspire and Challenge

Since January 2011, when protestors poured onto the capital streets of Tunis, USAID has been at the forefront in supporting peaceful transitions in

the Middle East and responding to the legitimate aspirations of citizens across the Arab world. The Agency's work is part of a comprehensive U.S. Government approach.

"Through our development work, USAID is helping to mitigate disruptions that jeopardize full transitions, while supporting the reform efforts that are essential for the promises of the Arab Spring to be fully realized and sustained," said Mara Rudman, USAID's Assistant Administrator for the Middle East. "Arab Spring" refers to the street protests throughout the Middle East that followed Tunisia's demonstrations.

As a development agency, USAID is well placed to respond to the ongoing political and economic transitions in the region. Decades of investment in economies, societies, and institutions across the Arab world have enabled the Agency to forge strong relationships with people on the ground.

"USAID was able to shift our assistance and draw on flexible mechanisms to respond to the dramatic changes across the region," said Sarah Mendelson, Deputy Assistant Administrator in the Bureau for Democracy, Conflict, and Humanitarian Assistance.

11. For more information on the Closing the Gap chart above go to <http://www.usaid.gov/results-and-data/progress-data/data/mcp-global-appendix>.



**Tunisian protesters kiss soldiers during a demonstration against the presence of the toppled ruling party in the transitional government, January 20, 2011, in Tunis. Authorities arrested 33 members of former President Zine El Abidine Ben Ali’s family as protesters demanded that the former dictator’s ruling party be rooted out.** PHOTO: MARTIN BUREAU / AFP

### Including all Tunisians

USAID was one of the first donors on the ground in Tunisia, providing over \$19 million in support of Tunisia’s transition toward democracy, in addition to \$3 million for humanitarian assistance, as part of a broader U.S. aid effort that has totaled over \$32 million to date. The Agency’s activities have focused on helping political

parties develop, and engaging citizens in the political reform process. Primarily working with new and existing CSOs, USAID is supporting Tunisian-led efforts to ensure a successful transition.

Following the revolution, USAID conducted a series of on-the-ground assessments as well as broad outreach to civil society, youth, and women to

evaluate the priorities and needs expressed by Tunisians. These consultations played a critical role in developing timely and targeted programming in Tunisia post-revolution.

### Growing Democracy in Post-Dictator Paraguay

For Paraguay, a small landlocked country in the heart of South America, a strong democracy with social justice was a dream held by many, but expressed only in hushed tones for decades. The overthrow of the 34-year dictatorship of Alfredo Stroessner in 1989 converted the dream into a possibility overnight.

Today, attaining that robust and socially just democracy is a major priority in Paraguay’s quest for development—one that citizens and organizations alike seek with growing assertiveness and commitment. It is also critical for the United States, which has seen a new period of collaboration on matters of regional security and economic partnership since Paraguay’s emergence from dictatorship.



**USAID programs work to empower women to be community leaders. Paraiso Poty Women’s Committee meet on leadership strategy.**

PHOTO: LINDSEY JONES / GLOBAL GENDER ADVISOR



*Semillas para la Democracia* is an early beneficiary of a USAID local capacity-building program. In only five years, *Semillas* has gone from beneficiary to partner in the implementation of USAID’s democracy programs. The group’s goal is to help improve the quality of Paraguayan democracy through citizen participation, social justice, and government accountability. It is building local capacity by helping civil society organizations to promote public sector accountability, support broader alliances, and enhance their interaction with the government.

In fact, all of USAID/Paraguay’s democracy activities are implemented with local organizations, not large NGOs or contractors. The core of USAID’s democracy-building efforts in Paraguay has been the fight against corruption and for more transparent institutions—working with the judiciary and the prosecutor’s office to ensure the rule of law; empowering local governments; professionalizing the civil service; and building a more inclusive democracy with equal opportunities for people with disabilities.

### STRATEGIC GOAL 3: INVESTING IN PEOPLE (IIP)

*Ensure good health, improve access to education, and protect vulnerable populations to help nations create sustainable improvements in the well-being and productivity of their citizens.*

#### Public Benefit

Bringing better health systems, education, and training to people around the globe contributes to a more secure, stable, and prosperous world. People are central to the sustainability and positive development of a country. USAID helps recipient nations achieve and maintain improvements in the well-being and productivity of their citizens and build

sustainable capacity to provide services in four priority program areas: health, education, social services, and protection for especially vulnerable populations. U.S. Government investments focus on improving the health of men, women, newborns, and children, in particular through such initiatives as the President’s Emergency Plan for AIDS Relief (PEPFAR) and the Global Health Initiative (GHI). Both of these presidential initiatives aim to maximize the impact the United States achieves for every dollar invested in global health.

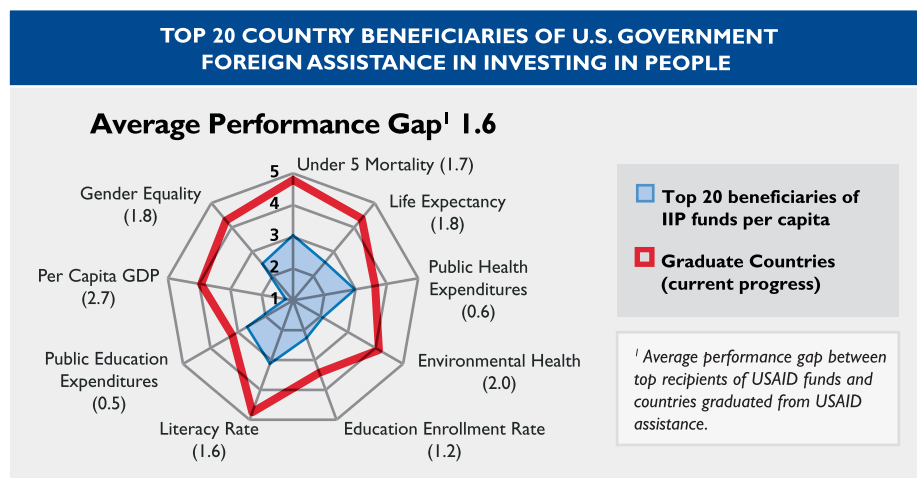
#### Closing the Gap

Through investments in health and education, the U.S. Government works to unlock human potential and help the most vulnerable populations become more productive citizens. As indicated below, the top 20 beneficiaries of U.S. Government assistance (blue) fall well below a select group of countries that have graduated from U.S. Government assistance (red)<sup>12</sup> in every measure of human development on a scale of one to five, with five representing the performance of the best country in the world. Nonetheless, U.S. Government programs are yielding steady improvements in these areas.

#### Linking Activities to Outcomes

**Malaria Prevention.** Last year, an estimated 781 thousand people died of malaria and about 225 million suffered from acute malarial illness. The President’s Malaria Initiative (PMI), implemented by USAID and the Centers for Disease Control and Prevention, seeks to expand malaria control efforts to significantly reduce the burden of malaria for the 450 million persons at risk in Africa, and expand efforts to control malaria in the Greater Mekong region of Southeast Asia and the Amazon Basin. The work is paying off as 58 million people became protected from malaria in the PMI countries, far exceeding the target of 46 million.

**Reducing Child Mortality.** Over 130 million children worldwide are underweight. Malnutrition contributes to 3.5 million child deaths every year, making it the leading contributor of under-five mortality. USAID seeks to reduce child mortality through a number of programs, one of which is to increase the percentage of live births attended by skilled birth attendants trained through USAID programs. Through its Global Health and Feed the Future (FTF) Programs, USAID is successfully reducing the prevalence of underweight children. In the 17 countries



12. For more information on the Closing the Gap chart above go to <http://www.usaid.gov/results-and-data/progress-data/data/mcp-global-appendix>.



**Nurse Fernanda Soares examines five-month-old Miguel da Costa. She correctly diagnosed his pneumonia and very likely saved his life.**

PHOTO: MARICIO BORGES, / USAID

## Boosting Health Center Coffers

Ethiopia has over 80 million people, but only modest government revenues to finance health care. In fact, the Ethiopian Government pays only around 20 percent of the total costs of providing care in the country. International donors pick up over 40 percent and the rest comes out of patients' pockets.

For the past decade, USAID has been working closely with the Ethiopian Government to reform the way health care is financed in the country, moving away from its chronically underfunded, centralized model of support. A major success has been registered in the area of health care financing.

“What we did over a period of five years was help to get [the government] aware and comfortable with allowing health centers and, in some cases, hospitals, to collect fees—very minimal, but certain fees for certain non-life-saving interventions,” said USAID Mission Director Tom Staal.

The program has three elements: permitting the country's health facilities to collect fees, allowing the health facility to keep that money (without losing their government revenue), and helping the centers make strategic use of the funds by involving the community in local governance boards.

Staal explained, “We worked with the government to set up a committee that includes officials from the facility, local government officials, and a community member to manage the fees by agreeing on approved expenses. What we found is that they were able to use those funds to upgrade facilities—put in a water tank, a generator for electricity, clean up the facilities, fix the broken windows, some additional staff training.”

targeted by USAID, the prevalence rate dropped to 25.4 percent, surpassing the target of 26.5 percent.

At the Manatuto Health Center, 40-year-old Brizida da Costa sat on a hospital bed with her five-month-old son, Miguel. “He had a fever and was coughing,” she explained, so she decided to bring him to the clinic. She said she thought it was serious since she had recently seen a poster urging parents to bring their children to the clinic if they were sick. The diagnosis was pneumonia, one of the biggest causes of child death in Timor-Leste.

Nurse Fernanda Soares stood close by the bed. “There is a real possibility the baby would have died if Brizida had not taken her son to the clinic,” she said. A major factor in Soares's successful diagnosis was training that she received to recognize and treat many of the most common, and most dangerous, childhood illnesses. The training is part of a new supportive

supervision approach being implemented through the USAID-supported Integrated Management of Childhood Illness (IMCI) program.

Last year, more than 15 thousand children were treated for pneumonia by the Timor-Leste Ministry of Health using IMCI protocols supported by USAID and other partners, such as United Nations (UN) agencies.

Today, all of the Ministry's maternal and child health coordinators and relevant staff, including Soares, have received training in the supportive supervision system and help with implementing it across the country. Between 2003 and 2010, the infant mortality rate dropped from 60 to 44 per one thousand live births, and under-five mortality dropped from 83 to 64 per one thousand live births, meaning Timor-Leste is on track to achieve its Millennium Development Goals in those areas.



**Staff members at the Buge Health Center, SNNPR, Ethiopia. USAID works with the Ministry of Health to strengthen services at health centers around the country to prevent maternal and infant deaths.** PHOTO: NENA TERRELL / USAID

“At one health care facility I visited recently,” said Staal, “they were saying that they were actually able to hire specialists at the hospital, which they could never afford before. And they were able to pay them at a salary rate higher than the government rate. So that’s pretty exciting for a rural hospital to be able to get that sort of specialty,” he said, especially considering that Ethiopia is one of a number of countries categorized as having a health sector workforce crisis.

“This is really turning things around,” said Staal.

including improved education, health, and peace and security, via an international economic system that is open, free, transparent, and fair. USAID is working to empower private entrepreneurs, workers, and enterprises to take advantage of expanding opportunities in a global economy. By embracing business transparency efforts, such as patent protection and intellectual property rights, foreign countries become an attractive market for the products and services of U.S. workers and companies.

## Closing the Gap

Experience demonstrates that liberalized trade regimes; transparent, effective, and accountable governments; fair rules for business; and friendly market policies all contribute to greater economic growth. USAID programs are targeted at assisting countries to make the economic reforms necessary for sustainable growth to occur. As shown in the graph below, except in the areas of trade liberalization and budget balance, the scores of the top 20 beneficiaries of U.S. assistance (blue) rank considerably lower than a select group of countries that have graduated from U.S. Government assistance (red).<sup>13</sup> Efforts to close those gaps are yielding results, as noted below.

## Linking Activities to Outcomes

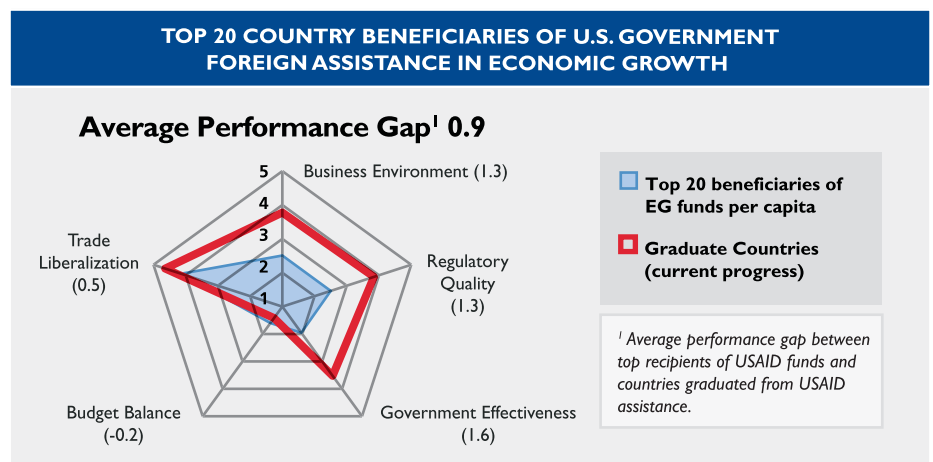
**Increasing Food Security.** There are more than a billion people suffering from hunger. Agriculture is a key driver to foster economic growth, reduce global hunger, and improve health, and considered twice as effective in reducing poverty as manufacturing or mining. Through the President’s Global Hunger and Food Security Initiative, USAID seeks to increase agricultural production among small farmers by promoting technological change. More than five million farmers

## STRATEGIC GOAL 4: PROMOTING ECONOMIC GROWTH AND PROSPERITY (EG)

*Strengthen world economic growth and protect the environment, while expanding opportunities for U.S. businesses and ensuring economic and energy security.*

### Public Benefit

Economic growth provides citizens and governments with the resources needed to meet needs and aspirations,



<sup>13</sup> For more information on the Closing the Gap chart above go to <http://www.usaid.gov/results-and-data/progress-data/data/mcp-global-appendix>.



**Coumbayel Coulibaly displays a calabash full of the high-yielding New Rice for Africa varietal.** PHOTO: ROSE KANE

applied new technologies and management practices, exceeding the target by 45 percent.

### **Promoting Economic Opportunity.**

USAID's economic growth programs help families gain access to financial services, build inclusive financial markets, improve the policy environment for micro and small enterprises, strengthen microfinance institution (MFI) productivity, and improve economic law and property rights for the poor. USAID programs are helping to build strong, sustainable MFIs to provide micro and small enterprises with access to affordable credit to grow their businesses.

### **Better Rice for a Food-Secure Senegal**

"I stopped cultivating rice several years ago because it just didn't grow well," said farmer Mamadou Coulibaly. "When I learned about NERICA from USAID, I took up rice production again."

New Rice for Africa, or NERICA, is a hardy, high-yielding rice varietal that USAID is helping bring to farmers, including Coulibaly. Through the U.S. flagship food security initiative, FTF, USAID works with grassroots organizations and producer cooperatives to make NERICA available on a large scale in Senegal to increase rice production, and in turn, improve families' food security and incomes.

Rice is a staple food in Senegal. Yet, in the south, irrigation for lowland rice is available in just a few areas. Historically, traditional rain-fed rice varieties and poor seed stock have led to meager yields of about one ton per hectare, which means farmers can't grow enough to meet their family's needs. In response to this challenge, USAID introduced NERICA, developed by Africa Rice, a research center.

Developing a network of certified seed growers is USAID's key goal for scaling up the program. NERICA also provides farmers an entry point for accessing credit so that they can increase their productivity. As a result, last season USAID introduced NERICA varieties and seeds to almost four thousand producers and trained them on best cultivation practices. As many as 200 demonstration sites ensured the production of certified seeds for future seasons.

"With the loan I got this year, I expect to harvest 20 tons of NERICA seeds, Coulibaly said. "That's worth 8 million francs (\$16 thousand)!"

### **Microfinance Fuels Iraq's Growing Private Sector**

The absence of a significant modernized banking system or microfinance industry in 2005 strained Iraqi enterprises and entrepreneurs. The rising tide of civil conflict was an additional burden on the economy.

During those war-torn years, USAID helped establish the country's first indigenous MFIs and began to support the transition of the country's private commercial banks toward modern standards. Since then, nearly 400 thousand microloans—ranging from \$500 to \$5 thousand—have been disbursed throughout Iraq with a combined value of more than \$1 billion and a 98 percent payback rate.

Since 2004, USAID partner MFIs have disbursed loans to more than 64 thousand women in Iraq, sustaining 52 thousand women-held jobs. Iraq's microfinance industry has matured with the assistance of USAID/Iraq's *Tijara* Provincial Economic Growth Program. Three years ago, MFIs began disbursing solidarity group loans to small market and neighborhood vendors who guarantee each other's repayment.



**Faris Malik in his expanded Tikrit workshop.** PHOTO: LOUIS BERGER GROUP

Such loans have enabled more than 60 thousand borrowers, who were previously unable to qualify for a loan, to invest around \$60 million in microloans to start or expand their businesses. Many are disadvantaged men and women who, before gaining access to credit, were forced to survive at the Iraqi national poverty line of \$2.20 a day.

### **STRATEGIC GOAL 5: PROVIDING HUMANITARIAN ASSISTANCE**

*Save lives, alleviate suffering, and minimize the economic costs of conflict, disasters, and displacement.*

#### **Public Benefit**

USAID is the lead U.S. Government agency that responds to complex humanitarian emergencies and natural disasters overseas. The commitment of the United States to humanitarian

assistance stems from its sense of shared humanity and 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. The U.S. Government's emergency response to population displacement and distress caused by natural and human-made disasters is tightly linked to all other foreign assistance goals, including the protection of civilian populations, programs to strengthen support for human rights, provision of health and basic education, and support for livelihoods of beneficiaries.

#### **Linking Activities to Outcomes**

##### **Mitigating the Impact of Disasters.**

Natural disasters adversely affect thousands of lives each year, often hitting the world's poorest countries, those least able to quickly respond and recover.

USAID's disaster readiness programs seek to build resiliency and reinforce the capacity of disaster-affected countries through training and technical assistance. In countries targeted as high risk, USAID trained 12,396 persons in disaster preparedness exceeding the target by more than 30 percent.

#### **Preparing for the "Big One" in Nepal**

Perched atop the Himalayas, Nepal faces multiple natural hazards, including annual floods, landslides, and avalanches, as well as periodic droughts, forest fires, and disease epidemics. However, for the 28 million people of Nepal, the risk of earthquakes is what looms largest, in particular, the proverbial "big one"—an earthquake impacting urban areas that would eclipse those of recent memory.

Similar to Haiti, Nepal is situated in a seismic zone that is capable of generating catastrophic earthquakes, and like Port-au-Prince, Kathmandu has experienced rapid urban development, including widespread construction of buildings considered too weak to withstand a powerful quake.

The importance of disaster risk reduction (DRR) programs is clearly evident in Nepal. These programs are used to prevent or decrease the impact of a disaster on a population, or to increase the ability of a community to withstand the disaster so it can recover more rapidly after the event. Since Nepal faces a number of hazards, an integrated U.S. Government approach to DRR, based on more than a decade of USAID engagement and now encompassing a "whole-of-government" effort, is being used to demonstrate best practices in disaster preparedness and mitigation.



**A student from Shree Janaudaya Lower Secondary School in Kathmandu, Nepal, demonstrates how to take cover during an earthquake. The school was part of a National Society for Earthquake Technology program to provide structural reinforcement and earthquake-preparedness education.** PHOTO: GARI MAYBERRY / USAID

USAID has focused on risk reduction and preparedness in Nepal for years. A pilot project in Nepal known as Total Disaster Risk Management, implemented through the UN Office for the Coordination of Humanitarian Assistance in the early 2000s, first introduced the concept of DRR in Asia. USAID has also supported the Program for the Enhancement of Emergency Response in Nepal, through which hundreds of emergency responders have been trained in collapsed structure search and rescue and medical first response.

In collaboration with the U.S. Forest Service, USAID has sponsored training for Nepal Government officials in the Incident Command System—a management framework designed to integrate personnel, equipment, procedures, facilities, and communications during complex events, enabling more effective response operations within a common organizational structure.

### Driving over Despair: Mobile Medical Teams Serve Yemenis on the Fringes

It was once a local schoolhouse, but now the only sound is the buzzing of flies circling lazily over prone bodies, offering bleak testimony to the malaise of homelessness. Eight families are squatting

in this derelict school in Yemen’s Lahj governorate, refugees from the fighting that erupted between government forces and al-Qaida-backed militants in the neighboring governorate of Abyan.

“This is such an awful place for us,” said Arwa, a flat-faced, strong-jawed older woman who does not know her age. Arwa, whose surname has been omitted to protect her security, awkwardly half sits, half reclines in the pale dust, staring vaguely out of eyes clouded with cataracts. She is sick, and can neither stand, sit, nor walk properly because her hips and cracked, blackened feet are so twisted with arthritis that they cannot hold her up.

At this location, Arwa is among the 40-odd people—mostly women and children—who receive treatment from a USAID-funded Mobile Medical Team (MMT), a joint venture between the Lahj Governorate Health Office and the USAID-funded Community Livelihoods Project.

MMTs provide basic primary care, diagnose illnesses, and hand out medications free of charge to the poorest and most marginalized populations living in



**A young, internally displaced girl from Abyan governorate.**

PHOTO: EBRAHIM AL-SHARIF

remote communities or on the fringes of the larger cities. With more than 15 operating throughout the country, they serve an estimated two thousand beneficiaries per month, more than 29 thousand since the project's inception 15 months ago. The project planned to expand in 2012, aiming to add an additional five MMTs and reaching out to 80 thousand beneficiaries by September.

### **Promoting Gender Equality and Women's Empowerment**

Gender equality and female empowerment are essential to effective and sustainable development outcomes. A growing body of research demonstrates that societies with greater gender equality experience faster economic growth and benefit from greater agricultural productivity and improved food security. Empowering women to participate in and lead local public and private institutions makes those institutions more representative of the aspirations of the community. Increasing girls' and women's education and access to resources improves health and education for the next generation. Promoting women's participation in conflict prevention, management, and resolution activities, as well as in post conflict relief and recovery efforts, helps to advance peace, national security, economic and social development, and international cooperation.



**Millicent Juma of Olambwe tends to her vegetables.** PHOTO: EMMA ODUNDO

### **The 'Value Girls' from Lake Victoria's Shores**

*Two years ago, 21-year-old Beatrice Kasina was a struggling fish seller on the shores of Kenya's Lake Victoria.*

*Seventeen-year-old Ruth Otieno was unemployed and fully dependent on the meager income of her fisherman husband.*

*Twenty-three-year-old Susan Opiyo, a single mother of two, was hawking tiny fish, called omena, by the roadside, desperate for motorists to stop and buy so she could feed her young children.*

These three women's stories echo those of hundreds more in Kenya's lake region, where dependence on fish as the only economic resource is commonplace. But sadly, the fish industry is in decline. Environmental degradation, illegal fishing and interference with fish breeding sites have depleted fish reserves in the lake waters.

With rising competition for fewer fish, young women are particularly vulnerable: Many resort to risky sexual behavior because they do not own boats and have to rely on the whims of fishermen for supplies. The fish-for-sex trade has been an issue of concern for several years, with one analysis, published in 2009, reporting 30 percent HIV prevalence among the people who live and work in fishing communities.

Today, however, life has dramatically improved for the three young women, who hold their own as successful micro-entrepreneurs. Kasina raises chickens; Otieno is a vegetable farmer; Opiyo is involved in both poultry and vegetable farming. The three have one thing in common: They are all “Value Girls.”

Value Girls is a Global Development Alliance jointly funded by USAID and the Nike Foundation to improve the socioeconomic status of young women by giving them alternative sources of income. The Alliance works with women between the ages of 14 and 24 who live in the fishing communities of rural Nyanza and Western Kenya.

“Decades of research show that improving the economic status of women improves food security, wealth creation, and economic growth,” said Beatrice Wamalwa, a gender specialist at USAID/Kenya.

Value Girls is tapping into young women’s potential and is contributing to the goals of the U.S. Government’s FTF initiative: reducing hunger and poverty through agriculture and improved nutrition.

The Value Girls program works through three local organizations in six districts. In market surveys, poultry and vegetable farming were deemed the most viable alternatives to fishing because of their sustainability and potential to increase women’s incomes.

Participants also receive start-up support. Poultry groups receive in-kind matching grants of the total value of their savings, usually the equivalent of \$20 to \$60 per group member, while vegetable-farming groups get fencing for the farms they lease. The groups can also access loans from MFIs to expand their businesses or buy equipment such as water pumps for irrigation.

Value Girls allows young women to have stable incomes and reduces their susceptibility to abuse and sexual exploitation. The women’s successes are also rippling through the region. The increased incomes have propelled the women’s value within their households and the community: they are now considered significant contributors to society.

*“My husband has a newfound respect for me because I can now ease his financial burden,” said Otieno.*

*“Poultry farming has changed my life,” said an elated Kasina, who is now making more in a day than she used to make in a week.*

*For Opiyo, the healthy appearance of her children gives her the most joy. With the added bonus of a woman mentor for each of the business groups, the three are optimistic that they will surpass their current successes.*

Their new lifestyles have been replicated by more than 1,400 other young women who joined the program since 2009. Having exceeded last year’s target of one thousand women, and expanded from 8 to 39 beaches, USAID’s \$1.9 million Value Girl program may be ending in November—but none of the young women plans to abandon their new livelihoods.

“The metamorphosis is amazing. When hundreds of dependent young women become self-reliant, the effects will be felt for generations,” said Pharesh Ratego, Value Girls project manager at USAID, after visiting several beneficiaries. “By the looks of it, chicken and vegetables may soon replace fish as the local delicacy in the region.”



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

### ACHIEVING PEACE AND SECURITY – \$664,715,000

Representative Performance Indicator	FY 2008 Results	FY 2009 Results	FY 2010 Results	FY 2011 Target	FY 2011 Results	FY 2012 <sup>2</sup> Target	Data Note #*
Hectares of Alternative Crops targeted by U.S. Government Programs under Cultivation Annually	286,107	201,989	275,797	106,936	112,632	N/A	2,3
Number of People Trained in Conflict Mitigation/Resolution Skills with U.S. Assistance Annually	12,578	92,601	65,932	98,867	52,935	N/A	3,4

### GOVERNING JUSTLY AND DEMOCRATICALLY – \$2,697,248,000

Representative Performance Indicator	FY 2008 Results	FY 2009 Results	FY 2010 Results	FY 2011 Target	FY 2011 Results	FY 2012 <sup>2</sup> Target	Data Note #*
Number of Justice Sector Personnel Who Received U.S. Government Training Annually	61,696	68,392	53,426	49,114	52,140	N/A	3,5
Number of U.S. Government-Assisted Courts with Improved Case Management –Cumulative Results	567	337	573	624	742	694	3,6
Number of Domestic Election Observers Trained with U.S. Government Assistance Annually	170,307	39,866	653,722	57,132	51,279	N/A	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 Annually	249	217	116	118	88	108	3,8
Number of U.S. Government-Assisted Civil Society Organizations that Engage in Advocacy and Watchdog Functions Annually	1,753	1,772	2,629	1,822	4,362	4,017	3,9
Europe Non-Governmental Organization Sustainability Index	3.7	3.7	3.7	3.6	3.7	2.0	10, 11
Eurasia Non-Governmental Organization Sustainability Index	4.6	4.6	4.6	4.5	4.6	2.0	11,12
Number of Positive Modifications to Enabling Legislation/Regulation for Civil Society Accomplished with U.S. Government Assistance Annually	80	69	56	49	35	N/A	3, 13

### INVESTING IN PEOPLE – \$2,358,625,000

Representative Performance Indicator	FY 2008 Results	FY 2009 Results	FY 2010 Results	FY 2011 Target	FY 2011 Results	FY 2012 <sup>2</sup> Target	Data Note #*
Number of People Receiving HIV/AIDS Treatment Cumulative	2.0M	2.5M	3.2M	3.8M	3.9M	4.0M+	14, 15, 16
Number of People Receiving HIV/AIDS Care and Support Cumulative	9.7M	11.0M	11.4M	13.8M	12.9M	15.1M	14, 17, 18
Average Tuberculosis Treatment Success Rate (TSR) in USAID Priority Countries	80%	82%	84%	85%	86%	N/A	19, 20
Number of People Protected Against Malaria with a Prevention Measure in President's Malaria Initiative Countries Cumulative	25.0M	30.0M	40.0M	46.0M	58M	67M	3, 21
Number of Neglected Tropical Disease (NTD) treatments delivered through U.S. Government-funded programs Annually	57.0M	127.0M	162.0M	200.0M	145.9M	250M	22, 23
Percentage of Children with DPT 3 Coverage	60.2%	61.0%	62.2%	62.3%	66.1%	67.5%	20, 24

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

(continued on next page)

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

<sup>2</sup> FY 2012 Targets showing N/A denote that the indicator was retired in FY 2011 as part of a streamlining effort at DOS and USAID to consolidate the number of indicators reported for each goal.

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

(continued)

### INVESTING IN PEOPLE – \$2,358,625,000 (continued)

Representative Performance Indicator	FY 2008 Results	FY 2009 Results	FY 2010 Results	FY 2011 Target	FY 2011 Results	FY 2012 <sup>2</sup> Target	Data Note #**
Percentage of Live Births Attended by Skilled Birth Attendants	46.7%	47.9%	49.0%	50.9%	43.9%	44.9%	20, 25
Average Modern Contraceptive Prevalence Rate (MCPR)	26.4%	27.3%	28.4%	29.6%	29.8%	30.8%	20, 26
Average Percentage of Births Spaced Three or More Years Apart	44.80%	45.60%	46.60%	47.80%	48.3%	48.7%	20, 26
Average Percentage of Women Aged 18-24 Who Had a First Birth Before Age 18	23.80%	23.90%	24.40%	24.00%	24.0%	N/A	20, 26
Number of People in Target Areas with First-Time Access to Improved Drinking Water Sources Annually	4,633,566	7,751,265	2,844,484	5,369,572	2,608,929	N/A	3, 27
Percentage of Underweight Children under Age Five	N/A	26.90%	N/A	26.50%	25.4%	24.9%	20, 28
Percentage of Anemic Among Women of Reproductive Age with Anemia	N/A	46.90%	N/A	45.90%	42.2%	41.2%	20, 29
Primary Net Enrollment Rate for a Sample of Countries Receiving Basic Education Funds	78%	79%	83%	81%	81.8%	83.0%	30, 31
Number of Vulnerable People Benefiting from U.S. Social Services Annually	3,136,838	2,988,115	2,040,131	2,307,106	3,141,197	2,994,046	3, 32

### PROMOTING ECONOMIC GROWTH AND PROSPERITY – \$3,462,334,000

Representative Performance Indicator	FY 2008 Results	FY 2009 Results	FY 2010 Results	FY 2011 Target	FY 2011 Results	FY 2012 <sup>2</sup> Target	Data Note #**
Credit to Private Sector as a Percent of GDP	59.8%	60.7%	NA	75.05%	64.9%	75%	33, 34
Number of People with Increased Access to Modern Energy Services Annually	803,277	4,426,952	2,129,223	1,687,087	1,701,901	N/A	3, 35
Number of Beneficiaries Receiving Improved Transportation Services Due to U.S. Government Assistance Annually	864,799	2,341,526	2,863,566	3,096,426	3,227,825	2,121,874	3, 36
Number of Internet Users Cumulative	1.6B	1.7B	1.9B	2.1B	2.4B	2.7B	37, 38
Number of Mobile Subscribers Cumulative	4.0B	4.6B	5.0B	5.4B	5.9B	6.2B	37, 38
Number of Rural Households Benefiting Directly from U.S. Interventions in Agriculture Annually	3,536,170	2,079,359	3,210,058	3,784,805	4,359,028	8,120,992	3, 39
Percent Change in Value of International Exports of Targeted Agricultural Commodities Due to U.S. Assistance per U.S. Dollar	28.30%	44.4%	28.2%	14.8%	16.0%	N/A	3, 40
Value of Incremental Sales (Collected at Farm Level) Attributed to FTF Implementation	NA	NA	\$927,778	\$65,577,773	\$86,789,146	\$414,186,954	3, 41
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	5,271,629	6,139,997	3, 42
Global Competitiveness Index	N/A	41.2%	74.5%	70%	74.5%	75.0%	43, 44
Percent of U.S. Government-Assisted Microfinance Institutions that have Reached Operational Sustainability	74%	86%	75%	70%	71%	N/A	45, 46
Quantity of Greenhouse Gas Emissions Reduced or Sequestered (metric tons)	142MT (est.)	120MT	120MT	100MT	200MT	100MT	47, 48
Number of Hectares of Biological Significance and Natural Resource under Improved Management as a Result of U.S. Government Assistance	129,580,863	104,557,205	92,660,217	102,781,575	101,800,000	103,500,000	3, 49

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

(continued on next page)

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

<sup>2</sup> FY 2012 Targets showing N/A denote that the indicator was retired in FY 2011 as part of a streamlining effort at DOS and USAID to consolidate the number of indicators reported for each goal.

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

(continued)

### PROVIDING HUMANITARIAN ASSISTANCE – \$1,306,705,000

Representative Performance Indicator	FY 2008 Results	FY 2009 Results	FY 2010 Results	FY 2011 Target	FY 2011 Results	FY 2012 <sup>2</sup> Target	Data Note #**
Percent of USAID-Monitored Sites with Dispersed Populations ( <i>Internally Displaced Persons, Victims of Conflict</i> ) Worldwide with Less than 10% Global Acute Malnutrition (GAM) Rate	39%	25%	40.5%	40%	59%	40%	50, 51
Percentage of OFDA-Funded Non-Governmental Organization Projects that Mainstream Protection	N/A	26%	32.1%	37.0%	37%	N/A	52, 53
Percent of Planned Emergency Food Aid Beneficiaries Reached by USAID's Office of Food for Peace Programs	92%	93%	93%	93%	93%	93%	54, 55
Percentage of NGO and Other International Organizations that Include Dedicated Activities to Prevent and/or Respond to Gender Violence (New Indicator)	27.5%	28.3%	30.0%	35%	38%	35%	56, 57
Number of Hazard Risk Reduction Plans, Policies, Strategies, Systems, or Curricula Developed	N/A	N/A	86	35	45	40	58, 59

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

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

<sup>2</sup> FY 2012 Targets showing N/A denote that the indicator was retired in FY 2011 as part of a streamlining effort at DOS and USAID to consolidate the number of indicators reported for each goal.

# ANALYSIS OF FINANCIAL STATEMENTS

The financial statements of USAID reflect and evaluate the Agency's execution of its mission to advance broad-based economic growth, democracy, and human progress in developing countries. This analysis presents a summary of the Agency's financial position and results of operations, and addresses the relevance of major changes in the 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. These principal statements are included in the Financial Section of this report. The Agency also prepared a Schedule of Spending, which is included in the Other Accompanying Information section.

## FORWARD LOOKING

Under USAID Forward, USAID will move toward an aspirational target of 30 percent of 2015 obligations for partner country institutions including government-to-government assistance, indigenous non-governmental organizations and private sector entities, the cost to the United States of a Development Credit Authority arrangement, and certain Public International Organization grants. Although this shift from traditional contracts, grants, and cooperative agreements may result in at least a temporary slowing of disbursements,

the Agency is committed to promoting country ownership with partner countries leading the design and implementation of results-focused development strategies.

## OVERVIEW OF FINANCIAL POSITION

Preparing the Agency's financial statements is a vital component of sound financial management and also provides accurate, accountable, and reliable information that is useful for assessing performance, allocating resources, and targeting

areas for future programmatic emphasis. The Agency's management is responsible for the integrity and objectivity of the financial information presented in the statements. USAID is committed to financial management excellence, and maintains a rigorous system of internal controls to safeguard its widely dispersed assets against loss from unauthorized acquisition, use, or disposition. As USAID broadens its global relevance and impact, the Agency will continue to promote local partnership through delivering assistance through host government systems and community organizations.

### CHANGES IN FINANCIAL POSITION IN FY 2012

(In Thousands)

Net Financial Condition	2012	2011	% Change in Financial Position
Fund Balance with Treasury	\$ 28,999,266	\$ 27,758,936	4%
Direct Loans and Loan Guarantees, Net	2,773,576	3,392,381	-18%
Accounts Receivable, Net	88,269	94,687	-7%
Cash and Other Monetary Assets, Advances and Other Assets	1,186,928	952,023	25%
PP&E, Net and Inventory, Net	105,967	117,781	-10%
<b>Total Assets</b>	<b>\$33,154,006</b>	<b>\$32,315,808</b>	<b>3%</b>
Debt and Liability for Capital Transfers to the General Fund of the Treasury	3,092,302	3,677,086	-16%
Accounts Payable	1,988,874	1,749,755	14%
Loan Guarantee Liability	2,012,358	1,694,195	19%
Other Liabilities	1,326,019	1,963,457	-32%
<b>Total Liabilities</b>	<b>\$ 8,419,553</b>	<b>\$ 9,084,493</b>	<b>-7%</b>
Unexpended Appropriations	21,631,982	21,202,085	2%
Cumulative Results of Operations	3,102,471	2,029,230	53%
<b>Total Net Position</b>	<b>24,734,453</b>	<b>23,231,315</b>	<b>6%</b>
<b>Net Cost of Operations</b>	<b>\$11,143,365</b>	<b>\$11,243,693</b>	<b>1%</b>
<b>Budgetary Resources</b>	<b>\$23,247,701</b>	<b>\$23,791,919</b>	<b>-2%</b>

A summary of USAID's major financial activities in FY 2012 and FY 2011 is presented in the table on the preceding page. This table represents the resources available, assets to pay liabilities, and the corresponding net position. The net cost of operations is the gross cost of operating USAID's lines of business less earned revenue. Budgetary resources are funds available to the Agency to incur obligations and fund operations. This section also includes an explanation of significant fluctuations on each of USAID's financial statements.

## BALANCE SHEET SUMMARY

### ASSETS – WHAT WE OWN AND MANAGE

Total assets were \$33.2 billion as of September 30, 2012. This represents an increase of \$838 million (3 percent) over FY 2011's total of \$32.3 billion. The most significant assets are the Fund Balance with Treasury, and Direct Loans and Loan Guarantees, Net which represent 87 percent and 8 percent of USAID's assets, as of September 30, 2012, 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 the Agency's obligations incurred. USAID's Fund Balance with Treasury increased by \$1.2 billion (4 percent) primarily due to appropriations received but undisbursed as of September 30, 2012.

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

### LIABILITIES – WHAT WE OWE

The Consolidated Balance Sheet reflects total liabilities of \$8.4 billion, of which \$3 billion or 37 percent is Debt and Liabilities for Capital Transfers to the General Fund of the Treasury. 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 marginally by 7 percent compared to FY 2011. This is reflective of the offsetting increases to Accounts Payable and Loan Guarantee Liability and decreases to Debt and Liabilities for Capital Transfers to the General Fund of the Treasury and Other Liabilities.

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

Net Position represents the Agency's equity, which includes the cumulative net earnings and unexpended authority granted by Congress. USAID's Net Position as shown on the Consolidated Balance Sheet and the Consolidated Statement of Changes in Net Position, Cumulative Results of Operations has increased to \$3.1 billion (53 percent) as

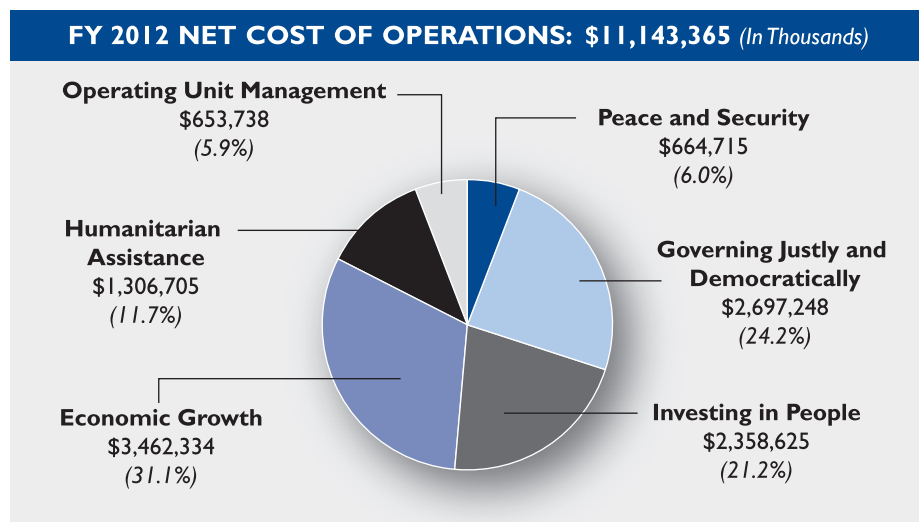
detailed in the Statement of Changes in Net Position. This increase is attributed to a financing source of funds transferred in to the Agency from another federal entity for \$755 million. These funds were not utilized in FY 2012.

## RESULTS (NET COST) OF OPERATIONS

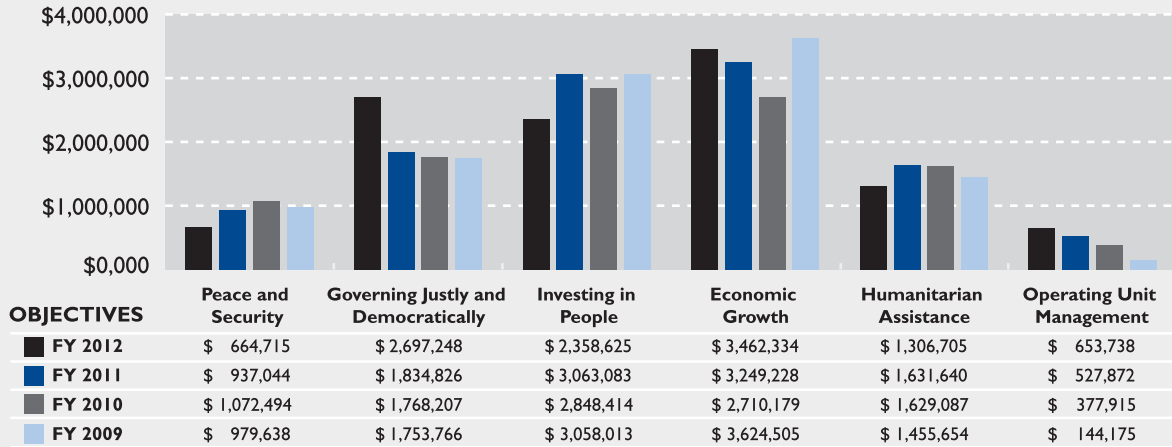
### NET COSTS

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 strategic objectives. These objectives are consistent with the State-USAID Strategic Planning Framework in place during FY 2012. Three objectives, Economic Growth, Investing in People, and Governing Justly and Democratically represent the largest investments at 76.5 percent of the total net cost of operations. The corresponding chart shows the total net cost incurred to carry out each of the Agency's objectives.

For FY 2012 and FY 2011, USAID's net cost of operations totaled \$11.1 billion and \$11.2 billion, respectively. Over



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



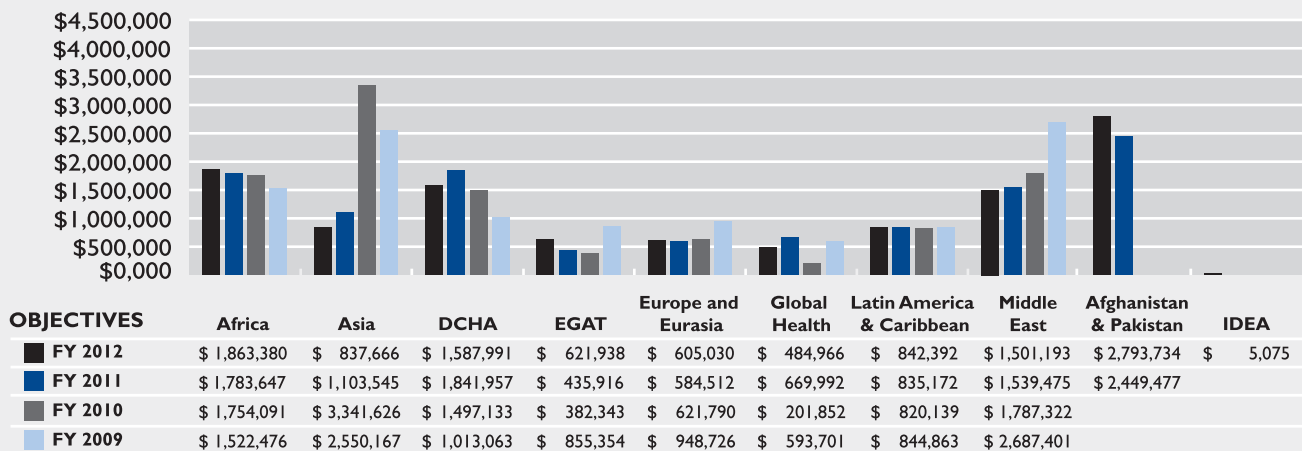
this two-year period net costs of operations only marginally decreased. Albeit, there was a shift in objective emphasis: total net cost for Governing Justly and Democratically and Economic Growth increased by \$1.1 billion. However, this increase was offset by a reduction of \$1.3 billion in total net costs for the remaining strategic objectives.

Major elements of net cost are broken out above. This chart compares the major elements of net cost by year from FY 2009 through FY 2012.

USAID also tracks its expenses by responsibility segment as shown in footnote 17 to the financial statements. The Agency includes its six geographic bureaus and four technical bureaus as responsibility segments (technical bureaus include the

Office of Innovation and Development Alliances beginning FY 2012). The chart below summarizes costs by responsibility segment for FY 2009 through FY 2012. The Afghanistan and Pakistan bureau remains the largest geographic segment for FY 2012, as it was for FY 2011. This is followed by Africa and the Middle East. The Bureau for Democracy, Conflict, and Humanitarian Assistance (DCHA) is the largest technical segment.

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

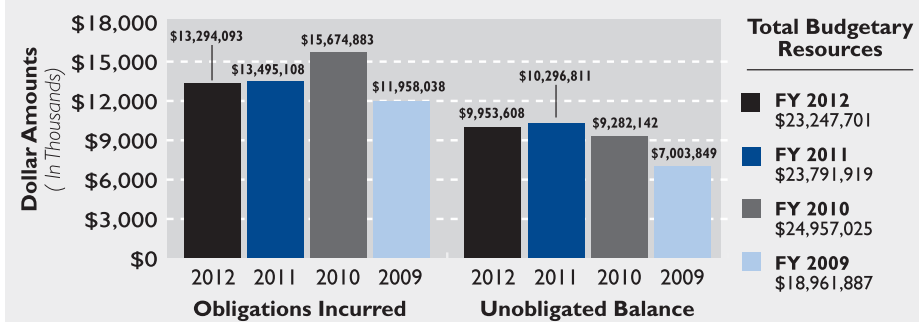


## FY 2012 NET COST PROGRAM AREAS

(In Thousands)

OBJECTIVE	PROGRAM AREA	TOTAL
<b>Peace &amp; Security</b>	Counterterrorism	\$ 20,327
	Combating Weapons of Mass Destruction (WMD)	30,106
	Stabilization Operations and Security Sector Reform	43,785
	Counternarcotics	218,035
	Transnational Crime	13,789
	Conflict Mitigation and Reconciliation	338,673
<b>Peace &amp; Security Total</b>		<b>664,715</b>
<b>Governing Justly &amp; Democratically</b>	Rule of Law and Human Rights	236,207
	Good Governance	1,920,370
	Political Competition and Consensus-Building	191,100
	Civil Society	349,571
<b>Governing Justly &amp; Democratically Total</b>		<b>2,697,248</b>
<b>Investing in People</b>	Health	1,501,732
	Education	585,589
	Social and Economic Services and Protection for Vulnerable Populations	271,304
<b>Investing in People Total</b>		<b>2,358,625</b>
<b>Economic Growth</b>	Macroeconomic Foundation for Growth	480,681
	Trade and Investment	143,303
	Financial Sector	318,893
	Infrastructure	758,991
	Agriculture	778,817
	Private Sector Competitiveness	337,378
	Economic Opportunity	180,929
	Environment	463,342
<b>Economic Growth Total</b>		<b>3,462,334</b>
<b>Humanitarian Assistance</b>	Protection, Assistance and Solutions	1,174,937
	Disaster Readiness	129,045
	Migration Management	2,723
<b>Humanitarian Assistance Total</b>		<b>1,306,705</b>
<b>Operating Unit Management</b>	Crosscutting Management and Staffing	8,827
	Program Design and Learning	101,235
	Administration and Oversight	543,676
<b>Operating Unit Management Total</b>		<b>653,738</b>
<b>Total Net Cost of Operations</b>		<b>\$ 11,143,365</b>

## STATUS OF BUDGETARY RESOURCES FY 2012, FY 2011, FY 2010, AND FY 2009



## 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 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 2012, the Agency has received \$23.2 billion in cumula-

tive budgetary resources, of which it had obligated \$13.3 billion and left unobligated \$10 billion at the end of FY 2012.

### OBLIGATIONS AND OUTLAYS

The Status of Budgetary Resources chart compares obligations incurred and unobligated balances at year-end for FY 2012, FY 2011, FY 2010, and FY 2009.

Net outlays reflect disbursements net of offsetting collections and distributed offsetting receipts. USAID recorded total net outlays of \$9.8 billion during the current fiscal year, and these outlays were disbursed timely according to contracted terms. Budgetary resources decreased \$544 million or less than 2 percent, from FY 2011, while net outlays decreased \$474 million or less than 2 percent as well.



# ANALYSIS OF SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

## MANAGEMENT ASSURANCES

USAID is firmly committed to building and maintaining strong internal controls. Internal control is an integral component of effective Agency management, providing reasonable assurance that the following objectives are being achieved: effectiveness and efficiency of operations, reliability of financial reporting, and compliance with laws and regulations. The Federal Managers' Financial Integrity Act (FMFIA)

of 1982 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. The FMFIA requires federal agencies to establish controls that reasonably ensure obligations and costs are in compliance with applicable

law; funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and revenues and expenditures are properly recorded and accounted for to maintain accountability over the assets. The FMFIA also requires agencies to annually assess and report on the internal controls that protect the integrity of federal programs (FMFIA

### ANNUAL 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 of 1982 (FMFIA). USAID is able to provide a qualified statement of assurance that the internal controls and financial management systems meet the objectives of FMFIA. USAID is working to address the two material weaknesses described in Exhibit A and one nonconformance with financial management system requirements described in Exhibit B by strengthening our management oversight plan and working closely with the Office of Inspector General (OIG) on a corrective action plan.

USAID conducted its assessment of the effectiveness of internal control in accordance with Office of Management and Budget (OMB) Circular A-123, *Management's Responsibility for Internal Control*. Based on the results of this evaluation, USAID identified one material weakness in its internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations as of September 30, 2012. Other than this 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.

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 and has begun to address one material weakness in its internal control over financial reporting as of September 30, 2012. The OIG noted an additional material weakness during its audit and the corrective actions are described in the management comments to the auditor's report. Other than this 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 control over financial reporting.

USAID also conducted reviews of its financial management system in accordance with OMB Circular A-127, *Financial Management Systems*. Based on these reviews, and as a result of the Federal Information Security Management Act (FISMA) audit findings, USAID identified and has begun to address one material weakness constituting nonconformance with financial management system requirements under FMFIA § 4 described in Exhibit B. Other than this exception, USAID can provide reasonable assurance that its financial systems substantially comply with financial management system requirements and applicable provisions of the Federal Financial Management Improvement Act (FFMIA) as of September 30, 2012.



Rajiv Shah  
Administrator  
November 16, 2012

§ 2) and whether financial management systems conform to related requirements (FMFIA § 4).

Guidance for implementing the FMFIA is provided through the Office of Management and Budget (OMB) Circular A-123, *Management's Responsibility for Internal Control*. In addition to requiring agencies to provide an assurance statement on the effectiveness of programmatic internal controls and financial system conformance, the Circular requires agencies to provide an assurance statement on the effectiveness of internal control over financial reporting.

The Assurance Statement on the previous page is issued in accordance with the FMFIA and OMB Circular A-123.

## MANAGEMENT'S RESPONSIBILITY FOR INTERNAL CONTROL

FMFIA requires the head of the agency, based on the agency's internal evaluation, to provide an annual assurance statement on the effectiveness of their management, administrative, and financial reporting controls. OMB Circular A-123, *Management's Responsibility for Internal Control*, implements the FMFIA and defines management's responsibility for internal control in federal agencies.

FMFIA § 2 requires agencies to establish internal controls and financial systems that provide reasonable assurance that the following objectives are achieved:

- Effective and efficient operations;
- Compliance with applicable laws and regulations;
- Reliability of financial reporting.

FMFIA § 4 requires that agencies annually evaluate and report on whether financial management systems conform to government-wide requirements. USAID evaluated its financial management systems for the fiscal year ending September 30, 2012, in accordance with FMFIA and OMB

Circular A-127, Financial Management Systems, as applicable.

Appendix A of OMB Circular A-123 requires the agency head to provide a separate assurance statement on the effectiveness of internal control over financial reporting in addition to the overall FMFIA assurance statement. The FY 2012 annual assurance statements for FMFIA and internal control over financial reporting are provided on the preceding page.

The report also provides a Summary of Financial Statement Audit and Management Assurances under the section entitled "Other Accompanying Information," as required by OMB Circular A-136, *Financial Reporting Requirements*.

As part of the overall FMFIA assurance process, USAID management assessed internal control at the entity level, as well as at the process, transaction, and application level. To assess the effectiveness of entity-level controls, the Agency used the Government Accountability Office's (GAO) document, entitled "Internal Control Management and Evaluation Tool" (GAO-01-1008G) to define entity-level control objectives. Information on these entity-level control activities was gathered through meetings with relevant points of contact and feedback in the form of survey responses from USAID supervisors. Entity-level control activities were also evaluated based on risk and control documentation, as well as the assessments conducted by the bureaus and independent offices for providing management assurances over the effectiveness of programmatic and operational controls and compliance with laws and regulations.

The effectiveness of process-level controls was assessed through detailed test procedures related to the Agency's financial reporting objectives. As part of this effort, the Agency performed a comprehensive risk assessment in which USAID management identified:

- Significant financial reports and materiality;

- Significant line items, accounts, disclosures, and laws and regulations;
- Major classes of transactions;
- Relevant assertions, risks of material misstatement and control objectives;
- Reporting and regulatory requirements;
- Existing deficiencies and corrective action plans.

From the results of the risk assessment, USAID management updated documentation of the business processes and control activities designed to mitigate significant financial reporting and compliance risks. These control activities were tested for design and operating effectiveness. The Agency also tested for operation effectiveness of those control activities that were found deficient in prior years. The test results served as a basis for management's assessment of the effectiveness of internal control over financial reporting.

USAID management analyzed the internal control deficiencies, both individually and in the aggregate, to determine if a significant deficiency or a material weakness exists in the financial reporting processes. Significant factors considered for assessing each deficiency included the following:

- Nature of the control deficiency (e.g., design, operations);
- Internal control objectives and activities impacted;
- Potential impact on financial statement line items, accounts, and disclosures;
- The interaction of control deficiencies with other deficiencies;
- The materiality of account balances impacted by the deficiency.

In addition, each mission director, bureau assistant administrator, and independent office director provided a statement of assurance identifying any internal control weaknesses or significant deficiencies related to the effectiveness of the controls over

programs and operations, and compliance with laws and regulations. These statements were based on information gathered from various sources including, among other things:

- Internal management reviews, self-assessments, and tests of internal controls;
- Management’s personal knowledge gained from daily operations;
- Reports from GAO and USAID’s OIG;
- Reviews of financial management systems under OMB Circular A-127, *Financial Management Systems*;
- Annual performance plans and reports pursuant to the Federal Information Security Management Act (FISMA) and OMB Circular A-130, *Management of Federal Information Resources*;

- Annual reviews and reports pursuant to the Improper Payments Elimination and Recovery Act (IPERA);
- Reports and other information from Congress or agencies such as OMB, the Office of Personnel Management (OPM), or General Services Administration reflecting the adequacy of internal controls;
- Additional reviews relating to a mission, bureau, or independent office’s operations, including those discussed in the Other Reviews section below.

Each year, the Agency’s Management Control Review Committee (MCRC) advises the Administrator as to whether USAID had any deficiencies in internal control or financial system design significant enough to be reported as a material weakness or non-conformance. This advice

is based on the assurance statements from the bureau assistant administrators, independent office directors, and other supplemental sources of information.

## OTHER REVIEWS

The OIG audited USAID’s financial statements. The objective of the OIG’s audit was to express an opinion on the financial statements and to report on tests of compliance with selected laws and regulations.

The OIG issued a total of 643 audit reports, including 547 financial audits, 64 performance audits, and 32 other audits. See also page 41 related to audit follow-up.

As of September 30, 2012, there were 26 GAO reviews in process, covering 12, or 55 percent, of the bureaus and independent offices.

## Summary of FMFIA Definitions and Reporting

DEFICIENCY CATEGORY	OPERATIONS	FINANCIAL REPORTING
<b>Material Weakness (FMFIA Section 2)</b>	A significant deficiency, or combination of significant deficiencies, that is significant enough to report outside the Agency, such as OMB and Congress. Generally, such a weakness would: (1) significantly impair the organization’s ability to achieve its objectives; (2) result in the use of resources in a way that is inconsistent with Agency mission; (3) violate statutory or regulatory requirements; (4) result in a significant lack of safeguards against waste, loss, unauthorized use, or misappropriation of funds, property, or other assets; (5) impair the ability to obtain, maintain, report, and use reliable and timely information for decision making; or (6) permit improper ethical conduct or a conflict of interest.	A significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements, or other significant financial reports, will not be prevented or detected.
<b>Significant Deficiency (FMFIA Section 2)</b>	A deficiency or a combination of deficiencies in internal control that, in management’s judgment, should be communicated to the next level of management because they represent significant weaknesses in the design or operation of an administrative, programmatic, operational, accounting, or financial internal control that could adversely affect the Agency’s overall internal control objectives.	A control deficiency <sup>1</sup> , or combination of control deficiencies, that adversely affects the entity’s ability to initiate, authorize, record, process, or report external financial data reliability in accordance with GAAP such that there is more than a remote likelihood that a misstatement of the entity’s financial statements, or other significant financial reports, that is more than inconsequential will not be prevented or detected.
<b>Nonconformance (FMFIA Section 4)</b>	Instances in which financial management systems do not substantially conform to established financial systems requirements.	

<sup>1</sup> A control deficiency exists 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 deficiency.

## FMFIA MATERIAL WEAKNESSES, NONCONFORMANCE, AND SIGNIFICANT DEFICIENCIES

### Exhibit A – FMFIA Material Weaknesses

At the close of the fiscal year, the Agency reported two material weaknesses. One is operations-related and one is related to financial reporting.

#### INTERNAL CONTROL OVER OPERATIONS

**Management’s implementation of its information security policies and procedures is not effective.** The FISMA audit found that USAID has not established an effective risk management program to ensure that policies and procedures are assessed and working as intended and that USAID’s decentralized management of information technology (IT) and information security does not allow the Agency to implement a process to effectively assess, respond to, and monitor information security risk across the organization. The Chief Information Officer (CIO) has identified key areas and/or processes required to centralize security risk management activities to include system

security assessments and authorizations (SA&A). In coordination with the Chief Information Security Officer (CISO), the CIO will develop, document, implement, and enforce policies and procedures to improve its information security program and bring it into compliance with FISMA, OMB, and National Institute of Standards and Technology (NIST) requirements. USAID will centralize IT assets under the Office of the CIO, including procurement, development, management, and operations by December 31, 2014. The Office of the CIO will begin reviewing and approving all IT acquisitions or expenditures in FY 2015.

**Target completion date: June 30, 2015**

#### INTERNAL CONTROL OVER FINANCIAL REPORTING

**USAID continues to have large unreconciled differences between the Fund Balance with Treasury account recorded in the Agency’s accounting system (Phoenix) and the Fund Balance reported by the Department of the Treasury (Treasury), and continues to have outstanding suspense items older than 60 days.** The unreconciled differences totaling approximately \$100 million were caused by: (1) inadequate transmission of payment information from third-party payers to USAID, and (2) unexplained differences from prior years. In addition, there are approximately 900 outstanding suspense account transactions over 60-days-old because USAID

was not able to investigate and resolve all suspense transactions in a timely manner. During FY 2012, the Office of the Chief Financial Officer (CFO) intensified its efforts to reconcile monthly transactions with Treasury. Significant milestones achieved include: (1) eliminated over 90 percent of unexplained differences in appropriation accounts; (2) reduced the number of suspense transactions over 60 days from 1,800 to 800; (3) implemented the enhanced Web-based cash reconciliation tool (eCART) Agency-wide; and (4) improved grants and payroll reconciliations.

**Revised target completion date: June 30, 2013**

### Exhibit B – FMFIA Nonconformance

At the close of the fiscal year, the Agency reported one nonconformance with financial management system requirements.

#### CONFORMANCE WITH FINANCIAL MANAGEMENT SYSTEM REQUIREMENTS (FFMIA § 4)

**USAID’s lack of an effective risk management program represents a significant deficiency to enterprise-wide security including USAID’s financial systems.** Implementation statements and implementation status will be updated, when applicable, to Phoenix-relevant security controls. Beginning with the SA&A activities initiated for the Oracle IIG upgrade, more detailed test documentation will be maintained in the Cyber Security Assessment and Management system (CSAM). More documentation of the activities completed and tested to close items in the Phoenix

plan of action and milestones will be maintained in CSAM. A policy reminder will be issued to Phoenix Security personnel, Bureau Transition Coordinators, and Mission Controllers to remind them to review accounts to validate that users have been appropriately authorized and that permissions remain accurate. The Office of the CFO will update Phoenix access control policies and procedures to incorporate relevant account management controls identified in the NIST SP 800-53 Revision 3 and formalize the annual review to include appropriate sign-off. **Target completion date: July 31, 2013**

## 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.

### INTERNAL CONTROL OVER OPERATIONS

**Limited ability to implement and monitor activities in high threat environments.** USAID continues to face enormous challenges in implementing its programs and activities in countries such as Afghanistan, Pakistan, Iraq, Sudan, and Haiti. Security concerns, weaknesses in governance, and corruption are persistent problems. During FY 2012, the Agency formed a Non-Permissive Environment (NPE) Working Group to ensure that USAID can implement its programs in all environments, to include NPEs, and that its employees are properly trained and equipped to effectively monitor and evaluate USAID programming. The working group developed an Action Memo which lays out an implementation

plan covering the areas of policy, security, procurement, remote financial systems support, HR, and IT; and proposes the Agency focus on interventions that mitigate risk and harm to its HR and development investments. The end state will be a cadre of USAID employees and implementing partners that are trained, equipped, and otherwise supported to work effectively in NPEs with the Regional Security Officer who controls personnel movement under Chief of Mission authority. In order to determine the feasibility of the plan, the NPE Working Group recommends a pilot program in one country per region.

**Revised target completion date: September 30, 2014**

### INTERNAL CONTROL OVER FINANCIAL REPORTING

**Credit Program: Loans receivable balances are not fully reconciled.** 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. To correct this deficiency, the Office of the CFO plans to complete and update the loan reconciliation status tool each quarter, and ensure all transactions transmitted to Phoenix via the interface are properly accounted for and recorded in Phoenix. During FY 2012, the Office of the CFO took steps to

reduce the unreconciled loans receivable balances by (1) conducting transaction-level reconciliation between USAID and Midland data; (2) updating existing and interface data to provide more detailed transaction information; (3) reviewing transaction posting models for conformance with current Treasury requirements; (4) ensuring all transactions transmitted to Phoenix via the interface are properly posted; and (5) intensifying efforts to complete past debt restructuring reconciliations.

**Revised target completion date: March 31, 2013**

**Large balances in unliquidated obligations remain.** A significant amount of program funds could be lost to the Agency unless aggressive steps are taken to address the backlog of contractor audits and the insufficient funding of close-out and deobligation activities. The Agency's Office of Acquisitions and Assistance's contract closeout process, as well as required annual audits by the Defense Contract Audit Agency (DCAA), have been historically underfunded 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 30, 2012, the Agency had approximately \$51 million in unliquidated obligations requiring attention. Reviews are necessary for identifying awards awaiting contract closeout, aged and small-dollar deobligations, implementation of tools to track and monitor progress, and timely deobligation of excessive obligated balances on expired awards.

**Revised target completion date: March 31, 2013**

**Inaccurate salary and entitlement payments and biweekly/annual premium pay caps exceeded.** Erroneous payments were made due to inaccurate, late, or missing Request for Personnel Action standard forms (SF-50). The SF-50s were not entered into the National Finance Center (NFC) Payroll system in a timely manner, resulting in payroll overpayments and underpayments. Over-certifications of post differentials and danger pay in the Agency's time and

attendance system (webTA) resulted in employee salary payments exceeding biweekly or annual premium pay caps. During FY 2012, the Office of the CFO: (1) started a workflow analysis to reorganize and augment payroll processes and capabilities; (2) submitted a request to NFC for system edit checks; and (3) updated related policies and procedures. **Revised target completion date: March 31, 2013**

*(continued on next page)*

## INTERNAL CONTROL OVER FINANCIAL REPORTING (continued)

**Annual FMFIA certification process is inconsistent, weak, or non-existent at the bureau and independent office level.** The annual FMFIA certification process is the Agency's management review or assessment designed to provide reasonable assurance that (1) the Agency's operations are running effectively and efficiently; (2) budgetary and financial reporting data are reliable; and (3) the Agency is in compliance with laws and regulations. There were 13 late FMFIA certifications in FY 2011 and 6 were late in FY 2012. Although the number of late certifications declined from 60 percent in FY 2011 to approximately 30 percent in FY 2012, there was a noticeable lack of understanding of the certification process, especially the risk assessment process, and general lack of expertise and experience using the new Consolidated Audit and Compliance System (CACS) to develop the corrective action plans and FMFIA

certification letters. To correct this deficiency, the Office of the CFO plans to (1) conduct additional focused and robust training to ensure the internal control coordinators in Washington fully understand the FMFIA certification process, including the risk assessment process and the type of supporting documentation to maintain; and (2) prepare to deploy the new risk assessment tool in late March or early April 2013 after making the adjustments recommended by the pilot missions and offices. During FY 2012, the Office of the CFO accomplished the following: (1) conducted two formal training sessions in May; (2) issued clarifying guidance to kick-off the exercise in June; (3) provided ad hoc individual training to internal control coordinators in July; (4) issued revised Agency policies and procedures in August; and (5) completed piloting the new risk assessment tool.

**Revised target completion date: September 30, 2013**

### FFMIA COMPLIANCE ASSESSMENT

The FFMIA requires that each agency shall implement and maintain financial management systems that comply substantially with federal financial management systems requirements, applicable federal accounting standards, and the U.S. Standard General Ledger (USSGL) at the transaction level. The purpose of the FFMIA is to advance federal financial management by ensuring that financial management systems provide accurate, reliable, and timely financial management information. USAID assesses its financial management systems annually for conformance with the requirements of OMB Circular A-127 and other federal financial system requirements.

USAID's process for assessing its financial management systems is in compliance with the January 9, 2009 revision of OMB Circular A-123 and included the use of an FFMIA risk model that ranks risks from nominal to significant. Based

on the results of the review, USAID concluded that the risk is nominal. However, under the FISMA, a significant deficiency in the Agency's annual FISMA report constitutes an instance of a lack of substantial compliance under the FFMIA (if relating to financial management systems) as well as a material weakness under the FMFIA. Therefore, USAID reports that its financial management systems do not substantially comply with FFMIA overall.

### FEDERAL INFORMATION SECURITY MANAGEMENT ACT (FISMA)

The FISMA of 2002 requires agencies to develop, document, and implement an agency-wide information security program to protect their information and information systems, including those provided or managed by another agency, contractor, or other source. The act also requires agencies to have an annual assessment of their information systems.

The FISMA audit concluded that, although USAID has developed and documented a majority of the information security policies and procedures required under FISMA, overall, management's implementation of these policies and procedures is not effective.

In FY 2012, the Office of the CIO, in conjunction with system owners, completed assessment and authorization activities for 20 reportable systems, including annual assessments of systems such as the Phoenix core financial system. As a result, USAID has now assessed and authorized a total of 42 reportable systems in accordance with OMB policy and guidance from NIST. The Office of the CIO also completed contingency testing on the majority of the Agency's authorized systems as part of several disaster recovery exercises.

The Office of the CIO, in conjunction with system owners, completed 123 privacy reviews during FY 2012. The privacy reviews included Privacy Act Impact Assessments on 42 required systems.

## **GOALS AND SUPPORTING FINANCIAL SYSTEM STRATEGIES**

USAID is continually striving to maximize development impact per dollar spent. In order to do so, USAID needs a financial system that is accurate, efficient, useful for management, and compliant with federal regulations. In the past decade, USAID met that requirement by implementing a single, worldwide financial system, called Phoenix, which enabled the Agency to produce auditable financial statements, which have consistently earned unqualified opinions. The current financial systems strategy is to maintain and build upon a strong financial systems framework, particularly to support evolving Agency and government-wide goals.

One goal is to help stakeholders understand how U.S. taxpayer funds are used to achieve international development results. Just as USAID works with other countries to promote governments that are transparent, accessible, and accountable to their people, the U.S. Government also strives to improve its own transparency, as set forth in the President's Open Government Initiative. USAID, DOS, and Millennium Challenge Corporation recently began publishing foreign assistance budget and spending data on the public Foreign Assistance Dashboard, which enables the United States to take a significant step forward in becoming a leader in aid transparency. USAID plans to build on this success and continue to improve the way that the Agency's financial information is managed, shared, and reported.

USAID is improving operational efficiency of financial management, which will enable the Agency to focus its resources where they achieve the most impact. As the Federal Government undertakes new initiatives to improve financial management, USAID is updating its systems and processes accordingly. For example, as part of its commitment to supporting small business growth, the Administration recently required federal agencies to expedite payments to small business subcontractors. Within weeks, USAID had modified its financial systems and processes to meet this requirement. USAID plans to continue to leverage government-wide solutions, such as solutions to automate invoice processing and screening for improper payment prevention, to better manage taxpayer funds.

# OTHER MANAGEMENT INFORMATION, INITIATIVES, AND ISSUES

## RECOVERY ACT

Pursuant to Division A, Title XI of the Recovery Act, USAID received \$38 million for IT systems. USAID used the Recovery Act funds to complete the Global Acquisition and Assistance System (GLAAS). GLAAS implementation improves accountability and development program tracking; supports USAID resource stewardship; modernizes the acquisition and assistance process; and provides more accurate data. 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, FDMS, and Grants.gov, simplifying the acquisition and assistance process and enhancing USAID's ability to provide important financial information to the public.

USAID has completed GLAAS deployment to all missions and is seeing an immediate benefit. The Agency obligated approximately \$10.3 billion in FY 2012. This number constitutes a new record that was significantly higher than FY 2011 obligations of \$9.7 billion. The Agency continues to see a remarkable return on its investment in business system modernization.

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

## FINANCIAL MANAGEMENT SYSTEMS FRAMEWORK

The Phoenix financial management system is the core of USAID's financial systems framework. As USAID's accounting system of record, Phoenix enables Agency staff to analyze, manage, and report on foreign assistance funds.

The Phoenix system interfaces with other key systems and tools in order to align financial management with other business processes. USAID's recent deployment of GLAAS is integrated to Phoenix so that procurement and financial data can be exchanged on a real-time basis, enabling efficient funds control validation for procurement actions. In FY 2012, USAID deployed an interface between Phoenix and the Agency's travel management system to improve data accuracy, streamline processes, and reduce workload for Agency staff. In FY 2012, USAID also developed a Web-based version of its cash reconciliation tool, called eCART, which helps financial management staff reconcile Agency transactions posted in Phoenix with the Department of the Treasury and U.S. Disbursing Office transactions. The deployment of eCART has reduced the level of effort required to process cash reconciliation, improved accuracy of cash

reconciliation at USAID, and enables the Agency to generate central reports about cash reconciliation progress.

In addition to the systems and tools that USAID directly manages and/or has developed internally, such as Phoenix, GLAAS, and eCART, USAID also leverages interagency agreements to support its financial management operations: Health and Human Services processes USAID's letter of credit transactions for grantee advances and liquidations; U.S. Department of Agriculture processes payroll for some USAID employees; and USAID partners with DOS to run the Joint Financial Management System, an initiative to collaborate on financial management system planning and support.

USAID will continue to improve its financial systems framework to meet new federal requirements and support Agency goals. USAID plans to upgrade the core Phoenix financial system software in 2013, which will enable the Agency to align with new federal initiatives, as well as improve system usability and efficiency. In addition, USAID will work to further align financial management with program management, and to make financial management processes more efficient. As part of an Enterprise Data Management Initiative, USAID will also improve the way financial data is managed and shared, not only within USAID but also with other U.S. Government agencies and with public stakeholders worldwide.



## AUDIT FOLLOW-UP

USAID management and the OIG staff work in partnership to ensure timely and appropriate responses to audit recommendations. The OIG uses the audit process to help Agency managers improve the effectiveness and efficiency of operations and programs. 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. They contract with the DCAA to audit U.S.-based contractors and rely 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. During the fiscal year, a total of 1,300 audit recommendations were issued by the OIG, representing a 60 percent growth in recommendations from FY 2009 to 2012.

The Agency closed 1,205 recommendations, representing 172 (or 17 percent) more than last year. Of these, 887 were procedural or non-monetary, audit recommendations; 310 were questioned costs recommendations, representing \$10.9 million in disallowed costs that were recovered; and 8 audit recommendations with management efficiencies, representing \$13.7 million in funds that were put to better use e.g., deobligation or reprogramming of funds, reduction in outlays, cost avoidance (a non-collective monetary issue such as interest lost by not putting funds in an interest-bearing bank account), establishing new or revised policies or procedures, other savings realized from implementing the recommended improvement.

In addition, a reasonable effort was made to complete corrective action on OIG audit recommendations within one year of a management decision. The Agency

kept its over-a-year-old recommendations under 5 percent for the fourth consecutive year. As of September 30, 2012, there were 58 open recommendations over one year old. Of these, 15 were under formal administration or judicial appeal with the USAID's Procurement Executive or the Civilian Board of Contracts Appeals, and 43, or 4.8 percent, were at the mission or bureau/independent office level.

A management decision is the evaluation of a recommendation by management and a decision upon an appropriate course of action. There was one audit recommendation over six months old with no management decision. This concerned an audit of USAID/Pakistan's Firms Project. The charts below show that USAID made management decisions to act on 302 audit recommendations with manage-

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

	Recommendations	Dollar Value(\$000)
<b>Management decisions:</b>		
Beginning balance 10/1/2011	10	\$ 2,578
Management decisions during the fiscal year	6	32,498 <sup>1</sup>
Total management decisions made	16	35,076
<b>Final action:</b>		
Recommendations implemented	8	13,716
Recommendations not implemented	–	–
Total final action	(8)	(13,716)
Ending Balance 9/30/2012	8	\$ 21,360

<sup>1</sup>This amount includes \$20 million that was reprogrammed to other energy projects in USAID/Pakistan because the mission decided not to provide further funding for the tube well pilot activity due to problems in program implementation and other factors, including a change in mission strategy and the severe flooding in 2010. This activity required the contractor to replace 11 thousand pumps with more efficient pumps, with the ultimate goal of reducing energy demand by 45 megawatts throughout Pakistan. As of September 15, 2011, USAID/Pakistan had replaced only 963 pumps and reduced energy demand by 7 megawatts as compared with the anticipated 45 megawatts. (Audit Report No. G-391-12-002-P dated November 23, 2011, "Audit of USAID/Pakistan's Energy Efficiency and Capacity Program")

### MANAGEMENT ACTION ON AUDITS WITH DISALLOWED COSTS

	Recommendations	Dollar Value(\$000)
<b>Management decisions:</b>		
Beginning balance 10/1/2011	186	\$ 318,444
Management decisions during the fiscal year	296	64,124
Total management decisions made	482	382,568
<b>Final action:</b>		
Collections/Offsets/Other	305	10,775
Write-offs	5	128
Total final action	(310)	(10,903)
Ending Balance 9/30/2012	172	\$ 371,665

Note: The data in these charts do not include procedural (non-monetary) audit recommendations. The ending balance is determined by adding "Management decisions during the fiscal year" to "Beginning balance 10/1/2011" and subtracting "Total final action" (or closed audit recommendations).

ment efficiencies (funds put to better use) and planned recoveries (collection of disallowed costs) totaling more than \$96 million. In addition, as mentioned in the third paragraph above, final action was completed for 8 “put to better use” and 310 “questioned costs” audit recommendations, representing a total of \$25 million in cost savings.

## **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 1,636 assets with a total plant replacement value of \$3.33 billion as of December 15, 2011. This includes 88 functional facilities, 70 land lots, 1,472 housing units, and 6 parking structures. The oversight of this portfolio is under the purview of USAID’s Senior Real Property Officer in collaboration with DOS’s Overseas Buildings Operations Bureau.

The Executive Office of the President has paid increasing 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 Disposal of Unneeded Federal Real Estate, the Civilian Property Realignment Act of 2011, and most recently the “Freeze the Footprint” initiative mandated from OMB memorandum dated May 11, 2012. Real property also plays a major role in federal sustainability goals, such as those outlined in Executive Orders 13423 and 13514; as well as via objectives from Energy Independence and Security Act of 2007, Energy Policy Act of 2005, and the Telework Enhancement Act of 2010. In addition, agencies across the Federal Government received guidance in December of 2011 to implement Energy

Savings Performance Contracts to make buildings more energy efficient.

USAID has a successful track record in meeting the challenges of the Federal Real Property Initiative. In doing so, the Agency works closely with counterparts government-wide, such as DOS and OMB to effectively plan and execute initiatives. In the summer of 2010, USAID established a Real Estate Cost Savings and Innovation Plan that identified \$102 million in cost savings and cost avoidance opportunities. In the fourth quarter of FY 2011, the Agency had achieved \$56 million in real estate cost savings, and is on pace to reach the revised target of \$130 million by the end of FY 2012. Today USAID is addressing new challenges to support expanding development and diplomatic missions in an uncertain budget environment. USAID is accomplishing this by effectively managing its facility portfolio with cost efficient processes and innovative methods, such as implementing new workplace designs and technologies to accommodate staff growth without a corresponding impact on the real estate footprint.

## **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 its 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 2013 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.

## **OPEN GOVERNMENT**

USAID’s transparency efforts have seen steady progress since President Obama issued a Memorandum on Transparency and Open Government requesting that all federal agencies establish a system of transparency, public participation, and collaboration. USAID takes transparency and accountability in foreign aid seriously and is working hard to ensure that it effectively communicates its efforts to the American people, its stakeholders, and its partners at home and abroad. By making data, programs, and evaluations easily accessible, the Agency is helping to create a global commons of development practice that is based on evidence and shares knowledge to inform new approaches in development.

Launching the newly-updated USAID external Web site (<http://www.usaid.gov>) in June 2012 was an Agency Open Government Flagship Initiative and is a critical resource for individuals seeking information on USAID. The Web site includes cutting-edge tools to provide accessible, real-time information about USAID’s work, the results it delivers for the American people and its partners, the partnerships it forges, and the lives it touches around the world.

USAID supports open government and transparency by publishing high-value information online and in open formats. USAID has been publishing the Greenbook for nearly 50 years and its companion Web site (<http://gbk.eads.usaidallnet.gov/>) has been updated to provide a complete historical record of all foreign assistance provided by the United States to the rest of the world. Since April 2012, the Greenbook Web site has offered a detailed, searchable presentation of the data by all U.S. Government departments and agencies. Greenbook data are available on the Open Government Initiative's data repository, [www.data.gov](http://www.data.gov), and consistently ranks as one of the most most-downloaded datasets of all time.

USAID, in partnership with DOS, also launched the Foreign Assistance Dashboard ([www.foreignassistance.gov](http://www.foreignassistance.gov)), which visualizes where Agency money goes. The goal of the Foreign Assistance Dashboard is to enable a wide variety of stakeholders, including U.S. citizens, civil society organizations, the Congress, U.S. Government agencies, donors, and partner country governments, the ability to examine, research, and track U.S. Government foreign assistance investments in an accessible and easy-to-understand format. The dashboard will be the tool used to publish all U.S. Government foreign assistance in the International Aid Transparency Initiative standard format to provide accessible, real-time information about USAID's work. As the lead Agency in implementing U.S. foreign assistance activities, the launch of USAID budget and financial data on the dashboard represents a significant step forward on aid transparency efforts.

USAID will continue to implement the commitments made in its Open Government plan and will document the projects, accomplishments, and data that contribute to USAID's success.

## COST SAVINGS

USAID remains committed to the central focus of government cost savings. Over the last several years, the Agency has undertaken ambitious cost saving reforms in an effort to improve management processes and operational efficiencies. Substantial strides have been made in reinforcing cost savings as well as improving the efficiency of daily operations. The Agency has engaged its employees around the world in identifying short- and long-term cost savings, including cost avoidance through the use of blogs and e-mail, and through the President's Securing Americans' Value and Efficiency (SAVE) Award program. To date, the Agency has realized cost savings and cost avoidance of over \$57.6 million in FY 2011 and projected savings and avoidance of over \$50 million in FY 2012. These efficiencies were accomplished primarily through reductions in administrative costs, in-sourcing, and the disposal of unneeded real estate. Lastly, as the Agency moves forward in the current fiscal and economic climate, USAID will continue refinement of cost savings with a goal of streamlining processes and increasing efficiency. The challenge is to find short and long-term savings opportunities while continuing to focus on the mission-critical strategic priorities of supporting long-term, equitable economic growth.

## IMPLEMENTING FLEEP, EXECUTIVE ORDER 13514

The Federal Leadership on Environmental, Energy and Economic Performance (FLEEP), Executive Order 13514, 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 from a FLEEP-established FY 2008 baseline. Emissions from air travel are calculated per passenger mile, considering distance traveled, type of aircraft, seating class, average cargo load, and aircraft engine specifications for each employee trip. Carbon emissions from individual employee trips are calculated using these factors and summed together for total annual Agency emissions from air travel. USAID reduced its carbon emissions from air travel by 3,339 metric tons from FY 2008 to FY 2010. Compared to the FY 2008 baseline, USAID realized a reduction of 854 metric tons of carbon emissions from air travel in FY 2011. USAID's reduction in carbon emissions in FY 2011 is equivalent to the amount of carbon sequestered annually by 8.5 acres of forest, the annual carbon emissions from 74 houses, or the amount of carbon emitted by consumption of 95,740 gallons of gas.

USAID has taken additional actions to reduce the environmental impact of Agency domestic operations, including recycling, telework, and operational policy efforts. USAID is enhancing the recycling program in Washington-based facilities by tripling collection capacity to include paper, plastic, and aluminum products. The telework program permits employees to telework more frequently thereby further reducing emissions of greenhouse gases. The Agency will also finalize the Green Procurement Plan in 2012 that requires acquisition of environmentally preferable products that contain recycled, bio-based, non-toxic, energy efficient, and

water efficient materials. This Agency-wide green acquisition program will reduce energy and water consumption, solid waste generation, and, therefore, the USAID environmental footprint at home and abroad. Current USAID energy and conservation activities not only reduce greenhouse gas emissions and pollution but have the added benefit of contributing to cost savings throughout the Agency.

## **WORKING IN AREAS OF CONFLICT AND CRISIS**

USAID continues to strive to improve its ability to implement programs and activities in areas of conflict and crisis where security concerns, infrastructure challenges, difficult terrain, natural disaster, or humanitarian crises define the operational environment. USAID has undertaken a comprehensive review of core operating principles, policies, and procedures in these areas and is working diligently to maintain the safety and security of its personnel, while effectively implementing and monitoring the Agency's humanitarian and development programs.

USAID management is focusing on key components as part of a top-to-bottom review of operating in crisis areas. This review will provide a necessary blueprint as the Agency increasingly works in crisis areas and in coordination with DOS and the Department of Defense to achieve U.S. national foreign policy goals. The physical security of staff plays an important role in operating safely in these environments. Emphasis is placed on proper planning, training, equipping, and supporting USAID staff and partners. USAID will harness, consolidate, and implement best practices associated with effective risk reduction.

# FINANCIAL SECTION





(Above) Nurses and midwives walk along a hall of statistics in Mailala Maternity Hospital in 2011. USAID support to Afghanistan's public health system, including training for nurse midwives, helped expand access to basic health services from less than 10 percent of the country to nearly two-thirds of Afghan citizens.

PHOTO: ADEK BERRY / AFP

(Preceding page) A newborn boy sleeps in a hospital in Kabul in 2010. A decade before, Afghanistan's health system collapsed, resulting in some of the highest maternal mortality rates in the world. Maternal mortality decreased from an estimated 1,600 deaths per 100,000 births to 327 per 100,000 births between 2003 and 2010.

PHOTO: BEHROUZ MEHRI / AFP

# A MESSAGE FROM THE CHIEF FINANCIAL OFFICER



**T**he Agency Financial Report (AFR) for FY 2012 is the U.S. Agency for International Development's (USAID) principal publication and report to the President and the public on its stewardship and management of the funding to which we have been entrusted. This report also contains a discussion on financial and program performance.

USAID received a qualified opinion on its FY 2012 financial statements and an unqualified opinion on its FY 2011 financial statements. The USAID Office of Inspector General (OIG) qualified the FY 2012 financial statements based on its review of our corrective actions taken to resolve the material weakness related to USAID's Fund Balance with Treasury.

During FY 2012, USAID focused on reducing unexplained cash balance differences between its general ledger and the U.S. Treasury. The amount was reduced by approximately 90 percent between September 30, 2011 and September 30, 2012. The OIG expressed its concern on the process USAID used to improve its Fund Balance with Treasury position. Additionally, the OIG identified that our process resulted in a material weakness because USAID made "unsupported adjustments" to its general ledger account balances.



**David D. Ostermeyer**

It is important to note that we made significant progress to resolving our Fund Balance with Treasury difference and we feel that we supported the adjustments using the best approach given the legacy situation. Based on the OIG's assessment, further work is necessary before this issue can be fully resolved and the associated material weakness remedied. We will continue to focus our efforts to eliminate this weakness.

In FY 2012, the complexity of the issue and the number of years from which the original condition started required a timetable and scope that limited our ability to fully resolve this issue to the OIG's satisfaction. We will continue our efforts

into FY 2013 to resolve this issue. Significant progress was made in FY 2012 to reduce fund balance differences including:

- Moved USAID cash reconciliation tool to a Web platform (eCART); so all cash reconciling items from worldwide missions are made timely and are visible to headquarters. The eCART tool ensures payments made directly by USAID or the Department of State disbursing officers on USAID's behalf are charged to the correct appropriation both at Treasury and USAID's accounting system;
- Improved our comprehensive Treasury general ledger reconciliation analysis that included eCART reconciling items plus reconciling items from all of USAID's other payment agents. This helped USAID to identify and correct unexplained cash differences;
- Improved the Department of Health and Human Services payment reconciliation procedures;
- Improved the National Finance Center (NFC) payroll reconciliation procedures by using an ACCESS database and a new posting model for correcting payroll differences between Phoenix and U.S. Treasury in order to compare Phoenix and NFC transactions at the U.S. Treasury and at the transaction level; and
- Reduced the number of suspense account items over 60 days old from approximately 1,800 to 800 by the end of FY 2012.

The OIG identified six significant deficiencies in internal controls. The significant deficiencies pertain to USAID's processes for (1) reconciling loan receivables; (2) deobligating unliquidated obligations; (3) accounting for advances; (4) estimating and recording accounts payable and accrued expenses; (5) accounting for payroll activities; and (6) reconciling intragovernmental transactions. Two of the six deficiencies, reconciling loan receivables and intergovernmental transactions had no accompanying recommendations for this year. The OIG provided recommendations for the remaining four deficiencies which will serve as the basis for our continued efforts to improve controls in these areas.

During FY 2012, the Office of the Chief Financial Officer (CFO) assessed the effectiveness of the Agency's internal control over financial reporting, including compliance with laws and regulations, 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 in conformance with Office of Management and Budget (OMB) Circular A-123, *Management's Responsibility for Internal Control*, and related appendices requirements. One material weakness related to USAID's Fund Balance with Treasury was identified as well as five significant deficiencies and were reported as part of this assessment and the annual Federal Managers' Financial Integrity Act (FMFIA) review.

The Office of the CFO also coordinated the FMFIA overall compliance effort for FY 2012. USAID conducted reviews of its

financial management systems in accordance with OMB Circular A-127, *Financial Management Systems*. Based on these reviews, and as a result of the Federal Information Security Management (FISMA) audit findings, USAID identified one material weakness constituting nonconformance with financial management system requirements under FMFIA § 4. Other than this exception, USAID can provide reasonable assurance that its financial systems substantially complies with financial system requirements and applicable provisions of FMFIA as of September 30, 2012.

We are committed to minimizing the risk of making erroneous or improper payments to contractors, grantees, and customers. In FY 2012, USAID's error rate for the Improper Payment Elimination and Recovery Act (IPERA) for the programs tested is 0.08 percent which is well below OMB's erroneous payments reporting threshold of 2.5 percent. The Agency remains vigilant in its efforts to reduce payment errors by focusing its efforts on identifying, reporting, and recovering its high-dollar overpayments.

USAID received \$38 million of Recovery Act funding for IT systems. During FY 2012, project implementation was completed and closeout procedures have begun.

The Office of the CFO continues its leadership role to advance Objective 1 of the Administrator's initiative *Building Local Development Leadership* through Implementation and Procurement Reform (IPR). As one of seven key reform areas under the USAID Forward initiative,



IPR Objective 1 seeks to strengthen partner country public financial management capacity to improve aid effectiveness and sustainability. To accomplish this objective, USAID is expanding its use of reliable partner country public financial management systems and institutions after applying a risk-based approach to assess activities. During FY 2012, the Office of the CFO led the IPR Objective 1 Team, augmented by mission personnel and USAID/Washington representatives, and achieved the following results:

- Continued collaborating with bilateral and multilateral donors and the wider USAID stakeholder community to socialize IPR Objective 1's long-term target of transparent and accountable partner country public financial management systems.

- Continued implementing USAID's Public Financial Management Risk Assessment Framework (PFMRAF). The USAID's PFMRAF is used to assess partner country public financial management systems' capacity and reliability. The fieldwork for PFMRAF Stage 1 Rapid Appraisals has been completed in 33 countries. Sixteen of these have completed or will complete one or more PFMRAF Stage 2 Risk Assessments. Several more will proceed to the Stage 2 when mission development priorities have been set.
- Completed course development and conducted training to provide the knowledge and tools necessary to support IPR Objective 1 goals.

We continue to provide information to the American taxpayer about our programs and performance through the government-wide Open Government initiative. 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 2012 accomplishments, we will focus future efforts to resolve audit findings and improve all aspects of financial performance and to hold ourselves, and the Agency, to the highest financial management standards. We continue to commit to promoting effective internal controls and resolving any impediments to produce fairly represented USAID financial statements today and in the future.



David D. Ostermeyer  
Chief Financial Officer  
November 16, 2012



FINANCIAL SECTION

# INDEPENDENT AUDITOR'S REPORT





**(Above) Jane Akinyi, a graduate of USAID's Women's Equality Empowerment Project, sells a type of fish called omena to her fellow Kibera, Kenya, residents as well as to the country's largest supermarket chain. A single mother of two who is also HIV-positive, Akinyi was near death in 2006, but is now a successful entrepreneur.** PHOTO: MICHAEL GEBREMEDHIN / USAID

**(Preceding page) "Value Girl" Joyce Akinya feeds chickens by the shores of Lake Victoria in western Kenya in April 2012. The Value Girls program is funded by USAID and the Nike Foundation to improve the economic status of young women by helping them develop alternative sources of income, such as growing vegetables or raising poultry to sell at local markets.** PHOTO: SIEGFRIED MODOLA



*Office of Inspector General*

November 16, 2012

**MEMORANDUM**

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

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

**SUBJECT:** Audit of USAID's Financial Statements for Fiscal Years 2012 and 2011

The Office of Inspector General (OIG) is transmitting its report on the Audit of USAID's Financial Statements for Fiscal Years 2012 and 2011. 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, the Department of the Treasury, and the Government Accountability Office by November 16, 2012. 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 a qualified opinion on USAID's principal financial statements for fiscal year 2012 and an unqualified opinion on the 2011 financial statements. With respect to internal control, we identified two deficiencies that we consider material weaknesses. The material weaknesses pertain to USAID's processes for (1) reconciling its fund balance with the U.S. Treasury and (2) recording adjustments to the general ledger. Additionally, we identified six deficiencies in internal control that we consider significant deficiencies. The significant deficiencies pertain to USAID's processes for (1) reconciling loans receivable, (2) deobligating unliquidated obligations, (3) accounting for advances, (4) estimating and recording accounts payable and accrued expenses, (5) accounting for payroll activities, 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 (FFMIA). However, we reported one significant deficiency in the Agency's annual Federal Information Security Management Act report, No. A-000-13-003-P dated November 14, 2012, which we classified as an instance of substantial noncompliance with FFMIA as required by OMB Bulletin 07-04, "Audit Requirements for Federal Financial Statements."

U.S. Agency for International Development  
1300 Pennsylvania Avenue, NW  
Washington, DC 20523  
<http://oig.usaid.gov>

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. We acknowledge your 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.*)

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 2013 financial statements.

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

We have audited the accompanying consolidated balance sheets of USAID as of September 30, 2012 and 2011, 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, 2012 and 2011. 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 OMB Bulletin 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.

USAID recorded a series of unsupported adjustments to bring its general ledger into agreement with its accounting journal (budget module) and its Fund Balance With Treasury general ledger account into agreement with the U.S. Treasury balance. Subsequently, USAID recorded another series of unsupported adjustments to match its budgetary accounts to its proprietary accounts. We were not able to obtain evidence to support the adjustments, nor were we able to perform alternative procedures to determine the veracity of the adjustments. These unsupported adjustments resulted in changes to the accounts and statements as indicated in Table 2.

**Table 2. Unsupported Adjustments**

Account Name	Increase or (Decrease) (\$ million)	Statement (FY 2012)
Outstanding Advances	478	Balance Sheet
Expended Appropriations	418	Statement of Changes in Net Position
Undelivered Orders, Prepaid	420	Statement of Budgetary Resources
Delivered Orders, Unpaid	264	Statement of Budgetary Resources
Fund Balance With Treasury	(58)	Balance Sheet
Unexpended Appropriations Used	(418)	Statement of Changes in Net Position
Operating Expenses/Program Costs	(420)	Statement of Net Costs
Delivered Orders, Paid	(278)	Statement of Budgetary Resources
Undelivered Orders, Unpaid	(406)	Statement of Budgetary Resources

In our opinion, except for the effects of the unsupported adjustments on the 2012 financial statements as shown in the table on the preceding page, the financial statements referred to above present fairly, in all material respects, USAID's assets, liabilities, and net position; net costs; changes in net position; and budgetary resources as of September 30, 2012 and 2011, and for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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 16, 2012, 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.



USAID Office of Inspector General  
November 16, 2012



# REPORT ON INTERNAL CONTROL

We have audited the consolidated balance sheets of USAID as of September 30, 2012 and 2011. 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, 2012 and 2011, and have issued our report thereon dated November 16, 2012. 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 OMB Bulletin 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, 2012 and 2011, we considered USAID's internal control over financial reporting by obtaining an understanding of USAID's system of internal control, determining whether internal controls had been placed in operation, assessing control risk, and testing 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 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 two material weaknesses and six 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 two deficiencies in internal control that we consider material weaknesses, as defined above, relating to USAID's reconciliation of its Fund Balance With Treasury account with Treasury and recording of adjustments to its general ledger.

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 advances is not effective.
- Estimate and record accounts payable and accrued expenses is not effective.
- Record payroll deductions and calculate entitlement payments 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 that we will report to USAID's management in a separate letter dated November 16, 2012.

## **Material Weaknesses**

### **USAID Recorded Unsupported Adjustments to Bring Its Fund Balance With Treasury Account Into Agreement With the U.S. Treasury's Balance**

USAID continues to have a large difference between the Fund Balance With Treasury (FBWT or cash) account recorded in its general ledger (GL) in the financial accounting system (Phoenix) and the balance reported by the Department of the Treasury (Treasury). At the beginning of FY 2012, the balance in USAID's FBWT account was \$96 million less than the balance reported by Treasury. Instead of investigating and resolving the difference, USAID made a management decision to rely on the cash balance in the budget module,<sup>2</sup> and adjust its FBWT account in the GL to make it agree with the budget module. As a result, USAID recorded a series of entries in its GL and moved funds from all affected appropriations to one appropriation at Treasury. The net effect of these entries reduced its GL cash balance by approximately \$58 million which made the GL FBWT balance \$114 million less than the balance at Treasury. As of the date of this report, management does not know if the \$114 million belongs to Treasury or to USAID and anticipates that it will know by the end of the second quarter of FY 2013.

USAID justified these entries by claiming that thousands of standard voucher and journal voucher entries that it had recorded in its GL since 2001 included many erroneous entries that distorted its GL FBWT balance. Management claimed that the erroneous entries affected the GL only and not the budget module and concluded that the balance in the budget module was more accurate than the GL. However, USAID's management was unable to provide satisfactory evidence to support this contention despite several requests dating back to October 2011. In addition, USAID was unable to produce any analysis that was conducted before the adjustments were recorded, either to justify them or to demonstrate the verity of the balances in

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<sup>2</sup> The budget module is a component in the Agency's accounting system that automates the budget execution process and validates all financial activity.

the budget module. Despite all the adjustments that USAID recorded during the year, it was compelled to record further adjustments of \$35 million at the end of FY 2012 to ensure that its FBWT account agreed with the balance reported on Treasury's Form 2108, Year End Closing Statement. In fact, the difference between the GL FBWT balance and Treasury's balance at the end of the year was approximately \$119 million, but because USAID did not record \$84 million of disbursements that were recorded by Treasury, the difference appeared to be only \$35 million.

*Fund Balance With Treasury Reconciliation Procedures, a Supplement to the Treasury Financial Manual*, Volume I, Part 2-5100, Section V, stipulates that federal agencies must resolve all differences between the balances reported in their GL FBWT accounts and balances reported by Treasury in the Government-wide Accounting System. In addition, Fund Balance With 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.

Treasury requires each agency to reconcile its FBWT account on a regular and recurring basis to assure the accuracy and integrity of its financial data. Failure to implement effective reconciliation processes and perform timely reconciliations could increase the risks of fraud, waste, and mismanagement of funds; affect the agency's ability to effectively monitor the execution of its budget; and hinder the agency's ability to measure the full cost of its programs. USAID has implemented an eCART<sup>3</sup> system that expedites the reconciliation process and facilitates the research and resolution of reconciling items. The Agency expects to have all differences resolved by the end of FY 2013. Still we make the following recommendation.

**Recommendation 1.** *We recommend that the Chief Financial Officer verify that all differences between USAID and the Department of the Treasury are researched and resolved in a timely manner in accordance with Treasury financial manual reconciliation procedures.*

## **USAID Made Adjustments to Various Accounts in Its General Ledger That It Could Not Justify**

Our audit revealed that USAID recorded several unsupported adjustments to various GL accounts to address differences between its FBWT account and the balance recorded by the Treasury, and between the advances account and the undelivered orders, prepaid account. As a result of these adjustments, USAID was forced to adjust the balances of other budgetary and proprietary accounts, including the undelivered orders, unpaid account and the delivered orders, paid account. USAID recorded these adjustments without first researching and resolving the differences in the account balances and maintaining an analysis of the adjustments to allow correct interpretation of errors and corresponding adjustments.

These unsupported adjustments occurred because USAID did not ensure that its employees followed established procedures for reconciling GL accounts: reviewing each transaction, determining the validity of transaction errors, and maintaining documentation to show the cause

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<sup>3</sup> eCART is a tool that performs a comprehensive reconciliation of the Agency's cash disbursement with Treasury's Fund balance, tracking open reconciling items and providing an audit trail of corrective action taken.

of each error and the resulting adjustment. Additionally, the differences between the GL account and subsidiary ledgers and other records occurred because USAID did not have adequate internal controls to ensure that the GL updates were consistent with transactions recorded in the subsidiary ledgers and that financial reports reflected accurate account information. Specifically, we found that USAID recorded the following unsupported adjustments:

- Decreased FBWT by approximately \$58 million (Table 3)
- Increased outstanding advances by approximately \$478 million (Table 4)
- Increased undelivered orders, unpaid by approximately \$348 million (Table 5).

Treasury Financial Manual Volume I, Part 2, Chapter 5100, states that an agency may not arbitrarily adjust its FBWT account. It further states that only after clearly establishing the cause of errors and properly documenting those errors should an agency adjust its FBWT account balance. If an agency must make material adjustments, the agency must maintain supporting documentation. This will allow correct interpretation of the error and its corresponding adjustments. The Government Accountability Office's, *Standards for Internal Control in the Federal Government* (GAO/AIMD-00-21.3.1), states control activities occur at all levels and functions of the entity. They include activities such as approvals, authorizations, verifications, reconciliations, and maintenance of records that provide evidence of execution of these activities as well as appropriate documentation. OMB Circular A-123, "Management's Responsibility for Internal Control", December 21, 2004, states that documentation should be appropriately detailed and organized, contain sufficient information to support management's assertion, and be readily available for examination.

### Unsupported Fund Balance With Treasury Adjustments

We determined that USAID recorded a series of unsupported adjustments that reduced the balance of its FBWT account by \$58 million. USAID made a management decision that the cash balance in the budget module was more accurate than the cash balance in the GL and recorded a series of unsupported adjustments to eliminate the differences. The entries are illustrated in Table 3. In an attempt to resolve the differences between its FBWT account and the balance at Treasury, USAID moved funds from all the affected appropriations to one appropriation at Treasury, causing the balance at Treasury to exceed the balance on USAID's GL by \$114 million.

**Table 3. Unsupported Fund Balance With Treasury Account Adjustments**

GL Account	Account Name	Increase / (Decrease) (\$Million)	Financial Statements
1010	Fund Balance With Treasury	(58)	Balance Sheet
3107	Unexpended Appropriations – Used	58	Statement of Changes in Net Position
4801	Undelivered Orders, Unpaid	58	Statement of Budgetary Resources
4902	Delivered Orders, Paid	(58)	Statement of Budgetary Resources
5700	Expended Appropriations	(58)	Statement of Changes in Net Position
6100	Operating Expense/Program Costs	58	Statement of Net Costs

These adjustments do not include the \$35 million adjustment that management made at the end of FY 2012 to bring its FBWT account into agreement with the balance at Treasury.

For many years USAID has attempted to reconcile the differences between its GL FBWT account and the balance reported by Treasury. During FY 2012, USAID took the position that its budget module was more reliable than its GL; consequently, the Agency recorded several unsupported adjustments to GL cash balances to make them agree with cash balances in the budget module and to reflect the cash balances in the related accounts at Treasury. Subsequently, USAID informed us that many of the adjustments were made to correct errors created by previous adjustments to the GL but could not provide any support for this assertion.

#### Unsupported Adjustments To Advances

We determined that during FY 2012, USAID compared the outstanding balance of the advances account recorded in its GL with the balances in the budget module and identified a difference of \$478 million. However, USAID did not conduct the required reconciliation of the balance in the GL advances account with the balance in the advances account recorded in the budget module. Instead, USAID recorded an unsupported adjustment of approximately \$478 million to bring the GL advances account into agreement with the advances account balances recorded in the budget module. (Table 4).

**Table 4. Unsupported Adjustments to Advances  
Between the GL and the Budget Module**

GL Account	Account Name	Increase / (Decrease) (\$ million)	Financial Statements
1410	Advances	478	Balance Sheet
3107	Unexpended Appropriations	(476)	Statement of Changes in Net Position
4802	Undelivered Orders – Obligations - Advances, Paid	(420)	Statement of Budgetary Resources
4902	Delivered Orders – Obligations, Paid	420	Statement of Budgetary Resources
5700	Expended Appropriations	476	Statement of Changes in Net Position
6100	Operating Expenses/Program Costs	(478)	Statement of Net Cost

#### Unsupported Obligation Adjustments

Finally, our audit revealed that for the remaining differences, USAID did not reconcile the account balances but recorded additional unsupported adjustments to the obligation balances. Further, USAID only compared the balances in the obligation accounts but did not identify specific transactions that caused the errors in the balances. Using this comparison of account balances, USAID determined that there was a difference of \$348 million in cash between the budget module and the GL that was available to cover unpaid obligations. This difference occurred because the unsupported adjustments made to the FBWT and advances accounts affected various budgetary accounts and necessitated adjustments to the undelivered orders, unpaid account and the delivered orders, paid account. Therefore, USAID recorded the following additional unsupported adjustment to its FY 2012 obligation balances in the GL (Table 5).

**Table 5: Unsupported Adjustments to Obligations  
Between the GL and the Budget Module**

<b>GL Account</b>	<b>Account Name</b>	<b>Increase / (Decrease) (\$ million)</b>	<b>Financial Statements</b>
4801	Undelivered Orders, Unpaid	348	Statement of Budgetary Resources
4901	Delivered Orders, Unpaid	(264)	Statement of Budgetary Resources
4902	Delivered Orders, Paid	(84)	Statement of Budgetary Resources

After all the adjustments were recorded in the GL, the balance of the FBWT account decreased by \$37 million, advances increased by \$305 million, net position increased by \$268 million, and undelivered orders, unpaid increased by \$46 million. Therefore we make the following recommendation.

**Recommendation 2.** *We recommend that the Chief Financial Officer augment its general ledger reconciliation processes to ensure that (a) the postings in the general ledger are reconciled periodically with the postings in the subsidiary ledgers, (b) general ledger differences are researched and resolved in a timely manner, (c) errors are corrected in a timely manner to maintain accurate account balances in the general ledger, and (d) detailed documentation of analysis and reconciliations supporting adjustments are maintained and easily retrievable for examination.*

## Significant Deficiencies

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

A large unreconciled difference exists between USAID’s accounting system and the system used by the company that services USAID’s loan portfolio. 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, 2012, USAID’s unreconciled differences between amounts recorded in Phoenix and amounts recorded in ELS totaled approximately \$35 million net (\$772 million absolute value).

Even though 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 \$35 million to bring the loans receivable balance in Phoenix as of September 30, 2012, 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 GL 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 GL.

In last year's audit,<sup>4</sup> we recommended that USAID's Office of the Chief Financial Officer (CFO) (a) develop and implement a plan to complete its reconciliation of loan balances in the Phoenix accounting system with balances maintained in PNC's 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 implemented this plan in FY 2012, and we will continue to monitor its progress in completing the reconciliation. Therefore, we are not making a recommendation to USAID management on this matter.

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

USAID does not consistently review its unliquidated obligations (ULOs) to determine whether those without activity for 3 years or more are still required or should be deobligated. Although USAID and its missions review ULOs annually, neither the Agency nor its missions consistently deobligate ULOs identified as excess or unneeded funds. 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, 2012, USAID had approximately \$53 million,<sup>5</sup> in ULOs, including \$45 million related to procurement activities, with no disbursements for more than 3-years that might be available for deobligation. Of the \$53 million, approximately \$16 million in obligations were more than 10 years old. We also determined that approximately \$21 million, comprising of both procurement and non-procurement activities, related to obligations that had no disbursements since they were established (Table 6).

**Table 6. Analysis of ULOs by Fiscal Years**

<b>FY Established</b>	<b>Amount of Obligations With No Activity Since Establishment (\$)</b>	<b>Amount of Unliquidated Obligations With No Activity for 3-Years (\$)</b>	<b>Total Unliquidated Obligations (\$)</b>
2001 and Prior	2,279,650	13,305,859	15,585,509
2002	146,620	2,014,962	2,161,582
2003	183,233	1,321,036	1,504,269
2004	1,051,695	3,930,481	4,982,177
2005	1,542,819	2,574,030	4,116,849
2006	1,380,031	2,955,371	4,335,401
2007	3,027,433	2,487,009	5,514,443
2008	4,166,758	2,600,054	6,766,812
2009	7,650,593	767,647	8,418,241
<b>Total</b>	<b>21,428,832</b>	<b>31,956,449</b>	<b>53,385,281</b>

<sup>4</sup> "Audit of USAID's Financial Statements for Fiscal Years 2011 and 2010," November 15, 2011, page. 8, <http://oig.usaid.gov/sites/default/files/audit-reports/0-000-12-001-c.pdf>

<sup>5</sup> During the past five years, obligations incurred averaged approximately \$12 billion annually.

In addition, our audit determined that 10,210 obligations valued at approximately \$604 million in USAID's Phoenix accounting system and its Global Acquisition and Assistance System (GLAAS) lacked certain critical procurement information. When recording awards, contracting officers and obligation managers were not including all relevant information in the acquisition system that would facilitate timely deobligations. USAID addressed these deficiencies during the audit. Additionally obligation managers did not consistently monitor the contracts and grants assigned to them to determine whether the unliquidated amounts were still needed.

USAID's Automated Directives System (ADS) Chapter 621, "Obligations," states that obligation managers must continuously monitor unexpended obligated balances and request the obligating official to deobligate excess or unneeded funds.

As a result of not monitoring the obligations, USAID has increased the risk of losing program and operating expense funds that may expire before they are deobligated. Because USAID is in the process of awarding contracts to independent public accounting firms to conduct contract closeout audits on procurement awards, we are not making a recommendation on this matter. However, because USAID has approximately \$21 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 relevant Bureau Assistant Administrators to (a) initiate targeted reviews of awards that are more than 3 years old with unliquidated obligation balances and (b) verify that obligation managers conduct the periodic reviews required to initiate deobligation action on unliquidated obligations.

**USAID's Process for Accounting for Advances Is Not Effective (Repeat Finding)**

USAID's process for accounting for advances continues to be problematic. Specifically, USAID:

- Continues to have advances outstanding longer than the 90 days allowed before liquidation.
- Has not investigated approximately \$7.8 million in negative unliquidated advances.
- Does not have procedures for secondary reviews of advance reclassification.
- Recorded adjustments to its advances account that were not supported.

As of September 30, 2012, USAID had approximately \$67 million in advances that were outstanding for more than 90 days (Table 7).

**Table 7. Advances Outstanding for More Than 90 Days**

Office	Category	Number Outstanding	Amount (\$ thousands)
USAID/W	Intra-governmental	67	24,669
	Grantees	115	4,518
	Public International Organizations	7	3,575
USAID/Missions	Intra-governmental	39	82
	Grantees	1,220	33,995
<b>Total</b>		<b>1,448</b>	<b>66,839</b>

These advances were outstanding because USAID and its missions allowed grantees to utilize the "three month rolling advance" process which allowed them to take an additional 30 days to



report expenses incurred in the prior quarter. USAID then took another 30 days to review and liquidate the advances. As a result, USAID did not review outstanding advances until they were 150 days old. USAID's CFO is working to reduce the \$34 million in outstanding advances at its missions and has taken a number of corrective actions, such as upgrading the Phoenix advance aging reports, issuing new guidance to its missions, and updating and clarifying existing guidance on advances. USAID/Washington is responsible for the remaining \$33 million in outstanding advances, of which \$8 million (24 percent) is attributable to advances made to public international organizations and grantees that consistently delay the liquidation of advances made to them. USAID/Washington has implemented new procedures and has made some progress in reducing the number of outstanding advances.

ADS 636.3, "Program Funded Advances," states that missions and Washington offices are required to ensure that outstanding advances are periodically reviewed so that funds advanced do not exceed immediate disbursement needs. However, it does not stipulate when an advance should be reported to the contracting or agreement officer to make a debt determination.

Additionally, our audit revealed that USAID has not investigated approximately \$7.8 million worth of negative (overdrawn) unliquidated advances to determine whether they should be recovered. This amount was reported in the synchronization report of the Department of Health and Human Services (DHHS) Payment Management System (PMS), which contains all funds advanced to grantees on behalf of USAID. As of September 30, 2012, 50 advance obligations recorded in the DHHS PMS synchronization report, valued at approximately \$7.8 million, remained unreconciled. USAID did not investigate and obtain information about these amounts to initiate recovery proceedings. USAID implemented new procedures to prevent this problem from recurring, but the transactions causing the overstatement from the prior year remain unresolved. As a result, outstanding advances on the balance sheet were overstated by \$7.8 million.

Furthermore, we found that USAID's Financial Management Division used an inadequate process to accrue and account for DHHS PMS advances. Our review of third quarter financial statements determined that the process lacks a secondary review to ensure accruals are accurate before they are recorded in the GL. We recalculated the accrual for advances and determined that it was overstated by approximately \$2.2 million. USAID recorded an adjustment of approximately \$2.2 million to recognize the accrual in its year-end financial statements.

The Government Accountability Office's Standards for Internal Control in the Federal Government (GAO/AIMD-00-21.3.1) states that control activities occur at all levels and functions of the entity. They include a wide range of diverse activities such as approvals, authorizations, verifications, reconciliations, and maintenance of related records which provide evidence of the execution of these activities as well as appropriate documentation.

***Recommendation 4.*** We recommend that the Chief Financial Officer (a) continue to upgrade controls at missions, (b) update Automated Directives System 636 to include the desktop procedures that were implemented by the Cash Management and Payment Division, (c) clarify when an outstanding advance should be reported to the contracting or agreement officer for debt determination, (d) research and resolve all outstanding amounts that remain in the Department of Health and Human Services synchronization report from prior years, and (e) implement a review and approval process to reclassify expenses as advances for amounts that were reported by the Department of Health and Human Services Payment Management System.

## **USAID’s Process to Calculate and Record Accounts Payable and Accrued Expenses Needs Improvement**

USAID’s methodology for estimating and recording accounts payable and accrued expenses using contracting officer representative (COR) reviews of the information contained in the Accrual Reporting System,<sup>6</sup> needs improvement. The system generates estimated accrual amounts, which CORs must modify and approve before those amounts are recorded in the general ledger. Our audit found CORs did not consistently modify the accrued amounts generated by the system to correspond with the CORs generated accrual worksheet, before recording the amounts in the general ledger. From a sample of 45 estimated accruals reviewed judgmentally selected, we found that 4 (8.9 percent) were incorrectly recorded in the general ledger, resulting in an overstatement of approximately \$88.2 million that was not discovered by the responsible CORs. Therefore, we proposed an adjustment of approximately \$204 million to reflect more accurately USAID’s accounts payable and accrued expenses recorded in the general ledger.

ADS 631.3.4, “Accrued Expenditures,” states that the obligation manager or COR must (1) review system-generated accrual amounts and/or allocations to determine whether the amount can be validated or needs to be modified, (2) compare the amount developed based on actual conditions and first-hand knowledge of the project or activity with system-generated accrual amounts, and (3) complete the accrual process in accordance with the established time schedule and deadlines. If the amounts are approximately the same value, the obligation manager or the COR must validate the accrual amount as indicated in the Accruals Query and if there is a significant difference, modify the accrual amount in the Accruals Query as appropriate. Because CORs do not consistently modify the accrued amounts before they were recorded in the general ledger and reported in the financial statements, we make the following recommendation.

**Recommendation 5.** *We recommend that the Chief Financial Officer coordinate with the Office of Acquisition and Assistance to augment procedures to verify that contracting officer representatives review, validate, and modify as necessary the quarterly accounts payable and accrued expenses generated by the Accrual Reporting System before that information is recorded in the general ledger.*

## **USAID’s Process to Record Payroll Deductions and Entitlement Payments Is Not Effective**

During our audit of the payroll cycle, we observed that USAID did not maintain accurate records to support deductions from employees’ salaries and that some employees’ salaries exceeded the cap allowed by federal guidance for bi-weekly and annual salary payments. Specifically, we found that USAID could not provide documentation to support the deductions noted on employees’ Earnings and Leave Statements. Additionally, we found that deductions recorded on some employees’ statements did not correspond to the deductions authorized by the employees and maintained in their electronic personnel folders (eOPF). During our review of records for 45 sampled employees, we found that official documents for 23 employees were

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<sup>6</sup> The Accrual Reporting System gathers obligation and contract information from USAID’s Financial Management and Procurement Systems, and uses the data to calculate estimated quarterly accrued expenses against individual USAID contracts, grants, or obligation items.

missing. These documents authorize salary deductions and are used to calculate benefits, contributions, and withholdings. As a result, \$4,748 in employee withholdings lacked the required supporting documentation. We also found that benefits, contributions, and withholdings were incorrectly calculated for six employees resulting in a (\$1,283) error (Table 8). This occurred because USAID Human Resources is behind in updating employees' eOPF

**Table 8. Impact of Missing Documents and Incorrect Calculations on Employee Benefits, Contributions and Withholdings**

Deduction Type	Missing Document	Amount (\$)	Incorrect Calculation	Amount (\$)
Thrift Savings Plan (TSP) TSP-1	4	1,231	1	(223)
Federal Employees Health Benefits (FEHB)	4	369	3	20
Federal Employees Group Life Insurance (FEGLI)	2	12	-	-
FEHB + FEGLI	4	608	-	-
FEHB + TSP	5	2,272	1	(1,381)
FEGLI + TSP	2	(605)	-	-
FEHB + FEGLI + TSP	2	861	1	301
<b>Total</b>	<b>23</b>	<b>4,748</b>	<b>6</b>	<b>(1,283)</b>

We found that amounts paid to 64 employees serving in Critical Priority Posts exceeded the \$230,700 salary cap allowed by federal guidance for bi-weekly and annual salary payments by approximately \$1.3 million. Ten of the 64 received waivers that allowed them to exceed the cap. These excess payments occurred because the National Finance Center which processes the payroll for USAID, does not have the required edits to suspend salary payments to employees who exceed the established cap.

OMB Circular A-123, "Management's Responsibility for Internal Controls", 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.

Without monitoring, analysis, oversight, and reconciliations, discrepancies may exist but go undetected and uncorrected, thereby causing the financial information to be misstated. Effective management oversight greatly increases USAID's ability to proactively identify and resolve issues that could result in misstatements in financial accounting and reporting records. Therefore, we make the following recommendation.

**Recommendation 6.** We recommend that the Chief Financial Officer in coordination with the Office of Human Resources ensure: (a) that personnel files are updated to reflect all personnel actions and (b) that a reconciliation with National Finance Center records is performed to ensure that bi-weekly and annual salary pay caps are not exceeded.

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

USAID still struggles to reconcile intragovernmental transactions. As of September 30, 2012, Treasury reported a net difference of \$3.6 billion in intragovernmental transactions between USAID and other federal agencies. These differences, which Treasury reports each quarter in the Material Differences/Status of Disposition Certification Report,<sup>7</sup> represent differences identified by Treasury between USAID's records and those of its federal trading partners that exceed a \$250 million assurance threshold established by Treasury. Of this amount, USAID was required to reconcile and confirm \$736 million in accordance with OMB Circular A-136, "Financial Reporting Requirements," and *Treasury's Federal Intragovernmental Transactions Accounting Policies Guide*, Section 17.1. In the fourth quarter report on material differences, Treasury reported one differences totaling \$278 million greater than the \$250 million threshold. Although USAID has increased its efforts to resolve unreconciled amounts, significant differences still exist, including the \$278 million that should have been reconciled with one federal agencies. These differences occurred because USAID's trading partners recorded the transactions in different accounting periods or used different accounting methodologies to classify and report the transactions.

USAID continually 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 to ensure that they agree and that long-term accounting policy differences can be eliminated.

Although approximately \$2.8 billion of the \$3.6 billion in net differences reported between USAID and the Treasury general fund does not have to be reconciled, Treasury suggests 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 reported a similar finding in previous audits,<sup>8</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. 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

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<sup>7</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.

<sup>8</sup> "Audit of USAID's Financial Statements for Fiscal Years 2011 and 2010," November 15, 2011, page 9, <http://www.usaid.gov/oig/public/fy12rpts/0-000-12-001-c.pdf>.

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.

*Office of Inspector General*

USAID Office of Inspector General  
November 16, 2012

# REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS

We have audited the consolidated balance sheets of USAID as of September 30, 2012 and 2011. 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, 2012 and 2011, 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 OMB Bulletin 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 the 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 FY 2012, USAID monitored key business processes and followed up on recommendations made in prior years. In its Management Assurance Report to the President and Congress, USAID identified one instance of nonconformance related to a lack of an effective risk management program, and reported two material weaknesses related to:

- Fund Balance With Treasury
- Implementation of information security policies and procedures

Management also identified the following significant deficiencies related to:

- Monitoring activities in high threat environments
- Reconciliation of loans receivable
- Unliquidated obligations
- Salary and entitlement payments
- 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) and did not identify any instance of noncompliance with those requirements.

However, we reported one significant deficiency in USAID's annual FISMA report dated November 14, 2012, which we reported as an instance of substantial noncompliance with FFMIA as required by OMB Bulletin 07-04, "Audit Requirements for Federal Financial Statements." Specifically, we reported (1) that USAID has not established an effective risk management program to ensure that policies and procedures are assessed and working as intended and (2) that USAID's decentralized management of information technology and information security does not allow the Agency to implement a process to effectively assess, respond to, and monitor information security risk across the organization. The Office of the Chief Information Officer is responsible for the financial management system that was found not to comply with the requirements of the subsection. USAID is in the process of developing a corrective action plan to remediate the areas of noncompliance and expects to complete the plan by December 31, 2012 and implement it by March 31, 2013.

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 Advances
- Accounting for Accounts Payable
- Accounting for Payroll
- 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 16, 2012


# MANAGEMENT COMMENTS



November 15, 2012

## MEMORANDUM

TO: AIG/A, Tim Cox

FROM: M/CFO, David D. Ostermeyer 

SUBJECT: Management Response to Draft Independent Auditor's Report on USAID's Financial Statements for Fiscal Years 2012 and 2011 (Report No. 0-000-13-001-C)

Thank you for your draft report on the *Audit of USAID's Financial Statements for Fiscal Years 2012 and 2011* and for the information provided by your staff throughout this process. We understand the basis for the issuance of a qualified opinion on USAID's principal financial statements for FY 2012 and unqualified opinion on its FY 2011 financial statements, by the USAID Office of the Inspector General.

The Agency will continue work to improve its financial systems and processes to receive an unqualified opinion on future statements. Our comments and management decisions regarding the findings and proposed audit recommendations follow.

**Material Weakness: USAID Recorded Unsupported Adjustments to Bring Its Fund Balance With Treasury Account Into Agreement With the U.S. Treasury's Balance**

Recommendation No 1: We recommend that the Chief Financial Officer verify that all differences between USAID and the Department of the Treasury are researched and resolved in a timely manner in accordance with Treasury financial manual reconciliation procedures.

Management Decision: The Office of the Chief Financial Officer accepts the recommendation.

In FY 2013, we will focus our attention to research and resolve the \$114 million difference and all web-based Cash Reconciliation System (eCART) outstanding differences over one year old.

USAID is proud that it has effectively addressed the inconsistencies between the Department of the Treasury (Treasury) cash balances and the General Ledger (GL) cash balances. We have corrected the inconsistencies between our GL and our subsidiary accounting journal except for issues related to advance refunds. The support for our changes at Treasury and in the GL is provided by the millions of underlying source transactions in our subsidiary accounting journals.



We acknowledge that the advance inconsistency has caused problems with our GL and recognize that our Inspector General was not satisfied with the explanations provided to justify the adjustments.

During FY 2012, USAID successfully eliminated virtually all of the differences between the Fund Balance with Treasury (FBWT or cash) account recorded in the GL of its financial accounting system (Phoenix) and the Fund Balance reported by Treasury. USAID adjusted its Treasury cash balances to its GL cash balances plus outstanding cash reconciling items in all appropriations except one. USAID consolidated all Treasury/GL cash differences into a single appropriation at Treasury. In that appropriation, Treasury cash was \$114 million more than GL Cash plus outstanding items. The \$114 million difference is partially caused by GL issues and partially caused by prior year cash reconciliation issues.

We implemented processes in 2012 to enable us to avoid future cash reconciliation problems. A process tool implemented in May 2012 is the web-based Cash Reconciliation System (eCART). We appreciate the Inspector General's acknowledgement of eCART. This tool enables missions and headquarters to monitor all outstanding cash reconciliation items for USAID's approximately 100 Agency Location Codes in a timely manner. We have also improved our reconciliation process for payments made by our third party payment service providers related to USAID grants and payroll.

Target completion date: March 29, 2013

**Material Weakness: USAID Made Adjustments to Various Accounts in Its General Ledger That it Could Not Justify**

Recommendation: No. 2: We recommend that the Chief Financial Officer augments its general ledger reconciliation processes to ensure that (a) the postings in the general ledger are reconciled periodically with the postings in the subsidiary ledgers, (b) general ledger differences are researched and resolved in a timely manner, (c) errors are corrected in a timely manner to maintain accurate account balances in the general ledger, and (d) detailed documentation of analysis and reconciliations supporting adjustments are maintained and easily retrievable for examination.

Management Decision: The Office of the Chief Financial Officer accepts the recommendation.

We accept the finding that adjustments were recorded without first researching and resolving the differences in the account balances at the level of detail provided by the cited guidance. Given the large number of accounts, we chose to correct the GL based on summaries of the source transactions. We note with respect to part (d) that we already maintain the detailed documentation described in the finding but we will reassess its accessibility.

The primary support for our changes at Treasury and in the GL is provided by the millions of underlying source transactions in our subsidiary accounting journals. We believe that in the coming months, we can provide additional information to further support these adjustments.

We chose to take these measures to eliminate the inconsistencies because we were determined to solve a material weakness first identified in our FY 2008 Annual Financial Reports. Our approach was to calculate what the cash balances should be based on the last 12 years' worth of source transactions in the subsidiary accounting journals that support our Budget Module. We then corrected the GL cash totals to make them consistent with the cash

totals in the subsidiary accounting journals. We used the same source transactions to correct the budgetary status GL accounts so that they would meet other tie point tests as prescribed by Treasury. Finally, we corrected the cash balances for our appropriations at Treasury and made them consistent with both the GL and the source transactions in our subsidiary journals.

In making our decisions, we were guided by the following principles:

**SFFAS 1, Paragraph 110:**

*A fund balance is created by budget authority. An appropriation is the major form of budget authority that creates a fund balance with Treasury for an entity. Thus, the relationship between fund balance with Treasury and budget authority cannot be ignored.*

**Fund Balance with Treasury Reconciliation Procedures, A Supplement to the TFM**

*Also, the accounting system should be capable of producing subsidiary reports that provide a detailed history of receipt and disbursement activity recorded during the month, by fund. The subsidiary report balances should agree with the G/L.*

As stated in the Inspector General's report, we did not follow established procedures for reconciling general ledger accounts that require reviewing each transaction, determining the validity of transaction errors, and maintaining documentation to show the cause of each error and their resulting adjustments. It was not feasible to correct our Subsidiary accounting journal/GL cash balance inconsistencies by individually identifying and correcting errors since the errors were part of thousands of transactions occurring over more than a decade. We did, however, identify and correct most of the causes that created these inconsistencies to meet the principles of the Treasury guidance.

Target completion date: June 30, 2013

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

Based on recommendations for this finding made in last year's audit, USAID implemented a plan to address the recommendation that the Office of the Chief Financial Officer (CFO) (a) develop and implement a plan to complete its reconciliation of loan balances in the Phoenix accounting system with balances maintained in PNC's 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.

As noted by the Inspector General, USAID implemented this plan in FY 2012. Our progress in reconciling loan restructurings was significant in FY 2012 and we expect to complete our work in FY 2013 to fully address this finding. We will provide information to the IG so they may monitor our progress in completing the reconciliation.

Target completion date: June 30, 2013

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

Recommendation No. 3: We recommend that the Chief Financial Officer coordinate with the Office of Acquisition and Assistance and relevant Bureau Assistant Administrators to (a) initiate targeted reviews of awards that are more than 3 years old with unliquidated obligation balances

and (b) ensure that obligation managers conduct the periodic reviews required to initiate deobligation action on unliquidated obligations.

Management Decision: The Office of the Chief Financial Officer accepts the recommendation.

USAID will continue to identify and reduce the current contract and obligation closeout, and employ the services of an independent accounting firm to assist in the review and process but does not agree that our review process is ineffective.

Based on prior audits, USAID management acknowledged that a significant cause of unliquidated obligation balances was caused by the backlog of contract closeouts, a required step in the Federal procurement process, and made significant progress in addressing this issue.

Target completion date: September 30, 2013

**Significant Deficiency: USAID's Process for Accounting for Advances Is Not Effective (Repeat Finding)**

Recommendation No. 4: We recommend that the Chief Financial Officer (a) continue to upgrade controls at missions, (b) update Automated Directives System 636 to include the desktop procedures that were implemented by Cash Management and Payment Division, (c) clarify when an outstanding advance should be reported to the contracting or agreement officer for debt determination, (d) research and resolve all outstanding amounts that remain in the Department of Health and Human Services synchronization report from prior years, and (e) implement a review and approval process to accurately reclassify expenses as advances for amounts that were reported by the Department of Health and Human Services Payment Management System.

Management Decision: The Office of the Chief Financial Officer accepts the recommendation.

We will continue to strengthen and improve business processes to reduce the Agency's outstanding advances to address this finding. Each recommendation component will be addressed by the following actions: (a) continue to upgrade controls at missions by; (b) revising ADS 636 Program Advances to include Internal Mandatory References related to procedures which enhance the liquidation process for both Washington and Missions; (c) revising ADS 636 Program Advances to clarify when an outstanding advance should be reported to the contracting or agreement officer for debt determination and cross reference ADS 636 and 625; (d) USAID resolved a \$4.9 million item related to non-pooled advances and will resolve the remaining items totaling \$2.9 million; and (e) strengthen the review and approval process for reclassifying expenses as advances for amounts reported by the Department of Health and Human Services Payment Management System.

Target completion dates: September 30, 2013 for (a) – (c); March 31, 2013 for (d) and (e).

**Significant Deficiency: USAID's Process to Calculate and Record Accounts Payable and Accrued Expenses Needs Improvement**

Recommendation No. 5: We recommend that the Chief Financial Officer coordinate with the Office of Acquisition and Assistance to implement procedures to verify that contracting officer representatives review, validate, and modify as necessary the quarterly accounts payable and

accrued expenses generated by the Accrual Reporting System before that information is recorded in the general ledger.

**Management Decision:** The Office of the Chief Financial Officer accepts this recommendation and will coordinate with the Office of Acquisition and Assistance to issue procedural reminders to assure the appropriate review of information generated by the Phoenix Accruals Query.

Target completion date: June 30, 2013

**USAID's Process to Record Payroll Deductions and Entitlement Payment Is Not Effective**

**Recommendation No. 6:** We recommend that the Chief Financial Officer in coordination with the Office of Human Resources (a) ensure that personnel files are updated to reflect all personnel actions and (b) a reconciliation with National Finance Center records are performed to ensure that bi-weekly and annual salary pay caps are not exceeded.

**Management Decision:** The Office of the Chief Financial Officer accepts this recommendation and will coordinate with the Office of Human Resources to: (a) ensure that personnel files are updated by eliminating the backlog of personnel actions; and (b) work with the National Finance Center to implement a system edit to assist in preventing annual salary payments above the aggregate pay cap.

Target completion date: June 30, 2013

**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 providing necessary information so the Office of the Inspector General may express an unqualified opinion on our future financial statements. We intend to ensure that the necessary steps are taken to continue to institutionalize strong financial management performance throughout the Agency. We will continue the improvements made in the last few years as we work diligently to develop and implement long-term solutions to address the findings and recommendations 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 2011 Findings and Recommendations**

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.

Status: This recommendation is still pending final action. The Office of the CFO 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. The progress of the Office of the CFO in reconciling loan restructurings was limited in FY 2011 because of considerable turnover of staff in the Credit Program office, and we estimate that it will take 2.5 more years to complete past debt restructuring reconciliations. The target completion date is June 30, 2014

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 the services of independent public accounting firms to expedite the close out audit process; and (c) require obligation officials to include period-of-performance dates for all procurement type awards.

Status: This recommendation is still pending final action. The office of the CFO in coordination with the Office of Acquisition and Assistance 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 closeout audit process. The Office of CFO will continue to target specific areas for batched processing, including low-dollar, miscellaneous and travel-related obligations. The target completion date is September 30, 2014.

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

Recommendation 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 the Department of 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. The target completion date is December 31, 2012.

Recommendation 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 time frame described above by training additional personnel, but it will take an estimated 2½ more years to complete past debt restructuring reconciliations. The target completion date is June 30, 2013.

### **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: OIG has made no recommendations in the last few years because USAID is continuously researching intragovernmental activity and developing new tools to improve its reconciliation process and eliminate the differences.

FINANCIAL SECTION

# FINANCIAL STATEMENTS AND NOTES





**(Above) Village-based advisor Cocilia Anyango, left, observes Alfred Masindes's improved, drought-resistant variety of corn on his farm in Siranga, in western Kenya, in 2012. Feed the Future works with all the components of the maize value chain in Kenya to increase rural farmers' incomes and tackle the underlying causes of food insecurity.** PHOTO: SIEGFRIED MODOLA

**(Preceding page) Gabriel Odiambo shows millet at his farm in Siranga, Kenya, in 2012. Kenya is one of 20 strategic partners under the U.S. Government's global hunger and food security initiative known as Feed the Future. USAID is investing \$50 million in strengthening the agriculture sector in Kenya through this program.** PHOTO: SIEGFRIED MODOLA



# INTRODUCTION TO PRINCIPAL FINANCIAL STATEMENTS



**T**he **Principal Financial Statements** have been prepared to report the financial position and results of operations of 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 2011 have been included. USAID's principal financial statements and additional information for FY 2012 and FY 2011 consist of the following:

The **Consolidated Balance Sheet**, which presents for the years ended September 30, 2012 and 2011 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). Intra-agency balances have been eliminated from the amounts presented.

The **Consolidated Statement of Net Cost**, which presents the net cost of USAID operations for the years ended September 30, 2012 and 2011. USAID's net cost of operations includes the gross costs incurred by USAID less any exchange revenue earned from USAID activities. Due to the complexity of USAID's operations, the classification of gross cost and exchange revenues by major program and suborganization is presented in Note 17, Suborganization Program Costs/Program Cost by Segment, to the consolidated financial statements. Intra-agency balances have been eliminated from the amounts presented.

The **Consolidated Statement of Changes in Net Position**, which 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, 2012 and 2011. The components are separately displayed in two sections, Cumulative Results of Operations and Unexpended Appropriations. Intra-agency balances have been eliminated from the amounts presented.

The **Combined Statement of Budgetary Resources**, which presents the budgetary resources available to USAID during FY 2012 and FY 2011, the status of these resources at year-end, the change in obligated balance during FY 2012 and FY 2011 and outlays of budgetary resources for the years ended September 30, 2012 and 2011.

Information in this statement is reported on the budgetary basis of accounting.

The **Notes to Principal Financial Statements** are an integral part of the financial statements. They provide explanatory information to help readers to understand, interpret, and use the data presented. Comparative FY 2011 note data may have been restated or recast to enable comparability with the FY 2012 presentation.

**Required Supplementary Information** contains a Combining Schedule of Budgetary Resources for FY 2012 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 then 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 then 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.

# FINANCIAL STATEMENTS

## CONSOLIDATED BALANCE SHEET

As of September 30, 2012 and 2011 (In Thousands)

	2012	2011
<b>ASSETS:</b>		
Intragovernmental:		
Fund Balance with Treasury (Notes 2, 15 and 20)	\$ 28,999,266	\$ 27,758,936
Accounts Receivable (Note 3)	30	220
Other Assets (Note 4)	85,395	96,219
<b>Total Intragovernmental</b>	<b>29,084,691</b>	<b>27,855,375</b>
Cash and Other Monetary Assets (Note 5)	349,069	306,635
Accounts Receivable, Net (Note 3)	88,239	94,467
Direct Loans and Loan Guarantees, Net (Note 6)	2,773,576	3,392,381
Inventory and Related Property, Net (Note 7)	29,607	43,679
General Property, Plant, and Equipment, Net (Notes 8 and 9)	76,360	74,102
Advances (Notes 4 and 20)	752,464	549,169
<b>Total Assets</b>	<b>\$ 33,154,006</b>	<b>\$ 32,315,808</b>
<b>LIABILITIES:</b>		
Intragovernmental:		
Accounts Payable (Notes 10 and 15)	\$ 121,730	\$ 15,597
Debt (Note 11)	478,304	478,380
Liability for Capital Transfers to the General Fund of the Treasury (Note 11)	2,613,998	3,198,706
Other Liabilities (Note 12)	756,861	1,445,425
<b>Total Intragovernmental</b>	<b>3,970,893</b>	<b>5,138,108</b>
Accounts Payable (Note 10)	1,867,144	1,734,158
Loan Guarantee Liability (Notes 6 and 10)	2,012,358	1,694,195
Federal Employee and Veteran's Benefits (Note 13)	23,582	22,175
Other Liabilities (Notes 10, 12, and 13)	545,576	495,857
<b>Total Liabilities</b>	<b>8,419,553</b>	<b>9,084,493</b>
Commitments and Contingencies (Note 14)		
<b>NET POSITION:</b>		
Unexpended Appropriations	21,631,982	21,202,085
Cumulative Results of Operations	3,102,471	2,029,230
<b>Total Net Position (Notes 15 and 20)</b>	<b>\$ 24,734,453</b>	<b>\$ 23,231,315</b>
<b>Total Liabilities and Net Position</b>	<b>\$ 33,154,006</b>	<b>\$ 32,315,808</b>

The accompanying notes are an integral part of these statements.

## CONSOLIDATED STATEMENT OF NET COST

For the Years Ended September 30, 2012 and 2011  
(In Thousands)

OBJECTIVES	2012	2011
<b>Peace and Security:</b>		
Gross Costs	\$ 667,840	\$ 941,773
Less: Earned Revenue	(3,125)	(4,729)
Net Program Costs	664,715	937,044
<b>Governing Justly and Democratically:</b>		
Gross Costs	2,706,340	1,844,205
Less: Earned Revenue	(9,092)	(9,379)
Net Program Costs	2,697,248	1,834,826
<b>Investing in People:</b>		
Gross Costs	2,977,778	3,266,444
Less: Earned Revenue	(619,153)	(203,361)
Net Program Costs	2,358,625	3,063,083
<b>Economic Growth:</b>		
Gross Costs	3,770,600	4,137,161
Less: Earned Revenue	(308,266)	(887,933)
Net Program Costs	3,462,334	3,249,228
<b>Humanitarian Assistance:</b>		
Gross Costs	1,312,834	1,639,786
Less: Earned Revenue	(6,129)	(8,146)
Net Program Costs	1,306,705	1,631,640
<b>Operating Unit Management:</b>		
Gross Costs	656,833	530,837
Less: Earned Revenue	(3,095)	(2,965)
Net Program Costs	653,738	527,872
<b>Net Cost of Operations (Notes 16 and 17)</b>	<b>\$11,143,365</b>	<b>\$11,243,693</b>

The accompanying notes are an integral part of these statements.

## CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

For the Years Ended September 30, 2012 and 2011  
(In Thousands)

	2012 Consolidated Total	2011 Consolidated Total
<b>Cumulative Results of Operations:</b>		
Beginning Balances	\$ 2,029,230	\$ 1,773,146
Adjustments – Changes in Accounting Principles	–	–
Beginning Balances, as Adjusted	2,029,230	1,773,146
<b>Budgetary Financing Sources:</b>		
Appropriations Used	11,205,517	11,361,601
Nonexchange Revenue	368	–
Donations and Forfeitures of Cash and Cash Equivalents	225,759	122,076
<b>Other Financing Sources (Non-Exchange):</b>		
Transfers-in/out Without Reimbursement	754,968	–
Imputed Financing	29,994	16,100
Total Financing Sources	12,216,606	11,499,777
Net Cost of Operations	(11,143,365)	(11,243,693)
Net Change	1,073,241	256,084
<b>Cumulative Results of Operations</b>	<b>3,102,471</b>	<b>2,029,230</b>
<b>Unexpended Appropriations:</b>		
Beginning Balance	21,202,085	21,108,712
<b>Budgetary Financing Sources:</b>		
Appropriations Received	11,536,737	11,737,457
Appropriations Transferred in/out	75,479	(8,906)
Other Adjustments	23,198	(273,577)
Appropriations Used	(11,205,517)	(11,361,601)
Total Budgetary Financing Sources	429,897	93,373
Total Unexpended Appropriations	21,631,982	21,202,085
<b>Net Position (Note 20)</b>	<b>\$24,734,453</b>	<b>\$23,231,315</b>

The accompanying notes are an integral part of these statements.

## COMBINED STATEMENT OF BUDGETARY RESOURCES

For the Years Ended September 30, 2012 and 2011  
(In Thousands)

	2012		2011	
	Budgetary	Non-Budgetary Credit Reform	Budgetary	Non-Budgetary Credit Reform
<b>Budgetary Resources:</b>				
Unobligated Balance, Brought Forward, October 1	\$ 7,875,446	\$ 2,421,365	\$ 6,890,873	\$ 2,381,989
Adjustment to Unobligated Balance Brought Forward, October 1 (+ or -)	-	-	-	-
Unobligated Balance Brought Forward, October 1, as Adjusted	7,875,446	2,421,365	6,890,873	2,381,989
Recoveries of Prior Year Unpaid Obligations	472,000	20	2,046,388	310
Other Changes in Unobligated Balance (+ or -)	(118,331)	(71)	(221,048)	-
Unobligated Balance from Prior Year Budget Authority, Net	8,229,115	2,421,314	8,716,214	2,382,299
Appropriations (Discretionary and Mandatory)	11,575,665	(18)	11,699,661	-
Borrowing Authority (Discretionary and Mandatory)	-	-	-	96
Contract Authority (Discretionary and Mandatory)	-	-	-	-
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	812,068	209,557	712,524	281,126
<b>Total Budgetary Resources</b>	<b>\$20,616,848</b>	<b>\$ 2,630,853</b>	<b>\$21,128,398</b>	<b>\$ 2,663,521</b>
<b>Status of Budgetary Resources:</b>				
Obligations Incurred (Note 20):	\$ 12,541,533	\$ 752,560	\$ 13,252,952	\$ 242,156
Unobligated balance, End of Year:				
Apportioned	7,398,435	309,839	7,265,534	310,302
Exempt from Apportionment	-	-	-	-
Unapportioned	676,880	1,568,454	609,912	2,111,063
Total Unobligated Balance, End of Year	8,075,315	1,878,293	7,875,446	2,421,365
<b>Total Budgetary Resources</b>	<b>\$20,616,848</b>	<b>\$ 2,630,853</b>	<b>\$21,128,398</b>	<b>\$ 2,663,521</b>

(continued on next page)

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

For the Years Ended September 30, 2012 and 2011  
(In Thousands)

	2012		2011	
	Budgetary	Non-Budgetary Credit Reform	Budgetary	Non-Budgetary Credit Reform
<b>Change in Obligated Balance:</b>				
Unpaid Obligations, Brought Forward, October 1 (Gross)	\$ 17,505,109	\$ (282)	\$ 17,932,333	\$ (160)
Uncollected Customer Payments from Federal Sources, Brought Forward, October 1 (-)	(34,395)	35	(24,907)	35
Obligated Balance, Start of Year (Net), Before Adjustments (+ or -)	17,470,714	(247)	17,907,426	(125)
Adjustment to Obligated Balance, Start of Year (Net) (+ or -)	-	-	-	-
Obligated Balance, Start of Year (Net), as Adjusted	17,470,714	(247)	17,907,426	(125)
Obligations Incurred (Note 20)	12,541,533	752,560	13,252,952	242,156
Outlays (Gross) (-) (Note 20)	(11,236,564)	(750,958)	(11,633,784)	(241,968)
Change in Uncollected Customer Payments from Federal Sources (+ or -)	(6,085)	-	(9,487)	-
Recoveries of Prior Year Unpaid Obligations (-)	(472,000)	(20)	(2,046,388)	(310)
Obligated balance, End of Year				
Unpaid Obligations, End of Year (Gross)	18,338,078	1,300	17,505,109	(282)
Uncollected Customer Payments from Federal Sources, End of Year	(40,480)	35	(34,395)	35
<b>Obligated Balance, End of Year (Net)</b>	<b>\$18,297,598</b>	<b>\$ 1,335</b>	<b>\$17,470,714</b>	<b>\$ (247)</b>
<b>Budget Authority and Outlays, Net:</b>				
Budget Authority, Gross (Discretionary and Mandatory)	\$ 12,387,732	\$ 209,540	\$ 12,412,185	\$ 281,222
Actual Offsetting Collections (Discretionary and Mandatory)	(1,077,951)	(209,558)	(966,312)	(281,133)
Change in Uncollected Customer Payments from Federal Sources (Discretionary and Mandatory)	(6,085)	-	(9,487)	-
Budget Authority, Net (Discretionary and Mandatory)	\$ 11,303,696	\$ (18)	\$11,436,386	\$89
Outlays, Gross (Discretionary and Mandatory) (Note 20)	\$ 11,236,564	\$ 750,958	\$ 11,633,784	\$ 241,968
Actual Offsetting Collections (Discretionary and Mandatory)	(1,077,951)	(209,558)	(966,312)	(281,133)
Outlays, Net (Discretionary and Mandatory)	10,158,613	541,400	10,667,472	(39,165)
Distributed Offsetting Receipts (-)	(923,914)	-	(377,859)	-
<b>Agency Outlays, Net (Discretionary and Mandatory)</b>	<b>\$ 9,234,699</b>	<b>\$ 541,400</b>	<b>\$10,289,614</b>	<b>\$ (39,165)</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.

### 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 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. The 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 was designed to support private sector

activities in developing countries by providing direct loans and loan guarantees to support local micro and small enterprises. The MSED program is substantially inactive and will be closed; the bulk of USAID’s new credit 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 \$7.2 billion is currently outstanding. Guarantees were made by USAID on behalf of the U.S. Government.

In FY 2003, Congress authorized a second Israel 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 FY 2005 before the expiration of the program.

- ***Loan Guarantee to Tunisia Program***

The Loan Guarantee to Tunisia Program was established under Title III of the Department of State, Foreign Operations, and Related Programs Appropriations Act, 2012, Division I of Public Law 112-74, to provide support for the Republic of Tunisia through a loan guarantee. Under this program, the U.S. Government was authorized to issue guarantees with respect to the payment obligations of Tunisia for notes, for which USAID’s budget cost, calculated in accordance with Federal Credit Reform Act of 1990, would not exceed \$30 million. Using this budget cost as a basis for determining the loan guarantee, Tunisia issued Notes totaling \$485 million in FY 2012.

## **Fund Types**

The consolidated financial statements include the accounts of all funds under USAID’s control. Most of the fund accounts relate to general fund appropriations. USAID also has special funds, 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. These receipts may be either unavailable for collection, or immediately available for collection depending upon the statutory requirements governing establishment of the trust.

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 awaiting 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, for five additional years until the account is canceled. Any amounts remaining in canceled accounts are not available for obligations or expenditure for any purpose, and are returned to the U.S. Treasury.

The “Consolidated Appropriations Act” signed into law as P.L. 112-74 provides to USAID extended authority to obligate funds. USAID’s appropriations have consistently provided essentially similar authority, now known as “7011/511” authority. 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 Change 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).

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

## **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 U.S. dollar equivalents using the exchange rates prescribed by the U.S. Treasury. A gain or loss on conversion 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 a 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.

Loans obligated on or after October 1, 1991 are reduced by an allowance equal to the net present value of the cost to the U. S. 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 any changes are 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 receivable balance of the credit programs.

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 uncollectible 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 are comprised of life essential materials and supplies. The Agency has materials and supplies in reserve for foreign disaster assistance stored at strategic sites around the world. These consist of tents, disaster kits, field packs, and water purification units.

Agency supplies held in reserve for future use are those that are not readily available in the market, or for which 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. 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 FY 1992, USAID can only issue new loans or loan guarantees with an appropriation available to fund the cost of making the loan or guarantee. This cost is known as the "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 the 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 employment with the Agency. 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 an 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 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 receivable, net of allowances.

## **T. AGENCY COSTS**

USAID's 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's 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 Interior
- 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
- Department of Agriculture, Commodity Credit Corporation.

## NOTE 2. FUND BALANCE WITH TREASURY

Fund Balance with Treasury as of September 30, 2012 and 2011 consisted of the following:

<b>FUND BALANCE WITH TREASURY</b>		
<i>(In Thousands)</i>		
<b>Fund Balance</b>	<b>2012</b>	<b>2011</b>
Trust Funds	\$ 278,101	\$ 142,393
Revolving Funds	6,198,094	5,790,820
Appropriated Funds	21,869,063	21,825,809
Other Funds	654,008	(86)
<b>Total</b>	<b>\$ 28,999,266</b>	<b>\$ 27,758,936</b>
<b>Status of Fund Balance with Treasury</b>	<b>2012</b>	<b>2011</b>
Unobligated Balance		
Available	\$ 7,708,272	\$ 7,575,836
Unavailable	2,245,334	2,720,975
Obligated and Other Balances Not Yet Disbursed (Net)	19,045,660	17,462,125
<b>Total</b>	<b>\$ 28,999,266</b>	<b>\$ 27,758,936</b>

Fund Balances with Treasury are the aggregate amounts of USAID's accounts with Treasury for which the agency is authorized to make payments. Other Funds include credit program and operating funds which are established to record amounts held for the a loan guarantee and other operating funds.

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 total available unobligated balance includes expired funds which are available for upward adjustments, however they are not available to incur new obligations. In the Combined Statement of Budgetary Resources the expired fund balance is included in Unobligated Balances Not Available.

### NOTE 3. ACCOUNTS RECEIVABLE, NET

The primary components of USAID's accounts receivable as of September 30, 2012 and 2011 are as follows:

<b>ACCOUNTS RECEIVABLE, NET</b>				
<i>(In Thousands)</i>				
	<b>Receivable Gross</b>	<b>Allowance Accounts</b>	<b>Receivable Net 2012</b>	<b>Receivable Net 2011</b>
<b>Intragovernmental</b>				
Appropriation Reimbursements from Federal Agencies	\$ 10	N/A	\$ 10	\$ 356
Accounts Receivable from Federal Agencies	330,845	N/A	330,845	31,410
Less Intra-Agency Receivables	(330,825)	N/A	(330,825)	(31,546)
<b>Total Intragovernmental Accounts Receivable</b>	<b>30</b>	<b>N/A</b>	<b>30</b>	<b>220</b>
Accounts Receivable from the Public	93,685	(5,446)	88,239	94,467
<b>Total Receivables</b>	<b>\$ 93,715</b>	<b>\$ (5,446)</b>	<b>\$ 88,269</b>	<b>\$ 94,687</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 uncollectible accounts related to these receivables is calcu-

lated 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, 2012 and 2011 consisted of the following:

<b>ADVANCES</b>		
<i>(In Thousands)</i>		
	<b>2012</b>	<b>2011</b>
<b>Intragovernmental</b>		
Advances to Federal Agencies	\$ 85,395	\$ 96,219
<b>Total Intragovernmental</b>	<b>85,395</b>	<b>96,219</b>
Advances to Contractors/Grantees	397,934	433,078
Advances to Host Country Governments and Institutions	129,494	113,123
Advances, Other	225,036	2,968
<b>Total with the Public</b>	<b>752,464</b>	<b>549,169</b>
<b>Total Other Assets</b>	<b>\$ 837,859</b>	<b>\$ 645,388</b>

Intragovernmental Other Assets are comprised of advance payments to other Federal Government entities for agency expenses not yet incurred and for goods and services not yet received.

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, 2012 and 2011 are as follows:

<b>CASH AND OTHER MONETARY ASSETS</b>		
<i>(In Thousands)</i>		
<b>Cash and Other Monetary Assets</b>	<b>2012</b>	<b>2011</b>
Imprest Fund-Headquarters	\$ –	\$ 5
UE and Micro and Small Enterprise Fund Cash w/Fiscal Agent	–	50
Foreign Currencies	349,069	306,580
<b>Total Cash and Other Monetary Assets</b>	<b>\$ 349,069</b>	<b>\$ 306,635</b>

USAID has imprest funds in various overseas locations. However, these funds are provided by the Department of State overseas U.S. Disbursing Officers to

which USAID is liable for any shortages. USAID has no imprest fund balance to report because the imprest funds come from State Department appropriations.

Foreign Currencies are related to Foreign Currency Trust Funds that totaled \$349 million in FY 2012 and \$307 million in FY 2011. USAID does not have any non-entity cash or other monetary assets.

## 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
- Tunisia 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>2012</b>	<b>2011</b>
Net Direct Loans Obligated Prior to 1992 (Allowance for Loss Method)	\$ 2,414,336	\$ 2,953,161
Net Direct Loans Obligated After 1991 (Present Value Method)	237,142	232,992
Defaulted Guaranteed Loans from Pre-1992 Guarantees (Allowance for Loss Method)	122,098	206,228
<b>Total Loans Receivable, Net as reported on the Balance Sheet</b>	<b>\$ 2,773,576</b>	<b>\$ 3,392,381</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, 2012:</b>				
Direct Loans	\$ 2,667,424	\$ 347,807	\$ (600,894)	\$ 2,414,337
MSED	29	26	(55)	–
<b>Total</b>	<b>\$ 2,667,453</b>	<b>\$ 347,833</b>	<b>\$ (600,949)</b>	<b>\$ 2,414,337</b>

<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>

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, 2012:</b>				
Direct Loans	\$ 771,129	\$ 14,802	\$ (622,091)	\$ 163,840
UE - Subrogated Claims	49,208	16,249	8,029	73,486
MSED	150	24	(357)	(183)
<b>Total</b>	<b>\$ 820,487</b>	<b>\$ 31,075</b>	<b>\$ (614,419)</b>	<b>\$ 237,143</b>

<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>

### TOTAL AMOUNT OF DIRECT LOANS DISBURSED

(In Thousands)

Direct Loan Programs	2012	2011
Direct Loans	\$ 3,438,553	\$ 3,961,133
UE - Subrogated Claims	49,208	34,990
MSED	179	179
<b>Total</b>	<b>\$ 3,487,940</b>	<b>\$ 3,996,302</b>

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

(In Thousands)

	2012				2011			
	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	\$ 567,953	\$(18,950)	\$ 183	\$ 549,186	\$ 798,927	\$(12,012)	\$ 183	\$ 787,098
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	(3,790)	-	-	(3,790)	(21,896)	-	-	(21,896)
(F) Other	57,928	10,921	174	69,023	(209,078)	(6,938)	-	(216,016)
Ending Balance of the Subsidy Cost Allowance Before Reestimates	\$ 622,091	\$ (8,029)	\$ 357	\$ 614,419	\$ 567,953	\$(18,950)	\$ 183	\$ 549,186
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	\$ 622,091	\$ (8,029)	\$ 357	\$ 614,419	\$ 567,953	\$(18,950)	\$ 183	\$ 549,186

## 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): 2012</b>				
UE	\$ 132,314	\$ 93,523	\$ (103,738)	\$ 122,099
Total	\$ 132,314	\$ 93,523	\$ (103,738)	\$ 122,099
<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

## DEFAULTED GUARANTEED LOANS FROM POST-1991 GUARANTEES

In 2012, the UE Program experienced \$3.8 million in defaults on payments.

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

## GUARANTEED LOANS OUTSTANDING

<b>GUARANTEED LOANS OUTSTANDING</b>		
<i>(In Thousands)</i>		
<b>Loan Guarantee Programs</b>	<b>Outstanding Principal, Guaranteed Loans, Face Value</b>	<b>Amount of Outstanding Principal Guaranteed</b>
<b>Guaranteed Loans Outstanding (2012):</b>		
UE	\$ 734,890	\$ 734,890
MSED	14,760	7,380
Israel	11,280,648	11,280,648
DCA	266,156	133,078
Egypt	1,250,000	1,250,000
Tunisia	485,000	485,000
<b>Total</b>	<b>\$ 14,031,454</b>	<b>\$ 13,890,996</b>
<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>New Guaranteed Loans Disbursed (2012):</b>		
DCA	\$ 76	\$ 38
Tunisia	485,000	485,000
<b>Total</b>	<b>\$ 485,076</b>	<b>\$ 485,038</b>
<b>New Guaranteed Loans Disbursed (2011):</b>		
DCA	\$ 111,894	\$ 55,947
<b>Total</b>	<b>\$ 111,894</b>	<b>\$ 55,947</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, 2012:</b>			
UE	\$ 28,528	\$ 155,921	\$ 184,449
MSED	-	(661)	(661)
Israel	-	1,297,606	1,297,606
DCA	-	62,233	62,233
Egypt	-	438,855	438,855
Tunisia	-	29,876	29,876
<b>Total</b>	<b>\$ 28,528</b>	<b>\$ 1,983,830</b>	<b>\$ 2,012,358</b>

<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>

## 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 (2012):</b>					
DCA	\$ -	\$ 6,396	\$ -	\$ -	\$ 6,396
Tunisia	-	29,876	-	-	29,876
<b>Total</b>	<b>\$ -</b>	<b>\$ 36,272</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 36,272</b>
<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>

(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 (2012):</b>				
UE	\$ -	\$ -	\$ (4,907)	\$ (4,907)
Israel	-	-	(99,363)	(99,363)
DCA	-	-	(380)	(380)
Egypt	-	-	301,455	301,455
Tunisia	-	-	-	-
<b>Total</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 196,805</b>	<b>\$ 196,805</b>
<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>

## TOTAL LOAN GUARANTEE SUBSIDY EXPENSE

*(In Thousands)*

Loan Guarantee Programs	2012	2011
UE	\$ (4,907)	\$ 230
MSED	-	-
Israel	(99,363)	5,769
DCA	6,016	7,189
Egypt	301,455	-
Tunisia	29,876	-
<b>Total</b>	<b>\$ 233,077</b>	<b>\$ 13,188</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	-	5.01%	(0.89)%	-	4.12%
Tunisia	-	6.16%	-	-	6.16%

## SCHEDULE FOR RECONCILING LOAN GUARANTEE LIABILITY BALANCES

(In Thousands)

<b>2012</b>							
<b>(Post-1991 Loan Guarantees)</b>	<b>DCA</b>	<b>MSED</b>	<b>UE</b>	<b>Israel</b>	<b>Egypt</b>	<b>Tunisia</b>	<b>Total</b>
Beginning Balance, Changes, and Ending Balance							
Beginning Balance of the Loan Guarantee Liability	\$ 30,206	\$ (661)	\$ 162,947	\$ 1,314,845	\$ 131,881	\$ –	\$ 1,639,218
Add: Subsidy Expense for Guaranteed Loans Disbursed During the Reporting Years by Component:							
(A) Interest Supplement Costs	–	–	–	–	–	–	–
(B) Default Costs (Net of Recoveries)	6,396	–	–	–	–	29,876	36,272
(C) Fees and Other Collections	–	–	–	–	–	–	–
(D) Other Subsidy Costs	–	–	–	–	–	–	–
<b>Total of the Above Subsidy Expense Components</b>	<b>\$ 6,396</b>	<b>\$ –</b>	<b>\$ –</b>	<b>\$ –</b>	<b>\$ –</b>	<b>\$ 29,876</b>	<b>\$ 36,272</b>
Adjustments:							
(A) Loan Guarantee Modifications	–	–	–	–	–	–	–
(B) Fees Received	1,306	–	1,045	–	–	–	2,351
(C) Interest Supplements Paid	–	–	–	–	–	–	–
(D) Foreclosed Property and Loans Acquired	–	–	–	–	–	–	–
(E) Claim Payments to Lenders	(6,575)	(11)	(13,467)	(662,889)	(69,448)	–	(752,390)
(F) Interest Accumulation on the Liability Balance	1,998	–	3,307	82,124	5,519	–	92,948
(G) Other	29,282	11	6,996	662,889	69,448	–	768,626
<b>Ending Balance of the Loan Guarantee Liability Before Reestimates</b>	<b>62,613</b>	<b>(661)</b>	<b>160,828</b>	<b>1,396,969</b>	<b>137,400</b>	<b>29,876</b>	<b>1,787,025</b>
Add or Subtract Subsidy Reestimates by Component:							
(A) Interest Rate Reestimate	–	–	–	–	–	–	–
(B) Technical/Default Reestimate	(380)	–	(4,907)	(99,363)	301,455	–	196,805
<b>Total of the Above Reestimate Components</b>	<b>(380)</b>	<b>–</b>	<b>(4,907)</b>	<b>(99,363)</b>	<b>301,455</b>	<b>–</b>	<b>196,805</b>
<b>Ending Balance of the Loan Guarantee Liability</b>	<b>\$ 62,233</b>	<b>\$ (661)</b>	<b>\$ 155,921</b>	<b>\$ 1,297,606</b>	<b>\$ 438,855</b>	<b>\$ 29,876</b>	<b>\$ 1,983,830</b>

<b>2011</b>							
	<b>DCA</b>	<b>MSED</b>	<b>UE</b>	<b>Israel</b>	<b>Egypt</b>	<b>Total</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	
<b>Total of the Above Subsidy Expense Components</b>	<b>7,189</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>7,189</b>	
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	
<b>Ending Balance of the Loan Guarantee Liability Before Reestimates</b>	<b>27,178</b>	<b>(661)</b>	<b>177,463</b>	<b>1,971,965</b>	<b>201,329</b>	<b>2,377,274</b>	
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)	
<b>Total of the Above Reestimate Components</b>	<b>3,028</b>	<b>–</b>	<b>(14,516)</b>	<b>(657,120)</b>	<b>(69,448)</b>	<b>(738,056)</b>	
<b>Ending Balance of the Loan Guarantee Liability</b>	<b>\$ 30,206</b>	<b>\$ (661)</b>	<b>\$ 162,947</b>	<b>\$ 1,314,845</b>	<b>\$ 131,881</b>	<b>\$ 1,639,218</b>	

## ADMINISTRATIVE EXPENSE

(In Thousands)

Loan Programs	2012	2011
DCA	\$ 13,890	\$ 18,262
Total	\$ 13,890	\$ 18,262

### OTHER INFORMATION

1. 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. Six countries are in violation of Section 620q of the Foreign Assistance Act (FAA), owing \$11.1 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 \$403.5 million that is more than one year delinquent. Outstanding direct loans receivable for countries in violation of Section 620q totaled \$11.1 million. Outstanding direct loans receivable for countries in violation of the Brooke Amendment totaled \$403.5 million.
2. 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.
3. Reestimate amounts are subject to approval by the Office of Management and Budget (OMB), and any adjustments, if necessary, will be made in FY 2013.

## 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, 2012 and 2011 are as follows:

### INVENTORY AND RELATED PROPERTY

(In Thousands)

	2012	2011
<b>Items Held for Use</b>		
Office Supplies	\$ 5,260	\$ 6,046
<b>Items Held in Reserve for Future Use</b>		
Disaster Assistance Materials and Supplies	11,139	11,620
Birth Control Supplies	13,208	26,013
Total Inventory and Related Property	\$ 29,607	\$ 43,679

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 unser-

viceable, 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 and Equipment (PP&E) as of September 30, 2012 and 2011 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 2012</b>	<b>Net Book Value 2011</b>
<b>Classes of Fixed Assets:</b>					
Equipment	3 to 5 years	\$ 87,704	\$ (68,236)	\$ 19,468	\$ 10,905
Buildings, Improvements, and Renovations	20 years	68,840	(43,226)	25,614	23,850
Land and Land Rights	N/A	7,203	N/A	7,203	7,203
Assets Under Capital Lease (Note 9)		-	-	-	-
Construction in Progress	N/A	-	-	-	-
Internal Use Software	3 to 5 years	110,674	(86,599)	24,075	32,144
<b>Total PP&amp;E</b>		<b>\$ 274,421</b>	<b>\$ (198,061)</b>	<b>\$ 76,360</b>	<b>\$ 74,102</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, 2012 and 2011 Leases consisted of the following:

<b>LEASES</b> (In Thousands)		
<b>Entity as Lessee</b>		
<b>Capital Leases:</b>	<b>2012</b>	<b>2011</b>
Summary of Assets Under Capital Lease:		
Buildings	\$ -	\$ 900
Accumulated Depreciation	-	(900)
Net Assets under Capital Leases	\$ -	\$ -

**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.

<b>Operating Leases:</b>	
<b>Future Payments Due:</b>	<b>2012</b>
<b>Fiscal Year</b>	<b>Future Costs</b>
2013	\$ 88,180
2014	79,213
2015	73,494
2016	25,725
2017	22,454
After 5 Years	43,672
Lease Liabilities Covered by Budgetary Resources	\$ 332,738

Operating lease payments total \$333 million in future lease payments of which \$166 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, FY 2017 and FY 2020. The lessor, General Services Administration (GSA), charges commercial rates for USAID's occupancy.

## 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 and separation pay. Although future appropriations to fund these liabilities are probable and anticipated, Congressional action is needed before budgetary resources can be provided. Accrued unfunded annual leave, workers' compensation benefits, and separation pay represent future liabilities not currently funded by budgetary resources, but will be funded as it becomes due with future resources. 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, 2012 and 2011 liabilities covered and not covered by budgetary resources were as follows:

<b>LIABILITIES COVERED AND NOT COVERED BY BUDGETARY RESOURCES</b>		
<i>(In Thousands)</i>		
	<b>2012</b>	<b>2011</b>
<b>Liabilities Covered by Budgetary Resources:</b>		
Intragovernmental:		
Accounts Payable	\$ 121,730	\$ 15,597
Debt (Note 11)	478,304	478,380
Liability for Capital Transfers to the General Fund of the Treasury (Note 11)	2,613,998	3,198,706
Other Liabilities (Note 12)	660,533	701,303
<b>Total Intragovernmental</b>	<b>3,874,565</b>	<b>4,393,986</b>
Accounts Payable	1,856,966	1,722,872
Disbursements in Transit	10,178	11,286
<b>Total Accounts Payable with Public</b>	<b>1,867,144</b>	<b>1,734,158</b>
Loan Guarantee Liability (Note 6)	1,983,830	1,639,218
Other Liabilities with Public	501,747	459,909
<b>Total Liabilities Covered by Budgetary Resources</b>	<b>\$ 8,227,286</b>	<b>\$ 8,227,271</b>
<b>Liabilities Not Covered by Budgetary Resources:</b>		
Intragovernmental:		
IPAC Suspense	\$ (7,108)	\$ 4,968
Unfunded FECA Liability (Note 13)	8,228	8,073
Other Unfunded Employment Related Liability	120	107
Other Liabilities (Note 12)	95,088	730,974
<b>Total Intragovernmental (Note 12)</b>	<b>\$ 96,328</b>	<b>\$ 744,122</b>
Accrued Annual Leave	43,829	35,948
FSN Separation Pay Liability	-	-
<b>Total Accrued Unfunded Annual Leave and Separation Pay</b>	<b>43,829</b>	<b>35,948</b>
Future Workers' Compensation Benefits (Note 13)	23,582	22,175
Debt - Contingent Liabilities for Loan Guarantees (Note 6)	28,528	54,977
<b>Total Liabilities Not Covered by Budgetary Resources</b>	<b>192,267</b>	<b>857,222</b>
<b>Total Liabilities</b>	<b>\$ 8,419,553</b>	<b>\$ 9,084,493</b>

## NOTE II. DEBT

USAID Intragovernmental Debt as of September 30, 2012 and September 30, 2011 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>2011 Beginning Balance</b>	<b>Net Borrowing</b>	<b>2011 Ending Balance</b>	<b>Net Borrowing</b>	<b>2012 Ending Balance</b>
Direct Loans	\$ 478,195	\$ –	\$ 478,195	\$ –	\$ 478,195
DCA	85	100	185	(76)	109
<b>Total Treasury Debt</b>	<b>\$ 478,280</b>	<b>\$ 100</b>	<b>\$ 478,380</b>	<b>\$ (76)</b>	<b>\$ 478,304</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.

In FY 2012, no interest was accrued for DCA and 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 \$2.6 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, 2012 and 2011 Other Liabilities consisted of the following:

<b>OTHER LIABILITIES</b>		
<i>(In Thousands)</i>		
	<b>2012</b>	<b>2011</b>
<b>Intragovernmental</b>		
IPAC Suspense	\$ (7,108)	\$ 4,968
Unfunded FECA Liability	8,228	8,073
Custodial Liability	8,090	12,543
Employer Contributions & Payroll Taxes Payable	4,765	10,070
Other Unfunded Employment Related Liability	120	107
Liability for Advances and Prepayments	647,678	678,690
Other Liabilities	95,088	730,974
<b>Total Intragovernmental</b>	<b>\$ 756,861</b>	<b>\$ 1,445,425</b>
Accrued Funded Payroll and Leave	31,325	39,753
Accrued Unfunded Annual Leave and Separation Pay (Note 10)	43,829	35,948
Advances From Others	2,697	2,688
Deferred Credits	1,330	21,388
Foreign Currency Trust Fund	350,210	307,726
Capital Lease Liability (Note 9)	–	–
Other Liabilities	116,185	88,354
<b>Total Liabilities With the Public</b>	<b>\$ 545,576</b>	<b>\$ 495,857</b>
<b>Total Other Liabilities</b>	<b>\$ 1,302,437</b>	<b>\$ 1,941,282</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, 2012 and 2011 are indicated in the table below.

<b>ACCRUED UNFUNDED WORKERS' COMPENSATION BENEFITS</b>		
<i>(In Thousands)</i>		
	<b>2012</b>	<b>2011</b>
<b>Liabilities Not Covered by Budgetary Resources</b>		
Future Workers' Compensation Benefits	\$ 23,582	\$ 22,175
Unfunded FECA Liability	8,228	8,073
<b>Total Accrued Unfunded Workers' Compensation Benefits</b>	<b>\$ 31,810</b>	<b>\$ 30,248</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 2012, USAID's total FECA liability was \$31.8 million, comprised of unpaid FECA billings for \$8.2 million and estimated future FECA costs of \$23.6 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, 2012 a total of four cases were pending, along with two claims that have yet to be filed in any court.

- The first case arises from a fatal automobile collision. The consolidated action asserts negligence against United States (AID and State). The court has dismissed the tort claims and denied reconsideration. The damages sought are \$48 million.
- The second case is a basic claim that USAID has willfully violated the Fair Labor Standards Act by failing to compensate employees for overtime worked. The estimated loss is \$10 million.

- The third case is a contract claim that USAID wrongfully withheld payment for invoices submitted by a contractor under the "Hurricane Mitch" host-country relief efforts.

- The fourth 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 two claims that have not been filed in any court were submitted on December 2, 2011 under the Federal Tort Claims Act. Both claims allege negligence on the part of the Agency. The first claim seeks payment totaling \$20 million and the second seeks payment totaling \$10 million. The Agency has 6 months to respond to the claim; if the response is unfavorable then the claims may become the subject of litigation before a U.S.

District Court. The General Counsel Office plans to defend the Agency's actions if a case is filed in court.

During FY 2012 there was 1 dismissal and 2 settlements.

- The dismissal occurred in the second quarter of FY 2012. The case was based on a claim for damages suffered allegedly as a result of USAID-caused delay in relation to the delivery and off-loading of grain. The Civilian Board of Contract Appeals ruled in USAID's favor and dismissed the case on January 11, 2012.
- A settlement was reached in the third quarter on June 12, 2012. Pursuant to the agreement the Agency paid \$511,000 to settle all claims against USAID.

- A settlement was reached in the fourth quarter on September 12, 2012. Pursuant to the agreement the Agency paid \$1,250,000 to settle all claims against USAID.

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		
	2012	2011
Fund Balance With Treasury	\$ 8	\$ 976
<b>Total Assets</b>	<b>8</b>	<b>976</b>
Accounts Payable	–	853
<b>Total Liabilities</b>	<b>–</b>	<b>853</b>
Unexpended Appropriations	8	123
Cumulative Results of Operations	–	–
<b>Total Net Position</b>	<b>8</b>	<b>123</b>
<b>Total Liabilities and Net Position</b>	<b>\$ 8</b>	<b>\$ 976</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.

Status of Recovery Act Funds		
	2012	2011
<b>Total Budgetary Resources</b>	<b>\$ 8</b>	<b>\$ 8</b>
Obligations Incurred	–	–
Unobligated Balance	8	8
<b>Total Status of Budgetary Resources</b>	<b>\$ 8</b>	<b>\$ 8</b>
Total, Unpaid Obligated Balance, Net, End of Period	–	968
<b>Net Outlays</b>	<b>\$ 968</b>	<b>\$ 14,886</b>

## 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, 2012. 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 exchange 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	Africa	Asia	OAPA	DCHA	EGAT	Europe & Eurasia	Global Health	IDEA	Latin America & Caribbean	Middle East	2012 Total	2011 Total
<b>Peace and Security</b>												
Intragovernmental Costs	\$ 2,102	\$ 4,332	\$ 4,324	\$ 8,362	\$ 3,669	\$ 4,278	\$ -	\$ -	\$ 4,945	\$ 3,457	\$ 35,469	\$ 37,827
Public Costs	62,672	40,895	180,285	135,719	4,241	68,696	-	-	129,798	10,065	632,371	903,946
Total Program Costs	64,774	45,227	184,609	144,081	7,910	72,974	-	-	134,743	13,522	667,840	941,773
Intragovernmental Earned Revenue	(248)	(461)	(436)	(673)	(82)	(504)	-	-	(583)	(33)	(3,020)	(3,414)
Public Earned Revenue	(9)	(16)	(15)	(23)	(3)	(18)	-	-	(20)	(1)	(105)	(1,315)
Total Earned Revenue	(257)	(477)	(451)	(696)	(85)	(522)	-	-	(603)	(34)	(3,125)	(4,729)
<b>Net Program Costs</b>	<b>64,517</b>	<b>44,750</b>	<b>184,158</b>	<b>143,385</b>	<b>7,825</b>	<b>72,452</b>	<b>-</b>	<b>-</b>	<b>134,140</b>	<b>13,488</b>	<b>664,715</b>	<b>937,044</b>
<b>Governing Justly and Democratically</b>												
Intragovernmental Costs	9,444	9,342	38,997	5,160	3,062	9,263	-	-	9,521	9,262	94,051	71,985
Public Costs	204,919	137,479	1,476,411	75,915	5,885	172,351	-	175	160,990	378,164	2,612,289	1,772,220
Total Program Costs	214,363	146,821	1,515,408	81,075	8,947	181,614	-	175	170,511	387,426	2,706,340	1,844,205
Intragovernmental Earned Revenue	(904)	(983)	(3,010)	(860)	(74)	(1,000)	-	-	(857)	(1,056)	(8,744)	(6,773)
Public Earned Revenue	(31)	(34)	(104)	(19)	(3)	(34)	-	-	(47)	(76)	(348)	(2,606)
Total Earned Revenue	(935)	(1,017)	(3,114)	(879)	(77)	(1,034)	-	-	(904)	(1,132)	(9,092)	(9,379)
<b>Net Program Costs</b>	<b>213,428</b>	<b>145,804</b>	<b>1,512,294</b>	<b>80,196</b>	<b>8,870</b>	<b>180,580</b>	<b>-</b>	<b>175</b>	<b>169,607</b>	<b>386,294</b>	<b>2,697,248</b>	<b>1,834,826</b>
<b>Investing in People</b>												
Intragovernmental Costs	99,799	20,864	9,047	3,384	6,562	7,481	33,523	-	12,089	12,410	205,159	184,192
Public Costs	678,017	161,503	294,245	69,895	65,545	70,214	964,697	139	118,722	349,642	2,772,619	3,082,252
Total Program Costs	777,816	182,367	303,292	73,279	72,107	77,695	998,220	139	130,811	362,052	2,977,778	3,266,444
Intragovernmental Earned Revenue	(11,136)	(2,602)	(76,743)	(370)	(3,776)	(867)	(513,129)	-	(1,240)	(1,338)	(611,201)	(192,051)
Public Earned Revenue	(384)	(90)	(325)	(13)	(6,906)	(20)	(125)	-	(43)	(46)	(7,952)	(11,310)
Total Earned Revenue	(11,520)	(2,692)	(77,068)	(383)	(10,682)	(887)	(513,254)	-	(1,283)	(1,384)	(619,153)	(203,361)
<b>Net Program Costs</b>	<b>766,296</b>	<b>179,675</b>	<b>226,224</b>	<b>72,896</b>	<b>61,425</b>	<b>76,808</b>	<b>484,966</b>	<b>139</b>	<b>129,528</b>	<b>360,668</b>	<b>2,358,625</b>	<b>3,063,083</b>

(continued on next page)

## INTRAGOVERNMENTAL COSTS AND EARNED REVENUE BY RESPONSIBILITY SEGMENT

For the Years Ended September 30, 2012 and 2011  
(In Thousands)

Objective	Africa	Asia	OAPA	DCHA	EGAT	Europe & Eurasia	Global Health	IDEA	Latin America & Caribbean	Middle East	2012 Total	2011 Total
<b>Economic Growth</b>												
Intragovernmental Costs	57,015	32,417	20,389	2	116,533	10,801	–	–	35,492	23,159	295,808	289,077
Public Costs	650,098	351,949	684,508	257	640,526	211,443	–	1,923	284,573	649,515	3,474,792	3,848,084
<b>Total Program Costs</b>	<b>707,113</b>	<b>384,366</b>	<b>704,897</b>	<b>259</b>	<b>757,059</b>	<b>222,244</b>	<b>–</b>	<b>1,923</b>	<b>320,065</b>	<b>672,674</b>	<b>3,770,600</b>	<b>4,137,161</b>
Intragovernmental Earned Revenue	(2,465)	(2,428)	(1,901)	–	(111,938)	(1,198)	–	–	(3,409)	(2,815)	(126,154)	(169,667)
Public Earned Revenue	(85)	(84)	(64)	–	(181,709)	(41)	–	–	(47)	(82)	(182,112)	(718,266)
<b>Total Earned Revenue</b>	<b>(2,550)</b>	<b>(2,512)</b>	<b>(1,965)</b>	<b>–</b>	<b>(293,647)</b>	<b>(1,239)</b>	<b>–</b>	<b>–</b>	<b>(3,456)</b>	<b>(2,897)</b>	<b>(308,266)</b>	<b>(887,933)</b>
<b>Net Program Costs</b>	<b>704,563</b>	<b>381,854</b>	<b>702,932</b>	<b>259</b>	<b>463,412</b>	<b>221,005</b>	<b>–</b>	<b>1,923</b>	<b>316,609</b>	<b>669,777</b>	<b>3,462,334</b>	<b>3,249,228</b>
<b>Humanitarian Assistance</b>												
Intragovernmental Costs	16	6,864	1,494	81,475	–	187	–	–	1,373	1,314	92,723	151,850
Public Costs	600	24,306	25,937	1,098,779	8,367	4,411	–	–	20,630	37,081	1,220,111	1,487,936
<b>Total Program Costs</b>	<b>616</b>	<b>31,170</b>	<b>27,431</b>	<b>1,180,254</b>	<b>8,367</b>	<b>4,598</b>	<b>–</b>	<b>–</b>	<b>22,003</b>	<b>38,395</b>	<b>1,312,834</b>	<b>1,639,786</b>
Intragovernmental Earned Revenue	(1)	(224)	(65)	(5,410)	–	(22)	–	–	(70)	(131)	(5,923)	(5,882)
Public Earned Revenue	–	(8)	(2)	(188)	–	(1)	–	–	(2)	(5)	(206)	(2,264)
<b>Total Earned Revenue</b>	<b>(1)</b>	<b>(232)</b>	<b>(67)</b>	<b>(5,598)</b>	<b>–</b>	<b>(23)</b>	<b>–</b>	<b>–</b>	<b>(72)</b>	<b>(136)</b>	<b>(6,129)</b>	<b>(8,146)</b>
<b>Net Program Costs</b>	<b>615</b>	<b>30,938</b>	<b>27,364</b>	<b>1,174,656</b>	<b>8,367</b>	<b>4,575</b>	<b>–</b>	<b>–</b>	<b>21,931</b>	<b>38,259</b>	<b>1,306,705</b>	<b>1,631,640</b>
<b>Operating Unit Management</b>												
Intragovernmental Costs	21,306	10,331	26,390	36,319	39,136	13,855	–	74	12,985	7,426	167,822	148,595
Public Costs	93,213	44,654	114,699	80,737	33,651	36,008	–	2,764	57,915	25,370	489,011	382,242
<b>Total Program Costs</b>	<b>114,519</b>	<b>54,985</b>	<b>141,089</b>	<b>117,056</b>	<b>72,787</b>	<b>49,863</b>	<b>–</b>	<b>2,838</b>	<b>70,900</b>	<b>32,796</b>	<b>656,833</b>	<b>530,837</b>
Intragovernmental Earned Revenue	(539)	(329)	(316)	(441)	(723)	(246)	–	–	(312)	(86)	(2,992)	(2,223)
Public Earned Revenue	(19)	(11)	(11)	(15)	(25)	(8)	–	–	(11)	(3)	(103)	(742)
<b>Total Earned Revenue</b>	<b>(558)</b>	<b>(340)</b>	<b>(327)</b>	<b>(456)</b>	<b>(748)</b>	<b>(254)</b>	<b>–</b>	<b>–</b>	<b>(323)</b>	<b>(89)</b>	<b>(3,095)</b>	<b>(2,965)</b>
<b>Net Program Costs</b>	<b>113,961</b>	<b>54,645</b>	<b>140,762</b>	<b>116,600</b>	<b>72,039</b>	<b>49,609</b>	<b>–</b>	<b>2,838</b>	<b>70,577</b>	<b>32,707</b>	<b>653,738</b>	<b>527,872</b>
<b>Net Cost of Operations</b>	<b>\$1,863,380</b>	<b>\$837,666</b>	<b>\$2,793,734</b>	<b>\$1,587,992</b>	<b>\$621,938</b>	<b>\$605,029</b>	<b>\$484,966</b>	<b>\$5,075</b>	<b>\$842,392</b>	<b>\$1,501,193</b>	<b>\$11,143,365</b>	<b>\$11,243,693</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 2012 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).

Technical Bureaus are referred to as Democracy, Conflict, and Humanitarian Assistance (DCHA); Economic Growth, Agriculture and Trade (EGAT) and Global Health (GH). In FY 2012 Q2, IDEA was added as a Technical Bureau.

### SCHEDULE OF COSTS BY RESPONSIBILITY SEGMENT

As of September 30, 2012 and 2011  
(In Thousands)

Objective	Africa	Asia	DCHA	EGAT	Europe & Eurasia	Global Health	IDEA	Latin America & Caribbean	Middle East	OAPA	2012 Consolidated Total	2011 Consolidated Total
<b>Peace and Security</b>												
Counterterrorism												
Gross Costs	\$ 16,807	\$ 353	\$ 50	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,178	\$ -	\$ 20,388	\$ 29,344
Less: Earned Revenues	(53)	(3)	-	-	-	-	-	-	(5)	-	(61)	(107)
Net Program Costs	16,754	350	50	-	-	-	-	-	3,173	-	20,327	29,237
Combating Weapons of Mass Destruction (WMD)												
Gross Costs	-	-	50	-	30,351	-	-	-	-	-	30,401	13,790
Less: Earned Revenues	-	-	-	-	(295)	-	-	-	-	-	(295)	(165)
Net Program Costs	-	-	50	-	30,056	-	-	-	-	-	30,106	13,625
Stabilization Operations and Security Sector Reform												
Gross Costs	678	7,066	-	-	2,301	-	-	20,304	5,112	8,505	43,966	36,398
Less: Earned Revenues	(2)	(27)	-	-	(14)	-	-	(98)	(23)	(17)	(181)	(139)
Net Program Costs	676	7,039	-	-	2,287	-	-	20,206	5,089	8,488	43,785	36,259
Counter narcotics												
Gross Costs	-	6,173	50	-	365	-	-	110,266	-	102,077	218,931	303,326
Less: Earned Revenues	-	(166)	-	-	(3)	-	-	(482)	-	(245)	(896)	(1,943)
Net Program Costs	-	6,007	50	-	362	-	-	109,784	-	101,832	218,035	301,383
Transnational Crime												
Gross Costs	128	8,172	195	58	4,188	-	-	1,115	-	-	13,856	15,483
Less: Earned Revenues	(1)	(38)	(1)	(1)	(22)	-	-	(3)	(1)	-	(67)	(67)
Net Program Costs	127	8,134	194	57	4,166	-	-	1,112	(1)	-	13,789	15,416
Conflict Mitigation and Reconciliation												
Gross Costs	47,161	23,464	143,733	7,852	35,769	-	-	3,059	5,233	74,027	340,298	543,432
Less: Earned Revenues	(201)	(244)	(692)	(84)	(188)	-	-	(21)	(6)	(189)	(1,625)	(2,308)
Net Program Costs	46,960	23,220	143,041	7,768	35,581	-	-	3,038	5,227	73,838	338,673	541,124
<b>Total Peace and Security</b>	<b>64,517</b>	<b>44,750</b>	<b>143,385</b>	<b>7,825</b>	<b>72,452</b>	<b>-</b>	<b>-</b>	<b>134,140</b>	<b>13,488</b>	<b>184,158</b>	<b>664,715</b>	<b>937,044</b>

(continued on next page)

## SCHEDULE OF COSTS BY RESPONSIBILITY SEGMENT (continued)

As of September 30, 2012 and 2011  
(In Thousands)

Objective	Africa	Asia	DCHA	EGAT	Europe & Eurasia	Global Health	IDEA	Latin America & Caribbean	Middle East	OAPA	2012 Consolidated Total	2011 Consolidated Total
<b>Governing Justly and Democratically</b>												
Rule of Law and Human Rights												
Gross Costs	26,372	28,369	2,271	1,325	37,085	-	-	67,215	30,281	44,375	237,293	233,098
Less: Earned Revenues	(130)	(161)	(24)	(13)	(220)	-	-	(319)	(92)	(127)	(1,086)	(1,245)
Net Program Costs	26,242	28,208	2,247	1,312	36,865	-	-	66,896	30,189	44,248	236,207	231,853
Good Governance												
Gross Costs	94,527	69,614	47,628	6,194	54,290	-	-	65,656	187,036	1,400,510	1,925,455	1,020,159
Less: Earned Revenues	(348)	(538)	(242)	(44)	(289)	-	-	(365)	(458)	(2,801)	(5,085)	(4,787)
Net Program Costs	94,179	69,076	47,386	6,150	54,001	-	-	65,291	186,578	1,397,709	1,920,370	1,015,372
Political Competition and Consensus-Building												
Gross Costs	46,144	20,181	12,210	-	29,146	-	-	16,294	28,952	39,288	192,215	257,812
Less: Earned Revenues	(283)	(168)	(176)	-	(172)	-	-	(133)	(77)	(106)	(1,115)	(1,640)
Net Program Costs	45,861	20,013	12,034	-	28,974	-	-	16,161	28,875	39,182	191,100	256,172
Civil Society												
Gross Costs	47,320	28,657	18,964	1,428	61,093	-	175	21,347	141,158	31,235	351,377	333,136
Less: Earned Revenues	(174)	(150)	(435)	(20)	(353)	-	-	(88)	(506)	(80)	(1,806)	(1,707)
Net Program Costs	47,146	28,507	18,529	1,408	60,740	-	175	21,259	140,652	31,155	349,571	331,429
<b>Total Governing Justly and Democratically</b>	<b>213,428</b>	<b>145,804</b>	<b>80,196</b>	<b>8,870</b>	<b>180,580</b>	<b>-</b>	<b>175</b>	<b>169,607</b>	<b>386,294</b>	<b>1,512,294</b>	<b>2,697,248</b>	<b>1,834,826</b>
<b>Investing in People</b>												
Health												
Gross Costs	485,473	103,722	9,763	16,575	51,243	998,220	139	47,890	160,213	157,176	2,030,414	1,759,827
Less: Earned Revenues	(10,434)	(2,033)	(54)	(215)	(713)	(513,254)	-	(868)	(525)	(586)	(528,682)	(175,628)
Net Program Costs	475,039	101,689	9,709	16,360	50,530	484,966	139	47,022	159,688	156,590	1,501,732	1,584,199
Education												
Gross Costs	256,374	67,375	15,327	24,207	16,707	-	-	47,992	131,660	104,411	664,053	746,042
Less: Earned Revenues	(905)	(481)	(71)	(233)	(107)	-	-	(165)	(365)	(76,137)	(78,464)	(3,555)
Net Program Costs	255,469	66,894	15,256	23,974	16,600	-	-	47,827	131,295	28,274	585,589	742,487
Social and Economic Services and Protection for Vulnerable Populations												
Gross Costs	35,968	11,270	48,189	31,326	9,745	-	-	34,929	70,179	41,705	283,311	760,575
Less: Earned Revenues	(180)	(178)	(258)	(10,235)	(67)	-	-	(250)	(494)	(345)	(12,007)	(24,178)
Net Program Costs	35,788	11,092	47,931	21,091	9,678	-	-	34,679	69,685	41,360	271,304	736,397
<b>Total Investing in People</b>	<b>766,296</b>	<b>179,675</b>	<b>72,896</b>	<b>61,425</b>	<b>76,808</b>	<b>484,966</b>	<b>139</b>	<b>129,528</b>	<b>360,668</b>	<b>226,224</b>	<b>2,358,625</b>	<b>3,063,083</b>
<b>Economic Growth</b>												
Macroeconomic Foundation for Growth												
Gross Costs	21,815	11,009	3	59,611	12,132	-	-	6,730	409,466	9,493	530,259	720,843
Less: Earned Revenues	(54)	(42)	-	(47,355)	(51)	-	-	(10)	(2,051)	(15)	(49,578)	(399,114)
Net Program Costs	21,761	10,967	3	12,256	12,081	-	-	6,720	407,415	9,478	480,681	321,729
Trade and Investment												
Gross Costs	32,015	23,110	2	10,752	14,974	-	226	26,263	11,766	24,932	144,040	137,193
Less: Earned Revenues	(134)	(140)	-	(142)	(92)	-	-	(120)	(43)	(66)	(737)	(714)
Net Program Costs	31,881	22,970	2	10,610	14,882	-	226	26,143	11,723	24,866	143,303	136,479
Financial Sector												
Gross Costs	10,431	5,441	2	500,142	19,882	-	149	529	20,510	7,740	564,826	566,541
Less: Earned Revenues	(47)	(40)	-	(243,570)	(124)	-	-	(2,045)	(85)	(22)	(245,933)	(472,398)
Net Program Costs	10,384	5,401	2	256,572	19,758	-	149	(1,516)	20,425	7,718	318,893	94,143
Infrastructure												
Gross Costs	141,854	58,487	-	5,652	61,657	-	190	54,297	9,568	430,369	762,074	870,795
Less: Earned Revenues	(613)	(506)	-	(88)	(323)	-	-	(283)	(48)	(1,222)	(3,083)	(4,915)
Net Program Costs	141,241	57,981	-	5,564	61,334	-	190	54,014	9,520	429,147	758,991	865,880

(continued on next page)

## SCHEDULE OF COSTS BY RESPONSIBILITY SEGMENT (continued)

As of September 30, 2012 and 2011

(In Thousands)

Objective	Africa	Asia	DCHA	EGAT	Europe & Eurasia	Global Health	IDEA	Latin America & Caribbean	Middle East	OAPA	2012 Consolidated Total	2011 Consolidated Total
<b>Agriculture</b>												
Gross Costs	341,463	123,466	2	56,736	25,574	–	328	59,425	51,125	124,911	783,030	935,266
Less: Earned Revenues	(1,171)	(1,040)	–	(1,074)	(143)	–	–	(279)	(157)	(349)	(4,213)	(5,911)
Net Program Costs	340,292	122,426	2	55,662	25,431	–	328	59,146	50,968	124,562	778,817	929,355
<b>Private Sector Competitiveness</b>												
Gross Costs	34,603	41,138	104	7,667	72,641	–	–	48,858	61,895	71,968	338,874	301,468
Less: Earned Revenues	(114)	(228)	–	(106)	(429)	–	–	(219)	(189)	(211)	(1,496)	(1,600)
Net Program Costs	34,489	40,910	104	7,561	72,212	–	–	48,639	61,706	71,757	337,378	299,868
<b>Economic Opportunity</b>												
Gross Costs	27,104	10,795	2	22,129	6,198	–	1,030	10,414	71,370	32,673	181,715	188,923
Less: Earned Revenues	(84)	(79)	–	(281)	(29)	–	–	(65)	(178)	(70)	(786)	(1,000)
Net Program Costs	27,020	10,716	2	21,848	6,169	–	1,030	10,349	71,192	32,603	180,929	187,923
<b>Environment</b>												
Gross Costs	97,828	110,922	145	94,369	9,185	–	–	113,548	36,974	2,811	465,782	416,132
Less: Earned Revenues	(333)	(439)	(1)	(1,030)	(47)	–	–	(434)	(146)	(10)	(2,440)	(2,281)
Net Program Costs	97,495	110,483	144	93,339	9,138	–	–	113,114	36,828	2,801	463,342	413,851
<b>Total Economic Growth</b>	<b>704,563</b>	<b>381,854</b>	<b>259</b>	<b>463,412</b>	<b>221,005</b>	<b>–</b>	<b>1,923</b>	<b>316,609</b>	<b>669,777</b>	<b>702,932</b>	<b>3,462,334</b>	<b>3,249,228</b>
<b>Humanitarian Assistance</b>												
<b>Protection, Assistance and Solutions</b>												
Gross Costs	–	27,790	1,063,016	–	4,575	–	–	22,003	38,397	24,743	1,180,524	1,503,723
Less: Earned Revenues	–	(222)	(5,074)	–	(22)	–	–	(70)	(138)	(61)	(5,587)	(7,565)
Net Program Costs	–	27,568	1,057,942	–	4,553	–	–	21,933	38,259	24,682	1,174,937	1,496,158
<b>Disaster Readiness</b>												
Gross Costs	615	3,362	117,237	8,367	–	–	–	–	–	–	129,581	133,772
Less: Earned Revenues	–	(9)	(525)	–	–	–	–	(2)	–	–	(536)	(557)
Net Program Costs	615	3,353	116,712	8,367	–	–	–	2	–	–	129,045	133,215
<b>Migration Management</b>												
Gross Costs	–	17	2	–	22	–	–	–	–	2,688	2,729	2,291
Less: Earned Revenues	–	–	–	–	–	–	–	–	–	(6)	(6)	(24)
Net Program Costs	–	17	2	–	22	–	–	–	–	2,682	2,723	2,267
<b>Total Humanitarian Assistance</b>	<b>615</b>	<b>30,938</b>	<b>1,174,656</b>	<b>8,367</b>	<b>4,575</b>	<b>–</b>	<b>–</b>	<b>21,931</b>	<b>38,259</b>	<b>27,364</b>	<b>1,306,705</b>	<b>1,631,640</b>
<b>Operating Unit Management</b>												
<b>Cross-cutting Management and Staffing</b>												
Gross Costs	1,949	508	125	936	1,128	–	–	–	2,870	1,371	8,887	26,764
Less: Earned Revenues	(26)	(8)	(1)	(3)	(7)	–	–	–	(12)	(3)	(60)	(124)
Net Program Costs	1,923	500	124	933	1,121	–	–	–	2,858	1,368	8,827	26,640
<b>Program Design and Learning</b>												
Gross Costs	26,401	5,782	4,361	12,989	6,574	–	1,533	6,508	10,124	27,524	101,796	93,355
Less: Earned Revenues	(127)	(60)	(19)	(171)	(38)	–	–	(36)	(30)	(80)	(561)	(515)
Net Program Costs	26,274	5,722	4,342	12,818	6,536	–	1,533	6,472	10,094	27,444	101,235	92,840
<b>Administration and Oversight</b>												
Gross Costs	86,169	48,694	112,570	58,861	42,164	–	1,305	64,391	19,802	112,194	546,150	410,718
Less: Earned Revenues	(405)	(271)	(437)	(573)	(211)	–	–	(286)	(47)	(244)	(2,474)	(2,326)
Net Program Costs	85,764	48,423	112,133	58,288	41,953	–	1,305	64,105	19,755	111,950	543,676	408,392
<b>Total Operating Unit Management</b>	<b>113,961</b>	<b>54,645</b>	<b>116,599</b>	<b>72,039</b>	<b>49,610</b>	<b>–</b>	<b>2,838</b>	<b>70,577</b>	<b>32,707</b>	<b>140,762</b>	<b>653,738</b>	<b>527,872</b>
<b>Net Cost of Operations</b>	<b>\$ 1,863,380</b>	<b>\$ 837,666</b>	<b>\$ 1,587,991</b>	<b>\$ 621,938</b>	<b>\$ 605,030</b>	<b>\$ 484,966</b>	<b>\$ 5,075</b>	<b>\$ 842,392</b>	<b>\$ 1,501,193</b>	<b>\$ 2,793,734</b>	<b>\$ 11,143,365</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, 2012 and 2011.

USAID's total budgetary resources were \$23.2 billion and \$23.8 billion for the years ended September 30, 2012 and 2011, respectively.

### A. Apportionment Categories of Obligations Incurred:

APPORTIONMENT CATEGORIES OF OBLIGATIONS INCURRED		
<i>(In Thousands)</i>		
	2012	2011
Category A, Direct	\$ 1,405,504	\$ 1,430,019
Category B, Direct	11,256,372	11,869,188
Category A, Reimbursable	42,406	38,866
Category B, Reimbursable	589,811	157,035
Total	\$ 13,294,093	\$ 13,495,108

### B. Borrowing Authority, End of Period and Terms of Borrowing Authority Used:

The Agency had \$0 in borrowing authority in FY 2012 and \$96 thousand in borrowing authority in FY 2011. 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 2012, there is \$1.9 billion in availability related to Federal Credit Reform Program and Liquidating appropriations.

### D. Legal Arrangements Affecting the Use of Unobligated Balances:

The "Consolidated Appropriations Act" signed into law as Public Law 112-74 provides to USAID extended authority to obligate funds. USAID's appropriations have consistently provided essentially similar authority, now known as "7011/511" authority. 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).

### E. Unpaid Obligations:

Unpaid Obligations for the periods ended September 30, 2012 and 2011 were \$18.3 and \$17.5 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 2012 and the President's Budget submission for FY 2012. The President's

Budget with actual numbers for 2012 has not yet been published. USAID expects no material difference between the President's Budget "actual" column

and the FY 2012 reported results when the budget becomes available in February 2013.

### DIFFERENCE BETWEEN THE STATEMENT OF BUDGETARY RESOURCES AND THE BUDGET OF THE U.S. GOVERNMENT

(In Thousands)

2012	Budgetary Resources	Obligations	Distributed Offsetting Receipts	Net Outlays
Combined Statement of Budgetary Resources	\$ 23,247,701	\$ 13,294,093	\$ (923,914)	\$ 10,700,013
Difference #1: Parent Activity Reported in FACTSII by USAID	8,230,939	6,315,809	–	6,425,900
Difference #2: Child Activity Reported in FACTSII by Child Agencies	(995,597)	(635,434)	–	(503,739)
Difference #3: Reported in the SBR but excluded from SF-133s	1,111	–	–	(8,856)
Difference #4: Parent/Child Reporting Differences	(24,588)	(24,588)	–	–
Difference #5: Reporting Difference between the SBR and SF-133s	(6,205)	(1,453)	–	202,199
Difference #6: Credit Financing and Suspense	–	–	–	–
Budget of the U.S. Government	\$ 30,453,361	\$ 18,948,426	\$ (923,914)	\$ 16,815,518

## 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, 2012 and 2011  
(In Thousands)

	2012	2011
<b>Resources Used to Finance Activities:</b>		
Budgetary Resources Obligated		
Obligations Incurred	\$ 13,294,093	\$ 13,495,108
Spending Authority From Offsetting Collections (FY 2012 includes Change in Unfilled Customer Orders previously broken out in the SBR)	(1,021,625)	(1,029,378)
Change in Unfilled Customer Orders	–	(227,554)
Downward Adjustments of Obligations	(472,020)	(2,046,698)
Offsetting Receipts	(923,914)	(377,859)
Net Obligations	10,876,534	9,813,619
Other Resources Used to Finance Activities	29,994	16,100
Resources Used to Finance Activities	10,906,528	9,829,719
Resources Used to Finance Items Not Part of Net Cost of Operations	1,029,033	1,813,777
Total Resources Used to Finance Net Cost of Operations	11,935,561	11,643,496
<b>Components of the Net Cost of Operations:</b>		
Components of Net Cost of Operations That Will Require or Generate Resources in Future Periods	(59,980)	(34,054)
Components of Net Cost of Operations That Will Not Require or Generate Resources	(732,216)	(365,749)
Net Cost of Operations	\$ 11,143,365	\$ 11,243,693

## NOTE 20. IMPACT OF ADJUSTMENTS TO FUND BALANCE WITH TREASURY, ADVANCES, AND UNPAID/PAID OBLIGATIONS

During FY 2012, USAID reconciled its general ledger (GL) to its subsidiary ledgers. As a result of these reconciliations, USAID was required to post several adjustments in its GL. The impacts of those GL adjustments are shown for each financial statement in the table below.

<b>IMPACT OF ADJUSTMENTS TO FUND BALANCE WITH TREASURY, ADVANCES, AND UNPAID/PAID OBLIGATIONS</b>		
<i>(In Thousands)</i>		
<b>Balance Sheet FY 2012</b>	<b>USAID</b>	<b>Child Agencies</b>
<b>Assets</b>		
Cash and Other Monetary Assets	\$ (36,947)	\$ (20,905)
Advances	305,039	172,521
<b>Total Assets</b>	<b>\$ 268,093</b>	<b>\$ 151,616</b>
<b>Liabilities</b>		
Liability for Deposit Funds, Clearing Accounts, and Undeposited Collections	-	-
<b>Total Liabilities</b>	<b>-</b>	<b>-</b>
<b>Net Position</b>		
Unexpended Appropriations	266,212	151,616
Cumulative Results of Operations	1,880	-
<b>Total Net Position</b>	<b>268,093</b>	<b>151,616</b>
<b>Total Liabilities and Net Position</b>	<b>\$ 268,093</b>	<b>\$ 151,616</b>
<b>Statement of Budgetary Resources FY 2012</b>		
<b>Total Resources</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Total Status of Resources</b>	<b>\$ -</b>	<b>\$ -</b>
Obligations Incurred	-	-
Unpaid Obligations, End of Year (Gross)	45,662	95,907
<b>Outlays, (Gross) (-)</b>	<b>\$ (45,662)</b>	<b>\$ (95,907)</b>

During a review of the accounting adjustments posted into the Agency's GL, it was subsequently discovered that the adjustments were partially incorrect because the accounting journals were not updating correctly for a certain type of advance refund returned to the Agency. Although the analysis is not complete, it appears the Agency has understated its

cash position, overstated both proprietary and budgetary advances (prepayments) outstanding, and understated unliquidated obligations.

The Agency intends to make the necessary corrections during FY 2013. The correction will involve reclassifying assets, increasing the Agency's cash

position and reducing the outstanding prepayments. In addition, the Agency will change the status for some obligations from prepaid to unpaid. The Agency is currently unable to provide an exact amount of the reclassification adjustment but the Agency believes the adjustment will not exceed \$150 million.





FINANCIAL SECTION

# REQUIRED SUPPLEMENTARY INFORMATION





**(Above)** This potable water system in the San Lorenzo municipality of Ecuador is part of the Northern Border Development Program. Before its construction in 2002, families in the area carried water from unprotected and contaminated sources, such as rivers and wells, which made young children in particular sick. PHOTO: IOM ECUADOR

**(Preceding page)** In 2011, USAID and other donors provided 11 million free insecticide-treated mosquito nets through a mass distribution campaign to Kenyans. Malaria kills an estimated 34,000 children under age 5 in Kenya every year.

PHOTO: WENDY STONE / USAID

# STATEMENT OF BUDGETARY RESOURCES

## REQUIRED SUPPLEMENTARY INFORMATION: COMBINING SCHEDULE OF BUDGETARY RESOURCES

For the Year Ended September 30, 2012  
(In Thousands)

	Recovery Act	Operating	Civilian Stabilization Initiative	Assistance for Eastern Europe	Development Assistance	International Disaster Assistance	Economic Support Fund	Assistance for New Independent States	Child Survival	Credit-Financing	Other	Parent Fund	Combined Total
	302	1000	305	1010	1021	1035	1037	1093	1095				
<b>Budgetary Resources:</b>													
Unobligated Balance Brought Forward, October 1	\$ 8	\$ 437,013	\$ 7,570	\$ 3,702	\$ 1,092,484	\$ 237,276	\$ 4,642,696	\$ 14,362	\$ 31,768	\$ 2,421,365	\$ 1,086,318	\$ 322,249	\$ 10,296,811
Recoveries of Prior Year Unpaid Obligations	–	120,412	1,945	2,572	48,899	49,223	158,457	7,228	13,595	20	39,473	30,196	472,020
Other Changes in Unobligated Balance (+ or -)	–	(147)	–	2,367	(54,510)	–	(183,467)	(1,609)	(107)	(71)	(110,455)	229,597	(118,402)
Unobligated Balance from Prior Year Budget Authority, Net	8	557,278	9,515	8,641	1,086,873	286,499	4,617,686	19,981	45,256	2,421,314	1,015,336	582,042	10,650,429
Appropriations (Discretionary and Mandatory)	–	1,347,300	–	–	2,519,950	975,000	5,663,207	–	–	(18)	1,070,208	–	11,575,647
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	–	38,717	69	–	(14,226)	254	(48,551)	–	–	209,557	422,249	413,556	1,021,625
<b>Total Budgetary Resources</b>	<b>\$ 8</b>	<b>\$ 1,943,295</b>	<b>\$ 9,584</b>	<b>\$ 8,641</b>	<b>\$ 3,592,597</b>	<b>\$ 1,261,753</b>	<b>\$ 10,232,342</b>	<b>\$ 19,981</b>	<b>\$ 45,256</b>	<b>\$ 2,630,853</b>	<b>\$ 2,507,793</b>	<b>\$ 995,598</b>	<b>\$ 23,247,701</b>
<b>Status of Budgetary Resources:</b>													
Obligations Incurred:	\$ –	\$ 1,391,388	\$ 3,734	\$ 3,149	\$ 2,645,619	\$ 1,122,724	\$ 5,273,599	\$ 5,933	\$ 16,722	\$ 752,560	\$ 1,443,231	\$ 635,434	\$ 13,294,093
Unobligated balance, End of Year:													
Apportioned	–	480,022	5,850	1,825	882,983	139,029	4,996,245	7,588	15,960	309,839	527,804	341,129	7,708,274
Unapportioned	8	71,885	–	3,667	63,995	–	(37,502)	6,460	12,574	1,568,454	536,758	19,035	2,245,334
Total Unobligated Balance, End of Year	8	551,907	5,850	5,492	946,978	139,029	4,958,743	14,048	28,534	1,878,293	1,064,562	360,164	9,953,608
<b>Total Budgetary Resources</b>	<b>\$ 8</b>	<b>\$ 1,943,295</b>	<b>\$ 9,584</b>	<b>\$ 8,641</b>	<b>\$ 3,592,597</b>	<b>\$ 1,261,753</b>	<b>\$ 10,232,342</b>	<b>\$ 19,981</b>	<b>\$ 45,256</b>	<b>\$ 2,630,853</b>	<b>\$ 2,507,793</b>	<b>\$ 995,598</b>	<b>\$ 23,247,701</b>

(continued on next page)

**REQUIRED SUPPLEMENTARY INFORMATION: COMBINING SCHEDULE OF BUDGETARY RESOURCES (continued)**

For the Year Ended September 30, 2012  
(In Thousands)

	Recovery Act	Operating	Civilian Stabilization Initiative	Assistance for Eastern Europe	Development Assistance	International Disaster Assistance	Economic Support Fund	Assistance for New Independent States	Child Survival	Credit-Financing	Other	Parent Fund	Combined Total
	302	1000	305	1010	1021	1035	1037	1093	1095				
<b>Change in Obligated Balance:</b>													
Unpaid Obligations, Brought Forward, October 1 (Gross)	\$ 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
Uncollected Customer Payments from Federal Sources, Brought Forward, October 1 (-)	-	(9,883)	-	(35)	(2,272)	(203)	2	(39)	(1,006)	35	(20,613)	(346)	(34,360)
Obligated Balance, Start of Year (Net), Before Adjustments (+ or -)	968	781,950	5,546	45,011	4,114,751	913,577	8,904,629	70,711	76,327	(247)	1,862,446	694,798	17,470,467
Adjustment to Obligated Balance, Start of Year (Net) (+ or -)	-	-	-	-	-	-	-	-	-	-	-	-	-
Obligated Balance, Start of Year (Net), as Adjusted	968	781,950	5,546	45,011	4,114,751	913,577	8,904,629	70,711	76,327	(247)	1,862,446	694,798	17,470,467
Obligations Incurred	-	1,391,388	3,734	3,149	2,645,619	1,122,724	5,273,599	5,933	16,722	752,560	1,443,231	635,434	13,294,093
Outlays (gross) (-)	(968)	(1,318,250)	(4,109)	(24,021)	(1,689,719)	(946,023)	(4,915,149)	(34,628)	(40,767)	(750,958)	(1,742,328)	(520,602)	(11,987,522)
Change in Uncollected Customer Payments from Federal Sources (+ or -)	-	(1,381)	-	-	2,310	-	(2)	-	-	-	(7,358)	346	(6,085)
Recoveries of Prior Year Unpaid Obligations (-)	-	(120,412)	(1,945)	(2,572)	(48,898)	(49,223)	(158,457)	(7,228)	(13,596)	(20)	(39,473)	(30,196)	(472,020)
Obligated balance, End of Year													
Unpaid Obligations, End of Year (Gross)	-	744,559	3,226	21,602	5,024,025	1,041,258	9,104,620	34,827	39,692	1,300	1,544,489	779,780	18,339,378
Uncollected Customer Payments from Federal Sources, End of Year	-	(11,264)	-	(35)	38	(203)	-	(39)	(1,006)	35	(27,971)	-	(40,445)
<b>Obligated Balance, End of Year (Net)</b>	<b>\$ -</b>	<b>\$ 733,295</b>	<b>\$ 3,226</b>	<b>\$ 21,567</b>	<b>\$ 5,024,063</b>	<b>\$ 1,041,055</b>	<b>\$ 9,104,620</b>	<b>\$ 34,788</b>	<b>\$ 38,686</b>	<b>\$ 1,335</b>	<b>\$ 1,516,518</b>	<b>\$ 779,780</b>	<b>\$ 18,298,933</b>
<b>Budget Authority and Outlays, Net:</b>													
Budget Authority, Gross (Discretionary and Mandatory)	\$ -	\$ 1,386,017	\$ 69	\$ -	\$ 2,505,724	\$ 975,254	\$ 5,614,656	\$ -	\$ -	\$ 209,540	\$ 1,492,456	\$ 413,556	\$ 12,597,272
Actual Offsetting Collections (Discretionary and Mandatory)	-	(37,336)	(69)	-	(2,049)	(254)	(77,034)	-	-	(209,558)	(944,346)	(16,863)	(1,287,509)
Change in Uncollected Customer Payments from Federal Sources (Discretionary and Mandatory)	-	(1,381)	-	-	2,310	-	(2)	-	-	-	(7,358)	346	(6,085)
Budget Authority, Net (Discretionary and Mandatory)	\$ -	\$ 1,347,300	\$ -	\$ -	\$ 2,505,985	\$ 975,000	\$ 5,537,620	\$ -	\$ -	\$ (18)	\$ 540,752	\$ 397,039	\$ 11,303,678
Outlays, Gross (Discretionary and Mandatory)	\$ 968	\$ 1,318,250	\$ 4,109	\$ 24,021	\$ 1,689,719	\$ 946,023	\$ 4,915,149	\$ 34,628	\$ 40,767	\$ 750,958	\$ 1,742,328	\$ 520,602	\$ 11,987,522
Actual Offsetting Collections (Discretionary and Mandatory)	-	(37,336)	(69)	-	(2,049)	(254)	(77,034)	-	-	(209,558)	(944,346)	(16,863)	(1,287,509)
Outlays, Net (Discretionary and Mandatory)	968	1,280,914	4,040	24,021	1,687,670	945,769	4,838,115	34,628	40,767	541,400	797,982	503,739	10,700,013
Distributed Offsetting Receipts (-)	-	-	-	-	-	-	-	-	-	-	(923,914)	-	(923,914)
<b>Agency Outlays, Net (Discretionary and Mandatory)</b>	<b>\$ 968</b>	<b>\$ 1,280,914</b>	<b>\$ 4,040</b>	<b>\$ 24,021</b>	<b>\$ 1,687,670</b>	<b>\$ 945,769</b>	<b>\$ 4,838,115</b>	<b>\$ 34,628</b>	<b>\$ 40,767</b>	<b>\$ 541,400</b>	<b>\$ (125,932)</b>	<b>\$ 503,739</b>	<b>\$ 9,776,099</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 Financing 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 Technical Assistance, U.S. Dollars Advanced from Foreign Governments

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





**(Above)** Thousands of Tunisians rallied to celebrate the first anniversary of the popular uprising that unleashed the Arab Spring revolutions. USAID is helping to strengthen governmental institutions in Tunisia, Egypt, Libya, and Yemen to ensure leaders can address economic grievances and provide for the legitimate needs of their citizens. PHOTO: FETHI BELAID / AFP

**(Preceding page)** Yemeni women show their support for the Arab Spring mass protests of 2011 during a demonstration in Sanaa against then-President Ali Abdullah Saleh. Their painted fingers represent the flags of Tunisia (top L), Syria (C), Libya (top R), Yemen (bottom R), and Egypt (bottom L).

PHOTO: GAMAL NOMAN / AFP



# SCHEDULE OF SPENDING



**T**he Schedule of Spending (SOS) is an annual statement designed to present an overview of how and where agencies are spending funds received. Specifically, it outlines total budgetary resources, gross outlays, and fiscal year-to-date total obligations for the Agency. Beginning in FY 2012, the Office of Management and Budget (OMB) requires that the SOS be included in the Other Accompanying Information section of the AFR.

Section I of the SOS presents resources that were available to the Agency for spending, while Section II of the SOS presents the services or items that were purchased. Both sections are required for FY 2012 reporting. Sections III (funding recipients) and IV (corresponding payment types) will also be required for FY 2013 reporting.

The FY 2012 SOS for USAID (below) has been prepared from the books and records of the Agency in accordance with formats prescribed by OMB in OMB Circular A-136, Financial Reporting Requirements. It is provided 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. Comparative data for FY 2011 have been included.

As implementation and reporting details of the SOS are still being developed, the Agency invites public feedback on the clarity and/or usefulness of this schedule. Please send comments to Gloria White at [gwhite@usaid.gov](mailto:gwhite@usaid.gov).

## SCHEDULE OF SPENDING

*For the Years Ended September 30, 2012 and 2011 (In Thousands)*

	2012	2011
<b>FUND AVAILABILITY</b>		
Total Resources	\$ 23,247,701	\$ 23,791,919
Less Amount Available but Not Agreed to be Spent	7,708,274	7,575,836
Less Amount Not Available to be Spent	2,245,334	2,720,975
<b>Total Amounts Agreed to be Spent</b>	<b>\$ 13,294,093</b>	<b>\$ 13,495,108</b>
<b>USE OF FUNDS</b>		
Gross Outlays		
Credit Financing Funds	750,958	241,968
Operating Funds	1,318,250	1,245,354
Program Funds	7,655,384	8,118,877
Parent Funds	520,602	589,674
Other Funds	1,742,328	1,679,880
<b>Total Outlays, Gross</b>	<b>11,987,522</b>	<b>11,875,753</b>
Amounts Remaining to be Spent	\$ 1,306,571	\$ 1,619,355
<b>Total Amounts Agreed to be Spent</b>	<b>\$ 13,294,093</b>	<b>\$ 13,495,108</b>

# INSPECTOR GENERAL'S STATEMENT OF MOST SERIOUS MANAGEMENT AND PERFORMANCE CHALLENGES FOR USAID

**A**ccording to USAID's Inspector General (IG), the most serious management and performance challenges facing the Agency are in the following six areas:

- Work in High-Threat Environments
  - Performance Management and Reporting
  - Sustainability
  - Implementation and Procurement Reform
  - Management of Information Technology
  - Audits of U.S.-Based For-Profit Entities
- 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 15 2012**

**MEMORANDUM FOR THE ADMINISTRATOR**

FROM: Michael G. Carroll  
Deputy Inspector General

A handwritten signature in blue ink, appearing to read "M. Carroll".

SUBJECT: Most Serious Management and Performance Challenges for the  
U.S. Agency for International Development (USAID)

This memorandum transmits the Inspector General's statement on the most serious management and performance challenges for the U.S. Agency for International Development in FY 2012.

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.

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 on USAID’s Most Serious Management and Performance Challenges**

USAID faces its most serious management and performance challenges in six areas:<sup>1</sup>

- Work in High-Threat Environments
- Performance Management and Reporting
- Sustainability
- Implementation and Procurement Reform
- Management of Information Technology
- Audits of U.S.-Based For-Profit Entities

### **Work in High-Threat Environments**

USAID continues to face challenges in implementing its programs and activities in Afghanistan, Pakistan, Iraq, Haiti, and South Sudan. Critical priority countries and fragile states are characterized by instability, insecurity, weak governance, and poor control of corruption. OIG audits have disclosed deficiencies in planning for program sustainability, weak contract and grant management, weak internal controls, and noncompliance with laws, regulations, and other legally binding requirements. Relations between the U.S. Government and the governments of some of these countries are challenging, and continuing violence complicates program monitoring and makes it hard to recruit qualified Foreign Service National employees.

USAID has formed a steering committee that is developing plans to train a cadre of USAID employees and partners with the requisite skills and equipment to operate in exigent environments. The steering committee is also expected to produce plans for improved monitoring and oversight of USAID funds in these areas. The steering committee is preparing a strategic plan, as well as a decision memorandum and an implementation plan with cost estimates and time frames for implementing required changes.

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<sup>1</sup> This list reflects four significant changes from OIG’s last statement on USAID’s management and performance challenges, dated October 12, 2011: (1) “Managing for results” has been replaced by “performance management and reporting.” (2) “Sustainability,” previously included in “managing for results,” is now reported as a separate management challenge. (3) “Managing acquisitions and assistance,” which was reported in OIG’s last statement as a separate management challenge, is now included in “implementation and procurement reform,” which is being reported as a management challenge for the first time in this statement. (4) “Timely completion of audits of U.S.-based for-profit entities” is reported as a management challenge for the first time. (In addition to these significant changes, there are minor wording changes in the titles of some of the management challenges that were included in the OIG’s previous statements.)

**Afghanistan.** Audits and reviews conducted in recent years have noted the need for improvements in several management and performance areas. Forty percent of the reports issued from October 1, 2010, through June 30, 2012, have identified contract or project management deficiencies and noncompliance with relevant procedures or regulations. Forty percent reported on internal control weaknesses. More than a third of the reports indicated that security problems hampered project implementation or monitoring; likewise, more than a third of the reports indicated that program benefits might not be sustainable. Two recent OIG audits illustrate some of these issues:

- USAID/Afghanistan’s Incentives Driving Economic Alternatives for the North, East, and West, a \$150 million program to promote alternatives to growing poppies, was achieving only mixed results.<sup>2</sup> For example, in 2010 and 2011, the program reported repairing or constructing only 80 of the 161 miles of transportation infrastructure targeted. Changes in program focus and staff turnover slowed progress, as incoming mission personnel came with different visions of the program, had varying priorities and operating styles, and in many cases did not document changes to the program. The mission’s monitoring and documentation were not adequate, and while the agreement officer’s representative was receiving quarterly and annual progress reports, he was neither analyzing those reports nor confirming the accuracy of reported data. Involvement of the host government in planning is an important component of fostering sustainability; however, officials in Afghanistan’s Directorate of Agriculture, Irrigation, and Livestock said that they were not asked for their input into the design and planning of projects. In addition, participants in activities were disproportionately men, demonstrating that a gender balance was not maintained as required. Finally, the program’s cash-for-work projects lacked policies on working hours, child labor, and worker safety.
- The Afghanistan Stabilization Initiative for the Southern Region, a \$160 million program, has been delayed by a lack of timeliness standards for evaluating the performance of the main implementer, adverse security conditions, a lack of formal work plans, inadequate USAID oversight, staffing difficulties, and poor-quality subcontractors.<sup>3</sup> While the program was expected to build confidence and trust between the Government of Afghanistan and its citizens, citizens did not perceive projects as Afghan Government efforts, but rather as the work of foreigners. Security costs charged by the implementer were unreasonable, and reported results were inaccurate because the implementer reported planned results instead of actual results to USAID/Afghanistan, significantly overstating achievements.

USAID continues to address the challenges of managing projects in Afghanistan, and USAID/Afghanistan has begun planning for a reduced U.S. military and civilian presence in accordance with a transition to Afghan leadership under the Strategic Partnership Agreement signed in May 2012. USAID/Afghanistan and its interagency partners expect to continue using

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<sup>2</sup> Audit of USAID/Afghanistan’s Incentives Driving Economic Alternatives for the North, East, and West Program, June 29, 2012, F-306-12-004-P.

<sup>3</sup> Audit of USAID/Afghanistan’s Afghanistan Stabilization Initiative for the Southern Region, November 13, 2011, F-306-12-001-P.

on-site monitors, and the use of third-party monitors is being considered to help train program recipients and report on project progress.

**Pakistan.** OIG performance audits and reviews conducted in recent years have noted the need for improvements in a range of management and performance areas. Most of the reports issued from October 1, 2010, through June 30, 2012, have identified contract or project management deficiencies, and more than 40 percent have found internal control weaknesses and noncompliance with relevant procedures or regulations. Two examples follow:

- USAID/Pakistan's Pre-Service Teacher Education Program, a program with expenditures of \$22 million as of December 2011, has successfully promoted new 2- and 4-year degree programs for teachers, with 16 educational institutions adopting the new degree programs. Notwithstanding its success in this regard, the program did not meet targets for 12 of 19 indicators. Some targets were not met because activities such as student scholarships and grants were postponed. Other program accomplishments, such as renovations at college and university facilities and the number of teachers enrolled in the new degree programs, fell short of targets. Performance management plans submitted by the program implementers did not comply with USAID requirements, and the mission had not given final approval to one implementer's plan.<sup>4</sup>
- The Energy Efficiency and Capacity Program, a 3-year, \$23.5 million program, trained 138 individuals during its first year, 46 percent of the 300 individuals it expected to train. However, it did not achieve any of the planned results for industries with energy conservation plans, companies evaluating energy efficiency, energy companies upgrading equipment, or distribution companies implementing conservation strategies, and it did not implement a planned appliance-labeling program. Subsequently, responding to a shift in U.S. Government strategy, the mission modified the program to focus on subsidies for more efficient pumps for irrigation wells, intending to replace 11,000 pumps over 2 years. After 1½ years of implementing the new program strategy, only 963 pumps were reportedly replaced, 9 percent of the number planned. Because the contractor's fixed costs were spread over a smaller number of pumps than expected, USAID's cost per pump increased from the original estimate of \$1,400 each to almost \$8,500 each. More realistic planning and closer monitoring would have produced better results.<sup>5</sup>

To mitigate risks affecting its programs, USAID/Pakistan continues to conduct preaward assessments of local implementing partners. USAID/Pakistan also conducts broad-based monitoring and evaluation activities under an institutional contract to strengthen oversight.

**Iraq.** Monitoring assistance projects continues to be extremely difficult in Iraq. With the drawdown of the U.S. military, the U.S. Embassy disbanded its provincial reconstruction teams as of September 2011. To fill the void in program monitoring, USAID has sought to hire 25 Iraqi field monitors; however, hiring has proved difficult. Because of the perceived danger, few

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<sup>4</sup> Audit of USAID/Pakistan's Pre-Service Teacher Education Program, March 16, 2012, G-391-12-004-P.

<sup>5</sup> Audit of USAID/Pakistan's Energy Efficiency and Capacity Program, November 23, 2011, G-391-12-002-P.

Iraqi professionals apply to fill positions with the U.S. Government or with implementing partners. Iraqis seeking employment face a challenging security vetting process including polygraph testing and routine re-vetting. These requirements make it difficult to recruit and retain Iraqi professionals for key positions.

To improve its oversight and provide better accountability in such an environment, USAID has hired contractors and relied on local counterparts to gather performance data to assist with reporting, analysis, and decision making. Notwithstanding these recent efforts, the following examples highlight the difficulties of working in Iraq:

- USAID contracted for monitoring and evaluation services to carry out oversight functions that Agency personnel could not perform because of security restrictions.<sup>6</sup> To assess the services provided under the contract, USAID subsequently requested an audit, which found weaknesses in the monitoring and evaluation methods used by the contractor, casting doubt on the quality of findings and conclusions reported.
- USAID provided \$103 million in technical assistance to develop the capacity of the Government of Iraq's election commission.<sup>7</sup> While the program did assist voter registration and elections, the program did not use a performance management plan, an Agency requirement for managing, assessing, and reporting progress toward the development objective.<sup>8</sup> Without a plan that defined the assistance to be provided and the results to be achieved, it was difficult to monitor progress or document program results. A performance management plan was prepared 3 years after the program began, but it was not updated; consequently, it was not used for monitoring the program. After 7 years of investment, the program was not sustainable and needed more assistance to stand on its own operationally, administratively, and financially. While capacity-building efforts produced some tangible results, overall the program did not focus on transferring the administrative and financial management skills needed to ensure the sustainability of the Iraqi election commission.

**South Sudan.** South Sudan's first year of independence has seen a continuation of the conflicts that plagued northern and southern Sudan for decades. In January 2012, South Sudan halted oil production during a dispute with Sudan over pipeline transit fees, diminishing government revenues in both countries. Travel restrictions are common in the north, where South Sudan's forces clash with both Sudanese and rebel forces. In the southern part of South Sudan, banditry and tribal conflict also restrict USAID activities. While insecurity and resulting travel restrictions continue to impede project implementation and monitoring, frequent USAID staff turnover and inadequate handover procedures have exacerbated the situation. For example, USAID has not approved work plans and waivers promptly during staff transitions, delaying implementation and resulting in some partners' starting activities without USAID approval.

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<sup>6</sup> Audit of USAID/Iraq's Performance Evaluation and Reporting for Results Management Program, July 30, 2012, E-267-12-004-P.

<sup>7</sup> Audit of USAID/Iraq's Electoral Technical Assistance Program, March 22, 2012, E-267-12-003-P.

<sup>8</sup> USAID's Automated Directives System (ADS) provides guidance for managing foreign aid. ADS 203.3.3.1, effective September 2008, contains requirements for a complete performance management plan to track and report results.



Financial monitoring is also difficult: USAID's office in South Sudan had just two financial analysts, each with less than 6 months' experience, to perform on-site financial reviews. Furthermore, few local public accounting firms are qualified to perform audits of USAID recipients if more in-depth audit oversight is warranted.

In addition, government capacity in South Sudan is weak, limiting program coordination and the expected long-term benefits of USAID's development efforts. Two examples highlight the problems posed by insecurity, insufficient financial monitoring, and low host-government capacity:

- Two programs in South Sudan designed to support the comprehensive peace agreement and increase the capacity of both civil society and local government entities did not achieve their main goal. An audit requested by USAID/Sudan found that key deliverables such as radio stations, resource centers, and annual state conferences were not completed on time. Performance targets for training, textbooks, and related activities were not met, sometimes because of factors like insecurity that were outside the control of the implementer and USAID, but also because of mismanagement. The implementer undertook activities without first obtaining USAID's approval, leading to \$1.2 million in questioned costs. The implementer charged another \$339,015 that the auditors classified as questioned costs because of questionable methods of allocating management costs and overhead to the USAID project. Additionally, the sustainability of some project activities was doubtful. For example, a resource center constructed by a USAID-funded program in Mankien (Unity State) that was intended to strengthen local civil society organizations was no longer functional because of post-referendum security concerns. Additionally, USAID-funded resource centers in Central Equatoria State were not functioning as intended because the local organizations meant to run them lacked capacity and sustainable financial resources. Finally, a USAID-funded organization evacuated staff from insecure areas along the border between Sudan and South Sudan, leaving behind incomplete and unmonitored USAID investments. Because of these staff departures, the organization was unable to complete training and capacity building for local government entities.<sup>9</sup>
- An audit of road-upgrading activities in South Sudan found that, while the Juba-Nimule road was over budget and behind schedule, the sections of road that were completed were well built, and increases in traffic showed that the road had successfully linked South Sudan with Uganda and other neighboring countries to the south. However, increased traffic volume has led to more accidents and has increased the wait time at the border from 3 hours to 3 days, according to a contractor official. These problems are due to the lack of action by the South Sudan Government to expedite customs clearance at the border and to the lack of policing in certain areas.<sup>10</sup>

**Haiti.** The January 12, 2010, earthquake in Haiti has been characterized as the largest urban disaster in modern history. As estimated on USAID/Haiti's Web site, the earthquake affected

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<sup>9</sup> Audit of USAID/South Sudan's Programs Implemented by Mercy Corps, May 25, 2012, 4-668-12-009-P.

<sup>10</sup> Follow-Up Audit of USAID/South Sudan's Road Infrastructure Activities, June 13, 2012, 4-668-12-010-P.

3 million people, including approximately 1.5 million who were displaced to 1,300 settlements throughout Haiti. USAID estimates that 370,000 people still live in temporary camps and makeshift homes. Cholera has killed thousands of people and remains an ongoing health threat. Haiti also struggled through a turbulent presidential election in April 2011, with rumors of fraud sparking violent demonstrations.

USAID faces a vast array of challenges as it assists with Haiti's recovery from the devastating natural disasters and progress toward national development goals for infrastructure, health, agriculture, and governance. Although Haitian-led development is imperative, the limited capacity of the government and local nongovernmental organizations complicates this goal. Property rights and land tenure are also major challenges in Haiti. The loss of records in the earthquake has made identifying the rightful owners of land extremely difficult. Land tenure issues also impede USAID's ability to achieve its agricultural goals. Widespread corruption is a challenge for program accountability. In 2011, Transparency International's Corruption Perceptions Index ranked Haiti 175 out of 183 countries.

After the earthquake USAID provided significant emergency funding to Haiti that improved living conditions for thousands; however, the expenditure of long-term reconstruction funding moved slowly. For example, according to USAID/Haiti, of the approximately \$800 million in reconstruction funding committed under the most recent bilateral agreement, less than 20 percent had been awarded, and only about 6 percent had been disbursed, as of July 2012. To facilitate a more rapid reconstruction effort, USAID/Haiti has reached a comprehensive bilateral agreement with the Government of Haiti and has developed reconstruction strategies that focus on health, education, agriculture, economic security, and energy.

In addition to the funding committed under the bilateral agreement, Haiti receives funding through the Development Credit Authority, Public Law 480, Global Health, and Office of Foreign Disaster Assistance programs. Mission officials anticipated that an additional \$250 million to \$300 million per year may be added to the country program. The sum of funds committed and budget requests for FY 2010–FY 2014 is approximately \$2.7 billion.

### **Performance Management and Reporting**

Performance management and reporting remains a management challenge. Program managers are responsible for approving performance management plans that support the objectives of each program and provide measures or indicators and targets for monitoring overall progress. Creating the plans is a time-consuming process, involving research and the collection of baseline data. Monitoring requires making site visits to confirm that scheduled activities are taking place and that targeted groups are receiving the intended benefits. It requires managers to assess data quality and check the numbers reported by implementers, not just against targets and previous reports but also against what is possible in the local context. Reporting results means compiling data from many implementers, in some cases from manual records, and verifying the compiled information under tight deadlines.

**Performance Management.** According to USAID’s Automated Directives System 200.2, the mission’s performance management responsibilities include planning and designing development objectives and managing and monitoring the implementation of these objectives. USAID’s challenges in project monitoring result from causes both internal and external to USAID. During the planning phase, USAID does not always assess and document external weaknesses that could impair project execution. Often weaknesses in local institutions or implementing partners do not become evident until the project monitoring phase. The following examples highlight planning and monitoring difficulties:

- The President’s Malaria Initiative, initiated in 2005, seeks to reduce the burden of the disease—illness, death, and poverty—especially in Africa. In Senegal, USAID relied on the national health system to distribute commodities and treat beneficiaries. However, because the system comprises 14 regions, 76 health districts, and 16,000 health outlets, program oversight was difficult, and an OIG audit disclosed numerous monitoring weaknesses.<sup>11</sup> Inventory records were lacking, treated bed nets had not been distributed as the mission understood, and some health posts had not received drugs for more than a year.
- For an HIV/AIDS program in the Democratic Republic of Congo (DRC),<sup>12</sup> the implementing partner was expected to “ensure continuous provision of supplies, including test kits” for HIV counseling and testing services. Because of unclear communication between USAID/Washington’s contracting office and USAID/DRC’s program office, it was not until after the contract was awarded and the project had begun that mission officials realized the implementer interpreted “ensure continuous provision” to mean managing distribution of commodities available at the health facilities, whereas the mission intended the language to mean procurement of commodities. Yet there was no line item for procurement in the implementer’s approved budget, and during implementation USAID estimated that an additional \$5 million would be needed to procure medical supplies for the remainder of the project.
- USAID developed the Skills Training for Afghan Youth Project<sup>13</sup> to provide technical and vocational skills, education, and other assistance. USAID awarded the 3-year project, valued at approximately \$50 million, through a cooperative agreement. Ineffective communications and unapproved documents led to drastically different understandings about when the implementing partner should begin the second phase of the project. Inexperienced USAID staff members contributed to the project’s difficulties. OIG recommended that USAID document significant meetings, discussions, and decisions—especially approvals, which are an essential element of management control.

**Reporting.** Quality, reliability, and sufficiency of program data are essential to assess whether projects have the intended impact. USAID guidance stresses that data must be of high enough quality to support the appropriate level of management decisions. Even though USAID has

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<sup>11</sup> Audit of USAID/Senegal’s Activities Under the President’s Malaria Initiative, August 7, 2012, 7-685-12-007-P.

<sup>12</sup> Audit of USAID/Democratic Republic of Congo’s HIV/AIDS Program, November 23, 2011, 7-660-12-001-P.

<sup>13</sup> Audit of USAID/Afghanistan’s Skills Training for Afghan Youth Project, February 7, 2012, F-306-12-002-P.

extensive guidance to help manage projects, staff members continue to struggle to report accurate and supported results, as the following examples make clear:

- The implementer of an HIV/AIDS project in Ghana found, after conducting a data quality assessment, that it had overreported results.<sup>14</sup> Reporting was flawed because those working for a subpartner did not understand how to define, measure, and report on project indicators. In addition, the lack of a centralized database made it difficult to track and report on results. Further, auditors could not verify results reported on activities designed to reduce gender-based violence, which affects groups at high risk for HIV/AIDS.
- USAID/Pakistan<sup>15</sup> developed a project to expand opportunities for owners of microenterprises. Although circumstances beyond the control of the mission forced it to reduce the project's scale, substantially increasing microentrepreneurs' income remained a focus of the project. However, the project did not pay sufficient attention to measuring the change in beneficiary income. As a result, when OIG reviewed the project, no information was available on changes in income, and auditors could draw no conclusions on whether the project was, in fact, increasing income. Since the audit, the mission has mandated the collection of this information.
- For the Tajikistan Productive Agriculture Program, results were missing or not useful.<sup>16</sup> The program did not formally track or report on the program's most significant activity—giving farmers vouchers that allowed them to buy high-quality seeds and other inputs at a discount. The program had no indicator to measure the number of voucher recipients or the number who redeemed their vouchers for the inputs subsidized by the program. Further, the program established no targets for the indicators on which it collected data. These conditions made measuring effectiveness difficult.
- USAID's Cooperative Development Program, managed in large part by the Office of Innovation and Development Alliances, does not have reliable data to assist Agency managers in making informed program decisions. Across USAID, there is no comprehensive set of relevant metrics with which to assess the results of agricultural cooperatives. USAID is taking steps to improve its program management by requesting more data and conducting improved evaluations.<sup>17</sup> However, USAID is not able at this time to produce evidence that the cooperative programs have produced sustainable economic benefits for small farmers.

In January 2011, USAID began requiring that a comprehensive strategy, a Country Development Cooperation Strategy, be developed to give direction to its programs in each country. In addition, new program cycle guidance has been issued to improve planning, implementation, monitoring, and evaluation. Staff training has also been phased in to complement the new approaches.

<sup>14</sup> Audit of USAID/Ghana's Efforts to Integrate Gender into HIV/AIDS Activities, May 4, 2012, 7-641-12-006-P.

<sup>15</sup> Audit of USAID/Pakistan's Entrepreneurs Project, April 20, 2012, G-391-12-005-P.

<sup>16</sup> Audit of USAID/Tajikistan's Productive Agriculture Program, October 28, 2011, 5-119-12-001-P.

<sup>17</sup> Review of USAID Cooperative Development Programs, May 10, 2012, 9-000-12-001-S.

## Sustainability

The President, Secretary of State, and the USAID Administrator have stressed the importance of sustaining benefits from development projects, and USAID has launched several efforts to address sustainability. The challenge is to design and implement projects that improve the ability of countries receiving aid to sustain benefits after U.S. Government funding ends. Sustainability underlies most of USAID's development priorities, and new plans require USAID to address this subject in meaningful ways.

Specific difficulties in managing projects for sustainability are discussed below.

- The USAID/Barbados Eastern Caribbean Community Action Project<sup>18</sup> demonstrates the difficulty of ensuring that national governments and community organizations are committed to sustainability. Despite sound policy in the USAID Automated Directives System and extensive efforts by the mission to ensure sustainability, the national government failed to provide funds to sustain the project when USAID funding ended. Following the first phase of the project, USAID developed a sustainability strategy to focus on working with government agencies and community organizations, yet these same elements were the focus of the strategy that failed in the first phase. USAID is now reassessing its plan for this project.
- Between 2003 and 2011, USAID financed information technology systems for the Government of Iraq to help manage information and increase transparency. However, for a variety of reasons—including changes in government that led some information technology systems to fall into disfavor—the Government of Iraq did not demonstrate the required commitment. The result was that most of the investments were not sustainable. USAID is now revising its procedures in an effort to implement lessons learned and audit recommendations for information technology investments.<sup>19</sup>
- USAID's road project in South Sudan experienced delays and budget overruns and is unlikely to be maintained by the Government of South Sudan. USAID has been working with the South Sudanese Government to create a quasi-governmental entity to maintain the country's roads. However, doubt remains about the road's sustainability since the government representatives stopped attending meetings with USAID officials and failed to take control of completed bridges.<sup>20</sup>

In December 2011, USAID issued new project design guidance requiring sustainability objectives to be incorporated into every project design. The Agency also created a companion Sustainability Analysis Tool to help missions design projects to maximize sustainable outcomes.

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<sup>18</sup> Audit of USAID/Barbados' Eastern Caribbean Community Action Project, August 17, 2012, 1-534-12-006-P.

<sup>19</sup> Audit of the Sustainability of USAID/Iraq-Funded Information Technology Systems, March 21, 2012, E-267-12-002-P.

<sup>20</sup> Follow-Up Audit of USAID/South Sudan's Road Infrastructure Activities, June 13, 2012, 4-668-12-010-P.

In January 2012, the project design sections of the Automated Directives System, Chapter 201, were updated to incorporate the new guidance and tool. In July 2012, USAID's Office of Policy, Planning and Learning completed development of its new project design course, which includes a major section on sustainability. Project design workshops are ongoing.

To provide guidance for the country where sustainability of U.S. efforts is the focus of national debate and international attention, the Administrator issued "Sustainability Guidance for USAID in Afghanistan," in June 2011. The guidance acknowledges that USAID's efforts are critical to the success of the President's strategy and lays out core principles for USAID efforts. Specifically, the Administrator directs more rigorous program review, monitoring, analysis and reporting, and development of a communications strategy.

### **Implementation and Procurement Reform**

USAID's Implementation and Procurement Reform (IPR) is part of the USAID Forward reform agenda, designed to make USAID's assistance programs more efficient, effective, and sustainable. Ultimately, USAID aims to create enabling conditions in the countries where it works so that aid is no longer necessary. To achieve these ambitious outcomes, IPR includes six objectives:

- Increase use of host-country systems and institutions.
- Strengthen local civil society and private sector capacity through increased grants and contracts to local non-profit and for-profit entities and through capacity-building assistance.
- Increase competition and broaden USAID's partner base by increasing the use of U.S.-based small and disadvantaged businesses and small NGOs.
- Increase the number of fixed-price contracts and decrease the use of high-risk procurement methods.
- Strengthen collaboration and partnership with bilateral donors and multilateral and international organizations.
- Rebuild USAID's internal technical capacity.

By the end of fiscal year 2015, USAID plans to deliver 30 percent of mission assistance programs through host-country systems including government ministries, local non-profit organizations, and local for-profit firms. To assess risks associated with awards to non-U.S. organizations, USAID has developed two new assessment tools: a Public Financial Management Risk Assessment Framework (PFMRAF) for public sector institutions and a Non-U.S. Organization Pre-Award Survey (NUPAS) tool for private sector non-profit and for-profit entities. As of August 7, 2012, USAID had reportedly completed 24 Stage 1 PFMRAF assessments (which focus on country-level fiduciary risks) and 3 Stage 2 assessments (which assess risks within specific government institutions). USAID does not centrally track the

completion of NUPAS surveys. OIG is currently conducting a review of PFMRAF and NUPAS assessments to see whether the assessments are reliable and whether recommendations for risk mitigation measures are being implemented.

To manage the fiduciary and programmatic risks that will accompany IPR implementation, USAID has begun using fixed-obligation grants, in which grantees are paid a fixed amount for completion of verifiable products, tasks, deliverables, or goals. USAID also uses fixed-amount reimbursement agreements, in which host governments are paid a fixed amount for completion of construction projects in accordance with agreed specifications and quality standards.

If USAID missions are to deliver more assistance through organizations that lack experience working with USAID, the relationship between USAID and its implementers will necessarily change. USAID officials working on IPR implementation have indicated that missions will need additional staff so that they can work more closely with new implementers. If additional human resources are not provided, the risks associated with working with a new group of implementers will be heightened.

As part of the IPR initiative, several other acquisition and assistance reforms are planned. USAID expects to increase the number of awards reserved for U.S.-based small, disadvantaged, and women-owned businesses, while ensuring that prime contractors and grantees provide more subgrants and subcontracts to small and start-up NGOs and to small and disadvantaged businesses. By FY 2013, USAID plans to obligate 3 percent of its program funds through contracts with U.S. small and disadvantaged businesses, increase the number of partners to 200, and increase the number of U.S. private business partners and U.S. NGOs by 25 respectively. By 2015, USAID plans to obligate 5 percent of its program funds through contracts with small and/or disadvantaged businesses, increase the number of partners to 300, and increase the number of U.S. private business partners and U.S. NGOs by 40 respectively.

USAID expects to revise its policies and procedures on indefinite quantity contracts and leader with associate awards, reducing their size, scope, and duration. USAID plans to increase the percentage of fixed-price contracts for commodities to 75 percent and for other acquisitions to 20 percent by FY 2015. The Agency will also consider cost containment measures for contractors and grantees, such as compensation limits. It is working to harmonize procurement approaches with other U.S. Government agencies working in the same areas as USAID, such as HIV/AIDS and maternal and child health. Finally, USAID plans to reduce both the number of contracts reviewed by the Contract Review Board and the number of times that contracts must be reviewed.

To strengthen collaboration among USAID, other donors, and multilateral organizations, USAID has issued a new Automated Directives System (ADS) chapter, ADS 351, establishing new policies for agreements with other bilateral donors. It has revised ADS 308, which governs awards to public international organizations, and it is in the process of negotiating new audit provisions applicable to United Nations agencies.

To rebuild USAID's internal technical capability, USAID will prioritize recruitment of technical staff with a focus on key initiative areas such as global health and food security, science and technology, democracy and governance, and entrepreneurship. USAID is also prioritizing recruitment and retention of contracting officers. This part of the IPR effort is carried out under USAID's Talent Management Reform Plan, which was announced in 2010 and is led by the Office of Human Resources.

### **Management of Information Technology**

USAID continues to face challenges in implementing Homeland Security Presidential Directive 12 (Presidential Directive 12). In addition, USAID faces challenges in consolidating information technology (IT) personnel and infrastructure with the Department of State's and in safeguarding classified material.

Regarding Presidential Directive 12, OIG reported that USAID lacked the resources to comply with this U.S. Government-wide directive.<sup>21</sup> 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. USAID plans to follow the direction of the Department of State to comply with Presidential Directive 12, but tailoring an implementation plan to comply with the directive in USAID/Washington and at overseas posts continues to be a challenge.

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, Open Net. Subsequently, USAID conducted a business study for consolidating USAID and Department of State IT infrastructure at approximately 70 locations. The approach chosen as a result of this study involves total integration of hardware, software, and support personnel. During FY 2012, USAID and the Department of State consolidated IT infrastructure at three pilot locations: Lima, Peru; San Salvador, El Salvador; and Guatemala City, Guatemala. A USAID study identified potential risks to system security and to attaining projected savings, and data collected from the three pilot sites pointed to a number of technical, governance, and security issues that need to be addressed. USAID and the Department of State's move toward cloud-based software and IT infrastructure could reduce the expected cost benefits of the consolidation and represents a risk to the consolidation effort. The monitoring of these and other significant risks will require management's continuing 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 in 2011 to assess federal efforts to guard classified information against improper disclosure. At USAID, these efforts included a self-assessment of the handling of classified material, an external review by the Information Security Oversight Office and the

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<sup>21</sup> Audit of USAID's Implementation of Selected Homeland Security Presidential Directive 12 (HSPD-12) Requirements for Personal Identity Verification of Federal Employees and Contractors, February 6, 2008, A-000-08-004-P.



Office of the National Counterintelligence Executive, and a review by the Office of Inspector General. All three efforts identified areas where USAID could strengthen the safeguarding of classified material.

According to USAID, the Agency continues to work with the State Department to comply with Presidential Directive 12 and consolidate IT infrastructure. In addition, USAID is working to increase the protection of classified material and has established a June 2013 target date for addressing areas identified as needing improvement.

#### **Audits of U.S.-Based For-Profit Entities**

Audits of USAID's for-profit contractors are traditionally conducted by the Defense Contract Audit Agency (DCAA) under a reimbursable agreement with USAID. However, USAID has not made timely requests for many of these audits, and DCAA has been slow to respond to audit requests. As a result, as of September 2012, USAID has a backlog of approximately 370 incurred-cost audits.

To clear the backlog, the following actions have been taken. USAID has provided increased funding for incurred-cost audits and proposes to create a working capital fund to finance future audits, setting aside a small percentage of program funds each time a contract award is made. USAID is also using contracts with public accounting firms to augment DCAA's audit efforts. USAID provided \$3.2 million in funding for audits of for-profit contractors during FY 2013, with the expectation that 167 audits will be completed this year: 61 performed by DCAA and 106 performed by a public accounting firm. USAID has funded a liaison position within DCAA to monitor audits requested by USAID, bring valid issues to the attention of appropriate DCAA management officials for resolution, and see that USAID receives periodic status reports. Finally, DCAA has dedicated three teams of five auditors at its Colombia, Maryland, branch office to USAID audits.

# 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 a qualified opinion on the financial

statements with two material weaknesses. Table 2 shows the Agency has a qualified Federal Managers' Financial Integrity Act (FMFIA) Assurance Statement with two material weaknesses and one nonconformance with financial management system requirements. In addition, both the Agency and the Auditor have determined

that the Agency is not in substantial 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: Qualified**

**Restatement: No**

Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
USAID does not reconcile its Fund Balance with Treasury Account with the U.S. Treasury's balance and resolve reconciling items in a timely manner	1	0	0	1	0
USAID Recorded Unsupported Adjustments to bring Its Fund Balance with Treasury Account into Agreement with the U.S. Treasury's Balance	0	1	0	0	1
USAID Made Adjustments to Various Accounts in its General Ledger that it could not justify.	0	1	0	0	1
<b>Total Material Weaknesses</b>	<b>1</b>	<b>2</b>	<b>0</b>	<b>1</b>	<b>2</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>

(continued on next page)

**Table 2. SUMMARY OF MANAGEMENT ASSURANCES (continued)**

**Effectiveness of Internal Control over Operations (FMFIA § 2)**

**Statement of Assurance: Qualified**

<b>Material Weaknesses</b>	<b>Beginning Balance</b>	<b>New</b>	<b>Resolved</b>	<b>Consolidated</b>	<b>Reassessed</b>	<b>Ending Balance</b>
Management's implementation of its information security policies and procedures is not effective	0	1	0	0	0	1
<b>Total Material Weaknesses</b>	<b>0</b>	<b>1</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1</b>

**Conformance with Financial Management System Requirements (FMFIA § 4)**

**Statement of Assurance: Systems do not 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>
USAID's lack of an effective risk management program represents a significant deficiency to enterprise-wide security including USAID's financial systems	0	1	0	0	0	1
<b>Total non-conformances</b>	<b>0</b>	<b>1</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1</b>

**Compliance with Federal Financial Management Improvement Act (FFMIA)**

	<b>Agency</b>	<b>Auditor</b>
Overall Substantial Compliance	No	No
1. System Requirements	No	No
2. Accounting Standards	Yes	Yes
3. USSGL at Transaction Level	Yes	Yes

**DEFINITION OF TERMS**

**Beginning Balance:** The beginning balance will agree with 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 Section 4 and vice versa]).

**Ending Balance:** The agency's year-end balance.

# IMPROPER PAYMENTS ELIMINATION AND RECOVERY ACT REPORTING DETAILS

## 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 (Pub. L. No. 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;
- 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 under 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 complete improper payments training, exercise the highest degree of quality control in the payment process, and be held accountable for improper payments.

Appendix C, Part I of OMB Circular A-123 requires all executive branch agencies to determine if the risk of improper payments is significant and to provide statistically 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 to identify those 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 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, 2011 through June 30, 2012.

## IMPROPER PAYMENTS REPORTING DETAILS

### I. RISK ASSESSMENT

In FY 2012, 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, 2011, to June 30, 2012. The Office of the CFO identified programs 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 consisted of weighing, scoring, and rating each of USAID's 27 programs based on risk factors—probability and impact of risk—and by assigning a risk rating of low, medium, or high. The ratings, which were based on similar risk factors as the prior reporting period, consisted of:

- Total value of disbursements;
- Total number of disbursement transactions (by accounting line);
- Total number of unique contractors and vendors;
- Total value of canceled and returned payments;
- Total value of interest payments;
- Degree of maturity or stability;

- Critical Priority Country (CPC) program payments;
- Percentage of total CPC dollars;
- Total value of known duplicate payments;
- Prior year significant risk indicators;
- Program payment complexity.

One risk factor, FY 2012 budgeted costs for each program, was removed because such information was not available at the time that the risk assessment was performed. In addition, the following risk factor was added for concerns identified in the FY 2011 Federal Managers' Financial Integrity Act (FMFIA) report.

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 the risk score and identify programs at high risk of susceptibility 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; and Protection, Assistance, and Solutions as programs susceptible to erroneous payments. In the prior IPIA reporting period, the Agriculture and Economic Opportunities programs were considered high risk; their ratings were reduced in the current year and procedures were not performed.

### II. STATISTICAL SAMPLING

The objective of sampling the four mentioned programs for the period July 1, 2011, through June 30, 2012, 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;
- 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	180	5,474	\$ 1,416
A11	Health	212	8,411	1,257
A12	Education	268	8,137	585
A22	Protection, Assistance and Solutions	224	5,864	1,054
<b>Totals</b>		<b>884</b>	<b>27,886</b>	<b>\$ 4,312</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 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:

- The recalculation of invoice for arithmetical accuracy;
- A review of payment instructions to ensure the proper vendor and vendor code are selected;
- A review of contractor bank information for validity and agreement to the core financial management system (Phoenix) prior to payment;
- An assessment of risk and review of management controls to ensure that they are operating as intended;
- Performance of periodic reviews of agreements and contracts on terms of payments;
- Periodic reviews of processed payments;
- Improper payment training for staff associated with payments.

USAID has 27 programs and considers each 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, 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 that 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.

Prior to making an award, USAID Contracting Officers follow the Federal Acquisition Regulation (FAR) Part 9 policies, standards, and procedures pertaining to prospective contractors' responsibility, debarment, suspension, and ineligibility (e.g., contractors submit certifications and information regarding responsibility matters, pre-award surveys may be conducted, etc.).

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 timeline for correcting the deficiencies. The Agency follows up on the action plan until the deficiencies are

corrected; it 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.

The procedure described above occurs prior to award issuance and throughout the life of the grant. If during a review of an audit report for a potential grantee too many risks are identified, an award may not be made until the potential grantee has implemented sufficient corrective actions.

#### IV. IMPROPER PAYMENT REPORTING

Table 2 reflects the outlays, improper payment percentage, and improper payment amounts for the FY 2011 and FY 2012 reporting periods. In addition, this table depicts estimates and improper payment reduction outlooks for FY 2013 through FY 2015.

**Table 2. IMPROPER PAYMENT REDUCTION OUTLOOK** (In Millions)

Program Areas	PY	PY	PY	CY	CY	CY	CY	CY
	Outlays (a)	IP % (b),(c)	IP (c)	Outlays (a)	IP % (b)	IP	Overpay-ments	Underpay-ments
A08 – Good Governance	\$ 965	0.0427%	\$ 0.41	\$ 1,416	0.3834%	\$ 5.43	\$ 5.43	\$ 0.00
A11 – Health	5,102	0.2401%	12.25	1,257	0.0712%	0.89	0.89	0.00
A12 – Education	732	0.5807%	4.25	585	0.0795%	0.47	0.47	0.00
A22 – Protection, Assistance, and Solutions	2,381	0.3138%	7.47	1,054	0.1315%	1.39	1.39	0.00
All Other Program Areas (e)	7,266	0.0326%	2.37	6,008	0.0000%	0.00	0.00	0.00
<b>Totals (rounded)</b>	<b>\$16,446</b>	<b>0.1627%</b>	<b>\$26.75</b>	<b>\$10,320</b>	<b>0.0792%</b>	<b>\$ 8.17</b>	<b>\$ 8.17</b>	<b>\$0.00</b>

Program Areas	CY +1	CY +1	CY +1	CY +2	CY +2	CY +2	CY +3	CY +3	CY +3
	Est. Outlays (d)	IP % (d)	IP (d)	Est. Outlays (d)	IP % (d)	IP (d)	Est. Outlays (d)	IP % (d)	IP (d)
A08 – Good Governance	\$ 865	0.3434%	\$ 2.97	\$ 908	0.0000%	\$ 0.00	\$ 954	0.0000%	\$ 0.00
A11 – Health	2,785	0.0312%	0.87	2,924	0.0000%	0.00	3,070	0.0000%	0.00
A12 – Education	684	0.0395%	0.27	718	0.0000%	0.00	754	0.0000%	0.00
A22 – Protection, Assistance, and Solutions	891	0.0915%	0.82	936	0.0515%	0.48	982	0.0115%	0.11
All Other Program Areas (e)	8,301	0.0000%	0.00	8,716	0.0000%	0.00	9,152	0.0000%	0.00
<b>Totals (rounded)</b>	<b>\$13,526</b>	<b>0.0364%</b>	<b>\$ 4.92</b>	<b>\$14,202</b>	<b>0.0034%</b>	<b>\$0.48</b>	<b>\$14,912</b>	<b>0.0008%</b>	<b>\$0.11</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 0.16 percent and 0.08 percent for high risk programs for FY 2011 and FY 2012, respectively, were calculated by dividing total gross 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 2011 and FY 2012 was calculated by dividing the improper payment amount by the outlays for just the program area.

(c) Improper payment amounts for years prior to FY 2011 include interest payments properly made and returned, by Treasury, or canceled transactions that did not reach any recipient. Also included as improper payments for years prior to FY 2011 were amounts 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 and beyond. However, these transactions are still included in improper payment amounts prior to FY 2011 and are carried forward when current and prior year amounts are combined.

(d) It is estimated that the improper payment rate will reduce by 0.04 each year within each program area until improper payments are zero percent. A growth rate of five percent is estimated for FY 2014 and FY 2015.

(e) Prior year's Improper Payment Reduction Outlook table identified all of USAID's 27 program areas. For FY 2012, the Agency elected to show only the four program areas that were actually tested for significant improper payments; the remaining 23 program areas are shown as All Other Program Areas.

## 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. Although USAID does not consider these efforts a formal payment recapture audit, these efforts are sufficient to meet the Agency's need and requirements based on historical overpayment rates and amounts. The processes 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 semiannual IPIA and Payment Recapture test of transactions, with test steps 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;
- The payments were executed in a timely fashion.
- Perform quarterly data calls to obtain other improper payments identified through other processes, including OIG 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 Department of the 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 timeline for correcting the deficiencies. The Agency follows up on the corrective action plan until the deficiencies are corrected and implemented 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.

**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)	% of Amount Determined Not to be Collectable out of Amount Identified (CY)
N/A <sup>(f)</sup>	Contracts	\$ 2,995	\$ 2,995	\$ –	\$ –	100.00%	\$ –	0.00%	\$ –	0.00%
N/A <sup>(f)</sup>	Grants and Cooperative Agreements	4,958	4,958	6	1	16.67%	5	83.33%	–	0.00%
N/A <sup>(f)</sup>	Other	2,367	2,367	18	17	94.44%	1	5.56%	–	0.00%
<b>Totals</b>		<b>\$ 10,320</b>	<b>\$ 110,320</b>	<b>\$ 24</b>	<b>\$ 18</b>	<b>75.00%</b>	<b>\$ 6</b>	<b>25.00%</b>	<b>\$ –</b>	<b>0.00%</b>

(f) 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	Amounts Identified for Recovery (PYs)(g)	Amounts Recovered (PYs)(g)	Cumulative Amounts Identified for Recovery (CY+PYs)(g)	Cumulative Amounts Recovered (CY+PYs)(g)	Cumulative Amounts Outstanding (CY+PYs)(g)	Cumulative Amounts
							Determined Not to be Collectable (CY+PYs)(g)
N/A <sup>(f)</sup>	Contracts	\$ 459	\$ 459	\$ 459	\$ 459	\$ -	\$ -
N/A <sup>(f)</sup>	Grants and Cooperative Agreements	55	52	61	53	8	-
N/A <sup>(f)</sup>	Other	12	10	30	27	3	-
<b>Totals</b>		<b>\$ 526</b>	<b>\$ 521</b>	<b>\$ 550</b>	<b>\$ 539</b>	<b>\$ 11</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>(f)</sup>	Grants and Cooperative Agreements	6	1	16.67%	95.00%	95.00%	95.00%
N/A <sup>(f)</sup>	Other	18	17	94.44%	95.00%	95.00%	95.00%
<b>Totals</b>		<b>\$ 24</b>	<b>\$ 18</b>	<b>75.00%</b>			

**Table 5. AGING OF OUTSTANDING OVERPAYMENTS***(In Millions)*

Program Area	Type of Payment	CY Amount Outstanding	CY Amount Outstanding	CY Amount Outstanding
		(0 - 6 months)	(6 months - 1 year)	(over 1 year)
N/A <sup>(f)</sup>	Contracts	\$ -	\$ -	\$ -
N/A <sup>(f)</sup>	Grants and Cooperative Agreements	1	3	3
N/A <sup>(f)</sup>	Other	1	-	2
<b>Totals</b>		<b>\$ 2</b>	<b>\$ 3</b>	<b>\$ 5</b>

(f) 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.

(g) Previously issued Agency Financial Reports (AFR) from FY 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 (c) 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. Starting with FY 2011, data on sources of improper payments are maintained and reported under the proper category.

**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>(f)</sup>	Contracts	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
N/A <sup>(f)</sup>	Grants and Cooperative Agreements	-	-	-	2	-	7
N/A <sup>(f)</sup>	Other	-	-	-	10	-	-
<b>Totals</b>		<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 12</b>	<b>\$ -</b>	<b>\$ 7</b>

**Table 7. OVERPAYMENTS RECAPTURED OUTSIDE OF PAYMENT RECAPTURE AUDITS***(In Millions)*

Agency Source	Amount Identified (CY)	Amount Recovered (CY)	Amount Identified (PY) <sup>(g)</sup>	Amount Recovered (PY) <sup>(g)</sup>	Cumulative Amount Identified (CY + PYs) <sup>(g)</sup>	Cumulative Amount Recovered (CY + PYs) <sup>(g)</sup>
IPIA Samples	\$ 1	\$ 1	\$ 1	\$ 1	\$ 2	\$ 2
Recovery Audit Sample	1	-	-	-	1	-
OIG Reviews	21	16	5	1	26	17
Other	1	1	7	7	8	8
<b>Totals</b>	<b>\$ 24</b>	<b>\$ 18</b>	<b>\$ 13</b>	<b>\$ 9</b>	<b>\$ 37</b>	<b>\$ 27</b>

(f) 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.

(g) Previously issued AFRs from FY 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 (c) 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. Starting with FY 2011, data on sources of improper payments are maintained and reported under the proper category.

## VI. ACCOUNTABILITY

USAID currently has plans to ensure that 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 Control Program Team will continue to monitor internal controls throughout FY 2013 and subsequent years;

- 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 activities is intended to assist in successfully implementing recovery auditing as part of an overall program of effective internal control over payments. The Payment Recapture 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 payment recapture program in the AFR;
- 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 able to continuously monitor, review, analyze, and reconcile financial data. This process culminates in reducing the risk of improper payments.

The Agency continued using 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 Documentum/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.

## VIII. BARRIERS

The Agency has not identified any barriers that may limit its corrective actions in reducing improper payments.

## IX. ADDITIONAL COMMENTS

The Agency offers the following additional comments:

- The availability of the Agency’s financial data in Phoenix has enhanced internal controls and transparency of the entire Agency’s financial activities. It allowed implementation of procedures where current financial data are subject to various monthly reviews and cross referenced with other internal and external reports, including:
  - Funds returned from the Department of the Treasury;
  - Late payment interest abstracted from Phoenix for the entire Agency;

– 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;
  - USAID’s Office of the CFO continues to collaborate with Agency stakeholders during phase-in of the various elements of OMB’s Do Not Pay directive that includes, but is not limited to, the Excluded Parties List System, Specially Designated Nationals, and Blocked Persons List. Implementation of this directive will further enhance the Agency’s internal controls aimed at preventing improper payments.
- The Agency re-evaluated existing IPIA review processes and further refined the IPIA approach and strategy for FY 2012; specifically:
  - Provided training to staff associated with payments;
  - Provided more in-depth information on the testing of transactions;
  - Reached out to missions worldwide for improper payment information.

In summary, the Agency considers actions to minimize improper payments as ongoing activities that should be performed continuously.



# APPENDICES





**(Above)** A new customer of a micro-banking program learns how to use a point-of-sale device, similar to a debit or credit card machine, in Sangachowk, Nepal. USAID partnered with Mega Bank Nepal Ltd. to develop a branchless banking initiative, which includes this effort.

PHOTO: MANISHA SHRESTHA / NEAT

**(Preceding page)** Fertilizer created as a byproduct of sanitation centers in Kenya. Sanergy, the company behind the low-cost, concrete latrines for urban dwellers, removes the waste each day. Its processing facility converts it into fertilizer to be used by farmers. This cycle provides Kenyans with a sanitary toilet and removes waste from their environment. PHOTO: SANERGY

# APPENDIX A.

# PERFORMANCE INDICATORS

# DATA NOTES

1. 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 2011 can be expected to also impact targets for FY 2012 and possibly beyond, just as results for FY 2010 were achieved using a combination of funding from current and previous fiscal years.
2. Data Source: FY 2011 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. The overall target for FY 2011 was exceeded as a result largely of dramatic gains in Afghanistan and Ecuador.
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/ads/200/203>).
4. Data Source: FY 2011 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, Timor-Leste, Uganda, and the Bureau for Democracy, Conflict and Humanitarian Assistance (DCHA), as reported in FACTS Info. The shortfall is due primarily to reporting from Nepal which set an overly ambitious target in 2011 that was more than double its 2010 result. All other operating units reporting exceeded their training targets.
5. Data Source: FY 2011 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, Serbia, Somalia, Sudan (pre July 2011), Tajikistan, Thailand, Timor-Leste, Tunisia, Ukraine, Vietnam, West Bank and Gaza, the Department of State (DOS) Democracy, Human Rights, and Labor (DRL), and DOS Western Hemisphere Regional as collected in FACTS Info.
6. Data Source: FY 2011 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 2011 Performance Plans and Reports from Azerbaijan, Cambodia, Georgia, Guinea, Haiti, Honduras, Iraq, Nepal, Nicaragua, Nigeria, Philippines, Russia, Somalia, Sudan (pre July 2011), Timor-Leste, Togo, African Union, USAID West Africa Regional Mission and USAID DCHA as collected in FACTS Info. Performance against targets depends, in large part, on the timing of elections. In FY 2011, the target was not met due to elections not having occurred in Iraq and Nepal, where the election was delayed by the drafting of the new constitution.
8. Data Source: Results for this indicator are achieved jointly with DOS. FY 2011 Performance Reports from Armenia, Azerbaijan, Belarus, Cambodia, Colombia, Haiti, Indonesia, Kenya, Kosovo, Morocco, Nepal, Nigeria, Peru, and DOS DRL as collected in FACTS Info. The FY 2011 target was not met due largely to delays in project start up in Indonesia, earlier than planned timing of elections in Morocco, and an inhospitable political climate in Belarus that made it impossible to work with independent political parties.

9. Data Source: FY 2011 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, DOS DRL, USAID DCHA, and USAID Office of Development Partners (ODP) as collected in the FACTS Info. Nearly every country exceeded their target for FY 2011. Armenia, Indonesia, Kazakhstan, Liberia, Nigeria, Uganda and Serbia all showed dramatic improvements from FY 2010. Targets for FY 2012 have all been adjusted upward to reflect a more active civil society in those countries.
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 continues to monitor them in order to measure long-term impact. NGOSI scores are measured on a scale of one to seven, with seven indicating a poor level of development and one indicating advanced progress. Scores are based on seven dimensions critical to NGO sustainability: legal environment, organizational capacity, financial viability, advocacy, service provision, infrastructure, and public image. 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/what-we-do/democracy-human-rights-and-governance/europe-eurasia-civil-society>.
11. Data Quality: This indicator has been used by USAID missions, in-county 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 E&E 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 for E&E are based on the same scoring system as the NGOSI for Europe. 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/what-we-do/democracy-human-rights-and-governance/europe-eurasia-civil-society>.
13. Data Source: FY 2011 Performance Plans and Reports for Armenia, Azerbaijan, Bosnia and Herzegovina, Colombia, Jordan, Kazakhstan, Kosovo, Kyrgyz Republic, Macedonia, Moldova, Serbia, Tajikistan, Turkmenistan, USAID DCHA, and USAID Office of Innovation and Development Alliances (IDEA) as collected in FACTS Info. Bosnia and Herzegovina accounted for all of the results in FY 2011, exceeding its target by 40 percent, as no other operating unit reporting was able to assist in securing any positive modifications to enabling legislation for civil society. FY 2011 was the last year in which this indicator was reported by operating units.
14. Data Source: Semi-Annual and Annual Progress Reports as captured in the U.S. Government Country Operational Plan Report Systems. Most of the 34 operating units contribute to the treatment data: 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, DOS, and other U.S. Government agencies, such as the Department of Health and Human Services.
15. Data Quality: The data are verified through triangulation with annual reports by the Joint United Nations (UN) Programme 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 to FY 2014 is to provide treatment support to more than four million people.
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 to 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 from the 20 Tier 1 countries.
20. Data Quality: The USAID Analysis, Information Management, and Communication Project examine all third-party data for this indicator and triangulate them with a variety of sources to verify their quality, validity, and reliability.
21. Data Source: FY 2011 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. The FY 2011 household survey reported an increase in household ownership of one or more insecticide-treated nets from an average of 31 to 60 percent, which accounted for the FY 2011 result exceeding its target by 20 percent.
22. Data Source: Data are obtained from National Neglected Tropical Disease programs in Bangladesh, Burkina Faso, Cameroon, Ghana, Guinea, Haiti, Indonesia, Mali, Niger, Philippines, Sierra Leone, South Sudan, Uganda, Nepal, Tanzania, Togo, and Vietnam. The reason for the shortfall of treatments against the target is that the final quarter of data collection for FY 2011 will not be completed until the end of FY 2012.
23. Data Quality: The data are verified through standardized validation surveys that are conducted after each mass drug administration campaign, with results analyzed by USAID-funded partners.
24. Data Source: Demographic Health Surveys (DHS) and Census Bureau (for population weights) for Maternal and Child Health priority countries: Afghanistan, Angola, Bangladesh, Benin, Cambodia, DRC, Ethiopia, Ghana, Guatemala, Haiti, India, Indonesia, Kenya, Liberia, Madagascar, Malawi, Mali, Mozambique, Nepal, Nigeria, Pakistan, Philippines, Rwanda, Senegal, South Sudan, Tanzania, Uganda, Yemen, and Zambia. Data for Guatemala are from the U.S. Center for Disease Control and Prevention (CDC)/Reproductive Health Surveys (RHS). Note: The 2011 data set does not include Bolivia and adds Afghanistan, Angola, the DRC, South Sudan, and Yemen.
25. Data Source: DHS and RHS data: Afghanistan, Bangladesh, the DRC, Ethiopia, Ghana, Haiti, India<sup>1</sup>, Indonesia, Kenya, Liberia, Madagascar, Malawi, Mali, Mozambique, Nepal, Nigeria, Pakistan, Rwanda, Senegal, Tanzania, Uganda, Yemen, and Zambia. Although South Sudan is a priority country, there are no data for South Sudan. Reasons for the shortfall in FY 2011 performance included political changes affecting USAID support and management of services; poor quality of care, including shortage of providers; and unpredictable "24/7" coverage.
26. Data Source: DHS and RHS 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
27. Data Source: Note that the 2011 data set does not include Ecuador, Jordan, West Bank and Gaza, and Zambia, and adds Afghanistan, Bolivia, Lebanon, Liberia, Rwanda, USAID Africa Regional, USAID East Africa Regional, USAID Economic Growth, Education, and Environment (E3), USAID Regional Development Mission-Asia and USAID Southern Regional Africa. The shortfall in meeting the FY 2011 target is attributed to a change implemented in FY 2011 to separately track first-time water supply access and improved water supply access. It is expected that the results of combined first-time access and improved access are very close to the FY 2011 target.

1. 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.

2. 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.

28. 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>3</sup>
29. 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>4</sup> FY 2011 results were below the target in part because most of the nutrition programs funded through new FTF programs did not come on line until late FY 2010, and the data reported for 2011 is from the 2010 Demographic and Health Survey.
30. 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.
31. 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.
32. Data Source: FY 2011 Performance Reports from Afghanistan, Armenia, Belarus, Barbados, Bolivia, Burkina Faso, Ethiopia, Georgia, Ghana, Haiti, Honduras, Kenya, Lebanon, Lesotho, Liberia, Madagascar, Malawi, Mauritania, Pakistan, Rwanda, Tanzania, West Bank and Gaza, Zimbabwe, USAID DCHA, and USAID Africa Region as collected in FACTS Info. Higher than expected performance in FY 2011 can be attributed to health and education programs that were able to access more rural patients and students than anticipated.
33. Data Source: World Bank World Development Indicators. Data refer to the weighted average for all low and middle countries. Data show that the substantial progress achieved in FY 2008 slowed during the world financial crisis and has yet to fully recover.
34. 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
35. Data Source: FY 2011 Performance Reports from Afghanistan, Armenia, Brazil, Dominican Republic, Georgia, Haiti, Indonesia, Liberia, Nepal, Pakistan, Philippines, South Africa, Sudan (pre-July 2011), Eurasia Regional, USAID E3, USAID ODP, and USAID South Asia Regional as captured in FACTS Info. Successful completion of projects in Liberia and USAID's South Asia region, and Indonesia's ability to leverage private sector funding to improve energy access, contributed to a FY 2011 result that exceeded the target.
36. Data Source: FY 2011 Performance Reports from Afghanistan, Barbados, Central Africa Republic, Haiti, Madagascar, Nepal, Philippines, South Sudan, and Sudan (pre-July 2011) as collected in FACTS Info. Results exceeded the target in FY 2011 largely due to successful programs in Afghanistan, Madagascar, and Sudan (pre-July 2011). Starting in FY 2012 In Afghanistan, the U.S. Government will shift away from capital improvement and focus on capacity building, with the creation of a sustainable mechanism for transportation improvements.
37. Data Source: UN International Telecommunications Union (UN/ITU), World Telecommunications/Information and Communications Technology (ICT) Development Report 2010: *Monitoring the WSIS Targets, A mid-term review*. FY 2011 estimates were extracted from ICT Facts and Figures published at the 2011 ITU Telecom World.

3. The FY 2009 baseline was recalibrated based on the current set of priority countries for GHI and FTF.

4. The FY 2009 baseline was recalibrated based on the current set of priority countries for GHI and FTF.

38. 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.
39. Data Source: FY 2011 Performance Reports from Angola, Bangladesh, Barbados, Bolivia, Burkina Faso, Burundi, DRC, El Salvador, Fiji, Georgia, Ghana, Guatemala, Guyana, Haiti, Honduras, Indonesia, Iraq, Jordan, Kenya, Kyrgyz Republic, Lebanon, Lesotho, Liberia, Macedonia, Madagascar, Malawi, Mali, Morocco, Nepal, Nicaragua, Pakistan, Rwanda, Senegal, Somalia, South Sudan, Sri Lanka, Sudan (pre-July 2011), Tajikistan, Tanzania, Timor-Leste, Turkmenistan, Uganda, Uzbekistan, Vietnam, Yemen, Zambia, Zimbabwe, USAID Bureau for Food Security (BFS), USAID DCHA, USAID E3, USAID IDEA, USAID West Africa Regional Bureau as collected in FACTS Info. FY 2011 targets were exceeded mainly due to increased investments in agriculture through the FTF initiative which is expected to continue to increase the number of rural households benefiting directly from U.S. interventions.
40. Data Source: FY 2011 Performance Plans and Reports for Dominican Republic, Georgia, Haiti, Indonesia, Kenya, Macedonia, Mali, Senegal, Serbia, Somalia, Tanzania, Timor-Leste, Uganda, Zambia, USAID East Africa Regional Office, and USAID IDEA, as reported in FACTS Info. This indicator will be retired in FY 2011 and will be replaced by the better measure of USAID impact, "Value of Incremental Sales Attributed to FTF Implementation."
41. Data Source: FY 2011 Performance Reports from Bangladesh, Burundi, Cambodia, Georgia, Ghana, Honduras, Indonesia, Kenya, Liberia, Mozambique, Rwanda, Senegal, Somalia, Tajikistan, Tanzania, Uganda, Zambia, Zimbabwe, and USAID BFS, as collected in FACTS Info. The large increase in the value of incremental sales in FY 2011 is due to a rise in world agricultural prices and increasing U.S. Government assistance in agriculture through the FTF.
42. Data Source: FY 2011 Performance Reports for Azerbaijan, Bangladesh, Barbados, Bolivia, Bosnia and Herzegovina, Burkina Faso, Burundi, Cambodia, DRC, Dominican Republic, El Salvador, Ethiopia, Fiji, Georgia, Ghana, Guinea, Honduras, India, Indonesia, Iraq, Jamaica, Kenya, Kyrgyz Republic, Laos, Lesotho, Liberia, Malawi, Mali, Mozambique, Nepal, Niger, Nigeria, Pakistan, Paraguay, Rwanda, Senegal, Somalia, South Africa, South Sudan, Sri Lanka, Sudan (pre-July 2011), Tajikistan, Tanzania, Timor-Leste, Turkmenistan, Uganda, Uzbekistan, Zambia, State Western Hemisphere Regional Bureau, USAID BFS, Asia Middle East Regional Bureau, USAID DCHA, USAID E3, USAID IDEA, and USAID Southern Africa Regional, as reported in FACTS Info. The improved performance in FY 2011 is attributable to the increased emphasis on extension and outreach, and expansion of new activities to new areas and new crops.
43. 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. Its reports, beginning in 2008-2009, contained data for 51 to 56 of the 64 countries that received USAID assistance in this program area. Though there was a small difference in the number of countries included in the index each year, the difference is not great enough to discredit year-to-year comparisons.
44. 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.
45. Data Source: *USAID Microenterprise Results Reporting (MRR) Annual Report to Congress*. The indicator is the number of U.S. Government-supported microfinance 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 2011 is based on the most recent data available, covering MFIs supported in FY 2010. 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.
46. 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.

47. Data Source: Data reported for previous years were collected through USAID Global Climate Change (GCC) team's online reporting tool. Results for FY 2011 were collected through *Foreign Assistance Performance Reports* as reported in FACTS Info. Beginning in FY 2011, all USAID and DOS operating units receiving direct GCC funding for Sustainable Landscapes or Clean Energy are required to apply this Indicator to their GCC programs. This should lead to increased reporting on this indicator beginning in FY 2013. In future years, results should increasingly be calculated using new Web-based calculators developed by USAID E3/GCC. This should signify 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. FY 2011 results exceeded the target due to revised calculations from one operating unit with large area coverage. Most units reporting met their results but not every unit that received climate change funding in FY 2010 provided results. In part this is due to the lack of a climate change earmark in FY 2009, which disrupted climate change monitoring and reporting. As the Agency moves forward with a new climate change strategy, there will be a shift in emphasis to more cost-effective activities
- that transform change through policy reform, enhancing national systems, and capacity building. These activities do not lead to easily quantifiable near-term emissions reductions, and long-term impact may be indirect or subject to a substantial time lag. Targets for FY 2012 reflect the change in approach and acknowledgement of the challenges of quantifying results.
48. 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.
49. Data Source: FY 2011 Performance Reports for Bangladesh, Brazil, Cambodia, China, Colombia, Ecuador, Georgia, Honduras, Indonesia, Kenya, Liberia, Mozambique, Namibia, Nepal, Paraguay, Rwanda, Tanzania, and Uganda, DOS Oceans and International Environment and Scientific Affairs, State Western Hemisphere Bureau, USAID West Africa Regional, USAID Central Africa Regional, USAID Regional Mission for Asia, USAID Central America Regional, USAID Latin America and Caribbean Regional, USAID E3, USAID Southern Africa Regional, and USAID IDEA, as reported in FACTS Info. In FY 2011, over 100 million hectares were under improved natural resource management, mostly in biologically significant areas. This is equivalent in size to the states of California, Nevada, and New Mexico combined, and represents a 10 percent increase over the previous year.
50. 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 Programme, WHO, other international organizations and NGOs, as well as the CDC. In FY 2011, USAID, DOS and its partners provided life-saving protection and assistance to Somalia, Sudanese and Eritrean refugees, and internally displaced persons (IDP). Despite enormous logistical challenges as a result of massive Somali refugee inflows into both Kenya and Ethiopia, DOS and USAID reached the most vulnerable with food, non-food items, and other basic services. Survey data showed consistently that the global acute malnutrition rate in 59 percent of monitored sites assisted by USAID was less than 10 percent, well above the target of 40 percent.
51. 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.
52. 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 mainstreaming) have been omitted from the denominator since they are not represented in the numerator. FY 2011

results equaled the target but were an improvement from FY 2010, due to OFDA's aggressive efforts to reach out to partners with guidance on how to mainstream protection programming.

53. 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, and this activity continued in FY 2011.

54. Data Source: USAID's Office of Food for Peace (FFP) Summary Request and Beneficiary Tracking Table. The FY 2011 target was met as FFP provided more than \$1.77 billion in emergency food assistance and program support in 50 countries around the world.

55. 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 2013 drawing on FY 2012 data.

56. Data Source: DOS, Bureau of Population, Refugees and Migration. Internal award document tracking system and from implementing partner reports (verbal or written). USAID DCHA also supports implementing partners to integrate the response to and prevention of gender-based violence (GBV) into their humanitarian operations. In FY 2011, 13 DCHA-supported project activities reached an estimated 457 thousand beneficiaries with programs to prevent and respond to GBV expanding the percentage of international partners that include such targeted programs in their assistance to 38 percent, well above the FY 2010 level of 30 percent and above the FY 2011 target of 35 percent.

57. Data Quality: A weakness of this indicator is its inability to assess the quality and impact of GBV program activities. Data for USAID's indicator are reviewed by OFDA's internal systems for measurement and by OFDA Regional Teams and OFDA TAG members.

58. Data Source: USAID OFDA's proposal tracking system (Abacus) tracks targets; these were compared with partner reports as available.

The indicator indirectly measures the level of capacity building for improved preparedness, mitigation, and response by tracking the development of new hazard risk reduction plans, policies, strategies, systems and/or curricula each year with government assistance. In FY 2011, 45 plans were developed, exceeding the target by 10 percent. Out year targets are expected to decrease as USAID-supported countries complete development of hazard risk reduction plans and strategies.

59. 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. ABBREVIATIONS AND ACRONYMS

## A

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<b>ADL</b>	Alternative Development and Livelihoods
<b>ADS</b>	Automated Directives System
<b>AFR</b>	Agency Financial Report
<b>APR</b>	Annual Performance Report
<b>ASTP</b>	Apparel Sector Training Partnership
<b>ASIST</b>	Agency Secure Image and Storage Tracking System

## B

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<b>BFS</b>	Bureau for Food Security
<b>BRM</b>	Bureau for Resource Management

## C

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<b>CACS</b>	Consolidated Audit and Compliance System
<b>CART</b>	Cash Reconciliation Tool
<b>CDC</b>	Center for Disease Control and Prevention
<b>CDCS</b>	Country Development Cooperation Strategy
<b>CFO</b>	Chief Financial Officer
<b>CIO</b>	Chief Information Officer
<b>CISO</b>	Chief Information Security Officer
<b>CO2</b>	Carbon Dioxide
<b>CPC</b>	Critical Priority Country
<b>CSAM</b>	Cyber Security Assessment and Management System
<b>CSIP</b>	Cost Savings and Innovation Plan
<b>CSO</b>	Civil Society Organization
<b>CY</b>	Current Year

## D

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<b>DAP</b>	Digital Audio Player
<b>DCAA</b>	Defense Contract Audit Agency
<b>DCHA</b>	Democracy, Conflict, and Humanitarian Assistance Bureau

<b>DHS</b>	Demographic Health Survey
<b>DOS</b>	Department of State
<b>DPT</b>	Diphtheria, Pertussis, and Tetanus
<b>DQA</b>	Data Quality Assessment
<b>DRC</b>	Democratic Republic of Congo
<b>DRL</b>	Democracy, Human Rights, and Labor
<b>DRR</b>	Disaster Risk Reduction

## E

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<b>E&amp;E</b>	Europe and Eurasia Bureau
<b>E3</b>	Economic Growth, Education and Environment
<b>EIG</b>	Evaluation Interest Group
<b>eCart</b>	Enhanced Web-based Cash Reconciliation Tool
<b>EG</b>	Economic Growth and Prosperity
<b>ES</b>	Executive Secretary

## F

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<b>FA</b>	Foreign Assistance Bureau
<b>FACTS</b>	Foreign Assistance Coordination and Tracking System
<b>FAR</b>	Foreign Acquisition Regulation
<b>FDMS</b>	Federal Docket Management System
<b>FedBizOpps</b>	Federal Business Opportunities
<b>FFMIA</b>	Federal Financial Management Improvement Act
<b>FFP</b>	Office of Food for Peace
<b>FISMA</b>	Federal Information Security Management Act
<b>FMFIA</b>	Federal Managers' Financial Integrity Act
<b>FLEEP</b>	Federal Leadership on Environmental, Energy and Economic Performance
<b>FPDS-NG</b>	Federal Procurement Data System – Next Generation
<b>FTF</b>	Feed the Future Initiative
<b>FY</b>	Fiscal Year

## G

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<b>GAAP</b>	Generally Accepted Accounting Principles
<b>GAM</b>	Global Acute Malnutrition
<b>GAO</b>	Government Accountability Office
<b>GBV</b>	Gender-based Violence
<b>GCC</b>	Global Climate Change
<b>GCI</b>	Global Competitive Index
<b>GDP</b>	Gross Domestic Product
<b>GH</b>	Global Health Bureau
<b>GHFSI</b>	Global Hunger and Food Security Initiative
<b>GHI</b>	Global Health Initiative
<b>GJD</b>	Governing Justly and Democratically
<b>GLAAS</b>	Global Acquisition and Assistance System
<b>GMRA</b>	Government Management Reform Act
<b>GPRA</b>	Government Performance and Results Act
<b>GPRAMA</b>	Government Performance Results and Modernization Act

## H

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<b>HIV/AIDS</b>	Human Immune Deficiency Virus/Acquired Immune Deficiency Syndrome
<b>HR</b>	Human Resources

## I

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<b>ICT</b>	Information and Communications Technology
<b>IDEA</b>	Office of Innovation and Development Alliances
<b>IIP</b>	Investing in People
<b>IMCI</b>	Integrated Management of Childhood Illness
<b>IPERA</b>	Improper Payments Elimination and Reporting Act
<b>IPIA</b>	Improper Payments Information Act
<b>IPR</b>	Implementation & Procurement Reform
<b>IT</b>	Information Technology

## L

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<b>LPA</b>	Legislative and Public Affairs Bureau
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## M

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<b>M</b>	Management Bureau
<b>MCPR</b>	Modern Contraceptive Prevalence Rate

<b>MCRC</b>	Management Control Review Committee
<b>MD&amp;A</b>	Management's Discussion and Analysis
<b>ME</b>	Middle East Bureau
<b>MFI</b>	Microfinance Institutions
<b>MICS</b>	Multiple Indicator Cluster Survey
<b>MIX</b>	Microfinance Information Exchange
<b>MMT</b>	Mobile Medical Team
<b>MRR</b>	Microenterprise Results Reporting

## N

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<b>NERICA</b>	New Rice for Africa
<b>NFC</b>	National Finance Center
<b>NGO</b>	Non-Governmental Organization
<b>NGOSI</b>	Non-Governmental Organization Sustainability Index
<b>NIST</b>	National Institute of Standards and Technology
<b>NPE</b>	Non-Permissive Environment
<b>NTD</b>	Neglected Tropical Disease

## O

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<b>ODP</b>	Office of Development Partners
<b>OFDA</b>	Office of U.S. Foreign Disaster Assistance
<b>OHR</b>	Office of Human Resources
<b>OIG</b>	Office of Inspector General
<b>OMB</b>	Office of Management and Budget
<b>OPM</b>	Office of Personnel Management
<b>OSS</b>	Operational Self-Sufficiency

## P

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<b>P&amp;S</b>	Peace and Security
<b>PAR</b>	Performance and Accountability Report
<b>PEPFAR</b>	President's Emergency Plan for AIDS Relief
<b>PFMRAF</b>	Public Financial Management Risk Assessment Framework
<b>PIO</b>	Performance Improvement Officer
<b>PMI</b>	President's Malaria Initiative
<b>PP&amp;E</b>	Property, Plant and Equipment
<b>PPD-6</b>	Presidential Policy Directive on Global Development
<b>PPL</b>	Planning, Policy and Learning Bureau

**Pub. L.** Public Law  
**PY** Prior Year

## Q

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**QDDR** Quadrennial Diplomacy and Development Review

## R

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**RHS** Demographic and Reproductive Health Survey

## S

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**SA&A** Security Assessments and Authorizations  
**SAVE** Saving American's Value and Efficiency Campaign  
**SBR** Statement of Budgetary Resources  
**SG** Strategic Goal  
**SOS** Schedule of Spending

## T

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**TAG** Technical Advisory Group  
**TSR** Treatment Success Rate

## U

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**U.S.** United States  
**U.S.C.** United States Code  
**UIS** UNESCO Institute for Statistics  
**ULO** Unliquidated Obligations  
**UN** United Nations  
**UN/ITU** United Nations International Telecommunications Union  
**UNESCO** United Nations Educational, Scientific and Cultural Organization  
**UNICEF** United Nations Children's Fund  
**USAID** U.S. Agency for International Development  
**USDA** U.S. Department of Agriculture  
**USG** U.S. Government  
**USSGL** U.S. Standard General Ledger

## W

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**WHO** World Health Organization



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*We welcome your comments on how we can improve this report.*

*Please provide comments to:*

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