

THE U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT: WHAT MUST BE DONE TO RESOLVE USAID'S LONGSTANDING FINANCIAL MANAGEMENT PROBLEMS?

HEARING

BEFORE THE
SUBCOMMITTEE ON GOVERNMENT EFFICIENCY,
FINANCIAL MANAGEMENT AND
INTERGOVERNMENTAL RELATIONS

OF THE
COMMITTEE ON
GOVERNMENT REFORM
HOUSE OF REPRESENTATIVES
ONE HUNDRED SEVENTH CONGRESS

FIRST SESSION

MAY 8, 2001

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THE U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT: WHAT MUST BE DONE TO RESOLVE USAID'S LONGSTANDING FINANCIAL MANAGEMENT PROBLEMS?

TUESDAY, MAY 8, 2001

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON GOVERNMENT EFFICIENCY, FINANCIAL
MANAGEMENT AND INTERGOVERNMENTAL RELATIONS,
COMMITTEE ON GOVERNMENT REFORM,
Washington, DC.

The subcommittee met, pursuant to notice, at 11:18 a.m., in room 2154, Rayburn House Office Building, Hon. Stephen Horn (chairman of the subcommittee) presiding.

Present: Representatives Horn, Putnam, and Schakowsky.

Staff present: J. Russell George, staff director and chief counsel; Dianne Guensberg, detailee; Bonnie Heald, director of communications; Earl Pierce, professional staff member; Grant Newman, assistant to the committee; Alex Hurowitz, intern; Mark Stephenson, minority professional staff member; and Jean Gosa, minority assistant clerk.

Mr. HORN. A quorum being present this hearing of the Subcommittee on Government Efficiency, Financial Management and Intergovernmental Relations will come to order. We're here today to continue our examination of how Federal departments and agencies in the executive branch of the government account for the billions of taxpayer dollars they spend each year. This morning the subcommittee examined financial management efforts at the government's largest agency in terms of people and budget. Now we will examine one of the government's smaller agencies, the U.S. Agency for International Development. Similar to the Department of Defense for the 5th consecutive year, the Agency for International Development has had such significant problems with its financial systems that it was unable to produce financial statements that auditors could certify as reliable.

Also, similar to the Department of Defense, the Agency again received the unacceptable grade of F on the subcommittee's annual report card on Federal financial management.

In this hearing, we will focus on what actions must be taken to resolve these financial management issues. The U.S. Agency for International Development provides nonmilitary international aid to further U.S. interests abroad. The agency focuses on six principal areas: economic growth and development, population health

and nutrition, environment, democracy and governance, education and training, and humanitarian assistance.

The agency provides aid primarily through grants and loan guarantees to foreign governments and to humanitarian organizations. Although small by Federal Government standards, the operations of the Agency for International Development are substantial. The Agency for International Development receives appropriated funds of about \$7 billion annually, and manages and estimated \$10 billion in outstanding loans. An estimated \$4 billion of that amount is believed to be uncollectible. Furthermore, the Agency estimates it may be required to pay out \$1.1 billion in defaulted agency guaranteed loans made by other entities. The Agency's inability to properly account for these asset liabilities and costs is frankly intolerable.

For fiscal year 2000, USAID's Inspector General was unable to provide an opinion on the reasonableness of amounts reported in the Agency's financial statements. The Inspector General also found that the Agency had significant weaknesses in its system of internal controls and did not comply with Federal financial management laws and regulations. Although many improvements have been made, the Inspector General reported that agency systems and processes still do not provide reliable financial information on a regular basis.

Now we have a new administration, which hopefully will focus close attention on the U.S. Agency for International Development and its continuing inability to address these long-standing financial management problems.

We welcome our witnesses today. The Honorable Evert Mosley, Inspector General of the U.S. Agency for International Development; Richard Nygard, Acting Assistant Administrator for Management of U.S. Agency for International Development.

[The prepared statement of Hon. Stephen Horn follows:]

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Opening Statement
Financial Management at the U.S. Agency for International Development
Chairman Steve Horn
Subcommittee on Government Efficiency,
Financial Management and Intergovernmental Relations
May 8, 2001

A quorum being present, this hearing of the Subcommittee on Government Efficiency, Financial Management and Intergovernmental Relations will come to order.

We are here today to continue our examination of how federal departments and agencies in the executive branch of the government account for the billions of taxpayer dollars they spend each year. This morning, the subcommittee examined financial management efforts at the government's largest agency in terms of people and budget. Now, we will examine one of the government's smaller agencies -- the U.S. Agency for International Development.

Similar to the Department of Defense, for the fifth consecutive year, the Agency for International Development has had such significant problems with its financial systems that it was unable to produce financial statements that auditors could certify as reliable. Also similar to the Department of Defense, the agency, again, received the unacceptable grade of "F" on the subcommittee's annual report card on federal financial management. In this hearing, we will focus on what actions must be taken to resolve these financial management issues.

The U.S. Agency for International Development provides non-military international aid to further U.S. interests abroad. The agency focuses on six principal areas:

- economic growth and development;
- population, health and nutrition;
- environment;
- democracy and governance;
- education and training; and
- humanitarian assistance.

The agency provides aid primarily through grants and loan guarantees to foreign governments and to humanitarian organizations.

Although small by federal government standards, the operations of the Agency for International Development are substantial. The Agency for International Development receives appropriated funds of about \$7 billion annually and manages an estimated \$10 billion in outstanding loans. An estimated \$4 billion of that amount is believed to be uncollectible. Furthermore, the agency estimates it may be required to pay out \$1.1 billion in defaulted agency-guaranteed loans made by other entities. The agency's inability to account properly for these assets, liabilities, and costs is intolerable.

For fiscal year 2000, USAID's Inspector General was unable to provide an opinion on the reasonableness of amounts reported in the agency's financial statements. The Inspector General also found that the agency had significant weaknesses in its system of internal controls and did not comply with federal financial management laws and regulations. Although many improvements have been made, the Inspector General reported that agency systems and processes still do not provide reliable financial information on a regular basis.

Now we have a new Administration, which, hopefully, will focus close attention on the U.S. Agency for International Development and its continuing inability to address these longstanding financial management problems.

We welcome our witnesses today: **The Honorable Evert Mosley**, Inspector General of the U.S. Agency for International Development, and **Richard Nygard**, Acting Assistant Administrator for Management of the U.S. Agency for International Development.

Gentlemen, we look forward to your testimony, your insight, and your recommendations to resolve these financial management problems at the U.S. Agency for International Development.

Mr. HORN. Gentlemen, we look forward to your testimony, your insight and your recommendations to resolve these financial management problems at the U.S. Agency for International Development. I will now yield for an opening statement to the ranking member of the subcommittee, and that is the gentlewoman from Illinois, Ms. Schakowsky.

Ms. SCHAKOWSKY. Thank you, Mr. Chairman, and welcome to our witnesses. The Subcommittee on Government Efficiency, Financial Management and Intergovernmental Relations is in the process of examining financial management issues in a number of troubled agencies. Last month we began the series of hearings with an inspection of the consolidated financial statement of the United States. The U.S. Agency for International Development is one of three agencies which has been unable to produce auditable financial statements since that requirement became law 4 years ago. USAID was created in 1961 to advance the foreign policy interests of the United States by promoting sustainable development and providing humanitarian assistance, goals which I strongly support.

In fact, I have been a beneficiary of one session of training with USAID on international disaster. I keep my FOG guide on my desk. You never know what's going to happen. I have got all the instructions right there. So I do support the work that you do. It has an overseas presence in more than 70 countries. And again, I had the pleasure of going with Brady Anderson on the trip with the President to visit some sites in India that USAID supports, 42 of which have formal missions in fiscal year 2000. USAID has a total obligation authority of \$7.5 billion. USAID's international mandate causes financial management challenges unique to this agency. This must not, however, be an excuse for lack of improvement because better financial management will ultimately mean resources more efficiently dedicated to their intended worthwhile purposes.

I'm therefore glad that there appears to be some improvement in the financial management of USAID as the Agency's Inspector General has said in his written statement, "USAID has made progress toward resolving some long-standing problems with its financial management systems and has committed significant resources for additional improvements necessary for preparing auditable financial statements as well as information to use for managing operations." These are encouraging words from the Agency's independent watchdog. I urge the Agency's senior management to continue to devote serious attention and resources to correcting the financial management concerns at USAID. Thank you, Mr. Chairman.

Mr. HORN. Let me explain, since many of you have not appeared before this subcommittee, we will administer the oath, all testimony is under oath in this investigating committee. When I call on you the full text of your written testimony will be immediately put in the record at that point. If you could summarize it between 5 and 10 minutes, it would be appreciated, because we can then get down to the questions. And those are the ones that each member has dear feelings about; and they should.

So if you will stand and raise your right hand, we'll swear you all in. If there are any assistants in back of you that might whisper

to you, have them put up their right hand too. The clerk will take their names and put them in the hearing at this point.

[Witnesses sworn.]

Mr. HORN. The five witnesses have taken the oath. We will now start here, and we'll begin with the Inspector General, the Honorable Everett L. Mosley.

STATEMENTS OF EVERETT L. MOSLEY, INSPECTOR GENERAL, U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT, ACCOMPANIED BY BRUCE N. CRANDLEMIRE, DEPUTY ASSISTANT INSPECTOR GENERAL FOR AUDIT; RICHARD NYGARD, ACTING ASSISTANT ADMINISTRATOR FOR MANAGEMENT U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT, ACCOMPANIED BY MICHAEL T. SMOKOVICH, CHIEF FINANCIAL OFFICER; AND ELMER S. OWENS, DEPUTY CHIEF FINANCIAL OFFICER FOR POLICY AND CREDIT PROGRAMS

Mr. MOSLEY. Mr. Chairman, other committee members and committee staff, good morning and thank you for the opportunity to appear before you today, along with Mr. Nygard, who is representing agency management. I have with me today Mr. Bruce Crandlemire, who is our Deputy Assistant Inspector General for Audit with responsibility for the financial audit process at the U.S. Agency for International Development. We're pleased to be here today to provide testimony and answer questions on the results of the Office of Inspector General's audit of USAID's fiscal year 2000 financial statements and actions needed to correct longstanding problems in USAID's financial management systems. As documented, we were unable to render opinion on USAID's annual financial statements for the last 4 years. In this testimony, I will discuss the results of our audit of USAID's fiscal year 2000 financial statements and USAID's corrective actions to date. I will also discuss what remains to be done from USAID's perspective of correcting system problems and preparing auditable financial statements for fiscal year 2001.

As a result of the Chief Financial Officer's Act of 1990, the Government Management Reform Act of 1994, and the Federal Financial Management Improvement Act of 1996, the Federal Government has embarked on a course to improve the quality of financial information used to manage its activities. Each of these laws has impacted the preparation and audit of annual financial statements by the Federal agencies. However, the overwhelming theme woven through these legislative initiatives is that the Federal Government needs to have good financial systems which will enable them to produce complete, consistent, reliable, and timely information throughout the fiscal year.

The audit opinion of the financial statements, which represents the status of the financial operations at a specific point in time, is, or should be, a simple by-product of good financial management systems because the opinion is based on everyday information contained in its accounting records.

We do not believe that the legislation contemplated the use of heroic measures to prepare and audit a set of financial statements which do not reflect the information normally present and used to manage operations.

For example, it is possible for an agency that has inadequate financial systems to receive an opinion, even an unqualified opinion. However, to do so, two things would have to be done: First, the Agency would have to invest significant time and money to create work around procedures to achieve accurate information that the system could not produce. Second, the OIG or other audit organizations would have to invest significant time and money to perform extensive testing of these procedures, due to the increase in audit risk associated with unreliable systems.

In my opinion it would be a waste of resources and a contradiction of the legislative intent for an agency to go through such efforts to receive an opinion on its financial statements when it does not have systems that could provide complete, consistent, reliable, and timely information for managers to use throughout the year in making decisions.

During the last 18 months USAID has made progress toward resolving some longstanding problems with its financial management systems and has submitted significant resources for additional improvements necessary for preparing auditable financial statements. However, at the time the audit began, USAID still faced some immediate challenges with its fiscal year 2000 financial statements.

These challenges included: correcting outstanding financial management systems deficiencies; implementing an integrated financial management system; reconciling financial data; and processing, recording, and reporting financial information in accordance with general accepted accounting principles.

Because USAID's efforts to improve the system that produces financial statements had not fully implemented all related corrective actions, the OIG and USAID management agreed that it would be most beneficial to focus our audit efforts on the five areas that were prohibiting USAID from getting an opinion. These five areas were: complying with the FFMIA requirements, such as computer security and the use of Federal accounting standards; reconciling and managing USAID's fund balances with Treasury; reporting credit program receivables; accounting for advances to grantees; and calculating and reporting accounts payable and accrued expenses.

By focusing on these five areas rather than performing substantive testing on what we agreed was unreliable financial information, the OIG and management officials concluded that USAID would be in a better position to establish reliable beginning balances for future statements to be audited and progress toward having a system capable of helping managers manage.

We were unable to express an opinion of USAID's consolidated financial statements for the fiscal year ending September 30, 2000, and I shall use a disclaimer. Factors that led to our decision to disclaim an opinion were that USAID made some material changes in its accounting process after the close of fiscal year 2000. These changes resulted in material adjustments to the financial statements late in December 2000. And because the Agency's automated system could not be used to develop information that the OIG could use to validate the adjustments, we did not have sufficient support to determine whether the adjustments were reliable.

The uncorrected system deficiencies and material adjustments created a consequential risk that the financial statements could contain material misstatements. USAID's management concurred with the audit findings and agreed to eliminate these problems. We're continuing to work with USAID management to evaluate their efforts and take corrective actions.

To correct these deficiencies reported, USAID deployed a core financial accounting component of a new financial management and accounting system in December 2000. This commercial off-the-shelf accounting system, Phoenix as it is called, replaced key aspects of the Agency's unreliable financial management systems, called the New Management System [NMS].

In addition, our audit of the fiscal year 2000 financial statements show that USAID had improved its ability to reconcile and manage its funds balance with the U.S. Treasury and report reliable balances for its credit program receivables.

In late December 2000, USAID established a new methodology for estimating its accounts payable and accrued expenses related to advances to grantees at fiscal year's end. I am pleased to note that during the initial phases of the fiscal year 2000 audit, the OIG has analyzed the advance-related accrued expenses estimating method and found it to be adequate.

Regarding the problems noted in fiscal year 2000 with the accounts payable estimates, the OIG is currently evaluating USAID's procedure to determine the reasonableness of its estimating methodology.

Despite having implemented Phoenix in headquarters, there remains work to be done. USAID needs to successfully complete the Phoenix implementation worldwide, complete financial actions on outstanding audit recommendations, and address several specific issues with material line items on its financial statements.

Along with deploying Phoenix, USAID is facing challenges that typically occur when implementing new accounting systems. Phoenix is not yet fully operational and in the short term, USAID needs to: one, complete the testing and deployment of the interfaces linking mission and procurement data to the core financial system; two, eliminate several key operational elements performed outside the core financial accounting system, such as making payments and generating funds control reports; and three, migrate the beginning balances for fiscal year 2001.

To date, USAID has not entered into the Washington headquarters accounting records any financial information related to its overseas operation for fiscal year 2001. Overseas operations are recorded and maintained in the mission accounting and control system [MACS]. USAID does not plan to enter the information into the Washington headquarters accounting records until an electronic interface for field data is deployed, currently scheduled for late in this fiscal year.

This will have a critical impact on the fiscal year's 2001 audit, because we cannot fully assess risks associated with the electronic interface until it is deployed. Further, MACS is not currently scheduled for replacement until fiscal year 2003. This will continue to impact future audits until MACS is replaced with the worldwide implementation of Phoenix.

USAID also needs to address the remaining OIG recommendations that were not fully completed as of September 30, 2000. While management has concurred with these recommendations, all financial actions have not been accomplished.

Finally, USAID must be able to establish beginning balances for material line items of its financial statements for OIG to opine on the fiscal year 2001 financial statements. We are currently working with USAID to review these beginning balances for our fiscal year 2001 audit.

The challenges faced by USAID also present challenges to OIG in planning our audit of the fiscal year 2001 financial statements. At this time, we cannot be sure what problems may arise as USAID continues to address its financial management problems and complete the deployment of the Phoenix system and its necessary interfaces.

While USAID lost valuable time during the period when it was attempting to implement the NMS, considerable progress has been made since a decision was made to deploy Phoenix. In addition, USAID's financial managers have shown an increasingly strong and supportive attitude toward the financial statement audit and the value it brings to their systems. Specifically, the new Administrator, who was just sworn in last week, has said that improving the Agency's management systems will be his primary focus in his first year.

We are currently hopeful that USAID can develop fiscal year 2001 financial statements on which we can render an opinion.

Mr. Chairman that concludes my statement. And we will be pleased to answer questions.

[The prepared statement of Mr. Mosley follows:]

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

OFFICE OF INSPECTOR GENERAL

STATEMENT OF EVERETT L. MOSLEY, INSPECTOR GENERAL
BEFORE THE HOUSE COMMITTEE ON GOVERNMENT REFORM'S
SUBCOMMITTEE ON GOVERNMENT EFFICIENCY, FINANCIAL
MANAGEMENT AND INTERGOVERNMENTAL RELATIONS

MAY 8, 2001

MR. CHAIRMAN, OTHER COMMITTEE MEMBERS, AND COMMITTEE STAFF,
GOOD MORNING AND THANK YOU FOR THE OPPORTUNITY TO APPEAR
BEFORE YOU TODAY. I HAVE WITH ME TODAY MR. BRUCE N.
CRANDLEMIRE, WHO IS OUR DEPUTY ASSISTANT INSPECTOR GENERAL
FOR AUDIT WITH RESPONSIBILITY FOR THE FINANCIAL STATEMENT
AUDIT PROCESS AT THE U.S. AGENCY FOR INTERNATIONAL
DEVELOPMENT (USAID). WE ARE PLEASED TO BE HERE TODAY AND
PROVIDE TESTIMONY AND ANSWER QUESTIONS ON THE RESULTS OF
THE OFFICE OF INSPECTOR GENERAL'S (OIG) AUDIT OF USAID'S
FISCAL YEAR 2000 FINANCIAL STATEMENTS AND ACTIONS NEEDED TO
CORRECT LONG-STANDING PROBLEMS IN USAID'S FINANCIAL
MANAGEMENT SYSTEMS. AS DOCUMENTED, WE WERE UNABLE TO
RENDER OPINIONS ON USAID'S ANNUAL FINANCIAL STATEMENTS FOR
THE LAST FOUR YEARS.

IN THIS TESTIMONY, I WOULD LIKE TO DISCUSS THE RESULTS OF
OUR AUDIT OF USAID'S FISCAL YEAR 2000 FINANCIAL STATEMENTS

AND USAID'S CORRECTIVE ACTIONS TO DATE. I WOULD ALSO LIKE TO DISCUSS WHAT REMAINS TO BE DONE FROM USAID'S PERSPECTIVE OF CORRECTING SYSTEM PROBLEMS AND PREPARING AUDITABLE FINANCIAL STATEMENTS FOR FISCAL YEAR 2001 AND FROM AN OIG PERSPECTIVE OF AUDITING THE FINANCIAL STATEMENTS. AT THE CONCLUSION OF THIS TESTIMONY, WE WILL BE PLEASED TO ANSWER ANY QUESTIONS YOU MAY HAVE.

UNDER A SERIES OF LEGISLATIVE INITIATIVES, THE FEDERAL GOVERNMENT HAS EMBARKED ON A COURSE TO INCREASE THE QUALITY OF FINANCIAL INFORMATION USED TO MANAGE ITS ACTIVITIES. THESE INITIATIVES INCLUDE THE CHIEF FINANCIAL OFFICERS (CFO) ACT OF 1990, THE GOVERNMENT MANAGEMENT REFORM ACT (GMRA) OF 1994, AND THE FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT (FFMIA) OF 1996. EACH OF THESE LAWS HAS IMPACTED THE PREPARATION AND AUDIT OF ANNUAL FINANCIAL STATEMENTS BY FEDERAL AGENCIES.

THE OVERWHELMING THEME WOVEN THROUGH THESE LEGISLATIVE INITIATIVES IS THAT THE FEDERAL GOVERNMENT NEEDS TO HAVE GOOD FINANCIAL SYSTEMS WHICH WILL ENABLE THEM TO PRODUCE COMPLETE, CONSISTENT, RELIABLE, AND TIMELY INFORMATION THROUGHOUT THE FISCAL YEAR. THE AUDIT OPINION ON THE FINANCIAL STATEMENTS, WHICH REPRESENTS THE STATUS OF

FINANCIAL OPERATIONS AT A SPECIFIC POINT IN TIME, IS OR SHOULD BE A SIMPLE BY-PRODUCT OF GOOD FINANCIAL SYSTEMS BECAUSE THE OPINION IS BASED ON EVERY-DAY INFORMATION CONTAINED IN ITS ACCOUNTING RECORDS. WE DO NOT BELIEVE THAT THE LEGISLATION CONTEMPLATED THE USE OF HEROIC MEASURES TO PREPARE AND AUDIT A SET OF FINANCIAL STATEMENTS WHICH DO NOT REFLECT THE INFORMATION NORMALLY PRESENT AND USED TO MANAGE OPERATIONS.

FOR EXAMPLE, IT IS POSSIBLE FOR AN AGENCY THAT HAS INADEQUATE FINANCIAL SYSTEMS TO RECEIVE AN OPINION—EVEN AN UNQUALIFIED OPINION. HOWEVER, TO DO SO, TWO THINGS WOULD HAVE TO HAPPEN. FIRST, THE AGENCY WOULD HAVE TO INVEST SIGNIFICANT TIME AND MONEY TO CREATE "WORK-AROUND PROCEDURES" TO ACHIEVE ACCURATE INFORMATION THAT THE SYSTEMS COULD NOT PRODUCE. SECOND, THE OIG WOULD HAVE TO INVEST SIGNIFICANT TIME AND MONEY TO PERFORM EXTENSIVE TESTING OF THESE PROCEDURES DUE TO THE INCREASE IN AUDIT RISK ASSOCIATED WITH UNRELIABLE SYSTEMS.

IN MY OPINION, IT WOULD BE A WASTE OF RESOURCES AND A CONTRADICTION TO THE LEGISLATIVE INTENT FOR AN AGENCY TO GO THROUGH SUCH EFFORTS TO RECEIVE AN OPINION ON ITS FINANCIAL STATEMENTS WHEN IT DOES NOT HAVE SYSTEMS THAT CAN PROVIDE

COMPLETE, CONSISTENT, RELIABLE, AND TIMELY INFORMATION FOR MANAGERS TO USE THROUGHOUT THE YEAR IN MAKING DECISIONS.

RESULTS OF USAID FISCAL YEAR 2000 AUDIT

DURING THE LAST 18 MONTHS, USAID HAS MADE PROGRESS TOWARD RESOLVING SOME LONGSTANDING PROBLEMS WITH ITS FINANCIAL MANAGEMENT SYSTEMS AND HAS COMMITTED SIGNIFICANT RESOURCES FOR ADDITIONAL IMPROVEMENTS NECESSARY FOR PREPARING AUDITABLE FINANCIAL STATEMENTS, AS WELL AS, INFORMATION TO USE FOR MANAGING OPERATIONS. DESPITE THESE EFFORTS, USAID STILL FACED SOME IMMEDIATE CHALLENGES AT THE ONSET OF OUR AUDIT OF ITS FISCAL YEAR 2000 FINANCIAL STATEMENTS. THESE CHALLENGES INCLUDED:

- CORRECTING OUTSTANDING FINANCIAL MANAGEMENT SYSTEM DEFICIENCIES;
- IMPLEMENTING AN INTEGRATED FINANCIAL MANAGEMENT SYSTEM;
- RECONCILING FINANCIAL DATA, AND
- PROCESSING, RECORDING, AND REPORTING FINANCIAL INFORMATION IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES.

BECAUSE USAID HAD EMBARKED ON SIGNIFICANT EFFORTS TO IMPROVE THE SYSTEMS THAT PRODUCE ITS FINANCIAL STATEMENTS BUT HAD NOT FULLY IMPLEMENTED ALL RELATED CORRECTIVE ACTIONS, THE OIG AND USAID'S MANAGEMENT AGREED THAT IT WOULD BE MOST BENEFICIAL TO FOCUS OUR AUDIT EFFORTS ON THE FIVE AREAS THAT WERE PROHIBITING USAID FROM GETTING AN OPINION. THE FIVE AREAS WERE:

- COMPLYING WITH FFMIA REQUIREMENTS SUCH AS COMPUTER SECURITY AND THE USE OF FEDERAL ACCOUNTING STANDARDS;
- RECONCILING AND MANAGING USAID'S FUND BALANCE WITH THE U.S. TREASURY;
- REPORTING CREDIT PROGRAM RECEIVABLES;
- ACCOUNTING FOR ADVANCES TO GRANTEEES, AND;
- CALCULATING AND REPORTING ACCOUNTS PAYABLE AND ACCRUED EXPENSES.

BY FOCUSING ON THESE FIVE AREAS, RATHER THAN PERFORMING SUBSTANTIVE TESTING ON WHAT WE AGREED WAS UNRELIABLE FINANCIAL INFORMATION, THE OIG AND MANAGEMENT OFFICIALS CONCLUDED THAT USAID WOULD BE IN A BETTER POSITION TO ESTABLISH RELIABLE BEGINNING BALANCES FOR FUTURE STATEMENTS TO BE AUDITED AND PROGRESS TOWARDS HAVING A SYSTEM CAPABLE OF HELPING MANAGERS MANAGE.

WE WERE UNABLE TO EXPRESS AN OPINION ON USAID'S CONSOLIDATED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDING SEPTEMBER 30, 2000. WE DISCLAIMED AN OPINION BECAUSE USAID HAD NOT IMPLEMENTED ADEQUATE FINANCIAL MANAGEMENT SYSTEMS TO PRODUCE COMPLETE, CONSISTENT, TIMELY, AND RELIABLE FINANCIAL STATEMENTS.

OTHER FACTORS THAT LED TO OUR DECISION TO DISCLAIM AN OPINION WERE THAT USAID MADE SOME MATERIAL CHANGES IN ITS ACCOUNTING PROCESSES AFTER THE CLOSE OF FISCAL YEAR 2000.

AN EXAMPLE OF SUCH A CHANGE WAS USAID'S METHODOLOGY FOR CALCULATING AND REPORTING ACCOUNTS PAYABLE. USAID'S CHANGE RESULTED IN A MATERIAL ADJUSTMENT—\$2.3 BILLION—BEING MADE TO ITS FINANCIAL STATEMENTS LATE IN DECEMBER 2000. BECAUSE THE AGENCY'S AUTOMATED SYSTEMS COULD NOT BE USED TO DEVELOP INFORMATION THAT THE OIG COULD USE TO VALIDATE THE ADJUSTMENT, WE DID NOT HAVE SUFFICIENT SUPPORT TO DETERMINE WHETHER THE ADJUSTMENT WAS RELIABLE.

IN ANOTHER INSTANCE, USAID CONTRACTED WITH THE U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (DHHS) FOR ACCOUNTING SERVICES FOR ITS ADVANCES TO GRANTEEES. DURING THE LATER STAGES OF THE FISCAL YEAR, DHHS EXPERIENCED

SYSTEM PROBLEMS. AS A RESULT, USAID'S MANAGEMENT HAD TO DEVELOP A METHODOLOGY TO ESTIMATE THE BALANCES FOR THE ACCRUED EXPENSES RELATED TO ADVANCES TO GRANTEES. THIS RESULTED IN A MATERIAL YEAR-END ADJUSTMENT—\$767 MILLION—BEING MADE LATE IN DECEMBER 2000. OF THE \$767 MILLION ADJUSTMENT, THE OIG WAS ABLE TO VERIFY \$300 MILLION TO SUPPORTING DOCUMENTATION. HOWEVER, BECAUSE OF THE LACK OF SUFFICIENT SUPPORTING DOCUMENTATION, WE WERE UNABLE TO EVALUATE THE REASONABLENESS OF \$467 MILLION OF THE \$767 MILLION ADJUSTMENT.

THE UNCORRECTED SYSTEM DEFICIENCIES AND MATERIAL ADJUSTMENTS CREATED A CONSEQUENTIAL RISK THAT THE FINANCIAL STATEMENTS COULD CONTAIN MATERIAL MISSTATEMENTS. USAID MANAGEMENT CONCURRED WITH THE AUDIT FINDINGS AND AGREED TO ELIMINATE THESE PROBLEMS. WE ARE CONTINUING TO WORK WITH USAID MANAGEMENT TO EVALUATE THEIR EFFORTS IN TAKING CORRECTIVE ACTIONS.

USAID'S CORRECTIVE ACTIONS TO DATE

TO CORRECT THE DEFICIENCIES REPORTED, USAID DEPLOYED A CORE FINANCIAL ACCOUNTING COMPONENT OF A NEW FINANCIAL MANAGEMENT AND ACCOUNTING SYSTEM IN DECEMBER 2000. THIS

COMMERCIAL OFF-THE-SHELF ACCOUNTING SYSTEM, PHOENIX, REPLACED KEY ASPECTS OF THE AGENCY'S UNRELIABLE FINANCIAL MANAGEMENT SYSTEM CALLED THE NEW MANAGEMENT SYSTEM (NMS).

IN ADDITION, OUR AUDIT OF THE FISCAL YEAR 2000 FINANCIAL STATEMENTS SHOWED THAT USAID HAS IMPROVED ITS ABILITY TO RECONCILE AND MANAGE ITS FUND BALANCE WITH THE U.S. TREASURY AND REPORT RELIABLE BALANCES FOR ITS CREDIT PROGRAM RECEIVABLES.

AS NOTED EARLIER, USAID ESTABLISHED, IN LATE DECEMBER 2000, A NEW METHODOLOGY FOR ESTIMATING ITS ACCOUNTS PAYABLE AND ACCRUED EXPENSES RELATED TO ADVANCES TO GRANTEEES AT YEAREND. I AM PLEASE TO NOTE THAT DURING THE INITIAL PHASES OF THE FISCAL YEAR 2001 AUDIT, THE OIG HAS ANALYZED THE ADVANCE-RELATED ACCRUED EXPENSES ESTIMATING METHODOLOGY AND FOUND IT TO BE ADEQUATE.

REGARDING THE PROBLEMS NOTED IN FISCAL YEAR 2000 WITH THE ACCOUNTS PAYABLE ESTIMATES, THE OIG IS CURRENTLY EVALUATING USAID'S PROCEDURES TO DETERMINE THE REASONABLENESS OF ITS ESTIMATING METHODOLOGIES.

WHAT REMAINS TO BE DONE

DESPITE HAVING IMPLEMENTED PHOENIX IN HEADQUARTERS, THERE REMAINS WORK TO BE DONE. USAID NEEDS TO SUCCESSFULLY COMPLETE THE PHOENIX IMPLEMENTATION WORLDWIDE, COMPLETE FINAL ACTIONS ON OUTSTANDING AUDIT RECOMMENDATIONS, AND ADDRESS SEVERAL SPECIFIC ISSUES WITH MATERIAL LINE ITEMS ON ITS FINANCIAL STATEMENTS.

ALONG WITH DEPLOYING PHOENIX, USAID IS FACING THE CHALLENGES THAT TYPICALLY OCCUR WHEN IMPLEMENTING NEW ACCOUNTING SYSTEMS. PHOENIX IS NOT YET FULLY OPERATIONAL. IN THE SHORT-TERM, USAID NEEDS TO 1) COMPLETE THE TESTING AND DEPLOYMENT OF THE INTERFACES LINKING THE MISSIONS AND PROCUREMENT DATA TO THE CORE FINANCIAL SYSTEM, 2) ELIMINATE SEVERAL KEY OPERATIONAL ELEMENTS PERFORMED OUTSIDE THE CORE FINANCIAL SYSTEM (SUCH AS MAKING PAYMENTS AND GENERATING FUND CONTROL REPORTS), AND 3) MIGRATE THE BEGINNING BALANCES FOR FISCAL YEAR 2001.

TO DATE, USAID HAS NOT ENTERED IN THE WASHINGTON HEADQUARTERS ACCOUNTING RECORDS ANY FINANCIAL INFORMATION RELATED TO ITS OVERSEAS OPERATIONS FOR FISCAL YEAR 2001.

OVERSEAS OPERATIONS ARE RECORDED AND MAINTAINED IN THE MISSION ACCOUNTING AND CONTROLS SYSTEMS (MACS). USAID DOES NOT PLAN TO ENTER THE INFORMATION IN THE WASHINGTON HEADQUARTERS ACCOUNTING RECORDS UNTIL AN ELECTRONIC INTERFACE FOR FIELD DATA IS DEPLOYED—CURRENTLY SCHEDULED FOR LATE IN THIS FISCAL YEAR (2001). THIS WILL HAVE A CRITICAL IMPACT ON THE FISCAL YEAR 2001 AUDIT BECAUSE WE CANNOT FULLY ASSESS RISKS ASSOCIATED WITH THE ELECTRONIC INTERFACE UNTIL ITS DEPLOYMENT. FURTHER, MACS IS NOT CURRENTLY SCHEDULED FOR REPLACEMENT UNTIL FISCAL YEAR 2003. THIS WILL CONTINUE TO IMPACT FUTURE AUDITS UNTIL MACS IS REPLACED WITH THE WORLDWIDE IMPLEMENTATION OF PHOENIX.

USAID ALSO NEEDS TO ADDRESS THE 28 OIG RECOMMENDATIONS THAT WERE NOT BEEN FULLY COMPLETED AS OF SEPTEMBER 30, 2000. FOR EXAMPLE:

- IN FISCAL YEAR 1997, WE RECOMMENDED THAT THE ASSISTANT ADMINISTRATOR FOR MANAGEMENT DEVELOP AND IMPLEMENT AN EFFECTIVE COMPUTER SECURITY PROGRAM.
- IN OUR AUDIT OF THE FISCAL YEAR 1998 FINANCIAL STATEMENTS WE NOTED THAT THE CHIEF FINANCIAL OFFICER

LACKED THE AUTHORITY CALLED FOR IN THE CFO ACT. WE RECOMMENDED ELIMINATING THE FRAGMENTED AND UNCLEAR ORGANIZATIONAL RESPONSIBILITIES THAT HINDERED USAID'S EFFORTS TO IMPLEMENT MODERN FINANCIAL MANAGEMENT SYSTEMS THAT HAVE ADEQUATE COMPUTER SECURITY AND COMPLY WITH THE FEDERAL ACCOUNTING STANDARDS.

- IN A REPORT ISSUED DECEMBER 1998, WE RECOMMENDED THAT THE DIRECTOR OF INFORMATION RESOURCE MANAGEMENT STRENGTHEN ACCESS AND SOFTWARE CONTROLS BY DEVELOPING AND IMPLEMENTING STANDARDS FOR ACCESS AND SYSTEM SOFTWARE INSTALLATIONS AND MAINTENANCE.

MANAGEMENT HAS CONCURRED WITH THESE RECOMMENDATIONS. AS OF SEPTEMBER 30, 2000 USAID HAD NOT TAKEN FINAL ACTION.

FINALLY, USAID MUST BE ABLE TO ESTABLISH BEGINNING BALANCES FOR MATERIAL LINE ITEMS ON ITS FINANCIAL STATEMENTS FOR THE OIG TO OPINE ON THE FISCAL YEAR 2001 FINANCIAL STATEMENTS. WE ARE CURRENTLY WORKING WITH USAID TO REVIEW THESE BEGINNING BALANCES FOR OUR FISCAL YEAR 2001 AUDIT.

CONCLUSION

THE CHALLENGES FACED BY USAID ALSO PRESENT CHALLENGES TO THE OIG IN PLANNING OUR AUDIT OF THE FISCAL YEAR 2001 FINANCIAL STATEMENTS. AT THIS TIME, WE CANNOT BE CERTAIN WHAT PROBLEMS MAY ARISE AS USAID CONTINUES TO ADDRESS ITS FINANCIAL MANAGEMENT PROBLEMS AND COMPLETE THE DEPLOYMENT OF THE PHOENIX SYSTEM AND ITS NECESSARY INTERFACES.

WHILE USAID LOST VALUABLE TIME DURING THE PERIOD WHEN IT WAS ATTEMPTING TO IMPLEMENT THE NMS, CONSIDERABLE PROGRESS HAS BEEN MADE SINCE A DECISION WAS MADE TO DEPLOY PHOENIX. IN ADDITION, USAID'S FINANCIAL MANAGERS HAVE SHOWN AN INCREASINGLY STRONG AND SUPPORTIVE ATTITUDE TOWARDS THE FINANCIAL STATEMENT AUDIT AND THE VALUE THAT IT BRINGS TO THEIR SYSTEMS. SPECIFICALLY, THE NEW ADMINISTRATOR, WHO WAS SWORN IN JUST LAST WEEK, HAS SAID THAT IMPROVING THE AGENCY'S MANAGEMENT SYSTEMS WILL BE HIS PRIMARY FOCUS IN HIS FIRST YEAR.

WE ARE CURRENTLY HOPEFUL THAT USAID CAN DEVELOP DURING FISCAL YEAR 2001 FINANCIAL STATEMENTS ON WHICH WE CAN RENDER AN OPINION.

WE WOULD BE PLEASE TO ANSWER ANY QUESTIONS THAT YOU MAY
HAVE AT THIS TIME.

Mr. HORN. I thank the gentleman. We now have the Acting Assistant Administrator for Management, Richard C. Nygard, for the U.S. Agency for International Development.

Mr. NYGARD. Thank you, Mr. Chairman. Mr. Chairman and members. It's my honor to appear today before your subcommittee to discuss the problems we've experienced in our financial systems and the actions we've taken to date and are taking to correct them. I'm accompanied today by Mr. Michael Smokovich, our chief financial officer, and by Mr. Sandy Owens, our deputy CFO. I will, as you suggested, briefly summarize my written testimony.

Mr. Chairman, our focus over the past 3 years has been on solving the Agency's fundamental financial management problems. We've devoted extraordinary efforts to correcting our systems and processes, believing that this work is most important and will lead to auditable financial statements. We've worked closely with Mr. Mosley and his staff in addressing these problems and have made considerable progress. With the efforts that have been made and that will continue, we plan to have our statements audited this year and to move rapidly thereafter toward getting a "clean," unqualified opinion. Our efforts are based on solving specific problems, on eliminating material weaknesses, on improving our financial and other business information systems, and on carrying out a comprehensive financial remediation plan.

In terms of problems, the IG staff have pointed out a number of these that impeded their ability to audit USAID's financial statements over the past few years. We've concentrated this year on achieving major progress in four problem areas. First is the reconciliation of fund or cash balances with Treasury. We've achieved continuous improvement in this area. As an example, our absolute difference with Treasury was reduced from \$266 million in fiscal 1999 to less than \$83 million last year. We expect further improvement this year, and despite the workload and complexities related to implementing our new accounting system, we plan to bring that difference down.

Next is loan accounts receivable. We outsourced our loan and credit servicing to a commercial bank in 1998 and have improved performance in that area, as was noted by Mr. Mosley. Third is advances to grantees. The Inspector General has been concerned that using pooled advances whereby a grantee can receive advances on multiple grants in a single transaction doesn't give adequate accountability. So we're converting to grant-specific advances. We've already reconciled more than half of our grantee accounts, and have begun conversion of these accounts to the new approach.

Fourth, our methodology for accrued expenditures has improved to provide greater accuracy. We introduced this new methodology late last fiscal year, but as noted, too late for the IG to validate its accuracy. We're working with the IG to facilitate their doing so this year.

In the area of material weaknesses, in 1998, the Agency reported nine such weaknesses. To date, we've closed five of them and expect to close three more this year, and the final one next year. The three to be closed this year are the accounting system itself, which our new COTS-based system will resolve; financial reporting, which will be solved by an effective interface between the new head-

quarters accounting system and our ongoing system in the field; and IRM procedures, which will be resolved through the use of the disciplined IT methodology that we've been working on for the past 3 years.

The fourth and last remaining material weakness is computer security, a concern to all Federal agencies. We've made major progress in this area and have taken a leadership role in establishing best practices under the Federal CIO council. We've devoted high priority to assuring the security of the new accounting system and are also strengthening the security of systems at our overseas accounting stations.

Let me talk now about improving systems. After an unsuccessful attempt to implement a custom built system in the mid 90's, we followed the recommendations of an independent review led by IBM: employing a highly skilled systems integration firm, basing our systems on COTS packages designed for Federal agencies, and outsourcing and cross-servicing with other agencies wherever possible.

We procured such an accounting system late in fiscal 1999, configured it in fiscal 2000 without making any modifications to the software, and implemented it at headquarters earlier this year. We plan to purchase a COTS procurement system next year. We have outsourced our loan and credit servicing to a commercial bank and have cross-serviced our grant letter of credit advances programs, our payroll processing and our personnel data system to other Federal agencies. This year we will implement automated interfaces between our new financial system and other systems.

On our remediation plan, we've instituted a comprehensive plan which includes many of the actions mentioned above and also focuses on better approaches to resolving audit findings.

Last year, the Inspector General produced some 80 findings and recommendations related to the financial system and statements. To date, we've closed about three-quarters of these, and the rest will be resolved later this fiscal year or early next fiscal year. Our goal, however, is to reduce significantly the number of audit findings and recommendations, financial and other, through a combination of better systems and policies and much better training of our staff.

We believe, Mr. Chairman, that the remediation plan is already producing better financial management at USAID, and that we will continue to improve in the coming years. One indicator of this will, we hope, be the IG's ability to audit our financial statements starting this year.

I thank you, sir.

[The prepared statement of Mr. Nygard follows:]

Testimony of Richard C. Nygard
Acting Assistant Administrator for the Bureau for Management
U.S. Agency for International Development
Before the
Committee on Government Reform's
Subcommittee on Government Efficiency
Financial Management and Intergovernmental Relations
United States House of Representatives
May 8, 2001

Mr. Chairman and members of the committee, I am pleased to be here today with Mr. Everett Mosley, the Inspector General of USAID. Mr. Michael Smokovich, the CFO, and Mr. Elmer S. Owens, the Deputy CFO are also here with me. I will discuss USAID's progress and challenges in implementing its financial management improvement program. My testimony is intended to assure that we and the IG have identified the impediments that have precluded the IG from rendering an opinion on USAID's financial statements in the past. We are committed to ensuring that they do not impair the 2001 financial statement audit. In this effort, we are working closely with the IG.

IMPROVING READINESS FOR AUDIT

One of the benchmarks of improved financial accountability is obtaining a "clean," unqualified opinion on the Agency's annual financial statements. Technology investments alone cannot assure this. Effective policies, procedures, and the performance of people and organizations are essential.

Rather than redirecting limited resources to heroic efforts to obtain an opinion over the past two years, we have chosen to focus our resources on the fundamental financial management problems that the IG and we have identified. If we did not focus on correcting these root problems, we would be consigning the limited resources of the IG and the CFO organizations to months of effort each year to prepare and audit the financial statements; fixing the fundamental problems continues to be a guiding principle for us.

The IG has highlighted four areas, based on past audit work, which are very important for the 2001 financial statement audit. The four areas are:

- ◆ reconciliation of fund balance (that is cash balances) with Treasury,
 - ◆ reporting on credit program receivables,
 - ◆ valuation of advances to grantees through letters of credit, and
 - ◆ estimates of accrued expenses at year-end.
- ◆ We must continue to perform cash reconciliation which result in reconciling differences with Treasury that the auditors deem not to be material. By material, I mean that the total of the reconciling amount would adversely affect the quality and reliability of the financial statements. Our challenge this year is to stay current with the cash reconciliation while the same staff is dealing with the final phases of our

accounting system implementation in Washington. Cash reconciliation at the overseas locations has not been affected by system implementation in Washington.

- ◆ USAID's credit program loan receivables have a face value of \$10.6 billion with an additional \$11.5 billion in outstanding loan guarantees. For the past two audits, the IG has found that the credit program balances were reasonably accurate. In 1998 the Agency outsourced its credit program servicing to a commercial bank. This contract has helped to improve significantly our credit program accounting. We fully expect that this year's audit will reach the same conclusion as last year. In the area of accounts receivable, the IG has also noted that the Agency does not have an effective system for reporting receivables. The IG is correct. We are recording the Washington accounts receivable into the new system during FY 2001. We do have an effective procedure through annual data calls to the field to obtain overseas accounts receivable information. In the short run, prior to field implementation of Phoenix, we have determined that it is not economical to attempt to establish a different system since our accounts receivable amount to only 0.25% of USAID's total assets.
- ◆ The value of grantee advances outstanding at the end of the fiscal year and the methodology used by the agency to account for advances has been an audit issue for several years. These issues relate to grantee advances made under the pooled letter of credit method of payment. The method allows the grantee to draw down funds under all of its grants with the Agency on a cash needed basis without identifying the specific grant or grants from which it is drawing funds. The grantee must report quarterly how much it has spent by grant. The problem that the IG and we have agreed upon is that using the "pooled method" of making advances does not give the individual project managers current information on the status of each program. It also does not allow my accounting staff to book the advances to the correct appropriation account until the expenditure reports are received and processed several months after the cash is actually drawn. To solve this problem, we are currently reconciling our advance balance with each grantee as a pre-requisite to converting these grants to an individual grant by grant advance methodology. To date we have reconciled 162 out of 317 grantees and have converted 43 to the new advance methodology. In a related issue we are also working with the IG audit team to identify how the auditors may confirm the advance balances for the 2001 audit.
- ◆ The Agency's estimate of accrued expenses for Washington-funded activities (goods and services received which have not yet been paid for) has been a problem. This estimate was based on flawed data and financial management concepts used by the old Washington accounting system. Each year the IG would recommend a year-end adjustment to more accurately reflect the accrued expenses and accounts payable. For FY 2000, we implemented a new methodology for estimating the year-end accruals using a three-year trend analysis for invoices paid in the subsequent year that were for goods and services received in the prior year. Because we did not complete the analysis until very late in the process, the IG did not have time to validate the new

methodology. We are planning to use the same methodology for FY 2001 and are working with the IG's audit team to facilitate their review.

In addition to these four areas highlighted by the IG, we must also ensure the timeliness and quality of Agency financial statements. We must ensure that all of our opening and closing balances are accurate and that all transactions are posted to the proper accounts. The public accounting firm, PriceWaterhouse Coopers, is helping us to assure that this is achieved. We believe the quality of the Agency's financial statements will be markedly better this year because hundreds of people in the Agency did an outstanding job last year improving the quality of their financial data prior to migrating their data to the new accounting system. The financial data migration was 99 percent correct—far exceeding expectations.

MATERIAL WEAKNESSES

Material weaknesses have been a significant impediment to obtaining a "clean" opinion in the past. We have made significant progress in correcting these material weaknesses. We needed to do this for sound business reasons as well as to avoid the high audit risk these weaknesses entail.

In its 1998 accountability report, USAID reported nine material weaknesses. Any material weakness is serious, but this very high number was particularly disturbing. Today that number is down to four. The weaknesses were as follows:

- ◆ Direct loan program – closed 1999
- ◆ Program performance reporting – closed 1999
- ◆ Financial management procedures – closed 2000
- ◆ Year 2000 compliance – closed 2000
- ◆ NMS Security – closed 2000
- ◆ USAID's primary accounting system – will be closed 2001
- ◆ Financial reporting and resource management capabilities – will be closed 2001
- ◆ Information resource management processes – will be closed 2001
- ◆ Computer security program – will be closed 2002

The primary accounting system material weakness will be corrected in 2001 with the deployment of the new core accounting system. The financial reporting and resource management material weakness will be corrected in 2001 with the interfacing of the overseas accounting system and the new core accounting system in Washington. The information resource management material weakness will be substantially corrected in 2001 with the Agency's improved software control and disciplined software practices. The computer security material weakness will be corrected in 2002, a year ahead of schedule.

USAID used the computer security material weaknesses as an impetus to become a cyber-security leader within federal government. Because of the nature of our Agency's

businesses and our widely dispersed operations, senior management has recognized security and privacy as critical for its success. Our IRM Director made the financial management systems his top security priority and directed the Agency's Information Systems Security Officer to personally assist me in creating a security success story, thus many of USAID's innovations have occurred as part of our financial management systems development. A model computer security program has been developed and has been selected by the Federal CIO Council as a best security practice. Other federal agencies are adopting it. USAID has made the commitment not to close the material weakness until it has met all of its legal and regulatory requirements in a way that is beyond question and in a way that will have benefits throughout Government.

IMPROVING SYSTEMS

During the mid-1990s, the Agency planned financial management improvement efforts well beyond its capacity to manage and implement successfully. After spending over \$100 million, much of the resulting system failed to meet expectations and deliver the financial management improvements required by law and regulations. Correcting these deficiencies will require continued incremental investments in systems, people and improved business practices for our core business processes.

During 1999, we moved very rapidly to create a plan and to initiate actions that would address many of the Agency's historical financial management challenges. A very important part of the planning was to establish an incremental improvement strategy and implement disciplined practices that would assure success.

Rather than investing in new initiatives for many of our older financial systems, we retired them and are currently using private sector firms and federal agencies for transaction processing services. Using this approach, we now have outsourced our transaction processing services for loans, grants, personnel and payroll. This has saved us millions by avoiding systems development costs.

Our accounting and procurement systems are the core business processing tools for our people and our partners. They must be effective for us to be effective in the 21st century. We decided to replace the accounting system incrementally, using commercial software products with prior successful implementations in government and certified compliant with federal requirements and standards. We implemented a new accounting system in Washington during December 2000 using American Management Systems' Momentum Financials. The IG provided an invaluable role in advising Agency management on improvements to our implementation efforts.

We applied many industry best practices in this successful implementation that can serve as an example to other federal agencies. For example, we redesigned business practices to ensure that we could implement the commercial software product without any costly customization of the baseline software typical of other federal implementations. We committed to having zero changes to the software. Hundreds of users in diverse offices agreed to change their business practices to save money and

accelerate the implementation schedule. Our testing was so rigorous and exhaustive that we uncovered software defects, which the vendor has now corrected, that other federal implementations of the vendor's product had not uncovered.

This year we are interfacing or connecting the new accounting system with existing systems in Washington and in the field. The new accounting system will be interfaced to our internal procurement system and with systems for loans, grants, personnel information and payroll transaction processing, each of which is outsourced to a commercial provider or cross-serviced by another federal agency.

The new core accounting system will also work with the existing overseas accounting system to provide consolidated Agency-wide financial reporting. Beginning in 2001 transaction level accounting data from Missions will be sent to Washington and stored in a database for Agency-wide financial reporting. An automated interface will be implemented to allow data to be reported and recorded easily and accurately in the Phoenix accounting system.

The implementation of the new accounting system, combined with other interim financial management improvements, is intended to enable the Agency to produce auditable financial statements for FY 2001 and correct long outstanding material weaknesses in management controls.

REMEDIATION PLAN

The Agency has had many audit findings and recommendations to deal with as a result of its past financial management practices and system deficiencies. We have gone through a process with the IG to identify the audit recommendations that affect their financial statement audit objectives. Many have been corrected in FY 2000 and still more will be corrected in FY 2001 with the implementation of the new accounting system. We are now focusing our efforts on those that still require additional work or further system investments. The remedies, resource requirements and target dates for correcting these audit findings are described in the Agency's financial management remediation plan. In the spirit of enhancing our accountability to the public, we included the remediation plan in the *USAID FY 2000 Accountability Report* released in March of this year.

The auditors identified more than 80 audit findings and recommendations that impaired their audit objectives in 1999. The Agency has focused its efforts in 2000 and 2001 to address all of these audit recommendations. We have closed 75% of the recommendations, and those remaining will be closed this year and next.

Overall last fiscal year, USAID closed a total of 738 audit recommendations. While we are proud of this record, our objective is to reduce substantially the number of new audit findings by the IG. Training our employees is essential to achieving this. We provided training, in collaboration with the IG, to over 1,000 people on the various aspects of audit management, and more training is scheduled in our remediation plan.

- ◆ Over 180 have been trained in a new course on management accountability and control.
- ◆ Over 600 employees received training on the management of obligations.
- ◆ Over 630 people were trained to use the new accounting system.
- ◆ Over 200 received training on revised performance indicators and another 100 attended workshops on improving program performance.
- ◆ Over 120 finance professionals were trained on the new accounting system and an array of electronic commerce products available in the marketplace.

CLOSING

USAID is a complex, global organization that operates in more than 70 countries overseas. The IG and Agency management are in agreement on the major management challenges that we face. We know what needs to be done to improve our financial management practices and performance and to get a “clean” audit opinion. We have made significant progress over the past two years and we have a good plan for completing the work that needs to be done. We are committed to executing the plan.

Mr. HORN. We thank you. Does any other member with you want to say anything at this point that may have been missed?

OK. I have a lot of feeling for the Agency for International Development. You have a very important mission. And we will hope that the money the Congress gives the USAID will go to a good cause. And if we don't have a decent financial system and a decent management system, that money will not go for a decent cause. So you've got quite a responsibility ahead of you.

Let me start on the debt collection, which is dear to my heart, since it's the law that I got passed in 1996. I'd like to know from both of you, can you estimate the amount of improper payments including duplicate payments, overpayments and payments for goods and services not received made each year by the Agency? Do we know where the debts are and how we—

Mr. SMOKOVICH. Mr. Chairman, Mr. Smokovich. USAID payments are generally made to contractors and vendors who have a business relationship with the Agency. We have been able to refer debt to Treasury which is stale debt, as you're well aware of. We have found no substantial problem with erroneous payments in the Agency.

Mr. HORN. How stale is the debt?

Mr. SMOKOVICH. Mr. Owens.

Mr. OWENS. Our administrative receivables are normally no more than a year old when they're referred to Treasury. I don't have those exact figures with me, Mr. Chairman. We can provide them.

Mr. HORN. If you could, we'll have a place in the record at this point.

[The information referred to follows:]

In 1999, 13 cases were referred to Treasury with a value of \$1,205,349.23. During 2000, 11 cases were referred to Treasury totalling \$661,938.77 and as for 2001, we have referred on case for \$456,766.14."

Mr. HORN. Without objection if you could put a letter in as to where are we on that particular debt, how—because people we've found—and this is what every debt collector knows, when you don't have much communication with a person that owes the debt, that they just think it's a grant. And we're not in the grant business. We're in a lot of these things. You're in a lot of grant business because of humanitarian groups that are trying to do that.

Mr. SMOKOVICH. Mr. Chairman, let me add one comment on that. The IG has raised some issue with our administrative receivables. There's about \$48 million out there. Those are a small part of our portfolio, and we have followup processes in place in Washington, which will be helped by the new accounting system, because we'll be able to book them, but in the field, those are handled essentially on cuff records. But we do have good controllers and executive officers out there who do followup with our people. And we do run a fairly aggressive drill on delinquent credit card debt. We brought that down dramatically last year and even more dramatically this year.

Mr. HORN. Does the Agency have contracts with the private debt collectors to get at delinquent debts?

Mr. SMOKOVICH. We are using the private debt collection contractors that the U.S. Treasury has put in place.

Mr. HORN. Through the financial management?

Mr. SMOKOVICH. Yes, sir.

Mr. HORN. Well, they do a good job. So hopefully we can get some of that money back.

What are the processes that the Agency used to recover them? You say you turn it all over to the financial management group, or is there anything else you do like when somebody picks up the phone and says look, you have an obligation here. What are you going to do about it?

Mr. SMOKOVICH. There are two processes at work there. One is where it's a business related debt. When the debt becomes stale, that debt is referred to the Treasury. On our own internal administrative debt, we have a process in place where our accounting and financial shop will followup with employees, and I actually get involved in those to make sure that we don't have to send any of those people to Treasury for offset. So it's a fairly active approach.

Mr. HORN. How are the recovered payments accounted for in the Agency's financial statement?

Mr. SMOKOVICH. In the past, we had not been able to book those into the accounting system. This year we're beginning to do that. Where we have an account receivable recorded, that's one of the things we're effectively doing at the end of the year, establishing that record on the financial statements of the Agency.

Mr. HORN. Well, that's good news. And I hope to see it in all future balance sheets.

Are the contractors required to notify the Agency about these overpayments? And what do you do about it? You've got how many contractors that deal with USAID?

Mr. SMOKOVICH. I'm not sure I understand your question fully, but right now with USAID Washington, we have 12,000 vendors in our file composed of grantees and contractors. One of the things we're able to do with the accounting system implementation is clean that record up. At one point, it looked like we had as many as 18,000.

Mr. HORN. What do you have overseas?

Mr. SMOKOVICH. I don't have that number. I could get that number for you.

Mr. HORN. If you could, we'll put it in the record at this point.

And is it just a lost battle when you've got a number overseas? How difficult is that for you to get it in a foreign country in a foreign nation?

Mr. SMOKOVICH. It depends on country law, but our people typically are fairly high grade professional CPAs, MBAs, so they know the processes. The difficulty we have is getting access to the data, as you well know. Without the corporate systems, everything turns into a data call from us to a mission.

Mr. HORN. And what kind of response do you get from the mission? Do they say, "don't bother me?"

Mr. SMOKOVICH. No, sir, they're very professional. They usually turn it around in a day. The only trouble we have sometimes is understanding what time of day it is over there.

Mr. HORN. Well, I can understand that. But if you could just put in the record at this point how many contractors overseas, where there were overpayments or underpayments, what happened, just

in a generic way. I'm not asking to you go through every single one, but somebody somewhere must have some feel for whether they just defaulted and/or they got the job done.

And were the contractors required to pay interest to the government on overpayments? How is that doing?

Mr. SMOKOVICH. Yes, they are.

Mr. HORN. OK. Put a little something in the record on that at this point, too.

What steps can Congress take to help facilitate the identification and recovery of overpayments? And I really asked that of the Inspector General. You've looked, I take it, at some of these questions of loans and payments, overpayments, underpayments, all the rest. In the Pentagon we have a lot of that. And I don't know the degree to which that has happened in USAID. But with missions all over the world, I can certainly see a lot of strange things would happen. And have you sent some of your people out to where things really happen in different continents and seen what's happened on loans that went to an agency and they didn't do a thing about it? Or do we just sit here in Washington to be—

Mr. CRANDLEMIRE. One of the things that we've been working with the Office of Procurement on is a process where in it introduces more discipline into the recovery of questioned costs that arise out of audits. Historically, USAID has not pressed its contractors and grantees sufficiently to get these moneys in. This has resulted in a number of recommendations building up where USAID needs to make management decisions, and it's just not good business.

Mr. Toby Jarman, the Assistant Inspector General for Audit, and I have worked with Mr. Mark Ward, Director for procurement, who recently came in from USAID Moscow. We've come to an agreement where we're going to introduce some additional disciplines into the grantee and contractor community.

One of the things that Mark has agreed to do is when an audit report comes out, speak very directly to the grantee and to the contractor, and in that speaking, let them know that the entity has been doing business with USAID for some time; the entity is a sophisticated entity. We need to get these question costs supported and get these moneys returned. This is about doing business.

Mark has been very good with us on that. He's invited Mr. Jarman and myself to speak to trade groups to get this idea across. It has been, I think, received relatively well. We have seen a significant reduction in a number of recommendations that did not have a management decision. It's about a discipline. It's about a process to do business in a more orderly fashion. I think we're getting there in this particular area, and that's one step toward reducing the amount of outstanding questioned costs.

Mr. HORN. I turn to the ranking member, the woman from Illinois, Ms. Schakowsky.

Ms. SCHAKOWSKY. Thank you, Mr. Chairman. Mr. Nygard, did you say that you thought that USAID would be able to receive an opinion this coming year?

Mr. NYGARD. What I said, Ms. Schakowsky, was that the Inspector General has agreed to audit our financial statements this year. I think that this is a major step forward. As Mr. Mosley said in

his testimony, in the past, there has been a concern about the amount of actual work that would have to go in to trying to do an audit. And if I heard him correctly, he was saying that as of this year, we now have a system in place with our new accounting system, and if we implement the interface between the field and Washington where it will be possible for the Inspector General's audit staff to do an audit of our financial statements, coming out of that ordinarily will be an opinion.

Ms. SCHAKOWSKY. As the chairman said, the earlier panel was dealing with the Department of Defense, the largest agency, and USAID, one of the smallest. How do you account for—is there something unique about USAID that has made these problems seem so difficult to resolve over the last several years?

Mr. NYGARD. Well, for one thing as I said earlier, we were burdened with the fact that we tried to build our own custom built financial and comprehensive information system for the Agency. And in retrospect, that was a mistake 6 years ago. Now we're using commercial off-the-shelf software, which is going to be much more effective. We've also had the difficulties, the accounting difficulties that I summarized in my statement, and one also has to realize that as the chairman noted earlier, we have 70 overseas posts and 38 accounting stations overseas where we have standard accounting systems. It's a complex situation even given the relatively small size of our agency compared to the Department of Defense. So we have complexities, but we've had problems, some of which have clearly been of our own making.

Ms. SCHAKOWSKY. I wanted to ask you about the overseas operations. My understanding that most of the financial management improvements have been at the Washington offices. When will improvements made at headquarters be realized in the field offices?

Mr. NYGARD. I think we're constantly making improvements, both in Washington and overseas, but specifically we plan to roll out the accounting system that we have installed in Washington to our overseas missions, probably starting in the fiscal 2003 timeframe. Doing so requires some information technology infrastructure work to be completed before we do it. So it will probably be about 2 years from now before we're able to put the system we call Phoenix out worldwide.

Ms. SCHAKOWSKY. Meaning that you would start now but it wouldn't be completed until 2003? These timeframes are daunting to me. They just seem so long.

Mr. NYGARD. They seem long to us, too. I agree. In the next fiscal year we will be doing pilot testing at several missions overseas to make sure the system works. One of the difficulties we had when we tried to put the so-called new management system out to the field 6 years ago was that there was no real pilot test. They assumed that what worked in Washington would work overseas. That wasn't the case. There were communication problems, technology problems. We're going to make sure that we do perfectly adequate systems testing and pilot testing before we put it out.

That will take some time. As I said also, the communications between the field in Washington, communications infrastructure, some of which goes through the Department of State and some of which goes through our own satellites, needs to be heavied up

somewhat at a number of our missions in order to accommodate the load that the new accounting system will put overseas.

So it is a matter of not just the accounting system itself, but the technology that goes along with it. When we put it out this time, we don't want it to fail as it did 6 years ago.

Ms. SCHAKOWSKY. USAID reports that it has developed a model security program which has been selected as a best security practice by the Federal Chief Information Officer Council, yet the Inspector General reports that its recommendations on reporting an effective computer security program has not been fully implemented.

I understand it is supposed to be scheduled for 2002. Is that what I heard you say?

Mr. NYGARD. That's correct.

Ms. SCHAKOWSKY. What is the status right now of computer security at USAID?

Mr. NYGARD. We have made major progress in computer security. As I said earlier, we have worked—our computer security professionals have worked with the Federal CIO Council in developing and taking the lead in establishing best practices for information technology security. We have built a computer security risk assessment and certification process that we have put in and implemented.

The new accounting system, Phoenix, was certified as secure before we implemented it, something we had not done with our previous systems.

A number of our legacy systems have been certified compliant, and this year, later this year, the software for our overseas accounting system, which has existed for more than a decade, will undergo a similar certification.

Over the course of this year and the next fiscal year, we will be doing security risk assessments and improvements at each one of our overseas missions. This is unfortunately not something we can do just from the center. It is a matter of visiting each of the 38 accounting systems stations overseas and making the necessary fixes at them. That is really what is going to delay the closing of that material weakness until next year.

But we have a plan. We have made excellent progress to date. We have actually been able to move up the completion date from what had originally been 2003 to next year, so we feel we are moving in the right direction, though we are not there yet.

Ms. SCHAKOWSKY. I will just ask a question about the old system, the pre-Phoenix system.

Again, to me it seems like it took an awfully long time to figure out that it was broke and needed fixing. It sounds like it never really worked very well.

Why didn't you see those changes made earlier?

Mr. NYGARD. Actually, I don't mean to make humor of a very serious situation, but I almost said, when we found out that we were having serious problems with this back in 1997, and I was not in my present job at that time, I said, why can't we just buy something like Quicken and plug it in?

It does not work like that. IBM, as I mentioned in my statement, carried out a study for us in 1997–1998. They made recommenda-

tions as to how we should proceed. We brought on board a very capable systems integration firm that has helped guide us as we have gone ahead.

We then had to go through the procurement of a new accounting system to look at what was available. We procured this Phoenix system, which is what we call it, which is really American Management System's Momentum financial software, at the end of fiscal year 1999, so it took a year and a half to procure that system. Then it took another year to configure it.

As I said, we didn't make any basic changes in the software, but each agency has somewhat different ways of doing business, so it took all of fiscal year 2000 to get the system ready to implement. Then we did extensive testing. It takes also an awful lot of training of individuals so they will be able to understand what they are doing.

At the end of fiscal year 2000, at the beginning of this fiscal year, we completed the testing and training so when we did implement the new system, it went quite smoothly, I would say. Nothing ever goes without bumps and bangs, but that preliminary work that we did made for a good implementation. We worked very closely with Mr. Mosley and his folks in doing that.

Ms. SCHAKOWSKY. In other words, though, it has taken 4 years from the time when you knew you were going to have to change it for that change to be not quite completed, because it is only the Washington office?

Mr. NYGARD. Two years from the time we knew we had a problem until the time we bought the new system, and another year and a quarter to implement in Washington, yes.

Ms. SCHAKOWSKY. That is a long time.

Mr. NYGARD. Yes.

Ms. SCHAKOWSKY. Let me ask a final question. Material discrepancies exist between USAID loan information maintained by a private bank and USAID's records.

The Inspector General reported that on September 30, 2000, the total discrepancy was \$459 million. USAID subsequently identified and reconciled \$366 million of the discrepancy, and made a one-time adjustment of \$93 million to reconcile the difference.

Could you explain the discrepancy, how it occurred, and what is being done to reconcile it?

Mr. OWENS. The USAID loan portfolio dates all the way back to the post World War II reconstruction, the Marshall Plan, up until the late eighties, when we basically quit making direct loans under our programs.

Over the years we maintained our own home-built loan accounting system, and in 1998, working with the Office of Management and Budget and the Inspector General, we made a decision to outsource our loan servicing to Riggs Bank here in Washington. As part of that process, we did a complete reconciliation with Riggs Bank, and that is where we identified those differences.

We were able to resolve most of those differences after doing the complete reconciliation, but the remaining portion we could not determine. We agreed with the IG, the Inspector General's Office, to make a one-time adjustment to bring our general ledger accounts

into agreement with the individual loan records. So now our ledgers and our individual loan records are in balance.

Ms. SCHAKOWSKY. Thank you.

Mr. CRANDLEMIRE. I would like to add that in the years prior to this effort, where they went out and did reconciliations, our standard practice of confirming balances with the grantees and the debtors did not go well. We could not get agreement. There clearly were many, many years of error and bad accounting that had gotten in there, not through intention, but it just happened.

This was a good effort and it resulted in some good numbers where now we can do a standard confirmation, which is a normal audit technique to get a third-party confirmation. This has vastly improved the efficiency of our audit process for this particular line item, which is one of the largest on USAID's balance sheet. It is a good thing.

Mr. MOSLEY. I might also add, Ms. Shakowsky, in terms of your concerns about what took so long, I have to be very honest and say part of the problem on why it took so long was communications. We now have a management that agrees and is working with us. I think that will make a tremendous difference in terms of getting the problems corrected.

You also talked about the problems in the field. I think I should point out that even though they have not exposed the field to the use of the new Phoenix system yet, the MACS system that is being used in the field is the system that the OIG has found the least number of problems with, so the data is being tracked. The difficulty is that it is not as quickly interfaced into the Washington system, and it certainly slows managers in being able to have access to that system and manage it. But from the standpoint of having the information, it is there. That is one of the best systems that they have.

Ms. SCHAKOWSKY. Thank you, Mr. Chairman.

Mr. HORN. Thank you.

I just have a few round-up questions, if you will.

You have now been under the Department of State for almost 1 year or so. Has that changed anything in terms of either financial management or management systems? What has happened in that year?

Mr. NYGARD. Let me start off responding to that. Perhaps Mr. Mosley will want to add something else.

Under the new legislation, the Agency for International Development remains a separate agency, but our Administrator reports directly to the Secretary of State, rather than to the President, as previously. This has engendered a much closer working relationship with the State.

We are looking for areas where administrative efficiencies can be realized. Obviously, they are overseas, we are overseas. We are colocated with them in one-third of our overseas posts. Our objective is, wherever they are building a new embassy where we are located, to co-locate with them, for efficiency's sake and also for security's sake.

In terms of financial management systems, we do not have integrated systems with them. They are using AMS Momentum now, starting overseas. We are using AMS Momentum.

The roles of the agencies are somewhat different. Obviously, the great majority of the Department's money tends to be administrative money: salaries, expenses, that sort of thing. The great majority of our money is program money. So again, Mike Smokovich and his staff are working with the CFO's staff over at State to find areas where we can work together.

At this point we have not worked to merge our systems, but clearly administrative efficiencies, particularly in overseas operations, are the goal of both organizations.

Mr. HORN. One of the things that this subcommittee cares about is computer security. I just wondered, is your computer security and is the State's computer security, which we will ask them about, and a number of other agencies—some of them say, hey, we don't have to worry about that because we are completely off where they cannot get us.

When I go to a place such as Italy, and they are now the sixth largest economy in the world, they are quite correctly worried about the access to private sector computers that could bring down the whole economic industry. We could also be brought down.

I notice—when you say use of a satellite, that made me wonder, with some of these people who have quite a few billion dollars to be rogue countries or rogue terrorists or whatever, I wondered, to what degree are you looking out for that? Does that come under your particular bailiwick in USAID?

Mr. NYGARD. Yes, I think it does.

When we talk about information security, obviously there are two totally different things. One is information systems security, which clearly comes under my bailiwick. The other is information security, which has to do with classified information, which would come under the purview of the Director of Security. In terms of that, we are vividly concerned with that.

Mr. HORN. Is that person reporting to you, or is that a State Department person?

Mr. NYGARD. The Director of Security in terms of classified information, protecting, this sort of thing, reports directly to the Administrator of the Agency. But, obviously, our computer security people work very closely with them. When we are looking at information security, we also have to be looking at computer security. We are working together closely on that.

The man we have heading our computer security program was brought in from the private sector. He is very experienced, as I said in my testimony. He has taken the lead with the Federal CIO Council. He has been working with Fernando Burbano, the CIO over at State. There are a number of areas on which they are working together.

Our prime focus, of course, is ourselves, but we are not just looking at ourselves.

Mr. HORN. Would you like to comment, Mr. Mosley?

Mr. MOSLEY. Yes. From our perspective in terms of being under the Secretary of State, it has no real effect on our real data because the data is kept separately.

However, we could work with the State IG. We have periodic meetings, a minimum of quarterly, to talk about areas where we can join our audit efforts and make sure we are giving coverage.

We also have field people, where State does not have people in the field, so we are able to supplement some of our reviews by using the people in the field.

One of the areas that does involve the financial systems is the transfer of funds under section 632 of the Foreign Service Act. We have worked closely with State and the other Federal agencies to try and make sure when those funds are transferred, that they are properly recorded in the financial records of both our agency and the agency they are transferred to, and that correct tracking is being accomplished.

Mr. HORN. Each year in some of these statements we have heard the same message, in a way, that improvements have been made but much remains to be done.

What do you think can be done in this particular fiscal year that was not done last year?

Mr. NYGARD, what do you think?

Mr. NYGARD. I think the four problem areas that we discussed earlier, where we are working closely with the Inspector General, will move a long way to both—our main goal is to improve financial management. As a result of that, we hope to get our financial statements audited. So that is a major thing.

The implementation of our new accounting system clears up the Washington accounting, which has been a major problem. As Mr. Mosley has said, our field accounting has been less of a problem, but it is critically important that at the end of this fiscal year, we have an adequate interface where the information from the field can be brought in and put into our general ledger, along with the Washington data. That will be a major goal for us to do this year.

I think if we accomplish those things this year, we will be in quite good shape. Obviously, what will remain to be done will be to put the same accounting system overseas in the course of the next 2 years.

Mr. HORN. What kind of General Schedule personnel can you get to help solve that problem? I think part of our problem in a few places, and I think of the Columbus operation in Ohio, which is under the Army's jurisdiction, but I was sort of shocked when I saw the low level of grades in terms of people looking at contracts and this kind of thing, and following up on it.

So do you have any problems on personnel?

Mr. NYGARD. We have had to use a higher proportion of contractors, I think, because we have not had enough capable financial management personnel. I will let Mr. Smokovich talk to that. But my feeling is it is kind of a middle generation. We have accounting technicians at relatively junior grades, and we have a number of very capable people at the most senior grades, but it is kind of the GS-13, 14, 15, where we have been lacking and where we are trying desperately to recruit qualified people.

Mr. Smokovich, do you want to add to that?

Mr. SMOKOVICH. In the downsizing days we lost some of our best people, before I came there. We have been blessed in this project effort to have senior Foreign Service officers and GS-15 level and SES level people dedicated to the project, but we do have a challenge in rebuilding the organization, because, as you say, people solve problems, systems don't.

In the field, we are uniquely blessed in the sense that we have CPAs, MBAs, in the Foreign Service, but we are losing them to a competitive economy.

The other thing we have going for us is very strong Foreign Service national employees. I have about 650 people worldwide who do our finances for us. Our strength is less in our systems than in our people.

Mr. HORN. Are we reaching out into the colleges of this country to try to find people? I would think that is a very attractive situation where you have people who feel good about themselves and good about our country, and get a chance to see and do something for the good of mankind.

Mr. SMOKOVICH. The answer is yes, but Rick might want to respond to this, too. USAID is uniquely able to attract people because of its mission. We have a great mission. We have started hiring new entry professionals.

When I came 2 years ago, there were no new people. We are starting to get them in now. Rick?

Mr. NYGARD. I would say two things. We have really two categories of employees in USAID: We have Civil Service employees who work in Washington, and Foreign Service officers who work both overseas and in Washington.

For the Foreign Service, we have adopted a comprehensive work force planning system that has resulted in the new entry professionals that Mr. Smokovich was talking about, including comptrollers. For the most part, these people are not right out of college but are in their thirties, have experience, and most have overseas experience.

I was introduced to one this morning who spent 2 years as a contract comptroller in our mission in one of the Central American countries, so that is one area.

The other is Civil Service, where Washington systems need to be improved. There I can tell you that our work force planning priorities for Civil Service people include three categories of people, all of whom happen to fall under my area: information technology, procurement, and financial management. I'm not saying one is more important than the other. Those are our priorities.

We are going after college graduates. As Mr. Smokovich said, the mission of our Agency is indeed something that is quite attractive to people, even if they are only going to be working in Washington. So that is helping us bring people on.

Mr. HORN. I would hope so, because, as you say very eloquently, it is important. We should do that, and we should be walking around the campuses of the country and seeing if we can pick people up, because we have a real problem with human infrastructure, if you will, with a lot of good people retiring and going out of the system. We need to have the opportunities. Where else do we have an opportunity like this, either in the services or the Civil Service? That is where we need a lot of help.

We ought to be starting in kindergarten in terms of logic and everything else, and not be importing people from abroad. We ought to be training our own people and educating them, and retraining them.

Is there anything else any of you want to make a point on before we close down? Mr. Inspector General.

Mr. MOSLEY. No, sir. Thank you.

Mr. HORN. Mr. Smokovich.

Mr. SMOKOVICH. Mr. Chairman, I think this is a remarkable hearing. You see five people who are all dedicated to fixing the problems of the Agency and getting an opinion on an audited statement, which has never happened before. So I am betting and I am hoping that our grade goes up the next time you do that.

Mr. HORN. We look forward to it.

We are in recess until 1:30. That is the Department of Agriculture.

[Whereupon, at 12:20 p.m., the subcommittee recessed, to reconvene with other business at 1:30 p.m., this same day.]

