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U.S. AGENCY FOR INTERNATIONAL DEVLEOPMENT (USAID) BEFORE THE HOUSE COMMITTEE ON GOVERNMENT REFORM SUBCOMMITTEE ON GOVERNMENT EFFICIENCY AND FINANCIAL MANAGEMENT

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Thank you Chairman Platts and Members of the Subcommittee for holding this important hearing on USAID's financial management. We appreciate your interest, and look forward to close cooperation with you and your subcommittee as USAID continues to improve our management and accountability practices.

I would like to begin with a short review of the Agency's past financial statements. Then I would like to report to you our progress and goals on our financial statements, financial system and internal controls. Lastly, I will discuss our other business process reform activities that support the goals in the President's Management Agenda and address the financial and management challenges as reported in the Fiscal Year 2002 Performance and Accountability Report (PAR).

History of USAID's Financial Statements

In accordance with the Government Management Reform Act (GMRA), USAID has prepared consolidated fiscal year-end financial statements since Fiscal Year (FY) 1996. The USAID Office of Inspector General (OIG) has been required to audit these statements, related internal controls as well as Agency compliance with applicable laws and regulations. From FY 1996 through FY 2000, however, the OIG was unable to express an opinion on USAID's financial statements because the Agency's financial management systems were unable to produce complete, reliable, timely, and consistent financial information. Due to the excessive amount of audit testing that would have been required to express an opinion, the OIG disclaimed from expressing an opinion.

For FY 2001, the OIG was able to express qualified opinions on three of the five principal financial statements of the Agency while continuing to disclaim from expressing an opinion on the remaining two. For FY 2002, the OIG expressed unqualified opinions on four of the five principal financial statements and a qualified opinion on the fifth. This marked the first time since enactment of the GMRA that USAID received an opinion on all of its financial statements.

During the period that the OIG was unable to express an opinion on the statements, it was able to undertake certain audit procedures to help identify material internal control weaknesses that the Agency needed to resolve. These material internal control weaknesses included the following:

- Process for Allocating Program Expenses Statement of Net Cost

- Reconciliation of Cash Balances with the U.S. Treasury
- Reporting Credit Program Receivables
- Calculating and Reporting Accounts Payable and Accrued Expenses
- Accounting for Advances to Grantees
- Reporting Accounts Receivable
- Reporting on Unliquidated Obligation Balances

In addition to the internal control weaknesses, the OIG reported that the Agency lacked an integrated financial management system that complies with the requirements of the Federal Financial Management Improvement Act (FFMIA). This has been a major impediment in providing information for USAID managers on a day-to-day basis, thereby hindering the Agency's ability to manage its resources.

Financial System and Internal Control Improvements

To address these system and internal control weaknesses, USAID is taking a number of actions. The most significant is the implementation of a new core accounting system, internally referred to as Phoenix, which was installed at headquarters in FY 2001. This new core accounting system is a commercial off-the-shelf system that complies with the Joint Financial Management Improvement Program's core system requirements and is currently widely used by a number of federal agencies. The new system is based on the U.S. Standard General Ledger and was configured to account for USAID strategic objectives, the Agency's key management unit. USAID managers are now able to obtain more timely data on the status of their funds at headquarters as well as follow the status of funding transactions through the funds control process.

In FY 2001, we implemented an electronic interface with the headquarters procurement system as well as an interface with our overseas accounting system (our Mission Accounting and Control System (MACS). The interface with the procurement module ensures that contracts and grants awarded or amended at headquarters are immediately entered into the accounting system and program managers can obtain up to date data on the status of their budgets. The implementation of the interface with the overseas accounting system gives the Agency transaction level information on field activities. Prior to implementation of this interface, the Agency only received summary level reporting for posting to the headquarters accounting system. The summary information was not sufficient to provide reports to program mangers on the status of unexpended funds at the program or strategic objective level. Because this new interface provides data at the transaction level, we are now producing management reports such as the quarterly "Pipeline Report of Unliquidated Obligations" for internal use, as well as for OMB and Congressional Committees.

In Fiscal Year 2002, we implemented additional electronic interfaces with Riggs Bank (our credit program service provider) and the Department of Health and Human Services (HHS) (our grant program paying agent). In 1998, USAID entered into a contract with Riggs Bank to maintain the details of credit program records, and to provide certain credit servicing services. The outsourcing with Riggs Bank allowed USAID to replace its outdated credit program accounting systems with a modern commercial credit servicing one. Initial implementation of this system was completed in FY 1999, but it took until FY 2001 to clean up all the old records and reconcile them with the new system. Once full implementation was completed and all the necessary adjusting entries recorded, the OIG has found the credit program receivable balances to be reasonably stated.

The interface with the HHS grant payment system has greatly reduced the manual effort required to record grant expenditures and increased the timeliness of information. It has also helped to facilitate the transfer of grant expenditures to the overseas accounting system, thereby improving the quality of data available to field program managers.

Beyond the interfaces to the core accounting system, there are a series of processes that do not automatically interface to our overseas systems or the core accounting system. To address these various processes we have developed a web-based data collection tool to gather fiscal information (receivables, inventory and capital assets as examples) and accumulate that information for posting into our ledgers. While only operational since the past year, there has been significant savings at both the headquarters and mission levels with improved data quality and timeliness of information.

The new core accounting system at headquarters, together with the interfaces to the various feeder systems has enabled USAID to improve significantly the quality and timeliness of its financial data. It has also enabled the OIG to undertake detailed transaction testing that was not practical under the old accounting system, as previously mentioned.

The next phase of our financial management system improvement effort is the deployment of the headquarters accounting system to our field missions. We plan to have the system fully deployed by the end of FY 2005. Then, USAID will have an integrated financial management system that can produce timely and reliable Agency-wide financial information for program managers and decision-makers. Full deployment of the system will also bring the Agency into compliance with the Federal Financial Management Improvement Act.

At the same time, we are working closely with the State Department to implement a shared financial management system for the beginning of FY 2006, as recommended by a study commissioned by State and USAID. The Joint Financial Management System (JFMS) will combine the State financial management system and USAID Phoenix system into one, common financial management platform.

During the interim transition period to the joint platform, both State and USAID will continue their deployments of their respective financial systems, cognizant of the JFMS project activity in the establishment of the joint platform for FY 2006. Any redundancies will be minimized and all investments during the interim period will be scrutinized for compliance with the joint platform. This will result in each agency being better equipped to reach their financial performance goals during FY 2004 and FY 2005, while at the same time, moving forward on the deployment of the collaborative system for FY 2006. We have also agreed to jointly implement a procurement system in FY 2006.

We are also taking actions to address the material internal control weaknesses noted during the FY 2002 audit. The OIG recognized seven internal control material weaknesses. Six of the seven internal control material weaknesses have been addressed. The remaining weakness is related to the process for reconciling the fund balance with Treasury. It stems from the failure to reconcile differences between mission and Washington records, and State and Treasury data. Ultimately, the deployment of Phoenix overseas will mitigate this problem. Actions to resolve the weakness in the interim include developing a web-based reconciliation process and using automated methods to match mission and Treasury reported disbursements. The implementation of Phoenix and increased accessibility of Treasury data online have facilitated this process. We expect to have this issue resolved in the very near future. We have also established improved procedures to mitigate the reportable condition of vulnerabilities in the monthly and year-end closing processes. We continue to work closely with the OIG on resolving all internal control weaknesses and remaining obstacles so that the OIG may issue an unqualified audit opinion for FY 2003.

Using Agency staff and the accounting consulting services of IBM (formerly PriceWaterhouseCoopers) to assist us, we have made significant progress resolving other internal control weaknesses, such as reconciling cash balances, credit program balances and advance balances with grantees paid by HHS, which resulted in dramatic reductions in unreconciled amounts. We published new directives addressing numerous policy and procedure weaknesses identified by the OIG. In addition, we implemented a process to estimate accounts payable at headquarters to enable the Agency to produce more reliable reports on the cost of operations and unliquidated obligations. Finally, we directed greater attention to reduce unliquidated obligation balances on expired contracts and grants. Our financial policy staff has issued revised policy guidance for accrued expenditures, accounts receivable, obligations and credit programs.

Improvements are not limited to headquarters. Our field missions, and in particular, financial management operations at the missions, have made significant improvements in the past few years. The results of the OIG internal control reviews and transaction testing in the field have shown that the quality of the accounting data has continued to improve each year. The field Controllers have taken aggressive action to address audit findings and improve financial controls in many of the same operational areas as the headquarters operations. More than half of the Agency’s funds are accounted for in the field, and these accomplishments have played a major role in improving audit results.

The positive working relationship between the Agency’s Office of the Chief Financial Officer (CFO) and the OIG was a major contributor to the improved audit results. Past differences have been resolved, and both offices have put forth significant efforts to improve the quality of the financial statements and audit results.

USAID's Management Control Review Committee plays an active role in ensuring corrective action for deficiencies identified through OIG audits and management control reviews in accordance with the Federal Managers' Financial Integrity Act (FMFIA). The Committee, chaired by our Deputy Administrator, monitors the status of corrective actions Agency-wide and determines when material weaknesses have been corrected. Parallel committees operate within the Agency's overseas operating units. We continue to report the following Agency material weaknesses under FMFIA: Primary Accounting System, Information Resources Management (IRM) Processes, and Computer Security. We expect to close the first weakness in FY 2005, with the worldwide deployment of Phoenix, and the other two weaknesses are expected to close in FY 2004, as we continue to make improvements in IRM Processes and Computer Security. No new material weaknesses are being reported in FY 2003.

We have developed customer service standards and initiated activity based costing to improve services, get a better handle on costs and reallocate resources to our most important business needs.

We have developed mandatory training for Contract Technical Officers (CTOs) in the agency to better manage obligations and ensure accountability. Annual mandatory ethics training is part of this program. We are working with the Department of State to develop a common procurement system. Instead of developing separate systems, both agencies are collaborating on this project that will reduce redundancies and results in considerable cost savings.

We continue to improve the quality of USAID's financial management systems and we continue to improve the internal control systems and processes affecting the day-to-day management of our programs as well as our financial statements.

The President's Management Agenda – Moving to Green

The U.S. Agency for International Development has fully embraced the President's Management Agenda (PMA) since President Bush first announced it in the summer of 2001. In close coordination with the PMA, USAID is aggressively implementing its own ambitious management reform program. The Agency has established a Business Transformation Executive Committee (BTEC), a governing board of senior executives from all bureaus and major offices across the Agency, to oversee our management reforms.

Like all agencies, we started with a mostly "red" scorecard on the PMA. However in the past few quarters, we have moved to "green" on progress for all PMA initiatives except Competitive Sourcing and Human Resources, where we have "yellow" scores. We believe we are getting close to improving our baseline scores in the near future.

Improved Financial Management

I am very proud of USAID's progress on the PMA initiative for Improved Financial Performance. This initiative has had a green progress score for the past two quarters for: continuing progress in our collaboration with State on a shared financial management system as described earlier; submitting the Performance and Accountability Report and audited financial statements in a timely manner; closing the FMFIA material weakness of financial reporting; and closing most of the audit recommendations related to material weaknesses from the FY2002 audit. We are optimistic that USAID's financial management rating will continue to improve in FY 2004/2005 as our core accounting system, Phoenix, is deployed to the field. I would also like to describe for you our management reform activities that support the four other PMA initiatives.

Strategic Management of Human Capital

Like many Federal agencies, USAID is experiencing serious human capital challenges. As a result of new program demands around the world, deep staffing cuts and decisions to effectively shut down recruiting in the 1990s, our workforce is stretched thin, rapidly "graying" and approaching a retirement exodus, and lacking in critical skills.

To meet these challenges, we are undertaking a comprehensive and integrated workforce planning analysis, building on competency-related work already performed by many parts of USAID, to establish the basis upon which further workforce planning and general human capital strategic management can be developed. When completed, we will address skill gaps, e.g., financial management and procurement, through new recruitment initiatives, training, and career development plans.

We are ramping up recruitment initiatives at entry and mid-career levels. To meet the critical need to create the 21st Century Foreign Service corps, we are undertaking a Development Readiness Initiative that parallels the Department of State's Diplomatic Readiness Initiative; this will include the recruitment of junior officers, called International Development Interns, to assure a regular infusion of new talent into our system. The Development Readiness Initiative (DRI) is the cornerstone to Agency succession planning efforts for the Foreign Service and Civil Service.

We have developed an electronic database (e-World) that provides current high quality data regarding the Agency's workforce. This information allows knowledge of the number, skills, and deployment of Agency personnel to meet our future programmatic needs and to develop strategies for succession planning and leadership continuity. This accountability tool facilitates workforce planning and resource reallocation decision-making.

We are finalizing a comprehensive human capital strategic plan that will describe the specific core competencies needed by our overseas staff to make the Agency operate effectively and efficiently. In developing this plan, we considered the recommendations from a report by the National Policy Association that contains 25 recommendations for reforming personnel practices at USAID.

The Human Capital Strategy will be carried out in the context of an overall Agency "right sizing" that will improve our ability to do comprehensive workforce planning. This effort will consider regionalizing USAID processes to perform work more efficiently.

As part of the Agency's strategic management of human capital initiative, USAID is employing a deliberative approach to implementing mandated A-76 requirements and has adopted competitive sourcing criteria which are supportive of the President's management agenda and are compatible with our human capital planning requirements.

Budget and Performance Integration

We have developed a strategic budgeting model that has enabled us to link performance and resource allocation more efficiently. The State/USAID Strategic Plan containing performance indicators and functional goals was vetted with our stakeholders and finalized. An overseas workforce template was developed to rationalize our foreign service positions in the field. We have initiated a process for verifying operating unit performance reporting during our tri-annual review of Mission programs.

Competitive Sourcing

We have provided training for our procurement staff on performance based contracting to focus on desired results and outcomes. We are developing comprehensive USAID Competitive Sourcing and Action Plans to achieve efficient and effective competition between public and private sources that will generate savings and performance improvements.

Expanded Electronic Government

We are partners on several of the President's 25 e-Government initiatives collaborating on projects where standardization and integration of similar business processes and systems make sense and are more cost effective. Our efforts are directed at ensuring high quality services for citizens while reducing the cost of delivery of these services. We are developing a joint enterprise architecture with the Department of State that will serve as a strategic management tool to identify IT redundancies and duplications and inform decisions about program implementation and IT investments. We have established procedures for capital planning and investment control to ensure that we spend our IT resources efficiently. We have greatly enhanced our IT security efforts. We are providing training for the Agency's project managers to ensure appropriate best practices and standards are adhered to in order to reduce redundant spending and improve the return on IT investments.

Joint State/USAID Activities

For the first time, USAID and the Department of State have developed a joint strategic plan. The new strategic plan covers fiscal years 2004 to 2009 and will be updated every three years. The new plan clearly outlines the shared mission, core values, goals and priorities of State and USAID in both policy and management areas. Our joint management priorities are closely linked to the goals of the President's Management Agenda (PMA).

To achieve management efficiencies, we are pursuing opportunities where the Department and USAID can create more integrated management structures to reduce redundancies and costs for the taxpayer where possible. We have identified concrete activities where we hope to explore greater coordination and in some instances integration. To that end, a joint State/USAID Management Council has been established to oversee and implement collaborative management activities that will result in cost saving reforms and improve services for both agencies in the areas of human resources, e-Government, resource management, administrative services, overseas facilities, and security. Through these cooperative efforts, USAID and Department of State will reduce redundant activities while reinforcing management accountability and cost savings.

Conclusion

I remain committed to continue to improve the quality of USAID's financial management systems by deploying an integrated accounting system to our overseas missions. We continue to improve the internal control systems and processes affecting the day-to-day management of our programs as well as our financial statements. We will resolve all remaining obstacles to facilitate the OIG's ability to issue an unqualified audit opinion for FY 2003, and we are on track to issue a Performance and Accountability Report for FY 2003 by November 14, 2003, one year ahead of the requirement for FY 2004.

Our management reform activities have and will continue to provide significant cost savings while promoting management efficiencies that directly support the PMA.

Thank you, Mr. Chairman, for allowing me to present this testimony before your subcommittee.