

**TESTIMONY OF ANDREW NATSIOS,
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(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 the improvements made by agencies in their 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 practices. Then I would like to report to you what accomplishments we have achieved since then, and what goals we have planned for in the near future.

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 principle 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 principle 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:

- 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.

To address these system and internal control weaknesses, USAID undertook several actions. The most significant action was the implementation of a new core accounting system 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). The interface with the procurement 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, for the first time ever, 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 managers 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-base 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 have 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 are currently planning to have the system fully deployed by the end of FY 2005. At the same time, we are working closely with the State Department to have a joint financial management system in the future. When the system is fully deployed, USAID will have for the first time 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 Managers Improvement Act.

At the same time that the Agency made system improvements, we took actions to address the material internal control weaknesses that were having a negative impact on the audit results. Using Agency staff and the accounting consulting services of IBM (formerly PriceWaterhouseCoopers) to assist us, we made significant improvements 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.

Last, and by no means least, I must point to the positive working relationship between the Agency's Office of the Chief Financial Officer (CFO) and the OIG as a major contributor to the improved audit results. Past differences have been resolved, and both offices have put forth heroic efforts to improve the quality of the financial statements and audit results.

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 so that the OIG can issue an unqualified audit opinion for FY 2003.

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