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IMPROVING FINANCIAL MANAGEMENT AT USAID

HEARING

BEFORE THE

SUBCOMMITTEE ON GOVERNMENT EFFICIENCY AND FINANCIAL MANAGEMENT

OF THE

COMMITTEE ON GOVERNMENT REFORM

HOUSE OF REPRESENTATIVES

ONE HUNDRED EIGHTH CONGRESS

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IMPROVING FINANCIAL MANAGEMENT AT USAID

WEDNESDAY, SEPTEMBER 24, 2003

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

The subcommittee met, pursuant to notice, at 2:10 p.m., in room 2247, Rayburn House Office Building, Hon. Todd R. Platts (chairman of the subcommittee) presiding.

Present: Representatives Platts, Towns, Blackburn, Maloney, Turner and Owens.

Staff present: Mike Hettinger, staff director; Dan Daly, counsel; Larry Brady, Kara Galles, and Tabetha Mueller, professional staff members; Amy Laudeman, clerk; Mark Stephenson, minority professional staff member; Earley Green, minority chief clerk; and Jean Gosa, minority assistant clerk.

Mr. PLATTS. With a quorum about to be present—Mr. Towns is on his way—we are going to go ahead and get started and bring this hearing to order for the Subcommittee on Government Efficiency and Financial Management.

Today's hearing is one in a series focusing on financial management at Federal agencies. For fiscal year 2002, 21 of the 24 agencies mandated by the CFO Act to audit their statements earned an unqualified or "clean" opinion. Agencies that did not earn clean opinions have been invited to testify before the subcommittee as part of our oversight on financial management. The U.S. Agency for International Development will be the focus of today's hearing.

Our intent today is to focus not only on the financial challenges facing USAID, but also on successful improvements in USAID's financial management practices. After receiving disclaimers for 5 consecutive years, the Agency improved enough to earn a qualified opinion on its consolidated statements. In fact, four of the five statements in 2002 that make up the consolidated financial statements actually received clean opinions.

That being said, USAID still faces financial management challenges including the material weaknesses cited in the audit and the use of so-called "heroic efforts," the costly and time-consuming manual accounting transactions used to reconcile the books at year-end. Today's hearing will look at these aspects of financial management and focus on the goal of achieving sound business practices, not just earning an end of the year clean opinion.

President Bush's administration has made financial performance a top priority and a key part of the President's Management Agenda. Congress has placed a great deal of emphasis on the financial accountability of publicly traded companies and their responsibility to provide accurate information to investors. Congress and the Federal Government have an equal, if not greater, responsibility to be accountable to our investors, the American taxpayers.

[The prepared statement of Hon. Todd Russell Platts follows:]

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Opening Statement
Congressman Todd R. Platts
September 24, 2003

Today's hearing is one in a series focusing on financial management at Federal agencies. For fiscal year 2002, 21 of the 24 agencies mandated by the CFO Act to audit their statements earned an unqualified or "clean" opinion. Agencies that did not earn clean opinions have been invited to testify before the Subcommittee as part of our oversight on financial management. The U.S. Agency for International Development will be the focus of today's hearing. I appreciate today's witnesses for agreeing to testify.

Our intent today is to focus not only on the financial challenges facing USAID, but also on successful improvements in USAID's financial management practices. After receiving disclaimers for five consecutive years, I understand that the Agency improved enough to earn a qualified opinion on its consolidated statements. In fact, four of the five statements that make up the consolidated financial statements actually received clean opinions.

That being said, USAID still faces financial management challenges including the material weaknesses cited in the audit and the use of so-called "heroic efforts," the costly and time-consuming manual accounting transactions used to reconcile the books at year-end. Today's hearing will look at these aspects of financial management and focus on the goal of achieving sound business practices, not just earning a clean opinion.

President Bush's Administration has made financial performance a top priority and a key part of the President's Management Agenda. Congress has placed a great deal of emphasis on the financial accountability of publicly traded companies and their responsibility to provide accurate information to investors. Congress and the Federal government have an equal, if not greater, responsibility to be accountable to our investors, the American taxpayer.

Our witnesses today will discuss the results of the financial audit for fiscal year 2002 at USAID. We are honored to have the Honorable John Marshall, Assistant Administrator for Management at USAID, the Honorable Everett Mosley, Inspector General for USAID, and Mr. Greg Kutz, Director of Financial Management and Assurance with the U.S. General Accounting Office. Thank you for the written statements you have provided the committee. I look forward to hearing your oral testimonies as well.

Mr. PLATTS. Our witnesses today will discuss the results of the financial audit for fiscal year 2002 at USAID. We are honored to have the Honorable John Marshall, Assistant Administrator for Management at USAID, the Honorable Everett Mosley, Inspector General for USAID, and Mr. Greg Kutz, Director of Financial Management and Assurance with the U.S. General Accounting Office. Thank you for your presence here today and for the extensive written statements you have provided the committee in advance of this hearing. I look forward to hearing your oral testimonies as well.

I would normally yield to the gentleman from New York. When Mr. Towns arrives, after your statements, I will allow him to make an opening statement then, if he chooses, or to enter it into the record.

We will proceed directly to each of your statements. We have been advised we may have votes in 15 minutes or so. My hope is we can get your opening statements as part of the record and if need be, recess briefly to run over, vote and come right back.

I would ask each of our witnesses and any of your staff that will be advising you today, to stand and raise your right hands to take the oath.

[Witnesses sworn.]

Mr. PLATTS. The clerk will note that all witnesses and support staff have affirmed the oath. We will now proceed directly to your testimonies. We will begin, Mr. Marshall, with you, followed by Mr. Mosley and finally, Mr. Kutz. Again, the subcommittee appreciates your testimonies and would ask if you would limit your testimony, today, to 5 minutes for your opening statements and we will get into questions following your testimony.

Mr. Marshall, if you would like to begin.

STATEMENT OF JOHN MARSHALL, ASSISTANT ADMINISTRATOR FOR MANAGEMENT AND CHIEF INFORMATION OFFICER, USAID; EVERETT MOSLEY, INSPECTOR GENERAL, USAID; AND GREGORY KUTZ, DIRECTOR, FINANCIAL MANAGEMENT AND ASSURANCE, GAO

Mr. MARSHALL. Thank you, Mr. Chairman.

When Administrator Andrew Natsios arrived at USAID in 2001, he found all of the agency's management systems in a state of disrepair. He directed me to overhaul and modernize the basic systems of the Management Bureau, Human Resources, Financial Management, Procurement, Information Technology and Administrative Services. Reforms in each of these areas are well underway. Most have been integrated with the President's Management Agenda and many are being coordinated with similar efforts in the State Department.

As a result of past failures, our challenges in financial management have been more visible and our reform efforts more urgent than in other areas. Regrettably, USAID in the 1990's was a poster child for government waste as a result of a failed modernization effort. We have also been noted as one of a few agencies unable to produce a clean audit opinion because our systems could not produce complete, reliable and timely financial information.

Our central problem has been our lack of an agencywide financial management system that meets Federal requirements. We

began to address this fundamental weakness with the implementation in fiscal year 2001 of a new government approved commercial off the shelf accounting system we call Phoenix. Since its implementation in Washington, DC, Phoenix has produced significant results. After 5 consecutive years of disclaimers on all five of our financial statements, in 2001 our Inspector General was able to issue three out of five qualified opinions and in 2002, four out of five statements received unqualified opinions. This marked the first time since enactment of the Government Management Reform Act that USAID received an opinion on all of its financial statements.

In the 2002 GMRA audit, the Inspector General recognized seven internal control material weaknesses. Six of the seven have been addressed and we expect the last one to be fixed in the near future. We are working closely with the Inspector General on resolving all remaining obstacles so that he may issue a clean opinion for fiscal year 2003 and meet the administration's accelerated reporting deadline of November 15.

The next phase of our modernization effort will be the deployment of Phoenix overseas. We plan to complete worldwide implementation by the end of fiscal year 2005. This will bring the agency into full compliance with Federal requirements. At the same time, we are working closely with the State Department to implement a joint financial management system as recommended by a study commissioned by the Department of State and USAID at the urging of the two agencies Inspectors General and OMB. The joint system will combine the two agencies' version of the same accounting software package into a single, common platform, one system, one set of code. We have also agreed to jointly implement a procurement system in 2006. USAID has fully embraced the President's Management Agenda and has made significant progress.

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 and training in the 1990's, our workforce is stretched thin, rapidly graying and lacking in critical skills.

Yesterday, I testified to Congressman Shays' subcommittee about our efforts to develop a comprehensive work force planning capability. These efforts will help us address critical competency gaps including those in our financial management capabilities through systematic recruiting, training and career development planning.

In the area of budget and performance integration, we have developed a strategic budgeting model that has enabled us to link performance and resource allocation more efficiently. For the first time ever, the State Department and USAID have developed a joint strategic plan that will improve collaboration and coordination of diplomatic and foreign assistance services around the world. We are developing a comprehensive USAID competitive sourcing strategic plan and action plans to achieve more efficient and effective competition between public and private sources to generate savings and performance improvements.

We are partners on several of the President's 25 e-Government initiatives, collaborating on projects for standardization and integration of similar business processes when it makes sense. We are

developing a joint enterprise architecture with the Department of State. This tool will identify redundancies and inefficiencies and help us set priorities for joint management improvement and IT investments. We have established procedures for capital planning and investment control to ensure that we spend our IT resources more efficiently and we have greatly enhanced our IT security efforts.

Mr. Chairman and members of the subcommittee, Administrator Natsios has no higher priority than continuing to improve USAID's management systems. We inherited a base of capabilities that had deteriorated seriously relative to 21st century standards and we are making determined efforts to improve as rapidly as our resource levels allow.

Thanks for the opportunity to report on our progress. I look forward to your questions.

[The prepared statement of Mr. Marshall follows:]

TESTIMONY OF JOHN MARSHALL,
ASSISTANT ADMINISTRATOR FOR MANAGEMENT & CHIEF INFORMATION OFFICER,
U.S. AGENCY FOR INTERNATIONAL DEVLEOPMENT (USAID)
BEFORE THE HOUSE COMMITTEE ON GOVERNMENT REFORM
SUBCOMMITTEE ON GOVERNMENT EFFICIENCY
AND FINANCIAL MANAGEMENT
September 24, 2003

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.

Mr. PLATTS. Thank you, Mr. Marshall.

Mr. Mosley.

Mr. MOSLEY. Mr. Chairman, members and staff of the subcommittee, I thank you for the opportunity to appear before you this afternoon and provide my testimony on the financial management challenges facing USAID and progress being made to meet those challenges.

In recognition of the time constraints that you pointed out, I have provided my full statement for the record and I will make my verbal statement very brief.

Prior to passage of the Government Management Reform Act of 1994, USAID, like many other Federal departments and agencies, did not have an integrated financial management system in place that could provide accurate and timely financial information that managers needed to effectively manage or that could produce auditable financial statements. This situation resulted in disclaimers of opinion—unauditable financial statements—for the first 5 years of the Government Management Reform Act that were audited between 1996 and 2000.

However, USAID management's efforts over the last several years, with the assistance of the Office of Inspector General, have resulted in significant improvements in the financial management operation. USAID implemented a new financial management system called Phoenix, for the Washington operations, in December 2000. This system and efforts by management and the Office of Inspector General to concentrate on correcting outstanding material weaknesses resulting from the audit reports have resulted in the fact that we are able to issue opinions for the first time in fiscal year 2001.

OIG issued a qualified opinion on three of the five financial statements and a disclaimer of opinion on the other two statements. With continued improvements in fiscal year 2002, the OIG issued unqualified opinions on four of the five USAID financial statements and a qualified opinion on the final statements. We are following up on all weaknesses from the fiscal year 2002 audit as a part of our audit now in process of the fiscal year 2003 financial statements. It would be premature to draw final conclusions at this point but thus far, nothing has come to our attention that would prevent us from issuing audit opinions on each of the financial statements for fiscal year 2003.

While improvements have been made and the opinions for the statements have been more positive in recent years. Considerably more still needs to be done. Currently the USAID financial statements are put together through a tremendous amount of effort by USAID management staff and similar extensive efforts by the Office of Inspector General to perform the audit. This is because the financial systems do not totally produce the statement and much manual work is needed to pull them together. OIG then has to perform significant testing and individual transaction reviews to compensate for the lack of controls in the system and to be in a position to render an opinion. This should not be, so it is extremely important that USAID get its Phoenix system for financial management deployed to field operations which will result in an integrated financial management system that meets the Federal require-

ments. This will also provide USAID managers with timely and accurate information needed to effectively manage the business of the agency on an ongoing basis.

Ultimately the preparation and audit of the financial statements on a quarterly and annual basis would then be a byproduct of a system that provides for normal business operations.

Mr. Chairman, I thank you for your time and I am willing to answer any questions.

[The prepared statement of Mr. Mosley follows:]

STATEMENT OF EVERETT L. MOSLEY

INSPECTOR GENERAL

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

SUBMITTED TO THE HOUSE COMMITTEE ON GOVERNMENT REFORM
SUBCOMMITTEE ON GOVERNMENT EFFICIENCY AND FINANCIAL MANAGEMENT

SEPTEMBER 24, 2003

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE, THANK YOU FOR THE OPPORTUNITY TO PROVIDE THIS TESTIMONY THAT ADDRESSES THE FINANCIAL MANAGEMENT CHALLENGES FACING THE U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT (USAID) AND KEY STEPS FOR REFORMING FINANCIAL MANAGEMENT AND BUSINESS PROCESSES.

USAID HAS WORKED FOR A NUMBER OF YEARS TO IMPROVE ITS FINANCIAL MANAGEMENT PERFORMANCE. USAID'S EFFORTS, AND THOSE OF THE OFFICE OF INSPECTOR GENERAL (OIG), HAVE RESULTED IN SIGNIFICANT IMPROVEMENTS. THESE IMPROVEMENTS ARE REFLECTED, FOR EXAMPLE, IN THE OPINIONS THAT THE OIG HAS EXPRESSED ON USAID'S FINANCIAL STATEMENTS OVER THE LAST SEVEN YEARS:

FISCAL YEAR	OPINION
1996	DISCLAIMER
1997	DISCLAIMER
1998	DISCLAIMER
1999	DISCLAIMER
2000	DISCLAIMER
2001	QUALIFIED OPINION ON THREE FINANCIAL STATEMENTS AND DISCLAIMER ON TWO FINANCIAL STATEMENTS
2002	UNQUALIFIED OPINION ON FOUR FINANCIAL STATEMENTS AND QUALIFIED OPINION ON ONE FINANCIAL STATEMENT

THE OIG'S LATEST AUDIT REPORT ON USAID'S FINANCIAL STATEMENTS, COVERING FISCAL YEAR 2002, INCLUDED UNQUALIFIED OPINIONS ON USAID'S BALANCE SHEET, STATEMENT OF CHANGES IN NET POSITION,

STATEMENT OF BUDGETARY RESOURCES, AND STATEMENT OF FINANCING. THE OIG EXPRESSED A QUALIFIED OPINION ON THE STATEMENT OF NET COST BECAUSE USAID HAD NOT DEVELOPED A PROCESS TO CONSISTENTLY ALLOCATE EXPENSES TO FUNDING SOURCES, STRATEGIC OBJECTIVES, AND GOALS WHEN GRANTS ARE FINANCED FROM MULTIPLE SOURCES AND IMPACT ON MORE THAN ONE GOAL. THEREFORE, THE OIG WAS NOT ABLE TO OBTAIN SUFFICIENT EVIDENCE TO SUPPORT USAID'S ALLOCATION OF ABOUT $384 MILLION TO THE RELATED GOALS (RESPONSIBILITY SEGMENTS) IN THE STATEMENT OF NET COSTS.

IN OUR FISCAL YEAR 2002 AUDIT REPORT ON USAID'S FINANCIAL STATEMENTS, THE OIG REPORTED ON SEVEN MATERIAL INTERNAL CONTROL WEAKNESSES THAT AFFECTED USAID'S ABILITY TO:

- ALLOCATE PROGRAM EXPENSES ON THE STATEMENT OF NET COSTS.
- RECONCILE ITS FUND BALANCE WITH THE U.S. TREASURY.
- CALCULATE AND REPORT ON ACCOUNTS PAYABLE.
- RECORD AND CLASSIFY ADVANCES TO GRANTEES AND RELATED EXPENSES.
- REVIEW AND ANALYZE UNLIQUIDATED OBLIGATIONS AND DEOBLIGATE THEM WHEN NECESSARY.
- RECOGNIZE, RECORD, AND REPORT ACCOUNTS RECEIVABLE.
- CALCULATE CREDIT PROGRAM ALLOWANCES.

MOREOVER, USAID'S FINANCIAL MANAGEMENT SYSTEMS WERE NOT IN SUBSTANTIAL COMPLIANCE WITH THE FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT (FFMIA) OF 1996. THESE PROBLEMS LIMIT USAID'S ABILITY TO PRODUCE RELIABLE, TIMELY FINANCIAL INFORMATION FOR DAY-TO-DAY DECISION MAKING. THUS, USAID HAS NOT FULLY ACHIEVED THE RESULTS ANTICIPATED BY THE FFMIA AND THE PRESIDENT'S MANAGEMENT AGENDA.

THE AGENCY HAS REPORTED TO THE OIG THAT IT HAS TAKEN FINAL ACTIONS ON 6 OF THE 7 MATERIAL INTERNAL CONTROL WEAKNESSES REPORTED IN OUR FISCAL YEAR 2002 FINANCIAL STATEMENT AUDIT. CURRENTLY, THE OIG IS CONDUCTING THE FISCAL YEAR 2003 AUDIT AND IS FOLLOWING UP ON THE FINAL ACTIONS TAKEN ON THE RECOMMENDATIONS.

I WOULD NOW LIKE TO PROVIDE SOME MORE SPECIFIC INFORMATION ON THESE PROBLEMS AND USAID'S EFFORTS TO CORRECT THEM.

ALLOCATING PROGRAM EXPENSES ON THE STATEMENT OF NET COSTS

OUR FISCAL YEAR 2002 GMRA AUDIT FOUND THAT USAID HAD NOT DEVELOPED A PROCESS TO CONSISTENTLY ALLOCATE PROGRAM EXPENSES TO ITS FUNDING SOURCES, STRATEGIC OBJECTIVES, AND THE RELATED AGENCY GOALS WHEN IT FINANCES GRANTS FROM MULTIPLE SOURCES THAT ARE ASSOCIATED WITH MORE THAN ONE GOAL. DURING FISCAL YEAR 2003, USAID CHANGED ITS PROCESS FOR ALLOCATING EXPENSES FOR GRANTS FOR WHICH THE PAYMENT PROCESS IS MANAGED BY THE DEPARTMENT OF HEALTH AND HUMAN SERVICES. THE OIG'S FISCAL YEAR 2003 GOVERNMENT MANAGEMENT AND REFORM ACT (GMRA) AUDIT IS EVALUATING THE EFFECTIVENESS OF USAID'S NEW EXPENSE ALLOCATION PROCESS.

RECONCILING FUND BALANCE WITH THE U.S. TREASURY

IN FISCAL YEAR 2002, THE OIG DETERMINED THAT USAID HAD NOT IMPLEMENTED EFFECTIVE INTERNAL CONTROLS TO ENSURE THAT ITS FUND BALANCE WITH TREASURY IS RECONCILED IN A TIMELY MANNER. USAID'S OFFICE OF FINANCIAL MANAGEMENT AND ITS OVERSEAS MISSIONS DID NOT CONSISTENTLY RECONCILE - THAT IS, RESEARCH AND RESOLVE - DIFFERENCES BETWEEN THE RECORDS OF USAID, THE STATE DEPARTMENT'S DISBURSING OFFICES, AND THE U.S. TREASURY. AS REPORTED IN THE OIG'S MOST RECENT SEMIANNUAL REPORT TO THE CONGRESS, THIS ISSUE STILL PRESENTS A CHALLENGE TO USAID. USAID IS IN THE PROCESS OF IMPLEMENTING A NEW RECONCILIATION SYSTEM WHICH WE ARE REVIEWING AS PART OF OUR FISCAL YEAR 2003 GMRA AUDIT. THE FISCAL YEAR 2002 AUDIT RECOMMENDATIONS FOR THIS MATERIAL WEAKNESS HAVE NOT HAD FINAL ACTION COMPLETED. THE AUDIT RESULTS, TO DATE, INDICATE THAT THIS ISSUE STILL EXISTS.

CALCULATING AND REPORTING ACCOUNTS PAYABLE

IN FISCAL YEAR 2002, THE OIG DETERMINED THAT A SIGNIFICANT PORTION OF USAID'S ACCOUNTS PAYABLE WERE NOT SUPPORTED BY ADEQUATE FINANCIAL DOCUMENTATION. DURING FISCAL YEAR 2003, USAID HAS ISSUED DETAILED REVISED ACCRUAL PROCEDURES TO ITS COGNIZANT TECHNICAL OFFICERS. THESE PROCEDURES ARE DESIGNED TO FACILITATE REPORTING OF RELIABLE ACCOUNTS PAYABLE INFORMATION THROUGH THE ACCRUAL REPORTING SYSTEM AND THE MISSION ACCOUNTING AND CONTROL SYSTEM. OUR FISCAL YEAR 2003 GMRA AUDIT IS EXAMINING THE EFFECTIVENESS OF THESE REVISED ACCRUAL PROCEDURES.

RECORDING AND CLASSIFYING ADVANCES TO GRANTEES AND RELATED EXPENSES

OUR FISCAL YEAR 2002 GMRA AUDIT FOUND THAT, AS OF SEPTEMBER 30, 2002, USAID HAD NOT RECORDED ABOUT $88 MILLION IN EXPENSES RELATED TO ADVANCE LIQUIDATIONS SUBMITTED BY GRANTEES. THIS MANAGEMENT CHALLENGE CONTINUES TO OCCUR BECAUSE USAID DOES NOT HAVE A WORLDWIDE INTEGRATED FINANCIAL MANAGEMENT SYSTEM THAT INCLUDES PROCUREMENT AND ASSISTANCE DATA. THEREFORE, USAID MUST MANUALLY ENTER OBLIGATIONS FOR GRANT AGREEMENTS AND MODIFICATIONS INTO THE DEPARTMENT OF HEALTH AND HUMAN SERVICE'S PAYMENT MANAGEMENT SYSTEM SO THAT GRANTEES CAN REPORT ADVANCE LIQUIDATIONS (EXPENSES) AGAINST THE CORRESPONDING OBLIGATIONS. IN OUR FISCAL YEAR 2002 GMRA AUDIT REPORT, THE OIG RECOMMENDED THAT USAID ENTER OBLIGATION INFORMATION WITHIN 10 DAYS AFTER ITS FINANCIAL MANAGEMENT OFFICE RECEIVES THE OBLIGATION DOCUMENT FROM ITS PROCUREMENT OFFICE. WHILE USAID HAS ISSUED PROCEDURES TO CORRECT THE WEAKNESS, WORK UNDER THE OIG'S FISCAL YEAR 2003 GMRA AUDIT INDICATES THAT THIS MATERIAL INTERNAL CONTROL WEAKNESS HAS NOT YET BEEN CORRECTED.

REVIEWING, ANALYZING, AND DEOBLIGATING UNLIQUIDATED OBLIGATIONS

USAID RECORDS OBTAINED BY THE OIG DURING OUR FISCAL YEAR 2002 GMRA AUDIT SHOWED ABOUT $153 MILLION IN UNLIQUIDATED OBLIGATIONS THAT HAD NO PAYMENT ACTIVITY AGAINST THEM FOR MORE THAN ONE YEAR, INDICATING THAT THE OBLIGATIONS MIGHT NO LONGER BE NEEDED FOR THEIR ORIGINAL PURPOSE. AT THAT TIME, USAID WAS IN THE PROCESS OF REVIEWING, ANALYZING, AND DEOBLIGATING UNNEEDED OBLIGATIONS. USAID HAS REPORTED SIGNIFICANT PROGRESS IN THE AREA OF REVIEWING AND DEOBLIGATING OBLIGATIONS THAT MAY NO LONGER BE NEEDED FOR THE ORIGINAL PURPOSES. DURING THE OIG'S FISCAL YEAR 2003 AUDIT, WE ARE ASSESSING USAID'S PERFORMANCE IN THIS AREA.

RECOGNIZING, RECORDING, AND REPORTING ACCOUNTS RECEIVABLES

DURING OUR FISCAL YEAR 2002 GMRA AUDIT, THE OIG DETERMINED THAT USAID CONTINUES TO LACK AN INTEGRATED FINANCIAL MANAGEMENT SYSTEM WITH THE ABILITY TO ACCOUNT FOR ACCOUNTS RECEIVABLE ARISING FROM USAID'S WORLDWIDE OPERATIONS. USAID IS IN THE PROCESS OF IMPLEMENTING A WORLDWIDE FINANCIAL MANAGEMENT SYSTEM WITH THE ABILITY TO IMMEDIATELY RECOGNIZE AND RECORD ACCOUNTS RECEIVABLE. AFTER THIS SYSTEM IS IMPLEMENTED, THE OIG WILL EVALUATE THE EFFECTIVENESS OF USAID'S PROCESS FOR RECOGNIZING AND RECORDING ACCOUNTS RECEIVABLE.

CALCULATING CREDIT PROGRAM ALLOWANCES

DURING FISCAL YEAR 2002, USAID INITIALLY CALCULATED AND REPORTED CREDIT PROGRAM ALLOWANCES THAT WERE ABOUT $2.3 BILLION HIGHER THAN THE REQUIRED AMOUNT. OUR FISCAL YEAR 2002 GMRA AUDIT FOUND THAT USAID DID NOT FORWARD INFORMATION TO ITS LOAN MANAGEMENT DIVISION THAT THE DIVISION NEEDED FOR THE ALLOWANCE CALCULATION. THEREFORE, THE FISCAL YEAR 2002 CREDIT PROGRAM ALLOWANCE WAS CALCULATED USING INCORRECT DATA. USAID SUBSEQUENTLY ADJUSTED THE CREDIT PROGRAM ALLOWANCES TO CORRECTLY REFLECT CREDIT RECEIVABLES. USAID HAS RESPONDED TO A RELATED OIG RECOMMENDATION BY ESTABLISHING REVISED PROCEDURES FOR COMMUNICATING CRITICAL INFORMATION TO ITS LOAN MANAGEMENT DIVISION. DURING THE OIG'S FISCAL YEAR 2003 GMRA AUDIT, WE ARE EVALUATING THE EFFECTIVENESS OF USAID'S REVISED PROCEDURES.

IN ADDITION TO THE CONTROL WEAKNESSES PREVIOUSLY DISCUSSED, USAID WILL NEED TO CONTINUE ITS EFFORTS TO ADDRESS WEAKNESSES IN ITS FINANCIAL MANAGEMENT SYSTEMS. IN THE FISCAL YEAR 2002 AUDIT REPORT, THE OIG REPORTED THAT USAID IMPLEMENTED A NEW CORE FINANCIAL SYSTEM IN WASHINGTON DURING DECEMBER 2000. IN ADDITION, DURING FISCAL YEARS 2001 AND 2002, USAID COMPLETED EFFORTS TO UPGRADE OR INTERFACE FIVE MAJOR SYSTEMS (WHICH PROCESS TRANSACTIONS OUTSIDE OF THE CORE FINANCIAL SYSTEM) TO THE CORE SYSTEM.

DESPITE USAID'S PROGRESS IN IMPLEMENTING RECOMMENDATIONS MADE OVER THE YEARS, A MAJOR WEAKNESS THAT CONTINUES TO HINDER PROGRESS TOWARD SUBSTANTIAL COMPLIANCE WITH FFMIA IS THE CONTINUED USE OF A LEGACY SYSTEM (THE MISSION ACCOUNTING AND CONTROL SYSTEM) THAT DOES NOT COMPLY WITH THE STANDARD GENERAL LEDGER AT THE TRANSACTION LEVEL. USAID INTENDS TO DEPLOY PHOENIX WORLDWIDE TO CORRECT THIS PROBLEM. USAID PLANS TO IMPLEMENT PHOENIX IN THREE PILOT MISSIONS BEGINNING IN APRIL 2004 AND DEPLOY THE SYSTEM TO ALL OVERSEAS ACCOUNTING STATIONS BY THE END OF FISCAL YEAR 2005.

ADDITIONALLY, THE OIG HAS IDENTIFIED WEAKNESSES IN USAID'S SECURITY CONTROLS FOR ITS FINANCIAL MANAGEMENT SYSTEMS. USAID HAS MADE SIGNIFICANT PROGRESS IN THIS AREA BY, AMONG OTHER THINGS, UPGRADING THE SYSTEM SOFTWARE FOR USAID/WASHINGTON AND MOST MISSIONS, BUILDING A SET OF WEB-BASED SURVEYS THAT MIGRATE INFORMATION DIRECTLY INTO A FORMALIZED DRAFT SECURITY PLAN, AND IMPLEMENTING PRACTICES TO STANDARDIZE THE SECURITY CONFIGURATION OF COMPUTER OPERATING SYSTEMS. HOWEVER, SOME NEEDED SECURITY IMPROVEMENTS REMAIN TO BE MADE. FOR EXAMPLE, USAID NEEDS TO PROVIDE COMPUTER SECURITY TRAINING TO ITS KEY PERSONNEL TO

ENSURE THAT THEY CAN FULFILL THEIR SECURITY RESPONSIBILITIES AND CONTINUE TO CERTIFY ITS OVERSEAS ACCOUNTING SYSTEM AT EACH ACCOUNTING STATION. CURRENTLY, USAID HAS CONDUCTED CERTIFICATIONS AT 9 OF 40 OVERSEAS ACCOUNTING STATIONS.

THE PROBLEMS AFFECTING USAID'S FINANCIAL MANAGEMENT SYSTEMS WERE CAUSED BY THE ABSENCE OF EFFECTIVE CONTROLS FOR MANAGING USAID'S INFORMATION TECHNOLOGY RESOURCES. TO ADDRESS THIS ISSUE, USAID HAS ESTABLISHED A BUSINESS TRANSFORMATION EXECUTIVE COMMITTEE, WHICH FUNCTIONS AS USAID'S INVESTMENT REVIEW BOARD. USAID IS ALSO DEVELOPING ENTERPRISE ARCHITECTURE, INCLUDING CURRENT AND TARGET ARCHITECTURE FOR FINANCIAL SYSTEMS. MOREOVER, USAID IS INITIATING A PROGRAM MANAGEMENT OFFICE TO OVERSEE THE MANAGEMENT OF INFORMATION TECHNOLOGY PROJECTS. WHILE USAID HAS TAKEN POSITIVE STEPS, THESE ARE BEGINNING STEPS AND CHALLENGES REMAIN IN EACH OF THE AREAS.

FINALLY, SUCCESSFUL FINANCIAL MANAGEMENT OF USAID WILL DEPEND ON PRODUCING DATA THAT PROVIDES USEFUL INFORMATION FOR SENIOR MANAGEMENT DECISION MAKING. TO DO THIS, USAID NEEDS TO REAP THE FULL BENEFITS OF PHOENIX - THE NEW INTEGRATED FINANCIAL MANAGEMENT SYSTEM - TO PROVIDE TIMELY, RELEVANT, AND RELIABLE INFORMATION NEEDED TO MAKE PROGRAM FUNDING DECISIONS, TO MANAGE COSTS, AND MEASURE PERFORMANCE. HOWEVER, TECHNOLOGY ON ITS OWN WILL NOT SOLVE USAID'S FINANCIAL MANAGEMENT CHALLENGES. THE KEY TO TRANSFORMING USAID'S FINANCIAL MANAGEMENT OPERATION INTO A WORLD-CLASS ORGANIZATION HINGES ON FULLY IMPLEMENTING INFORMATION TECHNOLOGY PROCESSES, SUCH AS THOSE DISCUSSED EARLIER, SUSTAINING CFO LEADERSHIP AND MANAGEMENT ACCOUNTABILITY TO IMPLEMENT NEEDED FINANCIAL REFORMS, AND ESTABLISHING CLEAR LINES OF RESPONSIBILITY AND AUTHORITY.

THE PRESIDENT'S MANAGEMENT AGENDA, ANNOUNCED IN THE SUMMER OF 2001, IS AN AGGRESSIVE STRATEGY FOR IMPROVING THE MANAGEMENT OF THE FEDERAL GOVERNMENT. THE OFFICE OF MANAGEMENT AND BUDGET (OMB) HAS PREPARED A SCORECARD TO TRACK HOW WELL FEDERAL AGENCIES ARE DOING IN ADDRESSING FIVE MANAGEMENT AREAS, INCLUDING FINANCIAL PERFORMANCE.

FOR THE QUARTER ENDING JUNE 30, 2003, OMB RATED USAID'S CURRENT STATUS FOR ACHIEVING THE PRESIDENT'S MANAGEMENT AGENDA IN THE FINANCIAL PERFORMANCE AREA AS "RED" (THE LOWEST RATING). THIS RATING WAS GIVEN BECAUSE (1) USAID'S FINANICAL MANAGEMENTS SYSTEMS DID NOT MEET FEDERAL FINANICAL MANAGEMENT SYSTEM REQUIREMENTS, (2) ALMOST 50 PERCENT OF USAID-MANAGED FUNDS WERE NOT TRACKED WITH IT CORE ACCOUNTING SYSTEM, AND (3) USAID WAS UNABLE TO PROVIDE UNQUALIFIED ASSURANCE AS TO THE SYSTEM OF

MANAGEMENT, ACCOUNTING, AND ADMINSTRATIVE CONTROLS. IN ADDITION, USAID HAD NOT RECEIVED AN UNQUALIFIED AUDIT OPINION ON ITS ANNUAL FINANCIAL STATEMENTS.

HOWEVER OMB RATED USAID'S PROGRESS TOWARD IMPLEMENTING THE PRESIDENT'S MANAGEMENT AGENDA AS "GREEN" (THE HIGHEST RATING). USAID ACHIEVED THE "GREEN" RATING FOR PROGRESS BECAUSE THE AGENCY REPORTED THAT IT COMPLETED ALL PLANNED ACTION ITEMS FOR THE THIRD QUARTER OF FISCAL YEAR 2003. FOR EXAMPLE, DURING THE THIRD QUARTER USAID:

- COMPLETED TOP PRIORITY FINANCIAL REPORTS IDENTIFIED BY SYSTEM USERS.
- CLOSED THE FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT MATERIAL WEAKNESSES OF FINANCIAL REPORTING.
- CLOSED TEN AUDIT RECOMMENDATIONS RELATED TO MATERIAL WEAKNESSES FROM THE FISCAL YEAR 2002 AUDIT OF FINANCIAL STATEMENTS.
- SUBMITTED SECOND QUARTER AND THIRD QUARTER FINANCIAL STATEMENTS BY THE APPROPRIATE DEADLINES. CURRENTLY, MY STAFF IS CONDUCTING TESTING ON THE THIRD QUARTER FINANCIAL STATEMENTS. FOURTH QUARTER FINANCIAL STATEMENTS ARE DUE IN THE MIDDLE OF OCTOBER AND USAID FULLY EXPECTS TO MEET THAT DEADLINE AS WELL.

IN ADDITION, OMB NOTED THAT USAID AND THE DEPARTMENT OF STATE ARE COMMITTED TO COLLABORATING ON A SHARED FINANCIAL MANAGEMENT SYSTEM. USAID IS ALSO EXAMINING, AND OMB IS ENCOURAGING, THE POTENTIAL COST SAVINGS AND EFFICIENCIES OF THE REGIONALIZATION OF FINANCIAL MANAGEMENT FUNCTIONS.

AS NOTED PREVIOUSLY IN MY TESTIMONY, AS PART OF THE FISCAL YEAR 2003 FINANCIAL STATEMENT AUDIT THE OIG IS REVIEWING THE EFFECTIVENESS OF USAID'S ACTION TAKEN IN RESPONSE TO OUR FISCAL YEAR 2002 AUDIT RECOMMENDATIONS. THE OIG WILL ALSO BE EVALUATING THE USAID'S EFFORTS TO IMPLEMENT THE PHOENIX SYSTEM IN ITS OVERSEAS ENVIRONMENT. ONCE USAID HAS EFFECTIVELY IMPLEMENTED (1) THE PHOENIX SYSTEM WORLDWIDE AND (2) PROCEDURES TO ELIMINATE THE REPORTED MATERIAL INTERNAL CONTROL WEAKNESSES, IT WILL HAVE TAKEN SIGNIFICANT STEPS TOWARD MEETING ALL THE REQUIREMENTS ESTABLISHED BY OMB FOR BEING CONSIDERED "GREEN" ON THE PRESIDENT'S MANAGEMENT AGENDA FOR FINANCIAL PERFORMANCE.

AT THIS TIME, I WILL BE HAPPY TO RESPOND TO ANY QUESTIONS THAT YOU MAY HAVE.

Mr. PLATTS. Thank you, Mr. Mosley.

Mr. Kutz.

Mr. KUTZ. Thank you, Mr. Chairman.

Thank you for giving us an opportunity to testify on financial management challenges facing USAID. We have reported financial management as a significant challenge facing USAID for years. The bottom line of my testimony this afternoon is that although the opinions on USAID's financial statements have improved, significant challenges remain to achieve the goal of effective financial management.

My testimony has two parts: first, an overview of the longstanding financial management challenges and second, our perspectives on efforts at reform and some key elements of success.

First, Federal financial management has come under increasing scrutiny in recent years. The establishment of the Federal Financial Management Framework has shed light on this important issue. As this subcommittee is well aware, the challenges at USAID are not isolated and reflect a governmentwide problem. In light of the serious fiscal challenges facing our Nation, the importance of effective financial management at Federal agencies is magnified.

Progress at USAID since fiscal year 2000 relates primarily to improvements on opinions in its financial statements. As the Inspector General and Mr. Marshall noted, the opinions began improving in fiscal year 2001 and for fiscal year 2002, the IG issued unqualified opinions on all but one of the financial statements. The IG noted additional progress made in improving processes and procedures in fiscal year 2002.

However, over the last 3 years while USAID's opinions on its financial statements have improved, reported material weaknesses and noncompliance have increased. This increase does not necessarily reflect that the situation has gotten worse, but rather shows the results of a full scope audit and a better definition of the challenges.

The reported weaknesses indicate that USAID does not have timely, reliable financial information. The chronic nature of reported weaknesses reflect challenges with people, processes and systems. Progress in addressing weaknesses has been slow. For example, we reported in 1993 that USAID had problems with timely deobligation of unneeded funds. This issue remained for fiscal year 2002 with the IG reporting $153 million of stale obligations at year end.

Moving on to my second point and as Mr. Marshall noted, USAID has several reform efforts underway to address the challenges. For example, they are attempting to implement an integrated financial management system. A previous attempt to develop a home grown system in the 1990's failed which set them back in their reform efforts. This current effort involves a commercial software procurement. Successful implementation of this system will require reengineering of processes and controls and significant, substantive management oversight.

With respect to oversight, USAID has a Governance Committee that is leading transformation of business systems and organizational performance. Some of the key issues this committee can address include cultural resistance to change, improvements in

human capital and IT investment oversight. Active, substantive oversight of the implementation of the new system is a key to reform.

Last but not least I come back to human capital. The root cause of the financial problems at USAID appears to be human capital in nature. It is people that implement and operate systems. It is people that establish, follow and monitor the effectiveness of internal controls. Since the early 1990's, we have reported that USAID has made limited progress in addressing its human capital management challenges. Developing a comprehensive work force plan is critical for USAID given the reductions in personnel in the 1990's and the high number of employees eligible to retire. In addition, USAID has not had consistent financial management leadership. Sustained leadership by a CFO and a high quality financial work force are critical to successful reform.

In summary, USAID appears to be making a serious attempt to reform its financial management. Initiatives are under way to address the many challenges. However, progress to date relates primarily to improvements in opinions on financial statements. These opinions reflect a heroic effort to develop numbers at year end rather than the ability to generate timely, reliable information for management and the Congress. To achieve fundamental reform, USAID will need to successfully address its challenges with human capital, internal controls and business systems.

Mr. Chairman, that ends my statement and I would be happy to answer questions.

[The prepared statement of Mr. Kutz follows:]

United States General Accounting Office

GAO

Testimony

Before the Subcommittee on Government Efficiency and Financial Management, Committee on Government Reform, House of Representatives

For Release on Delivery
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FINANCIAL MANAGEMENT

Sustained Effort Needed to Resolve Long-Standing Problems at U.S. Agency for International Development

Statement of Gregory D. Kutz, Director
Financial Management and Assurance

GAO-03-1170T

September 24, 2003

GAO
Accountability-Integrity-Reliability

Highlights

Highlights of GAO-03-1170T, a testimony before the Subcommittee on Government Efficiency and Financial Management, Committee on Government Reform, House of Representatives

FINANCIAL MANAGEMENT Sustained Effort Needed to Resolve Long-Standing Problems at U.S. Agency for International Development

Why GAO Did This Study

GAO has long reported that the U.S. Agency for International Development (USAID) faces a number of performance and accountability challenges that affect its ability to implement its foreign economic and humanitarian assistance programs. These major challenges include human capital, performance measurement, information technology, and financial management. Effective financial management as envisioned by the Chief Financial Officers Act of 1990 (CFO Act) and other financial management reform laws is an important factor to the achievement of USAID's mission. USAID is one of the federal agencies subject to the CFO Act.

In light of these circumstances, the Subcommittee asked GAO to testify on the financial management challenges facing USAID, as well as the keys to reforming USAID's financial management and business practices and the status of ongoing improvement efforts.

What GAO Found

USAID has made some progress to improve financial management, primarily in achieving audit opinions on its financial statements. Through the rigors of the financial statement audit process and the requirements of the Federal Financial Management Improvement Act of 1996 (FFMIA), USAID has gained a better understanding of its financial management weaknesses. However, pervasive internal control weaknesses continue to prevent USAID management from achieving the objective of the CFO Act, which is to have timely, accurate financial information for day-to-day decision making.

USAID's inadequate accounting systems make it difficult for the agency to accurately account for activity costs and measure its program results. Compounding USAID's systems difficulties has been the lack of adequate financial management personnel. Since the early 1990s, we have reported that USAID has made limited progress in addressing its human capital management issues.

While some improvements have been made over the past several years, significant challenges remain. Transforming USAID's financial and business environment into an efficient and effective operation that is capable of providing timely and accurate information will require a sustained effort. USAID has acknowledged the challenges it faces to reform its financial management problems and has initiatives underway to improve its systems, processes, and internal controls. USAID has also recognized the need for a specific human capital action plan that addresses financial management personnel shortfalls.

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Mr. Chairman and Members of the Subcommittee:

I appreciate the opportunity to appear before you today to testify on the U.S. Agency for International Development (USAID). USAID's financial management challenges have been the subject of prior oversight hearings by this Subcommittee's predecessor. GAO has long reported[1] that USAID faces a number of performance and accountability challenges that affect its ability to implement its foreign economic and humanitarian assistance programs. These major challenges include human capital, performance measurement, information technology, and financial management. Today our testimony will focus on the financial management challenges at USAID.

USAID serves a critical role by providing nonmilitary international aid to further U.S. interests abroad. For fiscal year 2003, USAID received about $12 billion in total program funding that is spent in six principle areas: economic growth and development, population health and nutrition, environment, democracy and governance, education and training, and humanitarian assistance. USAID carries out its assistance role primarily through grants, contracts, and loan guarantees to foreign governments and to humanitarian organizations. With current rebuilding efforts in Iraq and Afghanistan and increased efforts towards HIV/AIDS relief, the amounts of funds flowing through USAID have increased significantly. USAID's role is critical to the success of these rebuilding efforts.

My statement today will provide an overview of USAID's progress in addressing its financial management challenges. Effective financial management as envisioned by the Chief Financial Officers Act of 1990[2] (CFO Act) is an important factor to the achievement of USAID's mission. USAID has made some progress, primarily in achieving audit opinions on its financial statements. However, pervasive internal control weaknesses continue to prevent USAID management from achieving the primary objective of the CFO Act—which is to have relevant, timely, and accurate financial information for day-to-day decision making. As a result, much of the progress USAID achieved in getting improved opinions has been based on heroic efforts rather than systems that routinely generate timely and reliable financial information. USAID has a number of initiatives underway

[1]U.S. General Accounting Office, *Major Management Challenges and Program Risks: U.S. Agency for International Development*, GAO-03-111 (Washington, D.C.: January 2003).

[2]Pub. L. No. 101-576, 104 Stat. 2838 (1990).

intended to improve its financial management, including the implementation of a new financial management system. Our analysis is based on USAID Inspector General (IG) reports and limited meetings with USAID management and the IG.

USAID is one of the federal agencies subject to the CFO Act as expanded by the Government Management Reform Act of 1994[3] and the Federal Financial Management Improvement Act of 1996[4] (FFMIA). The CFO Act envisions that agencies have financial management leadership, systems, and practices in place to provide complete, consistent, reliable, and timely information to agency management and other decision makers. Through the rigors of the financial statement audit process and the requirements of FFMIA, agencies such as USAID have gained a better understanding of their financial management weaknesses and the impetus to resolve problems caused by those weaknesses. At the same time, agencies are slowly making progress in addressing their problems. However, while most agencies are receiving "clean" audit opinions on their financial statements, remaining weaknesses in internal controls and the continued widespread noncompliance with FFMIA show that there is still a long way to go to reach the end game—that is, having systems, processes, and controls that routinely generate reliable, useful, and timely information for managers and other decision makers. In addition, reaching this "end game" should provide management, the Congress, and taxpayers with reasonable assurance that fraud, waste, and abuse are minimized.

In the federal government, many of the clean opinions in fiscal year 2002 were achieved as a result of time-consuming, ad hoc programming and analysis of data produced by inadequate systems that are not integrated and often require significant audit adjustments. Such time-consuming procedures, which often represent "heroic efforts," prevent financial management staff from doing other financial-related work such as financial analyses, which could directly support strategic decision making and ultimately improve overall business performance. In contrast, for most private sector corporations, the clean opinion confirms the fact that management has timely, reliable information to manage daily operations in

[3]Pub. L. No. 103-356, title IV, 108 Stat. 3412 (1994).

[4]Pub. L. No. 104-208, div. A, sec. 101(f), title VIII, 110 Stat. 3009-389 (1996).

a competitive environment. In our *Executive Guide: Creating Value Through World-class Financial Management*,[5] we identified the success factors, practices, and outcomes associated with world-class financial management efforts. We found that many leading finance organizations have a goal to reduce the time spent on routine accounting activities, such as financial statement preparation, so that financial management staff can spend more time on activities such as business performance analysis or cost analysis. These organizations also had clear, strong executive leadership, that when combined with factors such as effective organizational alignment, strategic human capital management, and end-to-end business process improvement, were critical for ensuring their financial management staff delivered the kind of analysis and forward-looking information needed to effectively manage their programs. As discussed in the executive guide, to reap the full benefit of a modern, integrated financial management system, USAID must go beyond obtaining an unqualified audit opinion toward (1) routinely generating reliable cost and performance information and analysis, (2) undertaking other value-added activities that support strategic decision making and mission performance, and (3) building a finance team that supports the agency's mission and goals.

Progress Towards Financial Management Reform

In May 2001, the Subcommittee's predecessor held a hearing[6] on USAID financial management. Using that hearing as a baseline, we evaluated, using primarily USAID IG reports, the progress made to improve USAID's financial management systems, processes, and human capital (people) in the past 2 years. At the time of the May 2001 hearing, USAID was one of three federal agencies subject to the CFO Act that had such significant problems that they were unable to produce financial statements that auditors could express an opinion on. The hearing focused on actions needed to resolve USAID's financial management issues. At that time, the Acting Assistant Administrator for the Bureau of Management told the Subcommittee that actions to correct reported material weaknesses in

[5]U.S. General Accounting Office, *Executive Guide: Creating Value Through World-class Financial Management*, GAO/AIMD-00-134 (Washington, D.C.: April 2000).

[6]House Committee on Government Reform, Subcommittee on Government Efficiency, Financial Management and Intergovernmental Relations, *The U.S. Agency for International Development: What Must Be Done to Resolve USAID's Longstanding Financial Management Problems?* 107th Cong., 1st Sess., May 8, 2001.

financial management were completed or in process and that all reported weaknesses would be resolved by 2002.

While USAID has made progress in its financial management since that hearing, it has not achieved the success that it had expected. Rather, its progress relates primarily to improved opinions on USAID's financial statements. Table 1 below shows that USAID has been able to achieve improved opinions on its financial statements over the past 3 years.

Table 1: Audit Opinions on USAID's Financial Statements in Fiscal Years 2000 Through 2002

	Type of opinion		
Financial statements	**Fiscal year 2000**	**Fiscal year 2001**	**Fiscal year 2002**
Balance sheet	Disclaimer[a]	Qualified[b]	Unqualified[c]
Statement of net costs	Disclaimer	Disclaimer	Qualified
Statement of changes in net position	Disclaimer	Qualified	Unqualified
Statement of budgetary resources	Disclaimer	Qualified	Unqualified
Statement of financing	Disclaimer	Disclaimer	Unqualified

Source: USAID Inspector General reports.

[a]A disclaimer of opinion means that the auditor does not express an opinion on the financial statements. A disclaimer is appropriate when the audit scope is not sufficient enough to enable the auditor to express an opinion or when there are material uncertainties involving scope limitations.

[b]A qualified opinion means that, except for the effects of the matter to which the qualification relates, the auditor concludes that the financial statements are presented fairly, in all material respects, in accordance with generally accepted accounting principles.

[c]An unqualified, or clean, opinion means that the auditor concludes that the financial statements are presented fairly, in all material respects, in accordance with generally accepted accounting principles.

Fiscal year 2001 marked the first time that the USAID IG was able to express an opinion on three of USAID's financial statements—the Balance Sheet, Statement of Changes in Net Position, and Statement of Budgetary Resources. However, as noted above, the opinions were qualified and achieved through extensive efforts to overcome material internal control weaknesses. Further, the IG remained unable to express an opinion on USAID's Statement of Net Cost and Statement of Financing.

Fiscal year 2002 marked additional improvements in the opinions on USAID's financial statements. All but one of USAID's financial statements received unqualified opinions. The Statement of Net Cost received a qualified opinion. The IG reported that "...on the Statement of Net Cost, the

opinion was achieved only through extensive effort to overcome material weaknesses in internal control" and "[a]lthough these efforts resulted in auditable information, [they] did not provide timely information to USAID management to make cost and budgetary decisions throughout the year."[7]

Compounding USAID's systems difficulties has been the lack of adequate financial management personnel. Since the early 1990s, we have reported that USAID has made limited progress in addressing its human capital management issues. A major concern is that USAID has not established a comprehensive workforce plan that is integrated with the agency's strategic objectives and ensures that the agency has skills and competencies necessary to meet its emerging foreign assistance challenges. While a viable financial management system is needed, and offers the capacity to achieve reliable data, it is not the entire answer for improving USAID's financial management information. Qualified personnel must be in place to implement and operate these systems.

In addition to the improved opinions for fiscal year 2002, the IG reported that while USAID had made improvements in its processes and procedures, a substantial number of material weaknesses,[8] reportable conditions,[9] and noncompliance with laws and regulations[10] remain. The report also noted that USAID's financial management systems do not meet federal financial system requirements. Table 2 shows that while USAID's opinions on its financial statements improved, reported material weaknesses, reportable conditions, and noncompliance increased.

[7]USAID Office of Inspector General, *Report on USAID's Consolidated Financial Statements, Internal Controls, and Compliance for the Fiscal Year 2002*, Audit Report No. 0-000-03-001-C (Washington, D.C.: Jan. 24, 2003).

[8]A material weakness is a condition that precludes the entity's internal control from providing reasonable assurance that misstatements, losses, or noncompliance material in relation to the financial statements or to stewardship information would be prevented or detected on a timely basis.

[9]Reportable conditions are matters coming to the auditor's attention that, in the auditor's judgment, should be communicated because they could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions by management in the financial statements.

[10] The auditor determined that the agency was not in compliance with selected provisions of applicable laws and regulations that could have a direct and material effect on amounts reported in the financial statements.

Table 2: Weaknesses Reported by the USAID Inspector General in Fiscal Years 2000 Through 2002

	Fiscal year		
	2000	2001	2002
Reported material weaknesses			
Reconciling fund balance with Treasury			X
Recognizing, recording, and reporting accounts receivable	X		X
Calculating and reporting accounts payable	X		X
Recording and classifying advances to grantees and related expenses	X	X	X
Computer security deficiencies	X	X	Reported as a Compliance with Laws and Regulations Condition
Process for preparing the Management's Discussion and Analysis needs improvement	X		Now a Reportable Condition
Allocating program expenses on its Statement of Net Costs			X
Reviewing, analyzing, and deobligating unliquidated obligations		X	X
Calculating credit program allowances			X
Reportable conditions			
Reconciling fund balance with Treasury	X		
Calculating and reporting accounts payable		X	
Recognizing, recording, and reporting accounts receivable		X	
Establish monthly closing procedures			X
Improve controls and management of property at overseas missions			X
Process for preparing the Management's Discussion and Analysis needs improvement		X	X
Compliance with laws and regulations			
Chief Financial Officers Act of 1990	X		
Federal Financial Management Improvement Act of 1996	X	X	X
Computer Security Act of 1987	X	X	X
Debt Collection and Improvement Act of 1996			X

Source: USAID Inspector General reports.

The increase in reported material weaknesses, reportable conditions, and noncompliance is, in part, due to the full scope audits that were not possible in prior years. As financial information improved over the years, it has assisted the USAID IG in identifying additional internal control and system weaknesses. Identifying these additional weaknesses is constructive in that they highlight areas that management needs to address in order to improve the overall operations of the agency and provide accurate, timely, and reliable information to management and the Congress.

Several of the weaknesses reported by the USAID IG are chronic in nature and resolution has been a challenge. For example, similar to the USAID fiscal year 2002 material weakness, in 1993 we reported[11] that USAID did not promptly and accurately report disbursements. At that time, USAID could not ensure that disbursements were made only against valid, preestablished obligations and that its recorded unliquidated obligations balances were valid. Additionally, we reported USAID did not have effective control and accountability over its property.

The chronic nature of the reported weaknesses at USAID reflect challenges with people (human capital), processes, and financial management systems. USAID management represented to us that, over time, they have lost a significant number of staff in this area and face challenges recruiting and retaining financial management staff. Further, according to IG representatives, many of the individuals that financial managers must depend on to provide the data that are used for financial reports are not answerable to the financial managers and often do not have the background or training necessary to report the data accurately. Also contributing to the challenge are USAID's nonintegrated systems that require data reentry, supplementary accounting records, and lengthy and burdensome reconciliation processes.

[11] U.S. General Accounting Office, *Financial Management: Inadequate Accounting and System Project Controls at AID*, GAO/AFMD-93-19 (Washington D.C.: May 24, 1993).

Financial Management Reform Will Require a Long-term Commitment

Transforming USAID's financial and business management environment into an efficient and effective operation that is capable of providing management and the Congress with relevant, timely, and accurate information on the results of operation will require a sustained effort. Improved financial systems and properly trained financial management personnel are key elements of this transformation. While these challenges are difficult, they are not insurmountable. Without sustained leadership and oversight by senior management, the likelihood of success is diminished.

In its fiscal year 2002 *Performance and Accountability Report*, USAID noted that it was in the process of implementing an agencywide financial management system. USAID reported that the system has been successfully implemented in Washington. In June 2003, USAID awarded a contract for the implementation of the system overseas. According to USAID officials, they anticipate this effort to be completed by fiscal year 2006. While we are encouraged by USAID's progress toward implementing an integrated system, it should be noted that this is the second attempt in the past 10 years to implement an agencywide integrated financial management system. To provide reasonable assurance that the current effort is successful, top management must be actively involved in the oversight of the current project. Management must have performance metrics in place to ensure the modernization effort is accomplished on time, within budget, and provides the planned and needed capabilities.

In this regard, in fiscal year 2002, USAID redesigned its overall governance structure for the acquisition and management of information technology. Specifically, USAID created the Business Transformation Executive Committee, chaired by the Deputy Administrator and with membership including key senior management. The committee's purpose is to provide USAID-wide leadership for initiatives and investments to transform USAID business systems and organizational performance. The committee's roles and responsibilities include:

- Guiding business transformation efforts and ensuring broad-based cooperation, ownership, and accountability for results.
- Initiating, reviewing, approving, monitoring, coordinating, and evaluating projects and investments.

- Ensuring that investments are focused on highest pay-off performance improvement opportunities aligned with USAID's programmatic and budget priorities.

Active, substantive oversight by this committee over USAID's information technology investments, including its agencywide integrated financial management system initiative, will be needed for business reform efforts to succeed.

In addition to improved business systems, it is critical that USAID have sustained financial management leadership and the requisite personnel and skill set to operate the system in an efficient and effective manner once it is in place. We have reported for years and USAID acknowledges that human capital is one of the management challenges that must be overcome. As previously noted, since the early 1990s we have reported that USAID has made limited progress in addressing its human capital management issues. Within the area of financial management, progress in this area has also been slow, with no specific plan of action on how to address shortages of trained financial managers. USAID represented to us that as part of its agencywide human capital strategy, it plans to specifically address its financial management personnel challenges.

In addition to addressing systems and human capital challenges, USAID is working to improve its processes and internal controls. Effective processes and internal controls are necessary to ensure that whatever systems are in place are fully utilized and that its operations are as efficient and effective as possible. USAID is working to eliminate the material weaknesses, reportable conditions, and noncompliance reported by the USAID IG in fiscal year 2002. For fiscal year 2003, the Administrator of USAID and the IG agreed to work together to provide for the issuance of audited financial statements by November 15, 2003, in line with the Office of Management and Budget's accelerated timetable for reporting. To meet this tight timeframe, the CFO must provide timely and reliable information that can withstand the test of audit with little to no needed adjustment. However, given the continued financial management system, process, and human capital challenges, meeting this goal will be difficult.

Conclusion

USAID appears to be making a serious attempt to reform its financial management, as evidenced by initiatives to improve its human capital, internal controls, and business systems. However, progress to date is most evident in the improvement in the opinions on its financial statements,

which reflect USAID's ability to generate reliable information one time a year, rather than routinely for purposes of management decision making. Through fiscal year 2002 these improved opinions reflect a significant "heroic" effort to overcome human capital, internal control, and systems problems. Although these improved opinions represent progress, the measures of fundamental reform will be the ability of USAID to provide relevant, timely, reliable financial information and sound internal controls to enable it to operate in an efficient and effective manner.

Mr. Chairman, this concludes my statement. I would be pleased to answer any questions you or other members of the Subcommittee may have at this time.

Contacts and Acknowledgments

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Mr. PLATTS. Mr. Kutz, thanks for your testimony.

I would like to recognize our ranking member, Mr. Towns from New York, as well as our vice chairwoman, the gentlelady from Tennessee, Ms. Blackburn. Would either of you like to make an opening statement before we get into questions?

Mr. TOWNS. No, Mr. Chairman, I will place it in the record.

[The prepared statement of Hon. Edolphus Towns follows:]

Statement of Congressman Ed Towns
Subcommittee on Government Efficiency and Financial Management

Hearing: "Improving Financial Management at the United States Agency for International Development"

September 24, 2003

Thank you Mr. Chairman, and welcome to our witnesses.

The United States Agency for International Development is the main federal agency responsible for providing foreign assistance to developing countries. It is charged with overseeing foreign economic and humanitarian assistance programs in support of U.S. foreign policy goals. This is a critical mission both in terms of U.S. strategic national interests and on purely humanitarian grounds.

The American public has the right to expect that US AID's programs and operations are managed effectively and efficiently. In fiscal year 2003, Congress appropriated about $12 billion to US AID. The agencies widespread operations include programs in about 160 countries and 71 overseas missions. The fiscal year 2003 budget was a sharp increase for US AID and its fiscal year 2004 spending is also

expected to increase. Much of the 2003 increase was due to the funding requirements for our nation's involvement in Iraq and Afghanistan.

Unfortunately, US AID's record on financial management is troubling and may place the agency at risk for waste, fraud, and abuse when managing its significant foreign assistance budget. US AID's long-standing financial management problems caused its Inspector General to issue only a qualified opinion on the agency's financial statements for FY 2002, one of only three agencies not to receive a clean audit opinion.

While receiving even a qualified opinion represents some progress, the Inspector General and GAO continue to report that AID has a substantial number of material weaknesses and is not in compliance with some key financial management laws and regulations. Some of these problems have continued for years. The agency seems to be taking the steps necessary to correct these long-standing problems, and I look forward to hearing from our witnesses on precisely what steps are being taken to protect American foreign assistance monies.

Thank you Mr. Chairman.

Mr. PLATTS. OK. We will certainly accept your written statements for the record.

I think we have about 10 minutes before the first vote, so I am going to try to get started here. My understanding is we have two votes. We will try to get those close together and come back with you. We certainly appreciate our witnesses' patience with us as we run over there.

Mr. Marshall, if I could start with kind of a broad question. We have heard testimony here, today, and in your written statements about the past efforts of trying to get the agency's arms around financial accountability and the expenditure of roughly $100 million, or so, through the 1990's; and now of a new effort because the previous effort was not successful. We understand you are currently developing an enterprise architecture while moving forward with the domestic implementation of the Phoenix system, looking forward to implementation in foreign locations, and also efforts with the Department of State on a joint financial system—a lot of coordination.

What can you tell us that will help to assure us the mistakes of the 1990's, where $100 million was spent and, at the end of the day, did not have a system that actually worked; and that as you move forward from your operations here in the United States to your operations overseas, working to coordinate these various efforts that are all important but need to work together at the end of the day—whether a year from now or 2 years from now—we truly are going to have a financial system in place that allows informed, day-to-day decisionmaking to be made?

Mr. MARSHALL. We are doing things differently is the short answer and we have spent a lot of time over the last couple of years in building a foundation of best practices upon which to buildup the capabilities to manage the system implementation more effectively. As noted in the testimony of my colleague from GAO, the last system in the 1990's was a home grown effort they attempted without all the requisite capabilities to develop their own system. We are taking a proven, effective, commercial off-the-shelf product, that has been designed for the Government and successfully implemented by a large number of government agencies. So a lot of that learning curve, you might say, we are benefiting from that.

We are investing in sound project management capabilities, we have put our plans through a more rigorous business case analysis frankly to secure funding from the Office of Management and Budget as a result of the administration's much tougher requirements in developing business cases, the scrutiny they are providing on IT investments and the emphasis on project management. So we are going to make sure we have the right skills in place to manage effectively. Training and certification in the skills of project management will be amply funded. We are presuming that the administration and Congress provide the resources it takes and putting all these best practices in place, together with fully skilled, capable resources, will get the job done.

Mr. PLATTS. This may relate to some of your testimony yesterday. I wasn't able to be at the National Security Subcommittee regarding the workforce, but it kind of goes hand-in-hand with what you are doing different in the sense of your infrastructure. As I

think we all agree, having personnel there to take that infrastructure, really make it work and to act upon it has been one of the challenges to the agency of having and retaining your work force. Especially since over the next several years, 40 percent or so of your work force will be retirement eligible, which will compound that challenge.

How are you moving forward to match on the human resource side and ensure people who are there will stay or are going to be recruited to put the systems you are currently developing into use.

Mr. MARSHALL. That is a very good question and it is an acute problem at USAID and many other agencies. The agency effectively shut down recruiting in the 1990's and as a result, we have what you might call a "lost generation" of people who would be in their mid-career years who could be replacing the senior level professionals who are becoming eligible and retiring rapidly. Over the past couple of years, we have been ramping up a mid-career recruitment vehicle. We call it our New Entry Professional Program. A couple of hundred new entry professionals have come in with a variety of skills, primarily on the Foreign Service side of our organization. Our organization includes both Civil Service employees primarily based in Washington, and Foreign Service who are based overseas and in Washington. On the Civil Service side, we continue to recruit.

For jobs relative to the financial management, we are making sure we advertise and screen for the kinds of skills we need. Our work force planning effort is just beginning. It has been neglected for too long. I had a long discussion with Chairman Shays in the other subcommittee hearing yesterday about this. We are very concerned but we are moving as aggressively as we can to put the right mechanisms in place so that we conduct work force planning on a systematic basis, institutionalize that capacity so we don't get stuck in this kind of situation again in the future.

Mr. PLATTS. I have some followup questions to both those issues but before we break, I want to recognize Mr. Towns.

Mr. TOWNS. We don't have enough time. I walk slow, Mr. Chairman.

Mr. PLATTS. So you want to wait until we come back? Maybe what we will do is go ahead and break here so we can go vote and we will proceed as soon as we return.

Thank you.

[Recess.]

Mr. PLATTS. Mr. Towns.

Mr. TOWNS. Thank you very much, Mr. Chairman.

Mr. Marshall, let me start with you. Your funding over the last year almost doubled, right?

Mr. MARSHALL. Are you talking about programmatic funding for the agency overall?

Mr. TOWNS. Yes.

Mr. MARSHALL. I don't have those numbers handy but that sounds in the ballpark.

Mr. TOWNS. I guess my real question is does USAID have the personnel and financial management system in place to handle the surge of funding?

Mr. MARSHALL. That's a very good question, sir. We are stretched now. Our present capabilities, as you heard in testimony from all three of us this morning, are in need of modernization. We think we can get the job done to accommodate the surge of activity that we anticipate over the next several years. Right now, we are getting the books balanced and we believe we can at least produce an unqualified opinion. We are hoping we will this year but I can't deny that it is not without heroic efforts as testified by Mr. Mosley. It takes a lot of leg work because we don't have an integrated, worldwide system in place. We still have legacy systems which have difficulty integrating with our core system in Washington, a lot of paper-based processes and the system is not nearly as efficient as we would like it to be, but we are moving as aggressively as we can to correct those deficiencies.

Mr. TOWNS. Mr. Kutz, you testified that you used USAID financial management conditions of 2 years ago as a baseline for this current review. You go on to testify about various improvements and also some apparent deteriorations. What is the bottom line in your opinion? Is it better now, worse or the same? I am not sure.

Mr. KUTZ. I would say the additional problems that were identified were the result of full scope audits. In 2000, there were disclaimers on all the financial statements which means you can't give any opinion on the financial statements. Typically when agencies have a full scope audit where all areas of the audit are investigated, in this case, by Mr. Mosley's team, more issues would come to light. I would say they are probably in better shape from either knowing what the problems are or having had time to make progress against the challenges identified.

I have done lots of financial audits also and I have seen that consistently that as you audit more and more items, more issues come to light. Now that they have had a full scope audit done for several years, I would think most of the issues are on the table for them to attack. I would say it probably better reflects today the issues than 2 years ago when they had audited everything.

Mr. TOWNS. So you are saying the issues are out there now and it is up to them to begin to correct them?

Mr. KUTZ. I would say it is up to them to correct. I think they should know all the challenges that face them at this point and it is a matter of going after it with the people processes and systems.

Mr. TOWNS. Why do you think they have not achieved the success that maybe you had expected? Why do you think they have not been able to move more aggressively?

Mr. KUTZ. I don't know if they haven't moved aggressively, I think the root cause of the problem as we see it, and we don't do the financial audit, Mr. Mosley does the audit, but looking across government, the human capital would be, in our view, the issue that is most important here. GAO has looked at human capital in a broader sense at USAID and had a lot of problems with the progress they have made along those lines, but right now, you don't have a chief financial officer in place. I understand one is coming on board and that is going to be critical to reform, having a CFO that is in place for several years to maintain the efforts toward reform over a long period of time, that is going to be necessary, and making sure they recruit and retain a competent, high quality fi-

nancial management work force is going to be a critical element here.

A lot of times people say the problem is the system but I don't think the problem is that simple; it is the people that are implementing and operating the system that are the more important issues.

Mr. TOWNS. Mr. Marshall, 2 years ago your predecessor testified that most of the financial management problems faced by AID at the time would be addressed by now. That is apparently not the case. Both your IG and GAO point to serious continuing weaknesses. What has gone wrong? When can we expect to see real improvement? This was 2 years ago.

Mr. MARSHALL. Things changed unfortunately in those intervening 2 years. We had a new administration come in and raise the bar on its acceptance of funding requests, business cases for IT investments like our financial system, so we didn't receive the funding until we did more homework to establish better capabilities, to start work on an enterprise architecture which was a prerequisite to getting funding from OMB so it was clear this investment met the needs of the agency in a broader enterprise context and so that we produced a business case which fully justified the investment. Those criteria had not been previously met and this new administration has raised the bar on those requirements so we have done some more studying. Within the last 6 months at the suggestion of Mr. Mosley and his counterpart at the State Department, we have done another study to study not just deployment of our system and the State Department system, two systems independently, but how the two systems could be integrated into a single system to serve both agencies. That has also resulted in at least another 6 months delay in our receiving funding to move forward with deployment of our financial system, Phoenix, overseas.

Mr. TOWNS. Mr. Chairman, there will be another round?

Mr. PLATTS. Yes, sir.

Mr. TOWNS. I see my time has expired.

Mr. PLATTS. Ms. Blackburn, did you have questions?

Ms. BLACKBURN. Yes, I did. Thank you so very much. It looks like I got back just in time.

I want to go back to the Phoenix system. Mr. Kutz, I think I want to come to you with this. We were hearing about the implementation of the Phoenix systems on a worldwide basis and Mr. Marshall made the comment going back and looking at what has been tried previously and the amount of money invested, I think as we sit through these hearings and talk to different departments, we hear stories of failures when it comes to our interactive technologies and our technological applications. We hear lessons learned stated but it is very seldom that we see those applied.

As we look at the Phoenix system, if I am understanding correctly, Mr. Marshall, you are saying it is an off the shelf product with government applications. We have already spent $100 million here, DOD has spent hundreds of millions, we have Homeland Security spending hundreds of millions. I have a couple of questions. One, the applications that are available through the architecture in the Phoenix systems, if they are able to be implemented for our

recordkeeping, money tracking with these programs, then would the same system be able to be used in other agencies?

If the answer to that is yes, what would the timeline be for implementing it through USAID and then also with some of the other agencies. If you have a timeline worked up and a cost estimate, if you were to take that template and that architecture and apply it, tweak it for other agencies, have you given any thought to what a cost savings would be rather than doing it much like what we heard from the Chief Financial Officer with Homeland Security, that there was no timeline and the cost estimate was somewhere between $100-$200 million which the constituents in my district Monday morning at a Chamber of Commerce breakfast just broke into laughter when they heard that. Response?

Mr. KUTZ. Let me break the bad news to you, first. With DOD you are not talking about hundreds of millions, you are talking about tens and hundreds of billions with systems. So they are operating in a different sphere of money.

With respect to this system that they are implementing, again I am not that familiar with exactly what they are doing, this is a Momentum system, an AMS product, an off the shelf product. The prior effort they had to implement, the system was a home-grown effort. I think studies have shown that the off the shelf packages are easier to implement, although they are not necessarily simple to implement because some of the failures we have seen in the Federal Government have also included off the shelf packages that have not worked.

The key to the off the shelf implementations would be reengineering of business practices and internal controls and strong, consistent oversight and project management. Off the shelf packages aren't simply something you apply, you push a button and everything works. It just doesn't work that way. The success level I believe with off the shelf packages would be more heightened.

Other agencies in the Federal Government and the legislative branch, for example the Architect of the Capitol, are implementing this same system, so it is being used other places.

If I understand your question, with respect to could the Government apply this across the board, presumably yes, the Government could if you looked at the Government as something like ExxonMobil where you have a bunch of subsidiaries. Could you have one system across the Government? There has been a lot of talk about doing such a thing. Could there be savings? Yes, there could be billions of dollars of savings if you did something like that.

The types of technology and functionality built into this momentum system are tested by the JFMIP, the Joint Financial Management Improvement Program, and presumably if implemented correctly and processes reengineered, this is a tested system that should work. I think I touched on all your points.

Ms. BLACKBURN. Yes, you did a great job and I thank you for being succinct in that and I will come back.

Mr. PLATTS. Mr. Marshall, I want to ask your opinion about the statement that you hope to have an unqualified opinion for your 2003 statements but admit that it is going to require heroic efforts again to make that happen.

It is understandable in the short term why every agency wants to have an unqualified opinion and not be one of the ones—the 1, 2 or 3 of the 24 CFO Act agencies that does not get a clean opinion. In the long term that is not really achieving the intent of the CFO Act and the President's Management Agenda, which is clearly having a management system in place that lets us benefit from that system day in and day out.

What is the decisionmaking process? How has the agency gone about saying you don't have unlimited resources, financial or human capital, so by focusing in heroic fashion to get an "unqualified opinion," this year, you are going to have to take resources, money or personnel from the long-term goal of that systematic change and your internal controls. It seems for the short-term gain, we are going to have a loss long-term. In other words—a longer period of time before we have those long term processes in place. Your response to the opinion I have of the approach you are taking?

Mr. MARSHALL. That is a good question. We have wrestled with that one ourselves. Indeed, what is the business value of a heroic effort in that investment toward producing what might be an apparent victory of a clean audit opinion when that money might have been reinvested in other initiatives with more lasting impact. That is a tough one.

We believe the effort that goes into the audit doesn't just produce a clean audit opinion. It also produces, as I think Mr. Mosley and Mr. Kutz testified, better understanding of your financial vulnerabilities because each time you conduct the audit, you dig to deeper levels of information, you undercover perhaps additional material weaknesses or deficiencies which you hadn't inspected before and that tells you something about the condition of your books of your financial system. That helps you target your investment initiatives to fix those kinds of problems.

Mr. PLATTS. That would go to identifying the weaknesses but then expending the dollars or personnel time of accounting for those weaknesses by that heroic effort to make up for it versus just identifying and saying, here are our problems—why we can't get an unqualified opinion without heroic effort. We are going to acknowledge that, accept a qualified opinion or no opinion for this year so that we can take these resources we would need to use to account for those shortcomings and put them into long term benefits.

Mr. MARSHALL. We have had some of those discussions and it is really a tradeoff because we do receive value beyond symbolic result of a clean audit opinion from what we learned conducting the audits and we are required to close the books. So some effort has to be made to do that.

I would agree with the point Mr. Kutz made that the use of the information is really the ultimate aim. It is using that information to better manage your entire enterprise. We have serious human capital challenges in providing the training to the right people to teach them to use the information more effectively to manage their programs and making the data available and giving the people the skills to analyze the data. There is a lot to be done here but we do think there is some value to closing the books, getting the opin-

ion and hopefully getting a clean one that we think justifies that investment.

Mr. PLATTS. Mr. Mosley and Mr. Kutz, your sentiments on spending the resources, personnel or capital to get an unqualified opinion versus accepting a qualified one and using that instead for the long term transformation?

Mr. MOSLEY. If I could be very frank, that has not been the emphasis. The emphasis from everybody has been clean opinions. That is being very honest with you.

Mr. PLATTS. When you say everyone, who do you mean by everyone? OMB?

Mr. MOSLEY. OMB, the administration, GAO, everybody is pushing for a clean opinion, not only for AID but for all of government, to be very honest with you. Several years ago, we had discussions within the agency where the OIG's office and management sat down and talked about, let us not even go through doing this big work, this massive amount of work knowing we are going to come up with a disclaimer anyway. Why don't we just have the disclaimer now and concentrate on working on the things needing to be corrected so we have a better system. That really wasn't an acceptable option for us, even though we still came out with a disclaimer.

What we have done for the last several years is we have narrowed our work to what are the critical issues that are preventing us from getting good data. Those are the issues we have worked on with management. That has allowed us to come to better opinions on the financial statements. The other just hasn't been an option for us.

By the same token, the ultimate of getting financial data on a current basis that managers can use to manage is not going to happen until we get the system, Phoenix, deployed to the field. The reason for that is, right now we have lots of people in the field who don't have systems that are integrated so what they do is keep cuff records. They keep those cuff records in order to maintain the information they need to do their managing. The problem with that is when you come from Congress, from management, from OMB and ask for certain information, they have to go through a long process of pulling that information together. It takes time, it sometimes lacks accuracy and you have to reconcile that information. That is why we need the system deployed to the field as soon as possible.

Mr. PLATTS. Mr. Kutz? I acknowledge there is a push for the clean opinions and unqualified opinions but I hope the push for that is for unqualified opinions that really mean something day to day.

Mr. KUTZ. Right. Our position is that the unqualified opinion is not the most important thing and in fact, with DOD as you may remember from our hearing earlier this summer, the law was passed that effectively prohibited spending of a lot of money to try to audit unauditable information. We supported that legislation under those circumstances. We don't think the end goal here is the unqualified opinion.

I have seen this issue across government. I saw it at IRS, for example. IRS is at the point right now where they have their weak-

nesses and all those weaknesses are dependent upon systems being modernized. If the systems never get modernized, those weaknesses will never go away. They are at a point where they are having to still do somewhat of a heroic effort, although they have perfected it to some extent by getting numbers once a year. It is a tradeoff between spending time. It is not like you have unlimited resources so to the extent you are spending that time getting that clean opinion, that is time that will not be spent on systems modernization or upgrading your human capital or whatever else there is to do.

Mr. PLATTS. It seems for USAID and IRS, it is kind of a catch-22. No one wants to be highlighted as not having that clean opinion, but for what we are really after, it doesn't mean anything if, year after year, it is heroic.

I raise that because I think we are being shortsighted in our approach in many instances and in this specific one.

Mr. KUTZ. Governmentwide, you have 19 out of the 24 right now that have systems that don't comply with FFMIA's but 21 out of the 24 have the clean opinion, so I think you can see what has happened here.

Mr. PLATTS. We are using that heroic, end of the year effort to look good but not really get the benefit day in and day out. I want to come back to that.

Mr. Towns.

Mr. TOWNS. Thank you.

Mr. Marshall, thinking about your current expansion, GAO testified that many individuals financial managers must depend on to provide the data used for financial reports are not answerable to the financial managers and often do not have the background or training necessary to report that data accurately. How are you addressing this problem?

Mr. MARSHALL. That gets to the heart of the human capital challenges that Mr. Kutz has described where we need to do a much better job of work force planning, of defining the competencies we need throughout the work force in financial management and any of or other management or programmatic areas and making sure we have those competencies in place either by hiring, outsourcing, training, recruiting, whatever it takes.

The first thing we need to do is to define what are the requirements and what are the gaps and then develop a strategy to meet those gaps in one of those different ways. This is one very high on our list.

We have, as I testified yesterday to Mr. Shays' subcommittee, our initial work force planning pilot efforts will be soon underway and we are targeting our management areas, human resources and procurement as well as the programmatic area of our global health programs where we think we have particularly acute needs to address those human capital gaps. Those will be the first areas we are looking at.

It is a rigorous analysis that needs to take place. We are trying to address it as best we can through ad hoc ways, you might say, but we are not doing it in a systematic way as we need to be but we are trying to get there as rapidly as we can.

Mr. TOWNS. Mr. Kutz, let me ask you this. First of all, who are these people and who are they answerable to if not the financial managers?

Mr. KUTZ. They would be answerable to the various components of USAID outside of Mr. Marshall's area. They would be programmatic people more so. Again, this is not an issue of just USAID. This is an issue across government where a large chunk of the financial information and systems are not under the purview of the chief financial officer which does create kind of a mixed dotted line reporting issue for getting financial information to the systems. One would be the procurement people as an example of that. Again, I think it is more the programmatic people, the people who are involved in distribution of funds and oversight of grants and contracts.

Mr. MARSHALL. We do have a worldwide financial management controller's community as well as procurement community that have you might say a dotted line relationship to those centralized organizational components that are part of the management bureau which I head. Our CFO has a dotted line reporting relationship to controllers in each of our missions overseas and the controllers' staffs. As Mr. Kutz was describing they aren't directly under my control or the control of the CFO who is a member of my organization, but we do issue policy guidance and we coordinate training and define the standards these individuals and their systems are intended to perform. So we do our best to train up and test up to those standards but they aren't directly under my control and those resources are stretched pretty thin and are oftentimes conflicted between their reporting relationships up through their chains of command in the field and through that narrow, small dotted line into Washington.

Mr. TOWNS. Mr. Mosley, you testified that the problem affecting USAID financial management systems were caused by the absence of effective controls for managing USAID information technology resources. Could you elaborate on that?

Mr. MOSLEY. There are a lot of weaknesses in the general control systems. In fact, that is why we have to do so much substantive testing. The systems don't have the controls in them, plus you don't have an integrated system that includes the field mission accountability control system. That system then feeds information into Phoenix and then once you are trying to reconcile that information, it doesn't have the controls necessary to make sure the information is accurate. That is why there is a lot of effort being made by the managers to pull together the statements and us to do the testing of the transactions on a statistical basis to try to determine whether there are significant weaknesses and whether we can render opinions.

Mr. TOWNS. Mr. Marshall, do you have any kind of time table for when you might be able to pull this together?

Mr. MARSHALL. Our current plans call for completing the overseas deployment of our financial system within about 2 years, by the end of fiscal year 2005 and soon thereafter, we will be completing the integration which is planned with the State Department. We will have a single system serving the two agencies.

Our piloting overseas will start in early 2004, in April through August 2004, and then the deployment through the remaining missions will be completed, hopefully, by August 2005. That is the current timetable.

Mr. TOWNS. On that note, I yield. There will be another round?

Mr. PLATTS. Yes. We will have plenty more opportunities.

Ms. Blackburn.

Ms. BLACKBURN. Thank you.

Mr. Mosley, let us continue right there on these computer systems. For data transfer and management, how secure are the systems, the computer systems?

Mr. MOSLEY. The agency has made a lot of improvements in computer security. That has been an emphasis over the past couple of years. There are still weaknesses simply because you are dealing in underdeveloped countries and you are telecommunicating data. There are still weaknesses but they are much more secure than they were at that time.

Ms. BLACKBURN. Where do you think the greatest vulnerabilities are?

Mr. MOSLEY. Probably through telecommunications. You are using lines and there are mechanisms in foreign countries where the systems and processes are not nearly as well developed.

Ms. Blackburn. Mr. Marshall, can USAID account for every dollar they have given in foreign aid?

Mr. MARSHALL. I would have to get back to you on that. I think we can account in some way. We are challenged in attributing every dollar to every strategic objective. This gets into the very complex way we have of defining strategic objectives, country objectives, programmatic objectives and geographical objectives. We do quite a bit of estimating in how we split the dollars, which ones roll up to which strategic objectives.

Worldwide, I think our system has hundreds of strategic objectives because our plans and all the strategic objectives are based on a per country basis. So we are challenged in that area but we do the best we can. We hope with our new system, we can keep getting better and better.

Ms. BLACKBURN. So you can't account for it now but you are trying to get better at it. Specifically, other than implementing a new system, what are you doing to be sure you are accounting for the dollars you are spending or do you intend on having the new system remedy all your problems?

Mr. MARSHALL. I think the new system is the major piece of the puzzle. We are doing a lot of things with our reports, refining our strategic objectives and part of this gets into our budget process. We are doing joint and strategic planning and financial management with the State Department. Clearly I think the financial system is the big piece of the puzzle here but our definition of strategic objectives, the way they align with goals of the agency's, strategic goals and objectives from the broadest level down to the country level, and roll up from expenditure. Tracking reports is another area where we need to continue to do work.

Ms. BLACKBURN. Let me ask you something else. You mentioned that you are defining the competencies that are needed within your agency.

Mr. MARSHALL. Yes, in our work force planning context.

Ms. BLACKBURN. And then with your human capital. How long have you known that you had a human capital problem? How long have you been in process on this to get to the point that you are just beginning to define the issue and you are going to get a pilot project underway? Listening to all of this and being someone that comes from the private sector and small business, I am always challenged in my thinking to get beyond my bias which says if you were in the private sector, you would have been out of business a long time ago. How long has it taken you to move through this process and how long do we have to go before we say we have arrested this problem?

Mr. MARSHALL. I appreciate your question and I share your frustration. I too came in from the private sector to USAID 2 years ago. What I found when I moved into my position was I had an HR office that had a vacancy in the Director of HR and the Deputy Director of HR and those positions weren't filled until I was in my position for about 6 months. It is very hard to initiate something new and comprehensive like work force planning with a leadership void like that.

Another thing to understand is during the 1990's, the USAID was in the downsizing mode. We had significant cuts across all of our administrative functions and programmatic functions. The Management Bureau took some very deep cuts and those skills and those capacities within HR were severely affected. In the 1990's being in a downsizing and outplacement mode, there wasn't a focus on recruitment, it almost ground to a halt; training, ground to a halt. There was no work force planning when the emphasis was on downsizing.

Also, as a result of the failed IT initiatives of the 1990's, those were supposed to have produced new systems which would allow us a lower base of personnel to operate more efficiently. Those initiatives failed and so in the last couple of years we have inherited a lower number of employees who continue to operate in these outmoded, inefficient, antiquated systems that don't integrate, don't produce data, and don't process transactions efficiently. As a result we have a very small margin of extra resources to invest in modernization that it will take to get on top of the situation. It is very challenging but I appreciate where you are coming from. That is why it has taken a while to ramp up our work force planning, getting back to your point, because my first task upon arriving was finding a HR Director, bringing in a Deputy Director, getting a leadership team in place, stopping the leaks in the dike where the whole HR function had pretty much ground to a halt and hadn't been doing any of this stuff because they had been in the outplacement mode for the 1990's and starting incrementally, step by step, to think about the future and connect our work force planning with our agency strategic planning and move forward and say what are the programmatic drivers, the business drivers, the skills we need, how do we get them on board, how do we source them, how do we train them, how do we recruit them.

I share your frustration and it is a very complex and Gordian knot to unravel.

Ms. BLACKBURN. May I ask one followup?

Mr. PLATTS. Yes.

Ms. BLACKBURN. In light of your timelines, your timetable, you mentioned your computer systems and the Phoenix system, you are looking at total integration of that by 2005?

Mr. MARSHALL. That is correct. Phoenix will be deployed, our present plan shows, by August 2005.

Ms. BLACKBURN. As far as your human capital management, is your timetable the same?

Mr. MARSHALL. No, it is not exactly the same but let me explain. Primarily the work force planning capability is the missing piece here. That is not just a particular system, an analysis or any particular deliverable. That is a whole set of capabilities that have to be put in place. It is a life cycle kind of system to be meshed with our strategic planning process so you identify what are your programmatic needs, your work force needs, where are your gaps in your capabilities, how do you source those gaps, do you outsource them, do you recruit them, do you train them, and so forth.

Work force planning is kind of a life cycle of cradle to grave activities of how you manage your HR system. Different pieces are being put in place over the next couple of years. I can get back to you with some more specifics on the dates and sequencing of those investments but we are seriously resource constrained and we are trying to put them in place based on what is the most critical need and the highest payoff from a particular investment. We are getting at that but I don't have a timetable for you in terms of when the complete set of capabilities will be in place and when our organization will mature to the point we can say we have an effective work force planning capability institutionalized.

Ms. BLACKBURN. I think that I would be interested in that. I don't want to add to your workload because I appreciate your attention to the task of trying to go through a reorganization but I definitely would be interested in seeing what that timetable is and how you plan to phase that in. I think it is relevant to our discussion of having a government that is effectively delivering services using 21st century technology, that government come into the 21st century and avail itself of all this technology looking for some efficiencies and some cost savings along the way. I would appreciate knowing that.

Mr. MARSHALL. I would be happy to provide that for you.

Mr. PLATTS. Thank you, Ms. Blackburn.

A couple of followups to Ms. Blackburn's questions. One, I take it that we do have a Director and Deputy Director in place today working on that human capital plan?

Mr. MARSHALL. Yes, we do. We brought in from overseas one of the agency's top managers to be the HR Director and we recruited governmentwide and found a very capable Deputy Director who has been in place for about 9 months now. We are starting to bounce back a bit. I think we hit bottom a little over a year ago and over the last 6 to 12 months we have started to rebound.

Mr. PLATTS. And that is the direction in which we want you to continue—and a positive one.

The followup regarding the timeframe on the Phoenix implementation overseas kind of follows up my broader question about short-term investment versus long-term. You are saying August 2005 is

when it will be fully implemented overseas, which means we really are looking at the 2006 financial statement when that integration will really benefit us with full integration?

Mr. MARSHALL. Yes, that is true, although I must say that over the next year in 2004, we will be in our pilot missions. We picked three countries, Cairo, Egypt, Lima, Aeara Peru and Ghana in West Africa for our initial pilots. Those three missions produce 60 percent or so of our transactions, I think is the number, so we might see some benefits before 2006 because we hope to be ramping up the higher volume missions earlier.

Mr. PLATTS. That is April 2004?

Mr. MARSHALL. 2004.

Mr. PLATTS. So about halfway through the 2004 fiscal year. The 2004 audits could show something?

Mr. MARSHALL. It is possible. That could start to show some benefits.

Mr. PLATTS. If we are starting in April 2004 and it is another year and a half roughly to get fully implemented, is the barrier dollars or being able to allocate enough dollars for that implementation?

Mr. MARSHALL. You mean for the timeline?

Mr. PLATTS. Yes.

Mr. MARSHALL. No, dollars aren't the constraint right now, it is the capacity of our organization to get it done, the implementation. We need to test pilot the applications in a couple of missions, do the training, learn from that experience, fix any problems that come up and really be deliberate and systematic about that. Hopefully in about August 2004, if all those pilots are successful, then we will begin the deployment to the rest of the missions throughout the next year. I think that is a prudent timeframe for getting this done and all the professional advice we have had has endorsed that.

Mr. PLATTS. In a correlation or analogy to the private sector and that you would be out of business perhaps by now if you were in the private sector, in the private sector agencies that provide humanitarian assistance—which my wife and I lead our personal support for agencies in our community with her serving on several not-for-profit boards—a common judge of an efficient operation is of every dollar received, 90 percent, 95 percent, 85 percent is actually hitting the pavement in services.

Given your current financial situation and your internal controls, of the dollars American taxpayers give USAID, what percent is gobbled up in administration either internal or consulting agencies or contract agencies versus what actually is received in services provided?

Mr. MARSHALL. I don't have that number with me but we have looked at that and I can get back with you on the best numbers we have along those lines.

Mr. PLATTS. I would welcome that. Can you give me a guesstimate today? Is it 80–20, 50–50, 60–40?

Mr. MARSHALL. I don't think I can give that.

Mr. KUTZ. I believe the annual report shows that it is 84 percent.

Mr. PLATTS. My followup to the two of you is, are you familiar with that percentage as current 2002 numbers or historically and

what is the IG or GAO's assessment of how efficient we are from an agency standpoint in the management of those dollars to actually doing what we intend them to do—provide the service?

Mr. MOSLEY. From my perspective, I have to say that while I think one of the questions was can the agency account for every dollar that is being spent and clearly the answer to that was no, we can't account for every dollar. Based on the opinions that we are giving, obviously the majority of the dollars can be accounted for. The difficulty is when. It takes so long to account for them.

We have not found where there are significant losses. As I said, we do a lot of testing when we do the financial statement audits. In addition to that, in terms of the actual program operations, we do program audits in each of the locations. We have field offices as well and our people are out there doing program audits to assure that the dollars are going where they are supposed to go and they are being spent in the way they should.

Mr. PLATTS. To make sure I understand, are your program audits x-dollars committed to this program and x-dollars were spent on that program or do they get into the next level of questions that this service was provided by that program, say it is $5 million to this program and it went to that program but $5 million of services were provided versus $4 million in consulting fees and $1 million in services. Do your program audits get into that?

Mr. MOSLEY. Yes, it does. The financial audits are the ones we really make sure the dollars went where they were supposed to go. Our performance audits, which are the programs we are reviewing, are really looking at whether the program was accomplishing what it was intended to accomplish.

Certainly we don't have the resources to do audits of every activity but of those we have done, we are not finding a tremendous amount of loss.

Mr. PLATTS. Can you give us a ballpark percentage of the ones you have done, x dollars were not really getting to the intended beneficiaries?

Mr. MOSLEY. I cannot give you that today and being a conservative auditor type, I don't want to render a guess but I could certainly provide you that.

Mr. PLATTS. If you could followup as well with us for the record.

Mr. MOSLEY. Sure.

Mr. PLATTS. Mr. Kutz.

Mr. KUTZ. I don't have anything else to say.

Mr. PLATTS. Let me go to Mr. Towns.

Mr. TOWNS. Thank you.

Mr. Kutz, you testified that in 2002 and in 1993, GAO reported USAID did not promptly and accurately report disbursements and that at that time USAID could not ensure that disbursements were made only against valid reestablished obligations. Additionally, you reported that USAID did not have effective controls and accountability over its property.

Can you expand on these problems? Are you saying they continue to exist today? Can you elaborate on that?

Mr. KUTZ. The issue with deobligations that Mr. Mosley's 2002 audit report indicated were still a problem, $153 million of amounts that were not timely deobligated, timely mean there were

no payments for at least a year or more, would indicate that the money was no longer needed for the original purpose. That was something we had reported on back in 1993. That has been a chronic problem there.

We also did report on some accountability issues with property in 1993 and Mr. Mosley's report would indicate that there are still some challenges with that issue. The answer is those are still there and the deobligation one, probably they are governmentwide issues, lots of agencies have them.

The one on deobligations does get back to how reliable is the information Congress and management have to manage. The $153 million would appear to have been spent for purposes of Congress looking at that obligation when in fact the money wasn't necessarily needed. It could have resulted in a situation of providing money for something that maybe money was already there for. That is a very important thing they need to deal with, timely deobligation. They have policies and procedures in place for managers to scrub their obligations and deobligate them. It just appears in 2002 and before, people weren't doing it and the question is are they doing it now. Maybe Mr. Marshall can comment on some of that.

Mr. MARSHALL. It is a concern. It is a governmentwide problem and it gets to be a workload matter. We have to go through a scrub exercise. It requires agency program managers to close out contracts and do a lot of administrative work that takes away from the rest of the work. A lot of our people are stretched very thin and it is hard for them to find the time.

Last year, we went through a push, we found a level of obligations, went through a scrub, deobligated a lot of money, kind of a one-time clean-up effort. It is another one of those things that takes sometimes some heroic effort to get done and manage down to a more reasonable level. We have been challenged to find the resources to put into that, although it is something that should be done. It is good common sense businesslike housekeeping that unfortunately gets deferred too frequently.

Mr. MOSLEY. If I might add one comment, this gets back to, not to beat a dead horse about the system, but that is really what it comes back to. The systems don't provide that information on a constant basis for the managers to manage. As a result, you have people who have records but those records are not in the overall system. Then you have to go back to them.

I have to say that management has implemented a system where on a quarterly basis, they are going back and scrubbing that information and we are also working with them in taking a look at that information but because the system is not there, they have to go back and determine have these funds been spent or not. In many cases, it is not money that needs to deobligate, it has been spent, it is just that is not in the overall records for the agency.

Mr. TOWNS. That is serious, very serious. Mr. Mosley, you also testified that the International Relations Committee, that your office uncovered a major bid rigging and fraud scandal in USAID funded construction contracts in Egypt that resulted in fines and restitution of over $260 million in fiscal years 2000 and 2002. Can you provide us with some details of your investigation?

Mr. MOSLEY. Yes. Those were contracts for building sewers and other types of activities in Egypt. You had several companies who got together and they manipulated the bids. They made agreements where certain companies would make certain bids and one company would get it this time, a different company would get it another time and because of this, they were defrauding the government. The bids were set so that AID did not have the process of getting competitive bids and getting the best price.

We took this to the Department of Justice after we did the investigation. Prosecutions were made and several companies paid restitution up to as high as $50 million from an individual company and a total of about five companies with somewhere in the neighborhood of $250-$260 million.

That was an investigation we did over a period of about 5 years to bring it to fruition.

Mr. TOWNS. Financial management weaknesses at AID contribute to this problem, you have to say that, right?

Mr. MOSLEY. I don't know that you could say that. I don't see a direct relationship in terms of financial management simply because this was in the procurement process and these companies were getting together and fixing the bids. There was no way for the managers to know they were fixing the bids. To be very honest, there would have been no way for us to know had it not been for someone coming forward and giving us information, basically ratting out those companies.

Mr. TOWNS. I assume this has been corrected?

Mr. MOSLEY. It has been.

Mr. PLATTS. Thank you, Mr. Towns.

We have a mark-up scheduled to begin in about 5 minutes, so we are going to have to wrap up. I did want to touch on one other issue and Mr. Marshall, you may need to followup as well after the hearing with us directly in writing.

From a staffing standpoint and the issue of outsourcing, if we set aside more clerical, secretarial staff in-house, what percentage of USAID, Washington, your operations here, are direct hires versus non-direct hires regarding professional staff?

Mr. MARSHALL. We have about 1,300 direct hires in the Washington headquarters. I would have to get back to you with the breakdown and that would include secretarial as well as administrative. I will be happy to give you a breakdown. We can visit with your staff and get a sense as to how you would like that.

Mr. PLATTS. And how do the direct hires compare to the non-direct in your operations and managing your programs?

Mr. MARSHALL. Sure.

Mr. PLATTS. The followup is: are the non-direct staff directly involved in the accountability for the programs and the oversight of the programs or is that accountability retained in-house?

Mr. MARSHALL. We are a very contract dependent work force. They are an important part of our entire business system, our delivery system, both in Washington and overseas since most of our business actually is carried out overseas by contractors and grantees. If you are referring primarily to Washington, sometimes we have situations where contractor employees are in accountability positions. We are reviewing those situations, trying to be aware of

them and reduce that vulnerability as best we can. In a work force like ours which is resource constrained and contractor dependent, it is one of our challenges.

Mr. PLATTS. Mr. Mosley, Mr. Kutz, does that worry you in the sense of the accountability, oversight being non-direct hires for the agency and the integrity of that oversight?

Mr. MOSLEY. Certainly that is a concern. Unfortunately, AID is in a situation where they certainly don't have enough people. Our concern is even if you have non-direct hires who are doing the work, we need enough qualified people in place to manage those who understand what needs to be done.

Mr. PLATTS. Enough in-house people?

Mr. MOSLEY. In-house people who can assure us the product they are receiving is what was desired. That is one of the difficulties in terms of contract offices and some of the expert program people. That is one of the things Mr. Marshall was talking about. We need more quality people in that area.

Mr. PLATTS. I want to thank our witnesses again for your written testimonies and your testimony here today. We do appreciate your forwarding some followup information to us. Mr. Marshall, coming in 2 years ago without people in place and the challenges you are facing, you certainly came in with quite a task ahead of you and we appreciate your dedicated efforts in tackling that task and going forward. As we see in the progress scorecards, we know there are some encouraging signs.

I hope that we will focus governmentwide but specifically in this case for USAID on ensuring that we really are about institutionalizing good financial management practices so that we have that day to day benefit to taxpayers that their money is being spent and allocated in the most efficient and responsible way possible, especially as we are increasing USAID efforts in Iraq and Africa with the AIDS efforts and elsewhere in the world. Being wise with those dollars is all the more important.

I hope we will continue to head in that right direction and not just have interim good signs but permanent, long term benefits. Thank you again.

The record will be kept open for 2 weeks for submission of additional information and this hearing stands adjourned.

[Whereupon, at 3:44 p.m., the subcommittee was adjourned, to reconvene at the call of the Chair.]

[The prepared statement of Hon. Carolyn B. Maloney and additional information submitted for the hearing record follow:]

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Statement of Congresswoman Carolyn B. Maloney
GMIT Subcommittee Hearing on"Improving Financial Management at USAID"
Wednesday, September 24, 2003
2247 RHOB

Thank you Chairman Platts and Ranking Member Towns for holding this important hearing today. I look forward to the statements from the witnesses and thank you for being here.

During my tenure in Congress, I have worked a great deal on issues dealing with international need and disaster. I know that USAID does exceptional work and are among the best envoys our country has to offer. AID workers are often the face of America for many people overseas. This is why I am concerned with the financial problems the agency is facing and think that we must work to correct them.

I was fortunate enough to visit the wonderful people of Iraq in August. I think the issues of this hearing can be addressed in the context of USAID's work in Iraq. I have gone to USAID's website which provides information about what the agency has done for the Iraqi's on behalf of the American people. I hope that AID is announcing this fact, so soldiers are not the only Americans these people are interacting with. I also hope that actual AID workers, U.S. government employees, are working in Iraq. I think that one of the problems that needs to be addressed is how can we have a forward looking institution if it continues to contract out projects? Your website lists a number of contracts that have been awarded to various NGOs and private firms, in addition to soliciting new applicants. How can we build institutional knowledge and commitment if we are relying so heavily on contractors? I am also concerned that USAID has become so fragmented that it is unclear how decisions are actually made and what standards are being used for tracking and monitoring projects.

Finally, I believe that development always comes back to women. I was pleased that we have appointed some women to the governing body in Iraq, but am disturbed that many more women are afraid to leave their homes. Once a relatively secular society, where many girls and women were educated, many women are now covering up in abayas, treated as second-class citizens. When we enlist women in civic society, provide them with the proper resources, education, and family planning, we are investing in the land, the children, and the basic development of a country. If we are to protect these women and include them in public decision-making, we must ensure that they are included in the new Constitution. Moreover, if our development workers are

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tasked with the job of rebuilding a country, they must have access to pertinent classified information and the latest technology such as global positioning, reference mapping, etc.

At a time when we are poised to send an additional $40 million for the Operating Expenses of USAID to help to fund additional operating costs, including staff, facilities, and security in Iraq and Afghanistan we must ensure that this will be money well spent, that our AID workers will have the proper resources, the most up-to-date technologies, and the greatest protection. I look forward to your testimony. Thank you.

OFFICE OF INSPECTOR GENERAL

OCT 2

The Honorable Todd Russell Platts
Chairman
Committee on Government Reform
Subcommittee on Government Efficiency,
Financial Management and
Intergovernmental Relations
B-349 Rayburn HOB
Washington, DC 20515

Re: September 24, 2003 hearings

Dear Mr. Chairman:

During the hearings that your Subcommittee held on September 24, 2003 concerning financial management challenges facing USAID, you asked me to provide some additional information on the amount of USAID resources that are reaching the intended beneficiaries.

After giving considerable thought to your question, we concluded that we do not have information on the total amount of USAID resources that reach intended beneficiaries because we do not audit every USAID program and not all of the audits that we perform address this particular issue. However, through our financial audit program, which includes audits done by the OIG, other federal audit agencies, and USAID's grant recipients, we can conclude that there were no material instances of USAID's resources being not supported or used for unintended purposes. Through our performance audit program, which is directed at selected programs, we again found no instances were USAID resources did not reach the intended beneficiaries. In fiscal year 2003, my office conducted six performance audits that provided information on whether USAID resources were reaching intended beneficiaries. Of the six audits, two concluded that the audited programs were reaching the intended beneficiaries.

1300 PENNSYLVANIA AVENUE, N.W.
WASHINGTON, D.C. 20523

The other four audits concluded that the audited programs were reaching the intended beneficiaries but were not providing the planned level of benefits, due to implementation delays or other problems. Examples follow:

- Audits in Georgia and Russia showed that a private voluntary organization (PVO) was having a positive impact in improving the effectiveness of primary health care services in these two countries. The PVO established partnerships between U.S. community-based institutions and similar institutions in Georgia and Russia, giving special attention to the health of women and children and to improving disease prevention and control practices. As a result of the cooperative efforts between the PVO and USAID, the auditors found that primary health clinics, a blood bank, an infectious disease control center, a health management education center, and women's wellness centers were established and providing health services to the public. (Audit Report No. B-123-03-001-P dated December 11, 2002 and Audit Report No. B-118-03-002-P dated April 10, 2003)

- An audit of USAID/El Salvador-financed housing activities in the aftermath of the 2001 earthquakes found that, of the 7,135 houses that were planned to be completed by July 31, 2002, only 3,903 houses (55 percent) were actually completed by that date. In general, the shortfall was caused by coordination and planning problems at the outset of the program, delays in obtaining verification of land titles and approvals for environmental assessments, inflexible payment procedures that caused liquidity problems for some contractors, and weak supervision over some contractors. On the other hand, after reviewing policies and procedures for the selection of beneficiaries and interviewing 140 applicants (90 of whom received housing and 50 who did not), the auditors concluded that eligibility criteria were properly applied to potential beneficiaries. (Audit Report No. 1-519-03-001-P dated November 19, 2002)

My office also manages a financial audit program that covers grantees and contractors who receive funds from USAID. During fiscal year 2002 (the most recent period for which we have complete statistics), the auditors questioned costs of $8.5 million[1] representing 0.4 percent of the audited amounts totaling

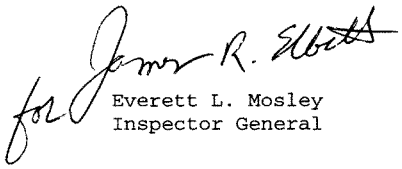
[1] The $8.5 million in questioned costs included $7.3 million in ineligible costs and $1.1 million in unsupported costs. (The detail does not add to the total because of the effects of rounding. Ineligible costs that are not program related, are not reasonable, or are specifically prohibited by the

$2.0 billion. This is a strong indication that USAID funds are reaching the intended beneficiaries.

In addition to the above information, I have attached answers to the questions for the record that were given to us by your staff.

Please do not hesitate to contact me at 202-712-1150 if you would like any additional information.

Sincerely,



Everett L. Mosley
Inspector General

Enclosure: a/s

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terms of the agreement with USAID. Unsupported costs lack required approvals or lack sufficient supporting documentation to allow the auditors to reach an informed conclusion regarding the eligibility of the costs.)

ADDITIONAL INFORMATION FOR THE RECORD

FROM EVERETT L. MOSLEY

INSPECTOR GENERAL

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

SUBMITTED TO THE HOUSE COMMITTEE ON GOVERNMENT REFORM
SUBCOMMITTEE ON GOVERNMENT EFFICIENCY AND FINANCIAL MANAGEMENT

SEPTEMBER 24, 2003

MARSHALL QUESTION 3: HOW IS USAID SELECTING ITS SYSTEMS AND VENDORS? TO DATE, HOW MANY SYSTEMS HAVE BEEN DEVELOPED OR ATTEMPTED AND AT WHAT COSTS?

MOSLEY QUESTION: WOULD YOU LIKE TO COMMENT?

ANSWER: USAID SELECTED AMERICAN MANAGEMENT SERVICES' MOMENTUM® (COMMERCIAL-OFF-THE-SHELF SOFTWARE) BASED FROM RESPONSES RECEIVED ON THE AGENCY'S LETTER OF INTEREST. USAID CONTRACTS SYSTEM SUPPORT (THROUGH A GSA) WITH AMERICAN MANAGEMENT SERVICES AND COMPUTER SCIENCES CORPORATION. IN THE 1990S, USAID SPENT OVER $100 MILLION IN AN ATTEMPT TO DEVELOP ITS NEW MANAGEMENT SYSTEM. THE SYSTEM WAS DESIGNED TO REPLACE FOUR THEN EXISTING SYSTEMS: (1) FINANCIAL MANAGEMENT, (2) BUDGETING, (3) PROCUREMENT AND (4) PROGRAM OPERATIONS. USAID DEPLOYED MOMENTUM® IN WASHINGTON, D.C. TO REPLACE MODULES OF THE NEW MANAGEMENT SYSTEM AND IS PLANNING TO DEPLOY MOMENTUM® TO ITS OVERSEAS MISSIONS.

MARSHALL QUESTION 7: UNTIL FY 2001 USAID RECEIVED DISCLAIMER OPINIONS ON ITS FINANCIAL STATEMENTS. THIS YEAR, ALL STATEMENTS, WITH THE EXCEPTION OF THE STATEMENT OF NET COSTS, RECEIVED CLEAN OPINIONS. CAN WE EXPECT TO SEE THE SAME OR BETTER RESULTS IN FY2003? WILL YOU STILL HAVE TO PERFORM HEROIC EFFORTS?

MOSLEY QUESTION: WOULD YOU PROVIDE YOUR THOUGHTS?

MOSLEY ANSWER: AS POINTED OUT IN MY TESTIMONY, IT IS PREMATURE TO DRAW FINAL CONCLUSIONS. HOWEVER, AT THIS TIME WE EXPECT TO EXPRESS AN OPINION ON ALL STATEMENTS. THE AUDIT IS STILL IN

PROCESS AND WE ARE CURRENTLY WORKING THROUGH A NUMBER OF ISSUES IN THE COURSE OF DOING OUR WORK .

MOSLEY QUESTION 8: HOW ARE OVERSEAS LOCATIONS AUDITED?

MOSLEY ANSWER: WE STATISTICALLY SELECT THE OVERSEAS ACCOUNTING STATIONS BASED ON THE FUNDS MANAGED AT PARTICULAR LOCATIONS AND WE VISIT THE LARGER CLIENT MISSIONS. THE OIG PERFORMS THE AUDIT USING DIRECT HIRE STAFF IN COUNTRIES WHERE WE HAVE OFFICES. WE USE CONTRACTORS OR OIG STAFF AT OTHER LOCATIONS IN OUR SAMPLE WHERE THE OIG DOES NOT HAVE OFFICES.

MOSLEY QUESTION 9: IN YOUR OPINION, DOES USAID HAVE RELIABLE AND TIMELY FINANCIAL INFORMATION NEEDED FOR DAY-TO-DAY DECISION-MAKING?

MOSLEY ANSWER: WE DO NOT BELIEVE THAT USAID HAS RELIABLE AND TIMELY FINANCIAL INFORMATION THAT IT NEEDS FOR DAY-TO-DAY DECISION MAKING.

MARSHALL QUESTION 16: WHEN MEASURING OUTCOMES OF PROGRAMS, WHAT BENCHMARKS OR STANDARDS DO YOU CURRENTLY USE TO JUDGE THEIR SUCCESS?

MOSLEY QUESTION: DO YOU PERFORM EXAMINATIONS OF THE PROGRAMS OR CONTRACTORS TO ENSURE THAT THE OUTCOMES ARE AS REPORTED? HOW DO YOU APPROACH SUCH EXAMINATIONS?

MOSLEY ANSWER: THE OIG CONDUCTS PERFORMANCE AUDITS OF USAID PROGRAMS AROUND THE WORLD. AS A PART OF THESE AUDITS, THE OIG PERFORMS TESTS TO VERIFY WHETHER OUTCOMES HAVE BEEN ACHIEVED AS REPORTED BY THE AGENCY. IN WASHINGTON, THE OIG PLANS, CONDUCTS AND COORDINATES PERFORMANCE AUDITS THAT EXAMINE HIGH LEVEL, AGENCY-WIDE SYSTEMATIC ISSUES. OIG OVERSEAS OFFICES PARTICIPATE IN THIS WORK. FOR EXAMPLE, A FY 2001 OIG REPORT ON USAID'S R4 REPORTING AND AN FY 2003 REPORT ON HIV/AIDS BOTH DISCUSSED THE QUALITY USAID'S DATA IN MANAGING THESE PROGRAMS.

IN ADDITION, THE OIG OVERSEES AGENCY-CONTRACTED AUDITS OF CONTRACTORS AND GRANTEES THAT ARE PERFORMED BY NON-FEDERAL AUDITORS. THESE AUDITS EXAMINE HOW USAID FUNDS ARE SPENT. VERIFICATION OF REPORTED INFORMATION IS AN INTEGRAL COMPONENT OF MANY OF THESE AUDITS. OVERALL, USAID HAS HAD DIFFICULTY REPORTING TIMELY, RELEVANT AND RELIABLE PERFORMANCE DATA (REPORTING IS DELAYED, INDICATORS ARE OFTEN AMBIGUOUS AND DATA QUALITY IS NOT CONSISTENTLY ASSESSED).

MARSHALL QUESTION 31: HOW DO YOU ENSURE THAT YOUR EMPLOYEES KNOW ABOUT THEIR WHISTLE BLOWER RIGHTS AND HOW TO SUBMIT A CONCERN?

MOSLEY QUESTION: DO YOU RECEIVE CONCERNS FROM EMPLOYEES? HOW DO YOU LET PEOPLE KNOW ABOUT THEIR WHISTLE BLOWER RIGHTS?

MOSLEY ANSWER: WE RECEIVE CONCERNS FROM EMPLOYEES THROUGH VARIOUS MEANS SUCH AS THE OIG HOTLINE, EMAILS, AND VERBALLY. NEW EMPLOYEES RECEIVE BRIEFINGS FROM THE OIG THAT ADVISE THEM OF OIG POLICY TOWARDS WHISTLEBLOWERS. THE OIG PROVIDES FRAUD AWARENESS BRIEFINGS TO USAID STAFF, CONTRACTORS, GRANTEES AND OTHERS. IN THESE BRIEFINGS, THE OIG EMPHASIZES THAT WHISTLEBLOWERS WILL HAVE THEIR IDENTITIES PROTECTED INSOFAR AS THIS IS ALLOWED UNDER THE LAW.