October 6, 2004

MEMORANDUM

FOR: Mission Director, USAID/Morocco, Monica Stein-Olson

FROM: RIG/Dakar, Lee Jewell III /s/

SUBJECT: Risk Assessment of USAID/Morocco's Management Controls after the Reduction-in-Force (Report No. 7-608-05-001-S)

This report presents the results of the subject risk assessment.

Since this is not an audit report, it does not contain any formal recommendations for your action, but several suggestions have been made. Your comments to the draft report are presented in their entirety as Appendix II.

I appreciate the cooperation and courtesy extended to my staff during the risk assessment.

Background

Fiscal years (FY) 2003 and 2004 represented years of dramatic changes for USAID/Morocco. The Country Strategic Plan for the Mission ended in FY 2003, two years earlier than planned, to enable the Mission to make strategic adjustments that more closely address new priorities, in particular, the Free Trade Agreement.

On June 19, 2003, USAID/Morocco submitted its Country Strategic Plan for FY 2004-2008. The plan was designed to have an Economic Growth Strategic Objective (SO) with options for Education and Democracy/Governance SOs as well, depending on the Middle East Partnership Initiative (MEPI) funding. Due to limited resources, only the Economic Growth SO was approved.

During FY 2003, USAID/Morocco implemented a reduction-in-force (RIF). By the end of the year, staffing levels were reduced from 54 to 26 (3 U.S. Direct Hires and 23 Foreign Service Nationals), reflecting a level appropriate for administering a Country Strategic Plan with just one expanded SO. However, shortly after the RIF was implemented, the Mission learned that Economic Support Funds funds would be provided in FY 2005. As a result, both the Education SO and the Democracy/Governance SO were reconsidered, and approval of the Country Strategic Plan that included all three SOs was given in January 2004. To support the expanded program proposed at $51 million dollars over the life of the strategy, staffing levels were planned for an increase to 34 employees. However, additional Economic Support Funds and MEPI resources have increased the life of strategy program funding to around $100 million dollars. This will necessitate a review of planned staffing levels.

The projected program levels are presented in the following table:

USAID/Morocco's Planned Program Funding Levels for FY 2004 to FY 2008 (Amounts in 000's)

	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	Total
SO 11 – Economic Growth	$5,630	$8,200	$8,600	$9,100	$6,870	$38,400
SO 12 – Education & Training	4,207	13,800	17,900	4,400	693	41,000
SO 13 – Democracy/ Governance	2,927	4,000	6,500	6,573	0	20,000
Total	**12,764**	**26,000**	**33,000**	**20,073**	**7,563**	**99,400**

Because of the dramatic reduction in staffing during FY 2003, the Mission requested that RIG/Dakar perform this risk assessment of its programs and key functions.

The Government Accountability Office (GAO) states in the *Standards for Internal Control in the Federal Government* that internal controls are an integral component of an organization's management. They should provide reasonable assurance that the following objectives are being met: effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations.

One function of internal controls noted by GAO and especially applicable in the case of this report is that the controls should "provide for an assessment of the risks the agency faces from both external and internal sources." The GAO Standards note that the specific risk analysis methodology used can vary because of differences in agencies' missions and the difficulty in qualitatively and quantitatively assigning levels of risk.

Discussion

In judging the risk exposure for USAID/Morocco's major functions, we considered:

- The amount of funding the individual programs received.
- The change in staffing levels of the functions due to the RIF.
- The experience of key staff members in their area of expertise, as well as in Morocco.
- Incidences of improper administration or material weakness (if any) noted in prior reviews, audits, and/or reported by Mission officials.
- Mission support for management controls.

The risk assessment covered three programs or strategic objectives (Economic Growth, Democracy and Governance, and Education) and four functional areas (the Program Office and the Management Office, which includes Financial Management and Contracting). The findings as to the factors and level of risk for each function follow.

Function Description	Risk Exposure
Economic Growth Activities – emphasis on increased opportunities for trade and investment	Moderate
Risk Assessment Factors	
• With a total fiscal year 2004 through 2008 funding level of approximately $38.4 million, this function is a significant portion (38.6 percent) of the USAID/Morocco portfolio. • Prior to the RIF, three staff managed environmental activities. Currently, one staff oversees all associated activities (eight contracts/grants). A major portion of these activities will be phased out by the end of FY 2004. • When fully staffed, the Economic Growth team is slated to have seven employees, including an Administrative Assistant. Prior to the RIF, nine staff managed economic and environmental activities. • The team leader is a U.S. Direct Hire (USDH) with over 20 years of USAID experience. • FYs 2003 - 2005 represent years of transition, as the RIF began in FY 2003. In FY 2004 and 2005, programs under the previous country strategy are ending, and new programs are beginning under the new strategy. • Three indicators were selected from the narrative section of the FY 2004 Annual Report. Documentation was not available to support the reported results for the three selected indicators. • Site visits were not regularly documented. • Data assessments on performance indicators have not been done as required by Automated Directives System (ADS) 203. • Conflicting interpretations of file maintenance responsibility has resulted in a decentralized system that has introduced inefficiencies and difficulties in locating official documents, such as quarterly or annual reports, from implementing partners. • MEPI-funded projects have additional reporting requirements from the State Department and Embassy. • Under the new strategy, the Mission estimates this office will have five contracts/grants to monitor.	

Function Description	Risk Exposure
Education Activities – emphasis on access to quality education with emphasis on primary school completion	Moderate
Risk Assessment Factors	
• With a total fiscal year 2004 through 2008 funding level of approximately $41 million, this function is a significant portion (41.2 percent) of the USAID/Morocco portfolio. • Currently, the education team has two members and a shared Administrative Assistant. However, when the team is fully staffed, it is slated to have a similar staffing level as that prior to the RIF; i.e., four employees plus a shared Administrative Assistant. • The team leader is an experienced Foreign Service National Personal Services Contractor with over 25 years at USAID/Morocco. • The Cognizant Technical Officers (CTOs)[1] are not certified, but the Mission has arranged for certification in January 2005. • FYs 2003 - 2005 represent years of transition as the RIF began in FY 2003. In FY 2004 and 2005, programs under the previous country strategy are ending, and new programs are beginning under the new strategy. • Annual report support was easily accessible and well organized. • Site visits were not regularly documented. • MEPI-funded projects have additional reporting requirements from the State Department and Embassy. • Under the new strategy, the Mission estimates this office will have one substantially large contract and three grants. Two of the three grants are MEPI-funded which necessitates additional reporting requirements to the MEPI office at State Department.	

[1] A Cognizant Technical Officer is an individual who performs functions that are designated by the Contracting or Agreement Officer, or are specifically designated by policy or regulation as part of contract or assistance administration.

Function Description	Risk Exposure
Democracy/Governance Activities – emphasis on developing transparent and accountable democratic institutions, laws, and economic and political processes and practices	Moderate

Risk Assessment Factors
• With a total fiscal year 2004 through 2008 funding level of approximately $20 million, this function is a significant portion (20.1 percent) of the USAID/Morocco portfolio. • The Mission Director became the acting team leader in July 2003 when the USDH team leader left due to the RIF. • The Mission went through a period of transition without permanent staff. Once the Mission is fully staffed at the level of 34, the Democracy/Governance team is slated to have three employees (one U.S. Personal Services Contractor and two Foreign Service Nationals) plus a shared Administrative Assistant. • FYs 2003 - 2005 represent years of transition, as the RIF began in FY 2003. In FY 2004 and 2005, programs under the previous country strategy are ending, and new programs are beginning under the new strategy. • Three indicators were selected from the narrative section of the FY 2004 Annual Report. Documentation was not available to support the reported results for the three selected indicators. • Site visits to monitor program activities were not regularly documented. • MEPI-funded projects have additional reporting requirements from State Department and Embassy. • Under the new strategy, the Mission estimates this office will have approximately three contracts and potentially two grants to monitor depending on program levels. One contract is MEPI-funded which necessitates additional reporting requirements to the MEPI office in the State Department.

Function Description	Risk Exposure
Program Office (within Office of the Director) – coordinates budget and annual reporting	High

Risk Assessment Factors

- As a result of the RIF, the Program Office staffing was reduced from three key employees, which included the departure of a USDH Program Officer, to one Foreign Service National.

- Prior to the RIF, data quality assessments (DQAs) were performed by a team of three people (the Controller and two Financial Analysts) with oversight by the Program Office. Now only one Financial Analyst is tasked with performing DQAs, with oversight from the Program Office.

- FYs 2003 - 2005 represent years of transition as the RIF began in FY 2003. In FY 2004 and 2005, programs under the previous country strategy are ending, while new programs are beginning under the new strategy. This represents a significant burden on a Program Office of one, especially in meeting monitoring and evaluation requirements.

- Support for six out of nine selected reported results included in the FY 2004 Annual Report was not readily available.

- The Mission did not designate the indicators to be included in the FY 2004 Annual Report SO tables 9 months in advance as required by ADS 203.3.8.4.

- The Mission Orders regarding programmatic policies and procedures were not updated. In particular, Mission Orders need to include policies and procedures to address the new annual reporting process promulgated by the Agency.

- Two of the nine indicators reported in the SO tables in the FY 2004 Annual Report did not have a DQA performed on them as required by ADS 203.

Function Description	Risk Exposure
Executive Office (within the Management Office) – performs administrative functions such as human resource management, procurement, and all general services	Low
Risk Assessment Factors	
• Operating expenses for the fiscal year ending September 30, 2004 will be approximately $1.6 million. • Staffing levels for the Executive Office were reduced significantly from 21 before the RIF to an expected level of 15 if staffed in accordance with the latest approved strategy staffing level. • The Executive Officer (EXO) is also supervising the three-member Financial Management team. • Staffing constraints due to the RIF have not allowed for the designation of key positions such as the Computer Systems Administrator during the absence of the incumbent. • The EXO is also the CTO for an Economic Growth management unit. • Ten Mission Orders under the Management Office's control need to be updated as either they are no longer applicable or certain sections of them are no longer applicable. In addition, two effective Mission Orders had duplicate numbers.	

Function Description	Risk Exposure
Financial Management (within the Management Office) – maintains an accounting and financial reporting system for the Mission	Moderate
Risk Assessment Factors	
• USAID/Morocco is not an accounting station, so the Mission does not have a USDH Controller. In FY 2003, the Controller's function was relocated to USAID/Egypt, which operates on a different work week schedule and is located in a different time zone. • USAID/Egypt will be going through a reduction-in-force that will cause its Financial Management Office to lose approximately six staff, one of which is an operating expense accountant providing direct support to USAID/Morocco. • Financial Management staffing levels were reduced from seven professional positions (including a USDH Controller position and a Chief Accountant) and one Administrative Assistant before the RIF to three positions (a Budget Analyst, a Financial Analyst, and a Voucher Examiner) with a shared Administrative Assistant. • As program funding levels increase, the number of transactions processed in the financial management section will increase. • A multitude of responsibilities, including support for all three strategic objective programs and CTO responsibility for one management unit, has been assigned to the one remaining Financial Analyst. • By the end of FY 2004, approximately 15 temporary-duty assignments from Cairo will have been made; these and other associated financial support trips taken by USAID/Egypt staff will cost about $90,000. Given the increased funding levels and the migration to Phoenix, the Regional Controller in Cairo anticipates temporary-duty assignments will be made in FY 2005 as well. • The financial management system will migrate from Mission Accounting and Control System (MACS) to Phoenix during the summer of FY 2004.	

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<tr><th>Function Description</th><th>Risk Exposure</th></tr>
<tr><td>Contracting Office (within the Management Office) – provides contract negotiation and contract administration services</td><td>High</td></tr>
<tr><th colspan="2">Risk Assessment Factors</th></tr>
<tr><td colspan="2">
USAID/Morocco does not have a USDH Contracting Officer. The Regional Contracting Officer (RCO) from USAID/Jordan currently provides support.
Prior to the RIF, there were two Contract Negotiators supporting program activities, and now there is only one to support program funding of around $100 million.
The remaining Contract Negotiator has over ten years of USAID contracting experience.
There are currently 45 contracts that have been completed but need to be closed out. Of these, 23 are ready to be closed out immediately.
The electronic files in the contracting office were incomplete. The contracting office maintains several discrete electronic files to monitor and update the status of contract activity. For example, there is a file for active contracts, one for expired contracts awaiting close-out, and one for contracts ready to be closed out. Individual contracts are moved by the Contract Negotiator between these files as the contract status changes. During our review, we noted that a recently expired contract for $12 million was not included in any of the above files due to problems with moving the data appropriately.
Currently, there are 25 contracts/grants administered by the contracting office; the number projected under the new strategy will decrease. However, during the transition period in FY 2005, the Mission will continue to administer approximately 25 contracts/grants as old agreements phase out and new ones are implemented.
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Conclusion

We examined the risk associated with the various aspects of the USAID/Morocco mission. The table below summarizes the findings.

Function	Risk Exposure		
	High	Moderate	Low
Economic Growth Activities		√	
Education Activities		√	
Democracy/Governance Activities		√	
Director's Office - Program Office	√		
Management Office – Executive Office			√
Management Office – Financial Management		√	
Management Office – Contracting	√		

A higher risk exposure judgment implies that the program objectives for a particular function are more vulnerable to not being achieved or to experiencing irregularities.

The three SOs were assessed as having moderate risk because of the weaknesses associated with each function as well as the significant amount of funding in each area. However, should staffing continue at current levels, these offices are all vulnerable and would fall into a high risk category.

The risk associated with the Program Office within the Office of the Director is considered to be high as only one person is managing the responsibilities of this office. We noted various requirements that were not fully carried out. These included weaknesses in documentation and lack of DQAs. In addition, indicators to be included in the most recent Annual Report were not selected in advance as required. Since there are no current plans to increase the staffing level in this office, as funding and program activities grow, these problems will only become more pronounced. This requires attention and review of staffing plans.

The Executive Office within the Management Office was assessed as having low risk. Even though there were weaknesses associated with the area, in general, we do not feel that they are significant enough to warrant a moderate risk level.

The Financial Management function within the Management Office was assessed as moderate risk for several reasons. The Mission is not an accounting station and does not have a controller. It appears that the Mission has been receiving an adequate level of support from USAID/Egypt. However, the level of support has not been always consistent. This appears to be mainly due to the lack of assigned dedicated staff for USAID/Morocco and to different work week schedules and to time zone differences between the two Missions. In addition, due to its own RIF, USAID/Egypt will be losing Financial Management staff that either directly or indirectly support USAID/Morocco financial operations. Once funding levels for USAID/Morocco increase to the anticipated levels and the migration to a new financial management system completed, the risk in the Financial Management area will need to be reassessed.

We found the risk associated with the Contracting function within the Management Office to be high and expect this risk level to continue through the FY 2005 transition period. This is mainly due to the existing number of active and inactive contracts/grants and our analysis revealing that there will not be a decrease in contracting activity levels until the end of the transition period. However, after the transition period the number of active and expired contracts should decline significantly. Declining activity should also commensurately reduce associated risk, but additional assistance to the Contracting Specialist should be seriously considered given the increased program levels.

Overall, the risk exposure associated with USAID/Morocco is considered moderate based on the results of this risk assessment and the plans for increased staff to support higher program levels.

Based on our conversations with Mission officials and a limited review of the Mission's documentation, we are making the following suggestions for Mission management to consider. These are not formal audit recommendations. The suggestions do not necessarily represent deficiencies; rather, they incorporate possible improvements to general Mission operations or enhancement to activities already in process.

- The Mission should require the Program Office to verify the selection of performance indicators to be reported in the Annual Report nine months in advance of reporting. ADS 203.3.8.4 requires that annually, for each SO, the operating unit must designate a few (typically three to five) performance indicators from the Performance Management Plan that will be included in the annual report to provide performance data on the program for that year. The selection must be made at least nine months prior to the end of the fiscal year (i.e., by December 31). For the FY 2004 Annual Report, the Mission did not designate indicators in advance as required.

- Mission Orders addressing both programmatic and administrative procedures should be updated. With respect to programmatic procedures, *Mission Order 502 - Mission Central R4 Data Repository* states that the strategic objective teams are responsible for submitting all supporting documentation for indicator baseline values, targets, and results to the Program Office. However, the Program Office was not collecting this information, but rather assumed that the SO teams were maintaining their own respective files. In addition to clarifying the above requirement, this Mission Order should address the requirements under the new annual reporting process rather than the old R4 process. *Mission Order 501-Quality Control of R4 Data* also states that each SO team will verify the quality, accuracy and appropriateness of the data reported, with each team leader certifying to the Director annually prior to the compilation of R4 performance tables that the data are valid and appropriate. However, currently the financial analyst is responsible for performing DQAs with oversight from the Program Officer. The Mission Order should also address the requirements under the new annual reporting process rather than under the old R4 process. With respect to administrative procedures, ten Mission Orders should be updated since they are not applicable partially or in their entirety. In addition, Mission Order numbers 801 and 802 were found to have more than one Mission Order with that number.

- The Program Office should review DQAs performed by the teams before submitting the Annual Report. In the FY 2004 Annual Report, two of the nine reported indicators did not have a DQA performed on them as required by ADS 203. In one case, the oversight was caused by a change in the Performance Management Plan of the Education SO. The financial analyst was not aware of the indicator changes and, therefore, did not perform a DQA on the updated indicator. In the other case, a DQA was inadvertently performed on a higher level indicator under a different intermediate result. Furthermore, due to staffing constraints, there is one financial analyst remaining to perform future DQAs while they were performed by a team of three before the RIF.

- Site visits to monitor program activities should be regularly documented. Although SO team members stated that site visits were conducted, documentation associated with these visits were limited. Using a checklist specifying the purpose of the visit and type of monitoring to be conducted would standardize the scope of the visits and allow for easy documentation.

- The Mission should develop a system to monitor contracting activity that incorporates the use of a master file to centrally maintain records and to allow sharing of this information with the appropriate CTOs. As it now stands, the contracting office maintains several discrete electronic files to monitor and update the status of contract activity. For example, there is a file for active contracts, one for expired contracts awaiting close-out, and one for contracts ready to be closed out. Individual contracts are moved by the Contract Negotiator between these files as the contract status changes. During our review, we noted that a recently expired contract for $12 million was not included in any of the above files due to problems with moving the data appropriately. Maintaining a master file of contract activity instead of three individual files of contract data could prevent errors caused by incomplete records and could introduce other efficiencies, such as reducing the effort needed for updating and maintaining electronic files. The contract information should also be shared with CTOs who could review for any inaccuracies.

Scope and Methodology

Scope

The Office of the Regional Inspector General in Dakar conducted this risk assessment at the request of the Mission to assess the vulnerabilities of the programs and activities of USAID/Morocco after the reduction-in-force. This was not an audit and does not contain any formal recommendations. The risk assessment was conducted at USAID/Morocco from May 24 to June 10, 2004.

Methodology

To perform this risk assessment, we interviewed USAID/Morocco personnel and examined documentation to obtain an understanding of the Mission's portfolio and activities. We assessed the controls at the mission level to determine if they were adequate and working as designed. Using this information, we assessed the level of risk (low, moderate, or high) for each major activity of the Mission.

The risk assessment focused on fiscal years 2003 and 2004 data. We judged risk exposure (i.e. the likelihood of significant abuse, illegal acts and/or misuse of resources; failure to achieve program objectives; and noncompliance with laws, regulations, and management policies) for those major functions. We then assessed overall risk exposure as high, moderate, or low. A higher risk exposure indicates that the particular function is more vulnerable to not achieving its objectives or to experiencing irregularities.

The general methodology for the survey included the following:

- Reviewed applicable laws, regulations, policies, and guidance.

- Met with USAID/Morocco officials to gain an understanding of the breakdown of responsibilities and monitoring of programs. Assessed what controls were being used for the various programs.

- Reviewed documentation in each function, such as policies and procedures, where applicable.

The risk assessment has the following limitations:

- We assessed risk exposure at the major function level only.

- Higher risk exposure assessments are not definitive indicators that objectives are not being achieved or that irregularities are occurring.

Rather, a higher risk exposure implies that the particular function is more vulnerable to such events.

- Because the assessments consider both internal and external factors, some of which are outside the span of control of management, risk exposure assessments, in isolation, are not an indicator of management capability.

Management Comments

United States Agency For International Development
MOROCCO

MEMORANDUM

TO: LEE JEWEL III, REGIONAL INSPECTOR GENERAL

FROM: MONICA STEIN-OLSON, USAID DIRECTOR /s/

SUBJECT: RISK ASSESSMENT OF USAID/MOROCCO'S MANAGEMENT CONTROLS AFTER THE REDUCTION-IN-FORCE (REPORT NO. 7-608-04-001-S)

DATE: 09/24/2004

REF: RIG MEMO 7/29/2004 TO ACTING DIRECTOR GEORGE LEWIS

The Mission would like to thank Lee Jewell, Kendra Schoenholz and Ragip Saritabak for their excellent support and assistance during this management risk assessment. The Mission concurs with the overall risk assessment and we have attached our specific editorial comments where we found information was not quite complete or perhaps inaccurate. While some findings are already being addressed, the majority of issues raised in this assessment are staffing related. The Mission has been unsuccessful in obtaining Embassy clearance to increase staff, either local or off shore, which is beginning to impact our ability to implement the new strategy and ensure proper accountability for our resources. RIG/Dakar's assistance in documenting and flagging this serious vulnerability for USAID/Morocco is appreciated.

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