OFFICE OF INSPECTOR GENERAL

RISK ASSESSMENT OF USAID/LIBERIA'S MAJOR ACTIVITIES

REPORT NO. 7-669-06-001-S
March 28, 2006

DAKAR, SENEGAL

Office of Inspector General

March 28, 2006

MEMORANDUM

TO: USAID/Liberia, Director, Wilbur Thomas

FROM: Regional Inspector General/Dakar, Lee Jewell III /s/

SUBJECT: Risk Assessment of USAID/Liberia's Major Activities (Report No. 7-669-06-001-S)

This memorandum transmits our final report on the subject risk assessment. In finalizing this report, we considered management's comments on our draft report and included them in Appendix II.

This report contains five suggestions to which you responded in your comments to the draft report. Because the suggestions are not formal audit recommendations, it is not necessary for the Mission to coordinate with USAID's Audit Performance and Compliance Division when final action is taken.

I want to express my sincere appreciation for the cooperation and courtesy extended to my staff during the risk assessment.

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BACKGROUND

With the exception of the period from 1997 to 1999, for 14 years--from 1989 to the signing of the Accra Comprehensive Peace Agreement in August 2003--Liberia was in a constant state of conflict. In a nation of only 3 million people, it is estimated that the war took over 250,000 lives and displaced a million people, including hundreds of thousands of refugees who fled the country. Abductions, torture, rape and other human rights abuses were commonplace in this environment leading to serious post-war ramifications such as the devastation of Liberia's physical, social, political and economic infrastructure. Over 80 percent of Liberia's population is illiterate and lives below the poverty line. The unemployment rate exceeds 70 percent. Thirty-five percent of Liberians are malnourished; only 28 percent are fully immunized; just 25 percent have access to safe drinking water; and only 36 percent have access to sanitation facilities.

In September 2003, the United Nations Security Council established the United Nations Peace Keeping Mission in Liberia (UNMIL), which has helped establish the peace by deploying the world's largest U.N. peacekeeping force of 15,000 troops and over 1,000 civilian police. By the end of 2004, UNMIL had completed a relatively successful disarmament and demobilization program that removed most small arms from the hands of the ex-combatants.

In October 2003, as a result of the Accra Peace Accords, Charles Taylor abdicated his presidency and a National Transition Government of Liberia (NTGL) assumed power. The NTGL had a 2-year mandate, in which to implement the Peace Accords and prepare Liberia for free and fair elections in October 2005 and to inaugurate a new, legitimate, elected government in January 2006.

The international community looked to the United States to lead the reconstruction effort in Liberia. The United States was able to take on this leadership role at this historic moment when, in early Fiscal Year (FY) 2004, the Congress provided $200 million in funding for the International Disaster and Famine Assistance (IDFA). Of that $200 million, $107.9 million was programmed through USAID.

USAID/Liberia is taking concrete steps to help Liberians begin the process of recovering from years of war, with the primary goal of stabilizing Liberia during this critical transitional period. In FY 2004, USAID/Liberia created a new, overarching transitional strategic objective that integrates all elements of its program. Under this single objective, which runs through FY 2006, USAID/Liberia will (1) create economic and social conditions at the community level to reintegrate and rehabilitate ex-combatants and others affected by the war; (2) increase formal and informal learning opportunities; (3) enhance the peace process and promote good governance; and (4) increase the availability of essential primary health care services. To assist them in meeting this objective, USAID/Liberia’s funding will more than double, from $36.1 million in FY 2005 to $85.8 million in FY 2006.

The holding of free and fair elections was one of the U.S. Government’s top priorities in Liberia and is essential to the completion of the transition to a legitimate government. With USAID/Liberia’s support of the election process, in November 2005, Liberia held elections, and in January 2006, inaugurated the first female president in Africa.

DISCUSSION

As part of our FY 2005 audit plan and to prioritize Office of Inspector General (OIG) future audit coverage, RIG/Dakar performed a risk assessment of USAID/Liberia's major activities. First, we discuss risk factors that exist in the current operating environment in Liberia, which affect Mission operations as well as the implementation of program activities by USAID/Liberia's partners. Second, we present our assessment of the risk factors related to the Mission operations. The third component to our risk assessment is a summary of the risk factors related to USAID/Liberia's current program activities implemented by various partners. Finally, we offer USAID/Liberia's management suggestions to address some of the identified risk factors.

Summary of Overall Risk Assessment

RIG/Dakar concluded that the overall risk exposure of USAID/Liberia's major activities is high. Our assessment is based on high risk factors that affect the operating environment, the high risk exposure that exists within the Mission's operations, and the moderate risk associated with the current program activities. We emphasize that this determination does not mean that USAID/Liberia will not attain its programmatic goals. Rather we use this assessment as the basis for our conclusion that RIG/Dakar should allocate resources to conduct performance audits of USAID/Liberia's programs in the future. A detailed discussion of each of these factors is presented below.

Risk Factors Affecting the Overall Operating Environment

As the first component of our risk assessment, we identified a number of external circumstances that increase risk exposure for Mission management activities as well as program goals in Liberia. The following key factors were identified through our discussions with USAID/Liberia staff, representatives from USAID/Liberia's implementing partners, and our own observations during site visits. While we recognize that these factors are outside management's span of control, they contribute strongly to our overall assessment of USAID/Liberia's risk exposure as high.

First and foremost, the periodic threat of social unrest routinely affects the ability of USAID and partner staff to perform oversight and monitoring functions of the program activities. During FY 2004, the United Nations Mission in Liberia (UNMIL) deployed the world's largest peacekeeping force ever. The hope is that UNMIL's massive peace-keeping force and the substantial international goodwill and financial support will enable Liberia to continue to consolidate the peace and further the national rehabilitation process. Even though UNMIL has greatly improved the security situation, USAID and its partners were not permitted to travel outside of the capital at various times throughout FY 2005 due to potential violence.

In FY 2004, the United Nations deployed the world's largest peacekeeping force ever to Liberia. Photo taken on December 4, 2005 in Monrovia, Liberia by a RIG/Dakar auditor.

The lack of sufficient physical infrastructure throughout the country also increases risk. As a result of the security situation, USAID staff must take armored vehicles when they travel outside of Monrovia. During a site visit with the Mission Director, he told us that ever since a bridge collapsed under the weight of an armored USAID vehicle that he was in, he and his driver now inspect each bridge carefully before they proceed (see photo below). Armored vehicles are too large and too heavy to reach most of USAID's project sites because of the lack of sufficient physical infrastructure in Liberia. Vehicles depreciate at a faster rate and auto parts and trained mechanics are scarce or not available at all. Traveling over land to some areas of the country may take up to a week while other areas are inaccessible by any means other than helicopter. Even program sites that are located relatively close to the capital city of Monrovia can be very difficult to reach due to heavy year-round rainfall and the almost complete absence of paved roads and bridges. In addition, the lack of communications makes it difficult to monitor program activities for both Mission staff and the implementing partners.

Prior to crossing, the Mission Director (white hat) inspects a bridge that USAID is scheduled to rehabilitate as part of an international effort to rebuild Liberia's infrastructure. Photo taken on December 9, 2005 in Bong County, Liberia by a RIG/Dakar auditor.

Similarly, the lack of public utilities in the capital city makes it difficult for USAID and its partners to conduct routine business. Within Monrovia, there is no running water or electricity. The Mission and its partners must supply their own generators and water supply in order to function. The Mission Director told us that after dark, it is not unusual to see school children doing their homework under the security lights outside the U.S. Embassy.

Another factor impeding routine tasks is the high price of basic items, such as office supplies. Several partners told us that procurement of basic items can be difficult and shockingly expensive. They explained that often there is only one type of an item available and the seller will ask an exorbitant amount for it. Furthermore, the threat of looting continues to discourage the recovery of the retail sector of Liberia's economy after the war.

The problem of human capacity that plagues many developing countries is especially acute in Liberia where there is a critical shortage of qualified professionals and skilled workers to implement program and Mission activities. Currently, USAID/Liberia must compete with its own partners to hire the few qualified people available to manage programs or perform functions like accounting. Liberia lost most of its trained workforce to "brain drain" during its 14-year civil war. Due to the on-going precarious security situation, there is also a shortage of expatriates working in Liberia. As a result, USAID and its partners must rely heavily on local hires—many of whom may not be adequately trained or qualified—to manage and implement programs.

Concerns about systemic corruption also make it difficult to do business in Liberia. Transparency International ranks Liberia among the most corrupt countries in the world. In the recent elections, all major candidates for President of Liberia made ending corruption a fundamental component of their campaign platforms. Due to the severity and pervasiveness of Liberia's corruption, many international donors have threatened to withdraw their assistance if the situation does not improve.

Finally, it is important to realize that Liberia is a nation whose population has not recovered from the abductions, torture, rape and other human rights abuses that were commonplace during the war, leading to serious post-war ramifications. Approximately 10 percent of Liberian children have been traumatized by witnessing close friends and family members suffer murder and rape. A similar percentage of children are believed to have been recruited into the militias. Amongst the general population of 3 million, more than 1.3 million were displaced from their communities, including hundreds of thousands who fled the country. Several partners told us that rural development projects are especially difficult to implement in Liberia because the war shattered any sense of community or willingness to work together as neighbors. USAID/Liberia has added a psycho-social counseling component to virtually all of its programs, but the shortage of trained counselors and the magnitude of the need are overwhelming.

Risk Factors Affecting USAID/Liberia's Mission Management

As the second component of our risk assessment, we evaluated the risk related to USAID/Liberia's ability to manage assistance activities. In assessing this risk, RIG/Dakar considered several factors including the management support and control environment; relevant internal controls; and susceptibility to failure to attain program goals due to noncompliance and other irregularities. (See Appendix I for a complete description of the scope and methodology.) RIG/Dakar's assessment concluded that because of current staffing constraints, the fact that the Mission is scaling up dramatically in 2006, and some key management controls are currently lacking, the risk exposure of the Mission's ability to manage activities is high.

The overriding constraint to managing assistance activities in Liberia is the difficulty of recruiting and maintaining adequate levels of qualified Mission staff. USAID staff are assigned to Liberia for a 2-year tour, and family members are not authorized to accompany the staff. In addition, staff receive danger pay while assigned to Liberia, similar to staff assigned in Iraq and Afghanistan.

USAID/Liberia's FY 2006 portfolio is the largest in the West Africa region while its staff is currently the smallest. During FY 2005, the Mission Director was the only U.S Direct Hire staff, who, along with a Foreign Service Limited Program Officer, was responsible for managing a staff of 4 additional Personal Service Contractors (PSC), 3 technical/professional Foreign Service Nationals (FSNs), 11 administrative FSNs, and 8 motor pool drivers. This staff of 28 was responsible for the management and oversight of a program portfolio that exceeded $107 million[1].

[1] $107.9 million was the total amount that USAID programmed in Liberia in FY 2005. Of this, the Mission managed $36.1 million directly and the rest was programmed centrally through USAID's Africa Bureau, Office of Foreign Disaster Assistance and Office of Transition Initiatives. This risk assessment focused on programs managed directly by the Mission.

The difficulty in attracting staff was well demonstrated by the lack of an assigned Executive Officer to oversee key functions within the Mission, a vacancy that has remained since the Mission re-opened in Liberia in 2004. Instead, the Mission has had to rely on temporary duty assignments ranging from one week to three months performed by eight different staff "borrowed" from other Missions or USAID headquarters. Other key Mission support functions--including contracting, human resources, financial management and travel authorization--were all performed by USAID's West Africa Regional Program, which is located in Ghana. While off-site management support is a practical solution for a post that is difficult to staff, it often causes delays because of the constant need for authorizations from a remote source.

With the limited number of staff and as the only two Americans officially stationed in Liberia to manage the Mission, the Mission Director and the Program Officer were stretched in their roles and responsibilities during 2005. For example, the Program Officer also served as the Cognizant Technical Officer for two major activities in addition to performing other Mission functions. We observed that the entire Mission staff worked after hours and through the weekend without a break. The Mission Director expressed concern about "burnout" but said he hopes that new staff will be arriving soon to ease the pressure.

This year, 2006, marks the beginning of a new phase for USAID/Liberia. The successful elections in November 2005, which were regarded as a critical milestone for Liberia's transition to peace, prompted a tremendous boost in promises for international donor assistance to Liberia. USAID/Liberia's bi-lateral funding for programs is anticipated to more than double, from $36 million in FY 2005 to over $85 million requested for FY 2006. The operating expenses budget for FY 2005 was $459,000 and is also anticipated to more than double in FY 2006 to approximately $1 million.

To meet the increased programming demands, mission staffing levels are anticipated to increase from 27 in FY 2005 to 45 in FY 2006. The expansion of staff also requires a commensurate expansion of work space. A major renovation to the current office space is anticipated to begin in early 2006, a challenging undertaking in any mission and one that requires considerable administrative support and oversight by an Executive Officer.

USAID/Liberia's Director expressed particular concern over the need for training associated with a large and sudden increase in staff. Although the anticipated increase in staffing is positive and mitigates some of the risk related to insufficient staffing in FY 2005, there are limited resources available for training in the FY 2006 budget. All of these factors related to the next phase of the Mission's activities to help rebuild Liberia —large increases in funding and staff, new programming initiatives, and a major renovation of the Mission's office space—inherently increase the risk related to USAID/Liberia's ability to manage assistance activities.

A final area of risk exposure that we noted concerns two key internal controls that are lacking at the Mission. First, the Mission does not have a complete set of mission orders. Currently, the Mission is operating with only two documented mission orders—one for its motor pool and another for processing work orders—because there is no permanent Executive Officer, who would normally be responsible for developing mission orders for all areas under the Executive Office. Both the Mission Director and the Temporary Duty Executive Officer agreed that mission orders are an essential management tool and hoped that with the anticipated assignment of an Executive Officer in June 2006, additional mission orders could be created.

Secondly, the Federal Managers Financial Integrity Act (FMFIA) requires each mission to complete an internal control checklist as a management tool for ensuring that the mission is functioning with effective internal controls. The FMFIA checklist for FY 2005 noted weaknesses related to staffing levels, training and workload as well as a lack of separation of duties due to insufficient staff. Even more serious, the Executive Office portion of the FMFIA was not completed in FY 2005, which increases the risk exposure of the Mission.

Risk Factors Affecting USAID/Liberia's Program Activities

As the third component of our overall risk assessment, we evaluated the risk factors affecting USAID/Liberia's program activities. During FY 2005, four program activities were conducted to support the Mission's special objective of "Community Revitalization and Reintegration":

- Address Conflict Transitional Issues,
- Promote and Support Free and Fair Elections,
- Improve Child Survival, Health and Nutrition, and
- Strengthen Civil Society.

These four program activities were implemented by ten partners. We met with and obtained documentation from six partners, and selected eight sites to observe program activities underway and to talk with project beneficiaries about their experiences with the program. We found moderate risk related to three activities and low risk related to one activity. A higher risk exposure judgment implies that program objectives for a particular activity are more vulnerable to not being achieved or to experiencing irregularities. Our risk assessment of each program activity included an analysis of risk in four distinct areas: the nature of the implementing partner, the implementing arrangements, the nature of the activities financed, and the amount of funding. The results are summarized below, and the details are provided in Appendix III.

Summary of Program Activity Risk Assessments

Mission-Funded Program Activity	Overall Risk Assessment	Partner's Name	Assessed Risk Relating to…			
			Nature of the Implementing Partner	Implementing Arrangements	Nature of Activities Financed	Amount of Funding
Address Conflict Transitional Issues	**Moderate**	Development Alternatives Inc.	Low	Moderate	High	High
		Save the Children--UK	Low	Moderate	High	Low
Promote and Support Free and Fair Elections	**Low**	International Free Electoral System	Low	Low	Low	Moderate
Improve Child Survival, Health and Nutrition	**Moderate**	Africare	Low	Moderate	High	Moderate
Strengthen Civil Society	**Moderate**	Mercy Corps	Low	High	High	High
		World Vision	Low	High	High	Low

We considered various factors in assessing the nature of the implementing partners. We looked at (1) whether the organizations were indigenous or internationally based; (2) how long the partners have existed; (3) whether the partners had experience working with USAID; and (4) how long the partners had a presence in Liberia. We assessed the risk in this category as low for all six partners we reviewed.

We examined the implementing arrangements between USAID and each partner, considering such factors as how often the partner reports on its activities to USAID and the extent to which the partner's oversight and management of the activities was centralized or relied on sub-recipients. If a partner's activities were high profile and as such, received regular visits and management input from USAID and Embassy officials to ensure that anticipated results were achieved, we considered the risk to be lower. If, on the other hand, a partner had a decentralized structure in which it worked with many local organizations situated in remote areas that are difficult for the partner to monitor, we considered this a high risk factor.

Another important risk factor we considered was the nature of the activities financed. Some activities are inherently more or less prone to risk. For example, we considered the risk of a high-profile construction project such as the rehabilitation of a university in Monrovia to have a lower risk because the project end-point is clearly defined and eagerly anticipated by many stake-holders. On the other hand, we deemed rural agricultural projects that involve small amounts of funding spread across a large number of remote communities where project oversight is difficult inherently higher risk.

Finally, we assessed the funding for each activity and each partner relative to the funding for the entire USAID/Liberia portfolio. We considered those activities and partners receiving a larger portion of the funding to carry more risk. All but one of the partners we assessed received funding for activities ending by the middle of FY 2006. New funding allocations for the remainder of FY 2006 and beyond had not been determined at the time of our assessment.

Two issues were raised during our interviews with USAID's partners that we want to highlight. First, a partner told us of an instance during the past two years when they contacted USAID/Liberia to ask if they could store USAID-funded vehicles and computer equipment on the American Embassy compound for safe-keeping because violence was expected in Monrovia. According to the partner, the Mission indicated that these arrangements were not possible. As a result, the vehicles and equipment were stolen from the partner's site. The partner asked us to raise the possibility of finding an alternate safe storage solution for USAID-funded equipment with Mission management.

The second issue relates to the volume of international assistance that may flood into Liberia now that the international community is satisfied that Liberia successfully held free and fair elections. USAID's partners expressed concern that if the effort to rebuild Liberia is not well-coordinated, much of this funding could be wasted on duplication of effort. When we raised this issue with the Mission Director, he agreed that coordination is important and said that USAID participates in three international working groups.

Conclusion and Suggestions for Mission Improvements

In summary, we assessed the overall risk exposure associated with USAID/Liberia as high based on the risk factors affecting (1) the overall operating environment, (2) Mission management and (3) program activities. We conclude that RIG/Dakar should make it a priority to conduct performance audits of USAID/Liberia's programs in the future.

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.

- USAID/Liberia should require all partners to report quarterly, preferably on an October to September fiscal year basis. Currently, some partners report on a semi-annual basis, while others do report on a quarterly basis. Further, some that report quarterly do so on a calendar year basis which creates difficulty for

USAID/Liberia in compiling end-of-year program results.

- Management should ensure that all portions of the FMFIA checklist are completed and that action is taken to strengthen any areas where weaknesses are identified.

- A comprehensive set of Mission orders should be developed.

- As international assistance floods into Liberia following the successful elections of 2005, USAID/Liberia should continue to work closely with the three donor working groups that have been formed to coordinate assistance activities and avoid duplication of effort.

- USAID/Liberia should develop a plan to protect the partners' USAID-funded property and equipment (such as vehicles and computers) during times of anticipated violence and looting.

EVALUATION OF MANAGEMENT COMMENTS

USAID/Liberia agreed with our assessment of risk in the draft report. Management indicated that appropriate actions would be taken to address the five suggestions provided in the report. Below is a summary of the Mission's planned actions to address the suggestions. Because the suggestions are not formal audit recommendations, it is not necessary for the Mission to coordinate with USAID's Audit Performance and Compliance Division when final action is taken.

The first suggestion is for USAID/Liberia to require all partners to report quarterly using the U.S. Government's fiscal year. The Mission commented that they will advise partners to report quarterly and they have asked their Agreements Officer if they are authorized to require partners to report using the U.S. Government's fiscal year.

The second suggestion is for Mission to ensure that all portions of the FMFIA checklist are completed and that action is taken to strengthen any areas where weaknesses are identified. The Mission commented that they will conduct a review of their Executive Office operations in FY 2006 independent of USAID/Ghana, which provides many of their Executive Office services.

The third suggestion is for the Mission to develop a comprehensive set of Mission orders. The Mission commented that responsibility for developing Mission Orders will be assigned to the new Executive Officer who is expected to arrive in Liberia in July 2006.

The fourth suggestion is for the Mission to continue to work closely with the donor working groups that have been formed to coordinate assistance activities to avoid duplication of effort. The Mission commented that they will continue to do so.

The fifth suggestion is for the Mission to develop a plan to protect the partners' USAID-funded property and equipment during times of anticipated violence and looting. The Mission commented that they will address this matter at the next partners meeting and will work with partners to identify a suitable location to protect USAID-funded property.

Management's comments are included in their entirety in Appendix II.

SCOPE AND METHODOLOGY

Scope

The Regional Inspector General/Dakar conducted a risk assessment of USAID/Liberia's operations as a whole and all major activities that were underway as of November 30, 2005. This risk assessment was not an audit. The risk assessment fieldwork was conducted at the USAID office in Monrovia, Liberia from November 30 through December 13, 2005. We also met with implementing partners at their offices in Monrovia and performed site visits in Bong and Montserrado counties.

Our risk assessments of USAID/Liberia operations have the following limitations in their application:

- First, we assessed risk for activities funded and managed by USAID/Liberia only. We did not assess risk for activities in Liberia funded by USAID/Washington through the Africa Bureau, USAID's Office of Foreign Disaster Assistance, or the Office of Transition Initiatives.

- Second, we assessed risk only. Our risk assessments were not sufficient to make determinations of the effectiveness of internal controls for major functions. Consequently, we did not generally determine (a) the adequacy of internal control design, (b) if controls were properly implemented, and (c) if transactions were properly documented.

- Third, higher risk exposure assessments are not definitive indicators that program objectives were not being achieved or that irregularities were occurring. A higher risk exposure simply indicates that the particular function is more vulnerable to such events.

- Fourth, risk exposure assessments, in isolation, are not an indicator of management capability due to the fact that risk assessments consider both internal and external factors, some being outside the span of control of management.

Methodology

Government Accountability Office 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 risk levels. This review assigned risk exposure of high, moderate, or low for each major function.

We interviewed Mission officials and reviewed relevant documentation on the strategic objective activities being carried out by USAID/Liberia. These discussions and documents covered background, organization, management, budget, staffing responsibilities, Federal Managers' Financial Integrity Act reviews, internal controls, and vulnerabilities as we considered necessary to gain an understanding of the actual and potential problems in implementing programs.

We determined the overall risk exposure for all activities within USAID/Liberia, e.g., the likelihood of significant abuse, illegal acts, misuse of resources, failure to achieve program objectives, and noncompliance with regulations and management policies. Higher risk exposure assessments are not definitive indicators that program objectives are not being achieved or that irregularities are occurring. A higher assessment simply indicates that the Mission is more vulnerable to such events. In assessing risk, we considered the following key areas:

- Significance and sensitivity;
- Susceptibility of failure to attain program goals, noncompliance with laws and regulations, inaccurate reporting, or illegal or inappropriate use of assets or resources;
- Management actions to mitigate risk;
- Competence and adequacy of the number of personnel;
- Relevant internal controls; and
- What is already known about internal control effectiveness.

In addition, we conducted vulnerability assessments of major program activities. We selected the highest dollar value contract or agreement within each program component, and judgmentally selected an additional funding instrument if there were more than two in the component. As a result, we conducted assessments of six out of ten funding instruments for the USAID/Liberia program, and received coverage of 88 percent of the life-of-project funding amounts. Following is the breakdown of our sample selection:

Coverage of Major Program Activities

Program Element	# of Funding Instruments	# of Funding Instruments Selected	$ Millions	
			Life-of-Project Funding	Life-of-Project Funding Selected
Address Conflict Transitional Issues	4	2	45.7	38.5
Promote and Support Free and Fair Elections	2	1	7.9	6.8
Improve Child Survival, Health and Nutrition	1	1	10.0	10.0
Strengthen Civil Society	3	2	16.5	15.4
Total	**10**	**6**	**80.1**	**70.7**

As part of our assessment of the program activities, we interviewed implementing partners and reviewed relevant documentation regarding their activities, such as contracts or cooperative agreements, progress reports and work plans. In addition, we performed site visits to observe 8 program activities. Based on the information obtained from USAID/Liberia, the partner staff and our own observations of program activities, we assessed the risk as high, moderate, or low in each of the following four areas:

- Nature of the implementing partner,
- Implementing arrangements,
- Nature of activities financed, and
- Amount of funding.

These risk assessments were not sufficient to make definitive determinations of the effectiveness of internal controls for major programs. As part of the effectiveness of internal controls, we did (a) identify, understand, and document (only as necessary) relevant internal controls, and (b) determine what was already known about the effectiveness of internal controls. However, we did not generally (a) assess the adequacy of internal control design, (b) determine if controls were properly implemented, nor (c) determine if transactions were properly documented.

MANAGEMENT COMMENTS

USAID | LIBERIA
FROM THE AMERICAN PEOPLE

To: Lee Jewell III, RIG/Dakar

From: Wilbur Thomas, Director /s/

CC: Deborah Grieser, Regional Controller

Date: March 28, 2006

Re: Response to RIG/Dakar's Draft Report No. 7-669-06-001-S, Risk Assessment of USAID/Liberia's Major Activities

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USAID/Liberia acknowledges receipt of the subject draft report. We understand that this is not an audit report and does not contain any recommendations. We have, however, provided comments to RIG's suggestions for how USAID/Liberia could strengthen its activities.

USAID/Liberia agrees with RIG's conclusions on the risk environment per the assessment. The Mission recognizes that it is operating in a high risk environment and is taking steps to address and mitigate risk to the extent that it is within Mission control. With a new national government in place, the overall environment in Liberia should show major improvements, both in security and the level of corruption. The Mission has taken steps to improve implementation and monitoring of project activities. Three new USDH positions have been approved for the Mission. We hope to fill all these positions during the current fiscal year. We are also adding USPSC and FSN positions which will enable us to improve the Mission's ability to plan, implement, and monitor project activities. The mission welcomes RIG to conduct performance audits of its programs to assist us in identifying where further improvements can be made.

We have the following responses to your suggestions:

1. USAID/Liberia should require all partners to report quarterly, preferably on an October to September fiscal year basis. Currently, some partners report on a semi-annual basis, while others do report on a quarterly basis. Further, some that report quarterly do so on a calendar year basis which creates difficulty for USAID/Liberia in compiling end-of-year program reports.

Per 22 CFR 226, all grantees are required to report quarterly. Contractors are required to report quarterly per the terms of their agreements. Those partners who are not reporting quarterly will be advised to do so. We have asked the Agreements Officer if we are authorized to ask our partners to use the USG fiscal year for reporting.

2. Management should ensure that all portions of the FMFIA checklist are completed and that action is taken to strengthen any areas where weaknesses are identified.

USAID/Liberia conducted its FY 05 FMFIA review in conjunction with USAID/Ghana. Since USAID/Ghana provides nearly all Executive Office services for USAID/Liberia (procurement, travel, personnel, information systems support), the FMFIA review performed of USAID/Ghana Executive Office operations was considered by USAID/Liberia management as adequate coverage for USAID/Liberia EXO operations. USAID/Liberia will conduct an independent review of its EXO operations in performing the FY 2006 FMFIA.

3. A comprehensive set of Mission Orders should be developed.

USAID/Liberia will work to develop a complete set of Mission orders. It should be noted that since most financial management and administrative services are provided by USAID/Ghana, the USAID/Ghana Mission Orders are considered applicable to USAID/Liberia operations.

Responsibility for development of the Mission orders will be assigned to the new USDH Executive Officer who is expected to arrive at post in July 2006.

4. As international assistance floods into Liberia following the successful elections of 2005, USAID/Liberia should continue to work closely with the three donor working groups that have been formed to coordinate assistance activities and avoid duplication of effort.

The Mission will continue to work with the Donor Working Groups to coordinate assistance activities to ensure duplication of effort is avoided as much as possible.

5. USAID/Liberia should develop a plan to protect the partners' USAID-funded property and equipment (such as vehicles and computers) during times of anticipated violence and looting.

The protection of partners' USAID-funded property and equipment is a problem not easily addressed. The USAID/Liberia office is located on the Embassy compound, and therefore anything brought on to the compound is subject to the approval of the RSO. Mission will address this matter as a precaution in its' next partners' meeting and will work with the partners to identify a suitable location should a situation arise requiring the protection of property.

Activity
Risk Assessments

Program Component	Implementing Partner	Risk Exposure
Address Conflict Transitional Issues	Save the Children-UK	Moderate

Risk Assessment Factors

Nature of Implementing Partner
Save the Children-UK is a non-governmental organization and has been in Liberia since 1991. The Deputy Director of Programs has been in Liberia for 5 years. Save the Children-UK has worked on similar programs in the Democratic Republic of Congo and Sierra Leone. Risk is considered to be low.

Implementing Arrangements
The program, Social and Economic Reintegration of Demobilized Children Associated with Fighting Forces and Other Children Affected by Conflict, is funded through a 3-year cooperative agreement, ending in July 2007, and uses a network of social workers to provide program services. Save the Children-UK reports to USAID/Liberia semi-annually on a calendar basis, not on USAID's fiscal year basis. Risk is considered to be moderate.

Nature of Activities Financed
The program has three components: (1) Social Welfare and Protection, which focuses on the social integration of children with their families or the community; (2) Economic Reintegration, which provides vocational training; and (3) Education, which provides basic, accelerated education. Program activities are being conducted in three counties within Liberia. Save the Children-UK staff raised the concern that bringing children into the program has been difficult since there are no payments for participation like there is in other programs. Staff also mentioned difficulties encountered when procuring needed supplies from the local economy: selection is limited, cost is high, and quality is low. The lack of capacity in the social worker and counseling fields was also noted. Due to these factors, risk is considered to be moderate to high.

Amount of Funding
Life-of-project funding totals $3.5 million. Risk is considered to be low.

Program Component	Implementing Partner	Risk Exposure
Address Conflict Transitional Issues	Development Alternatives Inc. (DAI)	Moderate

Risk Assessment Factors

Nature of Implementing Partner
DAI is a U.S. non-governmental organization. DAI has experience working with USAID in Iraq and Sudan and has had a presence in Liberia since 2004. The Deputy Chief of Party has been in Liberia for four years. Risk is, therefore, considered to be low.

Implementing Arrangements
The Liberia Community Infrastructure Project (LCIP) is funded through a 3-year contract and works through local contactors. The program has issued approximately 100 grants to these contractors, ranging in value from $4,000 to $900,000. LCIP uses clauses in the contracts they have with the contractors stating that they will assume all costs if a project is not finished on schedule. LCIP is very high profile with interest up through the US Ambassador level. DAI meets weekly with USAID/Liberia, reports on its targets monthly, and submits quarterly progress reports. The program was originally scheduled to end in February 2007, but is ending early in June 2006 due to an exhaustion of funds resulting from an increase in the level of targets. Risk is considered to be moderate.

Nature of Activities Financed
LCIP has two components working with ex-combatants and other war-affected people: (1) Economic Reintegration, which provides temporary employment in the area of public infrastructure rehabilitation (such as roads, schools, clinics, and administrative buildings) and paid vocational training; and (2) Social Reintegration, which assists in the peace process by trying to enhance mental health and reconciliation in and between communities incorporating psycho-social counseling into both components. Program activities are being conducted in eight counties within Liberia. DAI indicated that they had experienced some difficulty finding adequately trained engineers for the infrastructure activities. They also explained that, in general, it was difficult dealing with the ex-combatants, and project disruptions occasionally occur due to security. The program transports to project sites in the field, up to $500,000 cash in monthly payroll, and there have been instances when they needed security because of disgruntled employees. Due to these factors, risk is considered to be high.

Amount of Funding
Life-of-project funding totals $35.0 million. Risk is considered to be high.

Program Component	Implementing Partner	Risk Exposure
Promote and Support Free and Fair Elections	International Free Electoral System (IFES)	Moderate

Risk Assessment Factors

Nature of Implementing Partner
IFES is one of three non-governmental organizations that comprise the Consortium for Elections and Political Process Strengthening, which was primarily responsible for implementing USAID/Liberia's activities to promote and support free and fair elections in 2005. IFES is an international non-governmental organization that not only works throughout the world, but has previous experience working in Liberia, which lowers risk exposure for this program component.

Implementing Arrangements
IFES had a Cooperative Agreement with USAID for an 18-month period, with a few post-election activities scheduled to wrap up in early 2006. Their programs were high profile and as such, received a lot of oversight from USAID and Embassy officials. IFES reported quarterly to USAID. The risk associated with these arrangements is low.

Nature of Activities Financed
IFES constructed and equipped county election board offices, provided technical assistance to the National Election Commission and assisted to "get out the vote." Most of the program activities ended after the elections, with a few post-election activities still remaining. Due to the success of the election process in November 2005, the risk associated with these activities is low.

Amount of Funding
IFES received 78 percent of the funding that USAID allocated to a consortium of partners to promote free and fair elections (IFES received $5.3 million of the $6.8 million awarded to the consortium). We considered the risk associated with this level of funding moderate.

Program Component	Implementing Partner	Risk Exposure
Improve Child Survival, Health and Nutrition	Africare	Moderate

Risk Assessment Factors
Nature of Implementing Partner Africare is a U.S. non-governmental organization. Africare has experience working with USAID throughout Africa and has been in Liberia since1992. Risk is, therefore, considered to be low. **Implementing Arrangements** The Improved Community Health Project is funded through a 5-year cooperative agreement ending in January 2008. Africare relies largely on local organizations, to which they give grants, to implement activities. Africare reports to USAID/Liberia on a semi-annual basis. Risk is considered to be moderate. **Nature of Activities Financed** The program provides support to 32 health clinics by training staff and procuring drugs and other medical supplies. The program also has activities focused on building the capacity of the local health organizations. Program activities are focused in three counties. Implementation was delayed due to the unrest in 2003, causing Africare to temporarily leave Liberia and resulting in damage to clinics. After resuming the program in 2004, approximately 2 years were spent regaining lost ground. Africare cited the lack of essential drugs as a problem continually encountered in Liberia. They also mentioned the challenge of finding qualified staff for their operations own offices and for the clinics. In addition, regional insecurity threatens their operations as some clinics are close to the borders where refugees from Sierra Leone and Cote d'Ivoire enter Liberia. Due to these factors, risk is considered to be high. **Amount of Funding** Life-of-project funding totals $10.0 million. Risk is considered to be moderate.

Program Component	Implementing Partner	Risk Exposure
Strengthen Civil Society	World Vision	Moderate
Risk Assessment Factors		
Nature of Implementing Partner World Vision is an international non-profit organization that was founded in 1950. It has had extensive prior experience working with USAID. World Vision has been working in Liberia off and on since 1959, and continuously since 1995. These factors lower the risk exposure for USAID-funded activities. **Implementing Arrangements** World Vision reports quarterly on its 5-year Cooperative Agreement that began in 1999 and was extended in 2004 through 2006 due to an interruption during a period of civil unrest. World Vision works with local organizations to implement community development activities. Risk associated with this is high due to the decentralized approach to implementation. **Nature of Activities Financed** World Vision works with local organizations to create community groups to train in agribusiness management. The local organizations train two members of each community group to be facilitators who will then train the community groups to be master farmers. World Vision provides cash payments to the local organizations for the purchase and distribution of farm implements and materials such as seeds and fertilizer. Risk associated with this is high due to cash transfers to local organizations. **Amount of Funding** World Vision received approximately $3 million for a 5-year program that would have ended in 2004, but in 2004 a no-cost extension was requested and approved to continue activities through May 2006 due to an interruption during a period of civil unrest. In FY 2005, World Vision expended $250,000 with the remaining $150,000 to be expended in FY2006. We considered the risk associated with this funding level low.		

Program Component	Implementing Partner	Risk Exposure
Strengthen Civil Society	Mercy Corps	Moderate
Risk Assessment Factors		
Nature of Implementing Partner Mercy Corps, with headquarters in the United States and in Scotland, is a non-profit organization founded in 1979. It has had extensive prior experience working with USAID. Mercy Corps has been working in Liberia since 2002. These factors lower the risk exposure for USAID-funded activities. **Implementing Arrangements** Mercy Corps has a Cooperative Agreement for a 5-year period and prepares quarterly financial reports and semi-annual progress reports. Mercy Corps relies on 103 local community organizations, which, they acknowledged, is challenging to manage because it is difficult to provide adequate oversight. Risk associated with this is high. **Nature of Activities Financed** Mercy Corps works with a large number of local community organizations to organize community groups to participate in three activities: social mobilization, agricultural development, and community radio development. Officials at Mercy Corps stated that using local partners in the field has been a challenge because of the lack of trained and qualified personnel. Risk associated with this decentralized management structure is high. **Amount of Funding** Mercy Corps received approximately $12.4 million covering the 5-year period, which began in June 2004. We considered the risk associated with this funding level high.		

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