

**Risk Assessment of Major Functions Within
USAID/Guatemala**

Report No. 1-520-03-002-S

October 1, 2002

San Salvador, El Salvador



RIG/San Salvador

October 1, 2002

MEMORANDUM

FOR: Acting USAID/G-CAP Director, Deborah Kennedy-Iraheta
FROM: RIG/San Salvador, Timothy E. Cox
SUBJECT: Risk Assessment of Major Functions Within USAID/Guatemala
(Report No. 1-520-03-002-S)

This memorandum is our report on the subject risk assessment. This is not an audit report and does not contain any formal recommendations for your action.

Thank you for providing comments to the draft report. Your comments are included in Appendix II of this report.

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

Background

The USAID mission in Guatemala consists of a bilateral program to address development challenges within the country and a regional program to implement activities throughout Central America.

Strategic objectives under the bilateral program include 1) More Inclusive and Responsive Democracy, 2) Better Educated Rural Society, 3) Better Health for Women & Children, 4) Increased Rural Household Income and Food Security, 5) Improved Natural Resource Management and Conservation of Biodiversity, and 6) Support the Implementation of the Peace Accords. The approximate fiscal year 2002 and 2003 funding levels, in millions, for these functions are presented in the following table.

Bilateral Program Functions	FY 2002	FY 2003
Democracy	\$ 3.0	\$ 2.2
Education	2.8	3.8
Health	15.5	11.7
Income	19.3	23.5
Environment	4.0	3.5
Peace	10.3	7.5
	<u>\$54.9</u>	<u>\$52.2</u>

The regional program has four objectives: 1) Increased Central American Competitiveness in Global Markets, 2) Improved Environmental Management in the Mesoamerican Biological Corridor, 3) Enhanced Central American Capacity to Respond to the HIV/AIDS Crisis, and 4) Rural Diversification. The approximate fiscal year 2002 and 2003 funding levels, in millions, for these functions are presented in the following table.

Regional Program Functions	FY 2002	FY 2003
Environment	\$ 6.8	\$ 11.7
Trade (Competitiveness)	2.8	7.3
HIV/AIDS	4.0	6.8
Rural Diversification	6.0	5.8
	<u>\$19.6</u>	<u>\$31.6</u>

The U.S. General Accounting Office (GAO) noted in *Standards for Internal Control in the Federal Government* (November 1999) that internal controls should provide reasonable assurance that USAID objectives are being achieved, operations are effective and efficient, and assets are safeguarded. Conducting risk assessments is one technique identified by the GAO to enhance internal controls.

The purposes of the risk assessment were to assist the Regional Inspector General in planning future audits and to identify opportunities for improvement in

USAID/Guatemala operations. Our scope and methodology are presented in Appendix I.

Discussion

In judging the risk exposure for the major functions in USAID/Guatemala, we considered:

- the amount of funding the individual functions receive relative to the overall mission budgets (see Background section for details of the mission's \$54.9 and \$19.6 million fiscal year 2002 budgets for bilateral and regional programs, respectively),
- the level of U.S. interest in the program activities,
- the level of involvement and/or support provided by the Government of Guatemala,
- the experience of key staff members in their area of expertise as well as in Guatemala,
- incidences of improper administration or material weaknesses (if any) noted in prior reviews and/or as reported by mission officials,
- management support for internal controls, and
- the level of risk inherently present in an activity that program or administrative objectives will not be met.

Our risk assessment of USAID/Guatemala covered twelve bilateral, regional, and administrative functions. Because the bilateral program function "Support the Implementation of the Peace Accords" is implemented through the activities of several strategic objective teams, we evaluated peace activities in connection with related strategic objective functions. We did not evaluate the regional program "Rural Diversification" because the activity design had not been completed. We judged two functions to have a "high" risk exposure, five functions to have a "moderate" risk exposure, and five to have a "low" risk exposure. These judgements are discussed in the following tables.

Bilateral Program Functions

Function Description	Risk Exposure
Democracy – Criminal justice system improvements, citizen participation in political decision making, and local government capacity enhancement	High
Risk Assessment Factors	
<ul style="list-style-type: none"> • With planned fiscal year 2002 and 2003 funding levels of approximately \$3 million and \$2.2 million, respectively, the function is a less significant portion of the USAID/Guatemala portfolio when compared to the funding levels of other mission functions. • Activities are implemented through contracts, task orders, and cooperative agreements with Checchi and Company, Creative Associates, and Research Triangle International. • Activities are heavily dependent on the political will of the Guatemalan government for success. That commitment is variable. • The implementation environment is difficult. Democratic institutions are inexperienced. Democratic principals and traditions are developing. • Office has experienced managers and staff. • Management monitors activities through review of annual work plans, periodic progress reports, and site visits. 	

Function Description	Risk Exposure
Education – Access to education services in target areas and educational policies to enhance gender equity and cultural pluralism	Moderate
Risk Assessment Factors	
<ul style="list-style-type: none"> • With planned fiscal year 2002 and 2003 funding levels of approximately \$2.8 million and \$3.8 million, respectively, the function is a less significant portion of the USAID/Guatemala portfolio when compared to the funding levels of other mission functions. 	

<p>Education (continued)</p> <ul style="list-style-type: none"> • Main activities are implemented through cooperative agreements with World Learning, the University Rafael Landivar, and Education Development Center Incorporated, and through task orders with the American Institutes for Research and with Management Systems International. The mission has a Strategic Objective Grant Agreement with the Ministry of Education. • Office has experienced managers and staff. • Management performed or contracted mid-term evaluations of selected implementers and made changes to the function based on the findings. • Management monitors activities through review of annual work plans, periodic progress reports, and site visits. • Management and performance data is collected by an independent organization.

Function Description	Risk Exposure
Health – Quality of maternal-child health services in rural areas and management of public health programs	Moderate
Risk Assessment Factors	
<ul style="list-style-type: none"> • With planned fiscal year 2002 and 2003 funding levels of approximately \$15.5 million and \$11.7 million, respectively, the function is a significant portion of the USAID/Guatemala portfolio. • Activities are implemented through task orders, grant agreements, and cooperative agreements. Main implementers include University Research Corporation, La Asociación Pro-Bienestar de la Familia de Guatemala (APROFAM), and John Snow International. The mission also has a Strategic Objective Grant Agreement with the Ministry of Health. • Activities include technical assistance, field support of USAID contracted activities, and donated commodities. • Office has experienced manager and staff. • Management performed or contracted mid-term evaluations of selected implementers. 	

Health (continued)

- Management monitors activities through review of annual work plans, periodic progress reports, and site visits.
- Management and performance data is collected by an independent organization.

Function Description	Risk Exposure
Income – Production and marketing for small farmers, micro-entrepreneur businesses, economic activity, and family nutrition	High
Risk Assessment Factors	
<ul style="list-style-type: none"> • With planned fiscal year 2002 and 2003 funding levels of approximately \$19.3 million and \$23.5 million, respectively, the function is a significant portion of the USAID/Guatemala portfolio. • Activities include P.L. 480 Title II (Food Aid). The approximate funding levels for fiscal year 2002 and 2003 are \$15.8 and \$18 million, respectively. • Abt Associates was hired to evaluate monitoring and data quality. • The mission works directly with the Ministry of Agriculture on a fixed amount reimbursable basis on some construction activities. Other activities include technical assistance. • Implementing organizations perform yearly program evaluations. • Office has experienced managers and staff. • Management monitors activities through review of annual work plans, periodic progress reports, and site visits. 	

Function Description	Risk Exposure
Environment – Resource management in selected bio-regions, policies affecting the environment, and institutional strengthening	Low
Risk Assessment Factors	
<ul style="list-style-type: none"> • With planned fiscal year 2002 and 2003 funding levels of approximately \$4 million and \$3.5 million, respectively, the function is a less significant portion of the USAID/Guatemala portfolio when compared to the funding levels of other mission functions. • Main activities are implemented through indefinite quantity contracts (IQCs) with Chemonics and with International Resources Group and through a funding transfer to USAID/Washington for The Nature Conservancy. • Activities are primarily technical assistance and training. • Office has experienced staff. However, the team leader position is vacant. • Management monitors activities through review of annual work plans, periodic progress reports, and site visits. 	

Regional Program Functions

Function Description	Risk Exposure
Environment – Improved protected area management, expanded market access for environmentally sound products and services, harmonized environmental regulations, and increased use of less polluting technologies	Moderate
Risk Assessment Factors	
<ul style="list-style-type: none"> • With planned fiscal year 2002 and 2003 funding levels of approximately \$6.8 million and \$11.7 million, respectively, the function is a significant portion of the USAID/Guatemala portfolio. • Activities require interaction with high level leaders of several Central American countries. As such, the function is considered high profile and sensitive. 	

Environment (continued)

- Activities are implemented through task orders, grant agreements, cooperative agreements, and U.S. interagency agreements. Main implementers include Associates in Rural Development, The Nature Conservancy, the U.S. Environmental Protection Agency and the General Secretariat of the Central American Integration System.
- The mission is planning a \$5 million grant program to implement field activities as well as build the capacity of local implementers. Under the program, sub-grants will be limited to \$80 thousand per recipient. This activity is expected to be management intensive.
- Funding is obligated through an agreement with an association of ministers from several Central American countries.
- Office has experienced managers and staff.
- Management monitors activities through review of annual work plans, periodic progress reports, and site visits.

Function Description	Risk Exposure
<p>Trade (Competitiveness) – More open trade and investment policies, accelerated market integration, and more equitable and efficient labor markets</p>	<p>Low</p>
Risk Assessment Factors	
<ul style="list-style-type: none"> • With planned fiscal year 2002 and 2003 funding levels of approximately \$2.8 million and \$7.3 million, respectively, the function is an increasingly significant portion of the USAID/Guatemala portfolio. • Funding is obligated through an agreement with an association of ministers from several Central American countries called the Secretariat for Central American Economic Integration (SIECA). • Main activities are implemented by SIECA. • Activities are primarily technical assistance and training. • Office has experienced managers and staff. 	

Trade (continued)

- Management monitors activities through review of annual work plans and periodic progress reports.

Function Description	Risk Exposure
HIV/AIDS – Appropriate policies and strategic plans, improved prevention, support systems, and other services, and condom social marketing	Moderate
Risk Assessment Factors	
<ul style="list-style-type: none"> • With planned fiscal year 2002 and 2003 funding levels of approximately \$4.0 million and \$6.8 million, respectively, the function is a significant portion of the USAID/Guatemala portfolio. • Main activities are implemented through cooperative agreements with the Academy for Educational Development and Population Services International. • Primary activities are in disseminating information and in social marketing. • Office has experienced managers and staff. • The function is monitored and evaluated by an organization independent of implementation. • Management monitors activities through review of annual work plans, periodic progress reports, site visits, and surveys. 	

Administrative Functions

Function Description	Risk Exposure
Contracting Office – Contract negotiation, contract drafting, and contract management services	Low
Risk Assessment Factors	
<ul style="list-style-type: none"> • Contracting functions are considered significant and sensitive. 	

Contracting Office (continued)

- A procurement planning process exists and is monitored. However, the process has not been documented.
- Cognizant technical officers (CTOs) have not completed the CTO training series.
- USAID/Guatemala implements some activities through associations of Central American governments (see Regional Program Functions for Environment and for Trade). USAID procurement policy is not defined for these types of organizations.
- Contracting office has experienced managers and staff.
- Procedures for review and clearances are documented.
- Agreement clauses are reviewed for compliance with Federal Acquisition Regulations.
- Contracting office personnel are members of activity teams.

Function Description	Risk Exposure
Program Office – Coordination of budget and annual reporting	Low
Risk Assessment Factors	
<ul style="list-style-type: none"> • Operations are structured with oversight from USAID/Washington and mission management. • Program office has experienced managers and staff. • Procedures for review and clearances are documented. • Staff responsibilities are documented. • Program office personnel are members of strategic objective teams. They participate in meetings and make site visits. 	

Function Description	Risk Exposure
Executive Office – General services, information systems, personnel, procurement, maintenance, motor pool, and property management	Moderate
Risk Assessment Factors	
<ul style="list-style-type: none"> • We judged the function to have a high level of inherent risk due to the high number of regulations and procedures that must be followed in performing functions. • Executive Office has experienced managers and staff. • USAID Office of Procurement evaluated the Executive Office in 2000. No issues were noted. • USAID Information Resources Management reviewed information systems security at the mission in 2001. According to Executive Office management, USAID/Guatemala is implementing the recommendations from the review. • Information systems contingency and security plans have been developed. • Inventory is counted annually, and an automated inventory system has been installed for non-expendable inventory. Expendable inventory is tracked manually. • Vehicle usage reports are prepared monthly. 	

Function Description	Risk Exposure
Financial Management Office – Accounting, voucher payment, and financial analysis	Low
Risk Assessment Factors	
<ul style="list-style-type: none"> • The Financial Management Office (FMO) has experienced managers and staff. • FMO personnel support strategic and special objective teams. • Business duties are segregated between individuals. Segregation of accounting duties is enforced by information system controls. 	

Financial Management Office (continued)

- The office tracks and receives audits of non-U.S. recipients as required under USAID policy.
- Staff performs reconciliations, pre-award surveys, and financial analyses.

During the course of the risk assessment, we noted a number of formal and informal procedures that were incorporated by USAID/Guatemala to manage its programs. We are making, based on our conversations and limited review of mission documentation, the following suggestions for mission management to consider. These are not formal audit recommendations. The suggestions do not necessarily represent deficiencies but describe possible improvements or enhancements to activities already in process.

- USAID policy requires non-U.S. recipients who spend more than \$300,000 in a year to receive a financial audit. In some cases, these recipients may receive less than the threshold in a year but over several years may still spend a significant amount. Likewise, an audit may be justified based on non-financial implementation risks facing the recipient. USAID/Guatemala could consider whether sub-grantees expending less than \$300,000 per year merit being audited based on the cumulative amount of multi-year awards or other risk factors.
- USAID/Guatemala has agreements with two associations of ministers from Central American countries. USAID has not issued policy defining interaction between USAID and this type of group. The mission should document its current operating practices and receive policy clarification from USAID.
- Site visits are an integral part of USAID/Guatemala's monitoring plan. Although activity managers make frequent field visits, sites to be visited are not selected based on a field visit strategy. USAID/Guatemala could enhance the effectiveness of their monitoring and data verification activities by documenting field visit strategies.
- P.L. 480 Title II (Food Aid) activities are significant in Guatemala. Presently, the mission personnel monitor the function through periodic site visits as described in the preceding bullet. USAID/Guatemala should consider whether the current level of monitoring sufficiently reduces function risks.

- Information systems security and disaster recovery/contingency plans have been completed. However, they need to be updated to reflect changes in the operating environment.
- USAID/Guatemala analyzes the month-to-month changes in vehicle performance and operating cost. The mission could benefit by performing a 12-month analysis of vehicle performance and operating cost to identify changes in performance.

Conclusion

In this review, we assigned a risk exposure judgement of high, moderate, or low to each major function. The risk assignments are summarized in the following table.

Function Description	Risk Exposure		
	High	Moderate	Low
Bilateral Program Functions			
Democracy	✓		
Education		✓	
Health		✓	
Income	✓		
Environment			✓
Regional Program Functions			
Environment		✓	
Trade (Competitiveness)			✓
HIV/AIDS		✓	
Administrative Functions			
Contracting Office			✓
Program Office			✓
Executive Office		✓	
Financial Management Office			✓

A higher risk exposure judgement implies that the program objectives for a particular function are more vulnerable to not being achieved or to experiencing irregularities. Appendix I describes in detail our risk assessment's scope and methodology.

**Scope and
Methodology****Scope**

The Regional Inspector General/San Salvador conducted a risk assessment of major functions within USAID/Guatemala. The risk assessment considered operations principally for fiscal year 2002. The risk assessment was conducted at USAID/Guatemala from June 11 – 19, 2002.

Methodology

We interviewed mission officials as well as reviewed related documentation of major functions performed by USAID/Guatemala. These documents covered background, organization, management, budget, staffing responsibilities, and prior reviews. Our review of USAID/Guatemala documentation was isolated and judgmental in nature and was conducted principally to confirm management statements.

We identified USAID/Guatemala's major functions based on input from the Mission Director, discussions with mission staff, and review of mission reports. We judged risk exposure (e.g., 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 assessed overall risk exposure as high, moderate, or low. A higher risk exposure simply indicates that the particular function is more vulnerable to not achieving its program objectives or to experiencing irregularities. We considered the following key steps in assessing risk exposure:

1. determined significance and sensitivity;
2. evaluated susceptibility (inherent risk) of failure to attain program goals, noncompliance with laws and regulations, inaccurate reporting, or illegal or inappropriate use of assets or resources;
3. were alert to "red flags" such as a history of improper administration or material weaknesses identified in prior audits/internal control assessments, poorly defined and documented internal control procedures, or high rate of personnel turnover;
4. considered management support and the control environment;
5. considered competence and adequacy of staffing;
6. identified and understood relevant internal controls; and
7. determined what was already known about internal control effectiveness.

These risk exposure assessments were not sufficient to make definitive determinations of the effectiveness of internal controls for major functions. As part of the scope of our review, we (a) identified, understood, and documented (only as necessary) relevant internal controls and (b) determined what was already known about the effectiveness of internal controls.

Our risk assessment of USAID/Guatemala's major functions has the following limitations in their application.

- First, we assessed risk exposure at the major function level only.
- Second, we only assessed risk exposure. Our assessments were not sufficient to make definitive determinations of the effectiveness of internal controls for major functions. Consequently, we did not (a) assess the adequacy of internal control design, (b) determine if controls were properly implemented, nor (c) determine 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 implies 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 the assessments consider both internal and external factors, some being outside the span of control of management.
- Fifth, comparison of risk exposure assessments between organizational units is of limited usefulness due to the fact that the assessments consider both internal and external factors.

**Management
Comments**

UNITED STATES GOVERNMENT

Memorandum

DATE: August 29, 2002

From: Deborah Kennedy-Iraheta
Acting USAID/G-CAP Director

TO: Timothy E. Cox
Regional Inspector General/San Salvador

SUBJECT: Risk Assessment of Major Functions Within USAID/G-CAP (Report No. 1-520-02-xxx-S)

Mission Management has reviewed subject draft report and generally agrees with its content. On Aug. 22 and Aug. 29, however, the Mission provided via e-mail various suggestions for your consideration in preparing the final version of the report.

As mentioned at the exit conference, USAID/G-CAP has and will continue to look for ways to ensure the lowest risk exposure for its large and complex bilateral and regional portfolios. In fact, the Mission has already begun addressing the suggestions you have made in your report. These efforts will be further strengthened through implementation of a comprehensive and participatory FY-2002 Management Control Assessment.

We thank you for the usefulness and timing of your assessment, and the professionalism of RIG/SS auditors in its performance. I make myself and our staff available for any additional consultations you may need as you finalize the report.