



December 12, 2003

## MEMORANDUM

**FOR:** USAID/Brazil Director, Richard Goughnour

**FROM:** RIG/San Salvador, Steven H. Bernstein

**SUBJECT:** Risk Assessment of Major Functions within USAID/Brazil  
(Report No. 1-512-04-001-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.

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

---

## Background

Brazil is a country of tremendous contrasts and has the largest economy in South America. On the surface, Brazil has the profile of an advanced developing country. However, Brazil's relatively high per capita income masks what is nearly the worst distribution of income in the world. Hence, it is not a poor country, but rather a country with an extremely large population living in poverty—53 million people.

U.S. President Bush's March 2001 meeting with the Brazilian President confirmed the U.S. desire to strengthen its relations with Brazil. Due to its physical size (larger than the continental United States), natural resource base, and its population of 170 million, it is a major economic power in South America and a leader in hemispheric and global economic and political affairs. Brazil has shown itself to be a dynamic and committed partner in championing democracy and supporting the U.S. in its fight against terrorism. It is increasingly clear that it is in the U.S. national interest to enhance its relationship with Brazil.

---

USAID/Brazil's major program areas and their fiscal year (FY) 2003 and 2004 obligations (actual for FY 2003 and planned for FY 2004),<sup>1</sup> in millions, are presented in the following table:

<b>USAID/Brazil's Actual FY 2003 and Planned FY 2004 Obligations by Major Program Area</b>		
<b>Program Area</b>	<b>FY 2003</b>	<b>FY 2004</b>
Infectious Diseases	\$9.5	\$11.1
Environment	6.4	5.3
Energy	1.3	1.5
At-Risk Youth	1.8	1.5
Total	\$19.0	\$19.4

In October 2003, USAID/Brazil's staff consisted of 21 people – 16 foreign service nationals, 1 U.S. employee under a fellowship agreement with Johns Hopkins University, 3 U.S. direct hires, and 1 U.S. personal service contractor.

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

The purposes of the risk assessment were to identify areas where USAID/Brazil officials could focus efforts to improve their management controls and to assist the Regional Inspector General in planning future audits. The scope and methodology are shown in appendix I.

---

## **Discussion**

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

- The amount of funding the individual programs received relative to the overall Mission budget.
- The level of U.S. interest in the program activities (considered high for all activities based on information presented in the background section starting on page 1).
- The level of involvement and/or support provided by the Government of Brazil.

<sup>1</sup> USAID/Brazil provided these amounts in its comments to the draft report.

- The experience of key staff members in their area of expertise as well as in Brazil.
- Incidences of improper administration or material weaknesses (if any) noted in prior reviews, audits and/or as reported by Mission officials.
- Mission support for management controls.
- Mission self-assessment on meeting planned targets.
- The level of risk inherently present in an activity that program or administrative objectives will not be met.

The risk assessment of USAID/Brazil covered five functions.<sup>2</sup> One function was judged to have a “high” risk exposure, one function to have a “moderate” risk exposure, and three to have a “low” risk exposure. These judgements are discussed in the following tables.

Function Description	Risk Exposure
<b>Infectious Diseases Program</b> – Reduction of the transmission of selected communicable diseases (primarily HIV/AIDS and tuberculosis) in target areas	Moderate
<b>Risk Assessment Factors</b>	
<ul style="list-style-type: none"> <li>• With fiscal year 2003 and 2004 funding levels of approximately \$9.5 and \$11.1 million, respectively, the function makes up about half of the USAID/Brazil portfolio.</li> <li>• Fiscal year 2003 was a transition year because the Mission had revised its strategy. As such, many activities were ending and the new mix and structure of activities had just started.</li> <li>• According to the Mission’s self-assessment of progress, the activities met the targets included in the Mission’s Annual Report for fiscal year 2003.</li> <li>• USAID/Brazil staff responsible for the function’s activities has between two to five years of experience with USAID.</li> <li>• The activities were funded almost entirely through</li> </ul>	

<sup>2</sup> For purposes of this risk assessment, Controller Office, Contracting Office, and Executive Office operations were not considered major functions because primary responsibilities for these activities were performed by either USAID/Bolivia or the U.S. Embassy in Brazil. Additionally, in FY 2004, the Mission planned to start a Free Trade program, which was also not considered as a major function for purposes of this assessment.

USAID/Washington funding mechanisms.

- The program’s focus was parallel to Brazilian policy on communicable diseases, and all activities were coordinated with the Brazilian government and community groups.
- Management monitors function activities through review of annual work plans, periodic progress reports, and site visits.

Function Description	Risk Exposure
<b>Environment Program – Sustaining Natural Ecosystems</b>	High
<b>Risk Assessment Factors</b>	
<ul style="list-style-type: none"> <li>• With fiscal year 2003 and 2004 funding levels of approximately \$6.4 and \$5.3 million, respectively, the function is a significant portion of the USAID/Brazil portfolio.</li> <li>• The manager responsible for the function’s activities has ten years of experience with USAID.</li> <li>• Fiscal year 2003 was a transition year because the Mission is operating under a new strategy. As such, many activities were ending and the new mix and structure of activities had recently started.</li> <li>• Under the new strategy, activities are implemented with direct funding going to three Brazilian non-governmental organizations (NGOs) that had not received direct USAID funding in the past. Activities will be performed by the three Brazilian NGOs, as well as 18 other organizations—both U.S. and Brazilian—working together as a consortium.</li> <li>• In the middle of implementing the FY 2002 program, USAID/Washington cut funding for this program by 40 percent. Chances of budget cuts happening again in future years can not be predicted, but if they occur they could greatly impact the success of this program. According to Mission officials, there has been no indication that cuts will happen again.</li> <li>• According to the Mission’s self-assessment of progress included in its Annual Report for fiscal year 2003, this function exceeded its planned targets. However, according to Mission staff, the indicators used under the old strategy were not good measurements of the success of the program.</li> </ul>	

- Management monitors function activities through review of annual work plans, periodic progress reports, and site visits.

Function Description	Risk Exposure
<b>Energy Program</b> – Mitigation of global climate changes through market-based renewable energy and energy conservation	Low

#### Risk Assessment Factors

- With fiscal year 2003 and 2004 funding levels of approximately \$1.3 and \$1.5 million, respectively, the function makes up a relatively small portion of the USAID/Brazil portfolio.
- The staff responsible for the function’s activities has between two to four years of experience with USAID.
- Fiscal year 2003 was a transition year because the Mission was operating under a new strategy. As such, many activities were ending and the new mix and structure of activities had recently started.
- Under both the old and new strategies, activities are being implemented by U.S.-based organizations.
- According to the Mission’s self-assessment of progress, this function exceeded its planned targets as included in the Mission’s Annual Report for fiscal year 2003.
- Management monitors function activities through review of annual work plans, periodic progress reports, and site visits.

Function Description	Risk Exposure
<b>At-Risk Youth Program</b> – Enhancing economic opportunities for disadvantaged youth	Low

#### Risk Assessment Factors

- With fiscal year 2003 and 2004 funding levels of approximately \$1.8 and \$1.5 million, respectively, the function is a relatively small portion of the USAID/Brazil portfolio.
- The manager responsible for the function’s activities has 11 years of experience with USAID.

- Fiscal year 2003 is a transition year because the Mission was operating under a new strategy. As such, many activities were ending and the new mix and structure of activities had recently started.
- Under the new strategy, activities are implemented by two main implementers, one U.S.-based and one Brazilian organization.
- According to the Mission’s self-assessment of progress, this function met its planned targets as included in the Mission’s Annual Report for fiscal year 2003.
- Management monitors function activities through review of annual work plans, periodic progress reports, and site visits.

Function Description	Risk Exposure
<b>Program Office</b> – Coordinates budget and annual reporting	Low
Risk Assessment Factors	
<ul style="list-style-type: none"> <li>• Operations are structured with oversight from USAID/Washington and Mission management.</li> <li>• The manager responsible for the office’s activities has 11 years of experience with USAID.</li> <li>• Inherent risk in a program office is low.</li> <li>• Office personnel are members of the strategic objective teams.</li> </ul>	

During the course of the risk assessment, we are making, based on our conversations with Mission officials and limited review of Mission documentation, the following suggestions for Mission management to consider. These are not formal audit recommendations. Suggestions do not necessarily represent deficiencies, but involve possible improvements or enhancements to activities already in process or general Mission operations.

- Contrary to the requirements in USAID’s Automated Directives System (ADS) 545, neither the Mission’s Information Systems Security Officer nor his alternate were performing periodic hardware and software checks to ensure compliance with USAID guidelines. Since only one foreign service national is responsible for maintaining the Mission’s computer systems, these periodic

---

checks are important to ensuring the security of USAID/Brazil's systems. Mission management stated that they were not performing these checks because they were unaware of what checks to perform or how to perform them. Therefore, we suggest that USAID/Brazil request specific instructions from the Information Resources Management office in USAID/Washington.

- The General Services Office (GSO) at the U.S. Embassy in Brazil is responsible for maintaining the Mission's inventory of office and residential furniture and equipment. However, some items were delivered to offices without going through the GSO and, therefore, were not included in inventory records. USAID/Brazil should ensure that any goods received go either directly through the Embassy's GSO or that the GSO is immediately informed of their receipt. Follow-up should be done by the Mission to verify that all items have received bar codes and have been included in inventory records in a timely fashion.
- During the next visit by USAID/Bolivia regional contracting officials, Mission management should request that these officials review the USAID/Brazil procurement files to determine if they contain all necessary documents, authorizations, and justifications.
- USAID/Brazil should formalize procurement and payment procedures so that its staff knows the processes involved and who is responsible for what type of procurement and payment. For example, it should specify in which cases the GSO will procure items, when USAID/Bolivia will procure them, and when USAID/Brazil will do it.
- The Mission should formalize its follow-up on the vulnerabilities it identifies during its annual Federal Managers' Financial Integrity Act (FMFIA) review. Specifically, it should establish and document the people responsible for correcting the weaknesses, planned completion dates, and dates weaknesses were corrected.
- During next year's review of their management controls (for the FMFIA review), Mission management should ensure that all checklist answers are complete and documented.
- USAID/Brazil should notify and train all non-U.S. recipients of USAID funds (including any sub-recipients) that expend more than \$300,000 (in USAID funds) a year of the audit requirements. Furthermore, the audits must be performed by an accounting firm that has been certified by USAID's Office of Inspector General to perform audits of USAID funds. Specific requirements are found in ADS 591.

- The Mission should review the Memorandum of Understanding signed in February 2000 concerning the regional support services among the USAID missions in Bolivia, Brazil, and Paraguay, to determine if the same relationship and processes exist currently. If processes and/or responsibilities have changed, this Memorandum of Understanding should be modified.

## Conclusion

This review assigned a risk exposure judgement of high, moderate, or low for each major function. The risk assignments are summarized in the table below.

Function Description	Risk Exposure		
	High	Moderate	Low
Infectious Diseases Program		✓	
Environment Program	✓		
Energy Program			✓
At-Risk Youth Program			✓
Program 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 the 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/Brazil. The risk assessment considered actual and planned operations principally for fiscal years 2003 and 2004 and was conducted at USAID/Brazil from October 14 – 17, 2003.

**Methodology**

We interviewed Mission officials as well as reviewed related documentation of major functions performed by USAID/Brazil. These documents covered background, organization, management, budget, staffing responsibilities, and prior reviews. The review of Mission documentation was isolated and judgmental in nature and was conducted principally to confirm our discussions with management.

We identified USAID/Brazil'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:

- The amount of funding the individual programs received relative to the overall Mission budget.
- The level of U.S. interest in the program activities.
- The level of involvement and/or support provided by the Government of Brazil.
- The experience of key staff members in their area of expertise as well as in Brazil.
- Incidences of improper administration or material weaknesses (if any) noted in prior reviews, audits and/or as reported by Mission officials.
- Mission support for management controls.
- Mission self-assessment on meeting planned targets.

- The level of risk inherently present in an activity that program or administrative objectives will not be met.

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

The risk assessment has the following limitations.

- First, we assessed risk exposure at the major function level only.
- Second, we only assessed risk exposure. The assessments were not sufficient to make definitive determinations of the effectiveness of management controls for major functions. Consequently, we did not (a) assess the adequacy of management control design, (b) determine if controls were properly implemented, or (c) determine if transactions were properly documented.
- Third, higher risk exposure assessments are not definitive indicators that program objectives are not being achieved or that irregularities are 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, some being outside the span of control of management.

## Management Comments

## memorandum

**DATE:** November 26, 2003

**REPLY TO**

**ATTN OF:** Dick Goughnour, USAID/Brazil Director

**TO:** Steven H. Bernstein, RIG/San Salvador

**SUBJECT:** Risk Assessment of Major Functions within USAID/Brazil  
(Report No. 1-512-04-00X-S)

On behalf of the entire USAID/Brazil staff, I would like to express our appreciation for the conscientious and collaborative effort reflected in the subject Risk Assessment report. The findings and accompanying recommendations will be extremely helpful to the Mission as we work to ensure that our administrative and programmatic operations are in full compliance with USAID policies and regulations, and that our resources are managed in the most efficient manner possible.

Through this memorandum, USAID/Brazil provides its formal concurrence with the risk assessment findings. We have already initiated a number of actions in response to the specific suggestions included in the report, and commit to following through until each identified weakness is fully addressed.

The following comments are provided for your consideration:

- The funding chart included on page two of the draft report should be corrected as follows:

<b>USAID/Brazil Actual FY 2003 and Projected FY 2004 Obligations by Major Program Area</b>		
<b>Program Area</b>	<b>FY 2003</b>	<b>FY 2004</b>
Infectious Diseases Program	\$ 9.5	\$11.1
Environment Program	6.4	5.3
Energy Program	1.3	1.5
At-Risk Youth Program	1.8	1.5
Free Trade and SME Growth		1.0
Total	\$19.0	\$20.4

- For all four Strategic Objective “Risk Assessment Factor” charts (presented on pages three through six of the draft report), the funding levels included in the first bullet under each SO “Function Description” should also be adjusted to reflect the values listed in the preceding table.
- Specific to the “Risk Assessment Factors” chart for the Environmental Program presented on page 4, fifth bullet, the 40% funding cut referred to actually occurred in FY 2002, and not in FY 2003 as stated. Although the report statement that “chances of budget cuts happening again in future years cannot be predicted” is obviously correct, the Mission also has no indication that this will in fact be the case. To the contrary, the LAC Bureau-USAID/Brazil Management Agreement formalized in August of 2002 with the approval of the Mission’s FY 2003-2008 strategic plan provides stable funding levels through the end of the strategy period.
- With regard to the “High” risk exposure rating attributed to the Environmental Program, the Mission understands that the primary factor behind this classification was the fact that the program will be implemented with direct funding going to three new partners, all of which are Brazilian NGOs. The logic behind this rating makes sense, but the Mission would like to note that each organization was subjected to a rigorous pre-award survey prior to finalizing the corresponding grants. Moreover, all findings were resolved to the satisfaction of the Regional Contracts Officer and the Mission. That said, the Mission will continue to monitor these activities closely to ensure they achieve results in compliance with all applicable regulations and grant provisions.

With respect to the specific suggestions provided to correct identified weaknesses, the Mission concurs fully, and in some cases, has already initiated corrective action. We plan to treat these suggestions as if they were official audit recommendations, documenting the corresponding actions until each identified weakness has been successfully addressed.

Again, USAID/Brazil would like to express its appreciation to the Regional Inspector General’s Office for its professionalism, and for the valuable information and suggestions included in the subject report.