

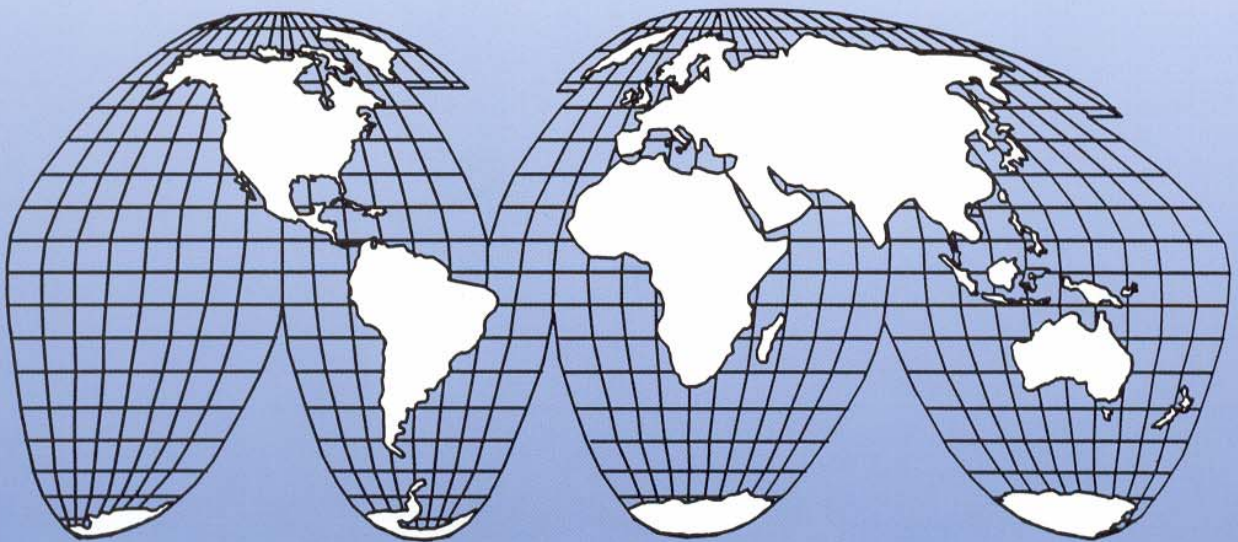
USAID

OFFICE OF INSPECTOR GENERAL

Risk Assessment of Major Functions Within USAID/Mexico

Report No. 1-523-03-003-S

June 24, 2003



San Salvador, El Salvador

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June 24, 2003

MEMORANDUM

FOR: USAID/Mexico Director, Paul E. White

FROM: Acting RIG/San Salvador, Christine M. Byrne “/s/”

SUBJECT: Risk Assessment of Major Functions Within USAID/Mexico (Report No. 1-523-03-003-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

Since the activation of the North American Free Trade Agreement in 1994, Mexico has become the second largest trading partner of the U.S., and is among the top ten export markets for 43 U.S. states. In November 2002, it became the primary supplier of crude oil to the U.S., providing almost 16 percent of imports. As announced by President Bush during Mexican President Fox’s visit in September 2001, and reiterated in early May 2002 at the White House, “This is a recognition that the United States has no more important relationship in the world than the one we have with Mexico. Good neighbors work together and benefit from each other’s successes.”

Not all Mexicans are reaping the benefits this extensive trade and international visibility might offer, however, and a growing inequality in the distribution of benefits has given rise to the concept of “The Two Mexicos.” Although the Government of Mexico estimated Gross Domestic Product (GDP) per capita at about \$6,400, data from the National Income and Expenditure Household Survey implemented biannually by Mexico’s Statistics Institute for 2000 showed that about 53 percent of all Mexicans – or about 50.5 million people – had an annual income of less than about \$1,440, and 23.3 percent of all Mexicans – or about 22.2 million people – had an annual income of less than \$720. By comparison, the GDP per capita in Guatemala (population 13 million) in the same period was \$1,642, and in Honduras (population 6.2 million) was \$920.

USAID/Mexico’s program areas and their fiscal year (FY) 2002 and 2003 obligations,¹ in millions, are presented in the following table:

USAID/Mexico’s Obligations by Program Area		
Program Area	FY 2002	FY 2003
HIV/AIDS	\$1.5	\$2.2
Tuberculosis	8.0	4.0
Democracy	9.7	11.7
Environment & Energy	6.0	6.6
Microfinance	0.7	0.9
Training Internship Exchanges and Scholarships (TIES)	1.0	5.0
Total	\$26.9	\$30.4

At April 1, 2002, USAID/Mexico’s staff consisted of 25 people – 13 foreign service nationals, 3 U.S. employees under agreements with other U.S. government agencies, 3 U.S. direct hires, and 6 U.S. personal service contractors.

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 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 internal controls.

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

¹ Amounts are actual obligations made in 2002 and planned obligations for 2003 as reported by USAID/Mexico in its fiscal year 2003 Annual Report.

Discussion

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

- The amount of funding the individual programs received relative to the overall mission budget (see above details of the mission’s \$30.4 million FY 2003 program).
- The level of U.S. interest in the program activities (considered high for all activities based on information presented in the background section on page 1).
- The level of involvement and/or support provided by the Government of Mexico.
- The experience of key staff members in their area of expertise as well as in Mexico.
- Incidences of improper administration or material weaknesses (if any) noted in prior reviews, audits and/or as reported by mission officials.
- Management support for internal 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/Mexico covered 10 functions. One function was judged to have a “high” risk exposure, five functions to have a “moderate” risk exposure, and four to have a “low” risk exposure. These judgements are discussed in the following tables.

Function Description	Risk Exposure
HIV/AIDS – Prevention and control of HIV/AIDS and other infectious diseases	Moderate
Risk Assessment Factors	
<ul style="list-style-type: none">• With fiscal year 2002 and 2003 funding levels of approximately \$1.5 million and \$2.2 million respectively, the function is a significant portion of the USAID/Mexico portfolio.	

- Fiscal year 2003 is a transition year because the mission is revising its strategy. As such, many activities are ending and the new mix and structure of activities has yet to be decided.
- According to the mission’s self-assessment of progress, the activities did not meet the target included in the mission’s annual report for fiscal year 2002. However, this assessment was based on results from one minor indicator and the mission stated that it believes that the overall success of the HIV/AIDS activities has been positive.
- The USAID/Mexico manager responsible for the function’s activities has at least eight years of experience with USAID.
- The activities are funded entirely through USAID/Washington funding mechanisms.
- Management monitors function activities through review of annual work plans, periodic progress reports, and site visits.

Function Description	Risk Exposure
Tuberculosis – Prevention and control of Tuberculosis	High
Risk Assessment Factors	
<ul style="list-style-type: none"> • With fiscal year 2002 and 2003 funding levels of approximately \$8.0 million and \$4.0 million respectively, the function is a significant portion of the USAID/Mexico portfolio. • Activities are implemented through an agreement with the Government of Mexico, which had to be renegotiated in fiscal year 2002. • According to the mission’s self-assessment of progress, the activities did not meet their planned targets in fiscal year 2002. Additionally, an OIG audit report² stated that the activities were behind schedule as of December 31, 2001. • The USAID/Mexico manager responsible for the function’s activities has 13 years of experience with USAID. 	

² Audit Report No. 1-523-02-009-P, dated May 6, 2002, issued by the Regional Inspector General/San Salvador, entitled “Audit of USAID/Mexico’s Program to Develop Institutional Capacity to Diagnose, Control and Monitor Tuberculosis.”

- Tuberculosis activities involve direct procurement of equipment by USAID and probable implementation of programs by the United Nations Development Program, which is a public international organization.
- Management monitors function activities through review of annual work plans, periodic progress reports, and site visits.

Function Description	Risk Exposure
Democracy – Strengthening local governance and legislatures and improving the administration of justice, transparency and accountability	Moderate
Risk Assessment Factors	
<ul style="list-style-type: none"> • With fiscal year 2002 and 2003 funding levels of approximately \$9.7 million and \$11.7 million respectively, the function is the most significant portion of the USAID/Mexico portfolio. • The function is considered extremely politically sensitive and many components are classified. • There is increasing political support of activities by the Government of Mexico. • The manager responsible for the function’s activities has six years of experience with USAID. • Fiscal year 2003 is a transition year because the mission is revising its strategy. As such, many activities are ending and the new mix and structure of activities has yet to be decided. • Activities are implemented currently with eight cooperative agreements and contracts. Under the new strategy (which is currently still in draft) the mission expects to utilize all U.S. contractors under existing General Services Administration and USAID/Washington funding mechanisms. • According to the mission’s self-assessment of progress, this function met its planned targets in fiscal year 2002. • Management monitors function activities through review of annual work plans, periodic progress reports, and site visits. 	

Function Description	Risk Exposure
Environment and Energy – Conserving critical ecosystems and biological resources and reducing carbon dioxide emissions and pollution	Moderate
Risk Assessment Factors	
<ul style="list-style-type: none"> • With fiscal year 2002 and 2003 funding levels of approximately \$6.0 million and \$6.6 million respectively, the function is a significant portion of the USAID/Mexico portfolio. • The manager responsible for the function’s activities has four years of experience with USAID. • Fiscal year 2003 is a transition year because the mission is revising its strategy. As such, many activities are ending and the new mix and structure of activities has yet to be decided. • Activities are implemented currently with several types of funding mechanisms, including 11 cooperative agreements, 2 contracts, 2 agreements with other U.S. Government agencies, a grant, an endowment, and a training agreement. All activities, except the small grants endowment and a USAID/Washington-managed cooperative agreement, are expected to end by September 2004. • Under the new strategy (which is currently still in draft) the mission expects to implement activities through no more than five USAID/Washington funding mechanisms and/or agreements with other U.S. Government agencies. • According to the mission’s self-assessment of progress, this function met its planned targets in fiscal year 2002. • Management monitors function activities through review of annual work plans, periodic progress reports, and site visits. 	

Function Description	Risk Exposure
Microfinance – Strengthening the institutional base for sustainable micro enterprise growth by supporting Mexican initiatives	Low
Risk Assessment Factors	
<ul style="list-style-type: none"> • With fiscal year 2002 and 2003 funding levels of less than \$1 million, the function was the smallest portion of the USAID/Mexico portfolio. • This is a relatively new function that started between 2001 and 2002. It is implemented by a U.S. contractor and managed by a U.S. employee under an agreement with another U.S. government agency. • As with the activities under other functions, this activity will be terminating in 2004. • According to the mission’s self-assessment of progress, this function met its planned targets in fiscal year 2002. 	

Function Description	Risk Exposure
Training Internship Exchanges and Scholarships – Enhancing capacity of participating Mexican scholars and institutions	Low
Risk Assessment Factors	
<ul style="list-style-type: none"> • With fiscal year 2002 and 2003 funding levels of approximately \$1 million and \$5 million respectively, the function is the second smallest compared to the mission’s other program areas. • This function started with a joint announcement by Presidents Bush and Fox in September 2001. • The activity, implemented primarily by USAID/Washington through a cooperative agreement, will fund 750 Mexicans in master degree programs in the U.S. and will form 35 partnerships between U.S. and Mexican universities. 	

Function Description	Risk Exposure
Contracting Office – Contract negotiation, contract drafting, and contract management services	Low
Risk Assessment Factors	
<ul style="list-style-type: none"> • USAID/Mexico does not have a Contracting Office. The Regional Contracting Office in El Salvador supports the mission. • The equivalent of four staff members' time in El Salvador's Contracting Office (out of a total staff of 11) is dedicated to working with USAID/Mexico contracting issues. Staff has extensive USAID experience. • Contracting office staff travel at least quarterly to USAID/Mexico, and participate in mission and strategic objective team meetings. • Procurement plans were prepared and reviewed regularly. • A recent procurement evaluation yielded positive results. 	

Function Description	Risk Exposure
Program Office – Coordinates 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. • The manager responsible for the office's activities has 13 years of experience with USAID; however, he just arrived in January 2003 and is the first program officer that USAID/Mexico has had. A deputy program officer is arriving on April 25, 2003. These positions were added as a result of recommendations from past management assessments. • The mission has made a substantial effort to reorganize the mission's structure and staff's responsibilities and to add two U.S. direct hires to manage this office. • Inherent risk in a program office is low. • Office personnel are members of the strategic and special objective teams. 	

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"> • Fiscal years 2002 and 2003 operating expense budgets were approximately \$1 million. • The function has a high level of inherent risk due to the high number of regulations and procedures that must be followed in performing functions. • The Executive Officer position was added last year as a result of a management assessment of mission operations. Previous executive office operations were split between mission personnel with little to no training. • Local hire Executive Office staff has little experience with USAID rules and regulations. The Executive Officer has four years of experience with USAID. • USAID/Mexico participates in a U.S. Embassy system that provides several administrative services including: Medical, Human Resources, Shipping & Customs, Housing & Maintenance, and Security. • A recent procurement evaluation yielded several weaknesses that the Executive Officer is currently working to correct. • Inventory is counted at least annually. • The mission’s “Motor Pool” consists of one car and one driver. 	

Function Description	Risk Exposure
Financial Management Office – Accounting, voucher payment, and financial analysis	Moderate
Risk Assessment Factors	
<ul style="list-style-type: none"> • USAID/Mexico is not an accounting station and it does not have a Controller’s Office. The Financial Management Office in San Salvador, El Salvador supports the mission. • A U.S. personal services contractor in El Salvador, with over 30 years of 	

experience with USAID, is authorized to certify vouchers.

- USAID/Mexico employs two financial analysts, with a combined experience of four years with USAID, who report to the Program Officer. Their work, however, is overseen by USAID/El Salvador staff.
- Although currently assigned to the Executive Office, one mission employee worked in the financial management area for over 18 years with USAID/Mexico.
- Financial Analysts are members of the strategic and special objective teams responsible for implementing functions.
- In the last two years, there were five instances where USAID/Mexico provided obligating documents late to USAID/El Salvador for entering into the accounting system. There was also one instance where USAID/Mexico obligated funds prior to ensuring that funds were available. As a result, \$9,000 was obligated in excess of what was available at the time. This funding violation was properly documented and reported to USAID/Washington.
- Financial Management Office staff from USAID/El Salvador travel to Mexico at least quarterly and review audit inventory reports and other reports done by the financial analysts.

During the course of the risk assessment, we are making, based on our conversations and limited review of mission documentation, the following suggestion for mission management to consider. This is not a formal audit recommendation. The suggestion does not necessarily represent deficiencies, but involves possible improvements or enhancements to activities already in process.

An agreement was signed in 1951 between the U.S. and Mexican governments that provides for all development assistance given to Mexico to be tax free. Nonetheless, based on estimated amounts³ provided by USAID/Mexico, in one year USAID made between \$2.8 million and \$4.9 million in payments to its grantees and contractors that would have included between \$420,000 and \$735,000 in taxes paid to the Government of Mexico. The mission should continue working with the Government of Mexico to resolve this issue so that the maximum amount of USAID funds can be used directly for development assistance purposes.

³ According to USAID/Mexico, these amounts are a rough, and possibly high, calculation based on the operating year budget for fiscal year 2001, which was \$20 million.

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
HIV/AIDS		✓	
Tuberculosis	✓		
Democracy		✓	
Environment and Energy		✓	
Microfinance			✓
Training, Internship Exchanges and Scholarships (TIES)			✓
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 the risk assessment's scope and methodology.

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

The Regional Inspector General/San Salvador conducted a risk assessment of major functions within USAID/Mexico. The risk assessment considered operations principally for fiscal year 2003. Due to travel restrictions based on security concerns, we could not conduct the risk assessment in Mexico. The risk assessment was conducted at USAID/El Salvador from March 31 – April 24, 2003, utilizing conference calls with USAID/Mexico officials.

Methodology

We interviewed officials as well as reviewed related documentation of major functions performed by USAID/Mexico. 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/Mexico'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 Mexico.
- The experience of key staff members in their area of expertise as well as in Mexico.
- Incidences of improper administration or material weaknesses (if any) noted in prior reviews, audits and/or as reported by mission officials.
- Management support for internal 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 internal controls for major functions. As part of the scope of the review, we (a) identified, understood, and documented relevant internal controls and (b) determined what was already known about the effectiveness of internal 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 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 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**



13 June 2003

MEMORANDUM
UNCLASSIFIED

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

FROM: John Beed
Acting Mission Director, USAID/Mexico

SUBJECT: Risk Assessment of Major Functions Within USAID/Mexico, Report No. 1-523-03-0XX-S

Mission Management has reviewed subject draft report and generally agrees with its content.

In support of your suggestion, the Mission plans to continue to work with the Government of Mexico to resolve the tax reimbursement issue. The Mission is committed to reducing risk and vulnerabilities at all levels and will continue to strive to achieve this goal.

Thank you for taking the time to conduct this assessment. In particular, we appreciate your willingness to work so flexibly and collaboratively given the “virtual” circumstances. As always, your staff pursued this assessment with utmost professionalism and openness.

Please do not hesitate to contact me or my staff if you need additional information to finalize this report.