

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

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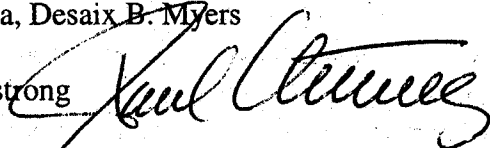


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July 7, 1999

MEMORANDUM

TO: Director, USAID/Indonesia, Desaix B. Myers

FROM: RIG/Manila, Paul E. Armstrong 

SUBJECT: Audit of USAID/Indonesia's Implementation of the Federal Managers' Financial Integrity Act, Report No. 5-497-99-004-P

This is our final report on the subject audit. We reviewed your comments to the draft report and included them in their entirety as Appendix II. The report contains three recommendations (see pages 6, 8 and 9). Based on the Mission's comments, a management decision has been reached on all three recommendations.

I appreciate the cooperation and courtesies extended to my staff during the audit.

Background

The Federal Managers' Financial Integrity Act of 1982 (FMFIA) establishes requirements with regard to management accountability and controls. This law encompasses program, operational, and administrative areas as well as accounting and financial management. Under the authority of the FMFIA, the Office of Management and Budget (OMB) issued Circular No. A-123¹ to provide detailed guidance for assigning federal managers the responsibility for designing management structures that help ensure accountability and include appropriate cost-effective controls.

OMB Circular No. A-123 states that management controls are the organization, policies and procedures used to reasonably ensure that (1) programs achieve their intended results; (2) resources are used consistent with agency mission; (3) programs and resources are protected from waste, fraud, and mismanagement; (4) laws and regulations are followed; and (5) reliable and timely information is obtained, maintained, reported and used for decision making. The Circular provides guidance to Federal managers on improving the accountability and effectiveness of Federal programs and operations by establishing, assessing, correcting, and reporting on management controls.

USAID has issued Automated Directives System (ADS) Chapter 596, Management Accountability and Control, which provides the Agency's policy and procedures for establishing, assessing, correcting, and reporting on management controls under FMFIA

¹ OMB Circular No. A-123 is titled Management Accountability and Control and was revised in June 1995.

and OMB Circular No. A-123. Additional guidance for assessing the adequacy of management controls and annual instructions for reporting the status of management controls is periodically provided by USAID's Bureau for Management's Office of Management Planning and Innovation (M/MPI).

Over the past year and a half, Indonesia has been enmeshed in political, economic and social crises. After over 30 years in office, the government of President Suharto came to an end in May 1998 amid widespread demonstrations, rioting and looting throughout the country. Indonesia had its parliamentary elections on June 7, 1999, and the final election results are still pending. The political and economic situation is unsettled and is likely to remain so at least until a new government is formed. USAID/Indonesia has made numerous changes in its programs and operations to respond to these crises.

Audit Objectives

The Office of the Regional Inspector General, Manila (RIG/Manila), audited USAID/Indonesia to answer the following audit objectives:

- **Has USAID/Indonesia established management controls and periodically assessed these controls to identify deficiencies in accordance with the Federal Managers' Financial Integrity Act and related regulations and guidance?**
- **Has USAID/Indonesia reported material weaknesses in accordance with the Federal Managers' Financial Integrity Act and related regulations and guidance?**
- **Has USAID/Indonesia taken timely and effective action to correct identified management control deficiencies in accordance with the Federal Managers' Financial Integrity Act and related regulations and guidance?**

Appendix I includes a discussion of the scope and methodology for this audit.

Audit Findings

Has USAID/Indonesia established management controls and periodically assessed these controls to identify deficiencies in accordance with the Federal Managers' Financial Integrity Act and related regulations and guidance?

USAID/Indonesia has established management controls and periodically assessed these controls to identify deficiencies in accordance with the FMFIA and related regulations and guidance.

As stated above, FMFIA and OMB Circular No. A-123 provide guidance for use by agencies and managers to, among other things, establish management controls and to periodically assess the adequacy of those controls. Further, ADS Chapter 596, "Management Accountability and Control" instructs missions and cognizant managers to: (1) appoint a Management Control Official (MCO) to oversee and coordinate management accountability and control issues within the mission; (2) ensure that appropriate and cost-effective management controls are established; (3) continuously perform management control assessments in accordance with instructions issued by USAID's Bureau for Management's Office of Management Planning and Innovation (M/MPI); and (4) establish a Management Control Review Committee (MCRC) to assess and monitor deficiencies in management controls.

Moreover, M/MPI provides annual guidance to missions for conducting FMFIA reviews. In conducting reviews, missions are instructed to use existing sources of information to supplement management's judgment in assessing the adequacy of management controls, including:

- 1) Management knowledge gained from daily operation of Agency programs and systems,
- 2) Management reviews,
- 3) Office of Inspector General and General Accounting Office reports, and
- 4) Program evaluations.

Missions are also instructed to review the Agency's ADS in determining mission compliance with Agency policies and essential procedures. M/MPI provides a Management Control Checklist to assist in conducting the reviews. The Fiscal Year 1998 Checklist contained 163 control techniques extracted from the ADS.

Results: In implementing the ADS, USAID/Indonesia had appointed the Controller as the MCO to oversee and coordinate management accountability and control issues within the Mission. The Mission had also established a MCRC—comprised of Office Managers and headed by the Deputy Mission Director—to provide oversight of its management control process.

According to Mission officials, the Mission primarily follows the policies and procedures as stated in USAID's ADS. When deemed necessary, the Mission issues Mission Orders and memos to complement or further clarify the ADS and establishes any needed policies, procedures and systems. For example, a Mission Order was issued to delineate operational and program responsibilities among mission officials. In another case, the USAID/Indonesia's Finance Office (FIN) and the Program Office (PRO) jointly instituted a tracking system to help ensure that Fiscal Year 1999 funds are obligated in a timely fashion before year end. This system tracks funding documents through the process and includes target and actual dates for drafting obligation documents, obtaining mission clearance of documents and Government of Indonesia approval, providing Congressional Notification, and obtaining final signature.

Moreover, USAID/Indonesia's Democracy Office has established a grant tracking system, which tracks the initiation of grant proposals, the status of grant approval, and grant implementation. Because of the fast-changing political and economic environment, the Mission Director holds frequent meetings with his senior staff and Special Objective² Team Leaders to discuss and resolve issues.

USAID/Indonesia took an organized and conscientious approach in completing the Fiscal Year 1998 FMFIA Assessment. As the lead office, FIN issued a memo to the various office heads that provided guidance in performing the review. The memo included a timetable for conducting the review and identified the officers responsible for completing the various parts of M/MPI's checklist containing the 163 control techniques. The following table highlights the areas addressed by these control techniques.

² All Mission objectives are called Special Objectives to emphasize the short-term focus of crisis activities and the difficulty of planning in the uncertain political climate.

CONTROL TECHNIQUES	
CATEGORY	NUMBER
Program Assistance	37
Organization Management	7
Administrative Management	40
Financial Management	44
Acquisition and Assistance	27
Audit Management Resolution Program	5
Other	3
TOTAL	163

Upon receipt of the checklist, each office or special objective team determined whether the controls in their assigned areas were satisfactory and noted any deficiencies. The office/team then summarized their evaluation and submitted their results to FIN. After receiving these results, the Controller and Deputy Director met with responsible officers, as necessary, to discuss their responses and recommended revisions. The Controller then issued a memo to the MCRC members summarizing the results of the review, including a summary of deficiencies identified.

Has USAID/Indonesia reported material weaknesses in accordance with the Federal Managers' Financial Integrity Act and related regulations and guidance?

OMB and USAID guidance state that deficiencies that are or should be of interest to the next level of management are to be considered material weaknesses and reported. USAID/Indonesia did not report any material weaknesses in its Fiscal Year 1998 FMFIA certification because it did not believe any of the deficiencies identified were material weaknesses. Furthermore, the Mission indicated that it was already communicating its problems and concerns to USAID/Washington through other channels. However, we believe that several of the weaknesses/concerns identified by the Mission were collectively a material weakness or major concerns that should have been formally reported to USAID/Washington. Therefore, we believe that USAID/Indonesia could add

value to its future FMFIA certifications by disclosing such material weaknesses or major concerns that are unresolved at the time the certification is made.

Recommendation No. 1: We recommend that USAID/Indonesia disclose all unresolved material weaknesses and major concerns in its future FMFIA certifications that would or should be of interest to USAID/Washington.

OMB Circular No. A-123 requires that a deficiency be reported if it is or should be of interest to the next level of management. This allows the chain of command structure to determine the relative importance of each deficiency. Along these lines, USAID's ADS Chapter 596 and M/MPI's Fiscal Year 1998 FMFIA Instructions require that missions provide a FMFIA compliance certification to the cognizant Assistant Administrator,³ with a copy to M/MPI, on the overall adequacy and effectiveness of management controls. This certification should identify deficiencies determined to be material weaknesses,⁴ including those that are not correctable within the mission's authority and resources. Additionally, we recognize that missions may have significant issues that cannot be definitively categorized as material weaknesses at the time of their FMFIA certifications. We consider such issues to be major concerns and believe that disclosing such issues in their FMFIA certifications would add value to the FMFIA process by alerting the next level of management about potential problems.

USAID/Indonesia submitted a Fiscal Year 1998 FMFIA Certification to the AA/ANE that did not include any material weaknesses. However, we believe that several of the weaknesses/concerns identified by the Mission in its review were collectively a material weakness or major concerns that, in our opinion, were or should have been of interest to the AA/ANE and could have made its FMFIA certification more informative. These weaknesses/concerns were the result of the rapid change in USAID/Indonesia's programs and operations brought upon by the political and economic crisis in Indonesia. Examples include:

- **Need for a Revised Strategic Plan** - Because of the changing political, economic and social environment in Indonesia, the Mission's approved strategic plan at the time the certification was prepared in October 1998 was no longer relevant. Therefore, USAID/Indonesia had been working on several revised strategic plans to respond to the crisis. A revised strategic plan—entitled "Crisis and Recovery"—was submitted to and approved by

³ For USAID/Indonesia, the cognizant Assistant Administrator is the Asia and Near East Bureau (AA/ANE).

⁴ A material weakness would (1) significantly impair the organization's ability to achieve its objectives; (2) result in the use of resources in a way that is inconsistent with Agency mission; (3) violate statutory or regulatory requirements; (4) result in a significant lack of safeguards against waste, loss, unauthorized use or misappropriation of funds, property, or other assets; (5) impair the ability to obtain, maintain, report and use reliable timely information for decision making; or (6) permit improper ethical conduct or a conflict of interest.

USAID/Washington in November 1998.

- Food Aid Management System – Because of the crisis, the Mission received approximately \$50 million in Public Law Title II food aid in late Fiscal Year 1998. The Mission expressed concern at the time of the Fiscal Year 1998 review that the food aid management systems were not yet fully in place and anticipated that the systems would be in place by mid-Fiscal Year 1999.
- Staffing Needs and Organization Structure – The Mission expressed concern that its existing official functional statements did not reflect the current organizational structure needed to implement a crisis management program in a rapidly changing environment. The Mission stated that it would conduct an assessment of staffing needs and identify functions essential to the accomplishment of the Mission's crisis strategy.
- A General Concern about Management Vulnerabilities – Because of the rapid expansion and shift in the Mission's programs, the Mission expressed a general concern about management vulnerabilities. The Mission stated that it would examine its existing controls and put into place mechanisms to ensure that vulnerabilities are minimized or eliminated.

USAID/Indonesia did not report any material weaknesses in its Fiscal Year 1998 FMFIA certification because it did not believe any of the deficiencies identified were material weaknesses. Furthermore, mission officials stated that they were keeping USAID/Washington, and specifically, the ANE Bureau, informed of the problems, concerns, etc., on a daily and weekly basis. For example, mission officials stated that the ANE Bureau was keenly aware that the Mission was working on a new strategy. Also, USAID/Washington and the Mission were in constant contact to help the Mission with its staffing needs. Mission officials also stated that it sends weekly Mission management meeting notes to the Indonesia Desk Officer who then distributes the notes to various ANE Bureau officials.

Formal reporting of unresolved material weaknesses or major concerns, as well as the ultimate resolution of those weaknesses/concerns, to the next level of management is necessary to ensure that management is aware of such weaknesses/concerns so that appropriate action can be taken. Formal reporting of weaknesses to the next level of management is especially important when the problems may not be correctable within the mission's authority and resources. It is also important in terms of fostering a positive institutional environment of accountability, to ensure that a historical record of awareness of and attempts to resolve material weaknesses is maintained. Finally, formal FMFIA reporting of problems is necessary for USAID to accurately report deficiencies deemed to be material to USAID as a whole, which must be included in the annual FMFIA report to the President and the Congress.

Has USAID/Indonesia taken timely and effective action to correct identified management control deficiencies in accordance with the Federal Managers' Financial Integrity Act and related regulations and guidance?

OMB Circular No. A-123 and USAID guidance state that agency managers are responsible for taking timely and effective action to correct deficiencies identified. Although USAID/Indonesia took timely and effective action to correct some of its identified deficiencies, it needs to improve its follow-up system to ensure timely and effective action on all deficiencies.

Recommendation No. 2: We recommend that USAID/Indonesia (a) include target dates for completing corrective actions in corrective action plans, (b) review the status of the outstanding deficiencies quarterly, and (c) document the Management Control and Review Committee's review and approval of corrective action taken.

OMB Circular No. A-123 and USAID guidance state that agency managers are responsible for taking timely and effective action to correct deficiencies identified. Furthermore, corrective action plans should be developed and tracked internally by each assessable unit.

The Mission prepared corrective action plans for deficiencies identified in its Fiscal Year 1997 and 1998 FMFIA reviews. However, we noted some improvements were needed in its follow up system. First, the action plans did not include target dates for completing the necessary actions. Target dates would facilitate following up on the deficiencies and knowing whether corrective actions are on schedule. For example, regarding the need to assess staffing needs and revise official functional statements, it would have been helpful for the Mission to establish target dates for conducting the assessment and implementing the assessment's conclusions (i.e., hiring needed staff and revising the official work requirements) to help ensure that the critical staffing gaps were filled in a timely fashion.

Second, the Mission did not always follow up in a timely manner on the status of the deficiencies. In its Fiscal Year 1997 review, the Mission had identified 15 deficiencies. A status report was not prepared until the time of the Fiscal Year 1998 review, almost one year later. This status report indicated that 8 of the 15 deficiencies had been corrected and 7 were carried forward to Fiscal Year 1999.

In its Fiscal Year 1998 review, the Mission identified 12 deficiencies, including several deficiencies carried forward from the 1997 review. As of the time of the audit in May 1999, the Mission had not followed up to determine the status of the 12 deficiencies. In following up with mission officials, we noted that the Mission had taken some steps to

correct several of the deficiencies; however, it was unclear whether the other deficiencies had been corrected. Not reviewing the status of outstanding deficiencies on an interim basis (i.e., quarterly) could lead to the unfortunate impression that FMFIA is only an annual exercise.

Finally, the Mission did not maintain documentation, i.e., minutes of MCRC meetings, to show that the MCRC reviewed and approved the corrective actions taken. Such documentation would show that the MCRC reviewed the actions taken on the deficiencies and determined that the actions were sufficient to correct the deficiencies.

Other Matters — Risk Assessments Would Further Strengthen the Mission's FMFIA Process

USAID/Indonesia has established the management controls outlined in the ADS and, in some cases, has supplemented those controls. However, we believe the Mission could further strengthen the efficiency of its review of those controls, by performing a formal and systematic risk assessment of its operations and programs.

Recommendation No. 3: We recommend that USAID/Indonesia determine whether a formal and systematic risk assessment would strengthen the efficiency of its FMFIA process.

Every Federal agency faces risks that could threaten the achievement of its objectives—and USAID is no exception. USAID as a whole, its field missions and even offices within those missions face a variety of risks from both external and internal sources. Risk assessment is the identification and analysis of possible risks to meeting objectives and forming a basis for how those risks should be managed or controlled. Primarily, risk assessment consists of managers asking themselves what positive outcomes need to occur and what negative outcomes need to be prevented in order for their operation/program to succeed. The manager would then:

- 1) Identify conditions that might inhibit positive outcomes and conditions that might foster negative outcomes (identifying risks),
- 2) Determine the probability and impact of those risks (determining the level of risk - generally high, medium or low), and
- 3) Based on the level of risk, set in place appropriate management controls to mitigate those risks.

For example, inaccurate information in progress reports can lead to erroneous decisions. Accordingly, inaccurate reporting from USAID contractors and grantees would be a risk that could have significant ramifications (a high risk). A manager might mitigate that risk

by verifying reported information during periodic site visits.

The benefits of risk assessment are two-fold. First, by conducting risk assessments, Mission managers can ensure that they have established management controls that are appropriate to their unique situation (ADS Section E596.5.1a requires that cognizant managers establish appropriate controls). Second, by identifying the level of risk in operations and programs, senior Mission management can focus more resources on high risk areas and less resources on low risk areas, thereby increasing its efficiency and effectiveness.⁵

During our audit, we found that certain mission managers were already conducting "intuitive" risk assessments. When a vulnerability came to their attention, they would set in place an appropriate control. We believe that the Mission as a whole could benefit from conducting a formal and systematic risk assessment and using that assessment as a component of their FMFIA review—a change which ultimately would make the review more effective and efficient.

Management Comments and Our Evaluation

In response to the draft audit report, USAID/Indonesia management stated that it was in general agreement with the content of the report and agreed to take the recommended actions. Regarding Recommendation No. 1, the Mission agreed that in the future, FMFIA certifications to USAID/Washington will include the weaknesses or concerns in overall Mission management controls that are designated as material.

Concerning Recommendation No. 2, USAID/Indonesia agreed to establish target dates for completing corrective actions and review the status of outstanding deficiencies quarterly. As for Recommendation No. 3, the Mission stated that it is preparing a risk assessment work plan, and has sought guidance to design an assessment plan for its technical units. Also, the Mission is conducting a cost and benefit analysis of exercising a formal and systematic risk assessment for technical offices.

Based on the above, USAID/Indonesia has made a management decision on all three recommendations.

⁵ The U.S. General Accounting Office (GAO) recognizes the benefits of risk assessment and states that Management should be comprehensive in its identification of risks at both the entity-wide and activity level. (GAO's December 1997 proposed revision of the Standards for Internal Control in the Federal Government).

SCOPE AND METHODOLOGY

We audited USAID/Indonesia's implementation of the Federal Managers' Financial Integrity Act (FMFIA). The audit was performed in accordance with generally accepted government auditing standards and was conducted from May 3 through May 14, 1999, at USAID/Indonesia.

We audited the Mission's Fiscal Year 1998 FMFIA assessment and deficiencies noted under its Fiscal Year 1997 and 1998 reviews. The purpose of the audit was not designed to identify all the material weaknesses not reported by the Mission; however, if any previously unreported weaknesses came to our attention during the audit, we included these in our audit report. Also, the scope of this audit did not include a detailed analysis of individual management controls to determine their effectiveness.

The audit work included reviewing the Mission's system for establishing, assessing, reporting and correcting management controls. To accomplish the audit objectives, we used the FMFIA, Office of Management and Budget Circular No. A-123, General Accounting Office's (GAO) "Standards for Internal Control in the Federal Government," USAID's Automated Directives System (ADS) Chapter 596 on Management Accountability and Control, other ADS Chapters relating to Agency policies and essential procedures, and guidance for assessing the adequacy of management controls and annual instructions for reporting the status of management controls provided to missions by USAID.

We developed and used a questionnaire when interviewing the Mission's Management Control Official, members of the Mission's Management Control Review Committee and operating unit managers. We also reviewed available documentation on the Fiscal Year 1998 FMFIA review, including the listing of management control deficiencies and management action plans for correcting those deficiencies. We reviewed the Mission's Fiscal Year 1998 FMFIA Certification to the AA/ANE on the overall adequacy and effectiveness of management controls, noted any material weaknesses identified, and reviewed the status of any material weaknesses or deficiency identified in the Fiscal Year 1997 review.

1. 4. 1954

Dear Mr. [Name],
I have received your letter of the 1st inst. regarding the matter of [Subject].
I am sorry that I cannot give you a more definite answer at this time.
The matter is being reviewed and I will be in touch with you again as soon as possible.

Very truly yours,
[Signature]

I am sure that you will understand the need for a thorough review of the matter.
I will be glad to discuss the matter further if you wish to do so.
Thank you for your interest in this matter.

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UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT

June 28, 1999

Letter No: II/721

Mr. Paul E. Armstrong
Regional Inspector General
RIG/A/Manila
Ramon Magsaysay Center Building
1680 Roxas Boulevard, Malate 1004
Manila, Philippines.

RECEIVED
02 JUL 1999
RIG/MANILA

Dear Mr. Armstrong:

Mission appreciates the positive comments made in your letter transmitting the draft report and in the draft report itself. In general we are in agreement with the content of the report. The draft audit report contains three recommendations for improving our Management Controls review process and procedures.

We also appreciate the acknowledgement that USAID/Indonesia has established management controls and periodically assessed these controls to identify deficiencies in accordance with the FMFIA and related regulations and guidance. These observations signify that USAID/Indonesia has taken an organized and conscientious approach in completing the Fiscal Year 1998 FMFIA assessment in compliance with related regulations and instructions.

We would like to suggest a minor revision in the draft report page 3, para 3, 4th sentence, to read as follows:

"In another case, the USAID/Indonesia's Finance Office (FIN) and the Program Office (PRO) jointly instituted a tracking system to help ensure that Fiscal Year 1999 funds are obligated in timely fashion before year end"

For the three recommendations included in the report, we have the following comments.

Recommendation No. 1. " That USAID/Indonesia disclose all unresolved material weaknesses and major concerns in its future FMFIA certifications that would or should be of interest to USAID/Washington"

Mission Response:

In the judgement of the auditors, several of weaknesses/concerns identified by the Mission during FY 1998 FMFIA collectively constituted a material weakness or major concern, that should have been reported to USAID/Washington. The Mission did not include those weaknesses in the Fiscal Year 1998 FMFIA Certification to USAID/Washington because the AA/ANE Bureau was well informed of the problems and concerns that the Mission was facing during the turbulent time in Indonesia. Moreover, ANE/Bureau and the Mission were in almost daily contact while preparing and revising the Mission's new strategy.

We want to reiterate that as not "formally disclosing" those weaknesses in the Fiscal Year 1998 FMFIA Certification to USAID/Washington, the Mission had no intention to not disclose all unresolved material weaknesses to ANE Bureau because the Mission was continuously working with the Bureau to resolve those weaknesses. Mission agrees that in future, FMFIA certifications to USAID/Washington will include the weaknesses or concerns in overall Mission management controls that are designated as material. Mission requests RIG/A/M to consider this recommendation resolved and request closure to M/MPI upon the issuance of the final audit report.

Recommendation No. 2. "That USAID/Indonesia (a) include target dates for completing corrective actions in corrective action plans, (b) review the status of the outstanding deficiencies quarterly, and (c) document the Management Control and Review Committee's review and approval corrective action plan"

Mission Response:

The auditor's report indicated that the Mission did prepare a corrective action plan for deficiencies noted in its Fiscal Year 1998 FMFIA reviews, but did not include specific target dates for completing the necessary corrective actions. We are in full agreement with the auditors' recommendations that the Mission has to establish the target dates in order to know whether corrective actions are on schedule. Furthermore, the reason we did not include the target dates was due to a period of uncertainty since the Mission had undergone an evacuation of its staff during May 1998, and due to changes in responsible officials designated to undertake the planned corrective actions it was difficult to pin down the responsibilities and closure dates. For your information, in the previous years' FMFIA or ICA exercise we did indicate specific target dates for the completion of corrective actions planned.

We would like to add that all of the responsible officers are currently undertaking actions to correct the noted weaknesses or unsatisfactory conditions in the Mission Management controls and procedures. For example, the Executive Office (EXO) has led the review of the existing Mission Orders and Policies in order to determine their relevance and adequacy to the current needs. It has been targetted that this assignment will be completed by September 30, 1999. In addition, several offices within the Mission are in the process of filling the advertised vacant positions and completing the job classifications and requirements for other positions. These activities are directly responding to the concerns of critical staffing gaps indicated in the 98-FMFIA assessment.

Regarding the auditor's recommendation to review the status of the outstanding deficiencies quarterly, we want to report that we have reported thereon in our quarterly reports of financial operations. However, we did not prepare a comprehensive report on status of each of the weaknesses. We will modify and improve the format of this report in order to cover in details the status of Management control weaknesses every quarter.

As noted in the auditor's report, Mission has regularly held management meetings attended by senior officers within the Mission and Office Chiefs. Almost all of the participants are also MCRC members. The notes of meetings are widely distributed to the Mission staff and to the Indonesia Desk Officer in Washington. The Management controls and related issues

could be one of the topics during those meetings. In the past, we did not separately identified discussions of Management controls issues as part of MCRC agenda. Henceforth, the Mission will combine this management meeting with the MCRC meeting whose agenda will identify review and report on the status of the deficiencies. The Management Control Official (MCO) will use the minutes of MCRC meeting as a source for documenting corrective plans and actions undertaken in the FMFIA follow-up system.

Based on above, the Mission requests RIG/A/M to consider this recommendation resolved and recommend closure to M/MPI at issuance of the final report.

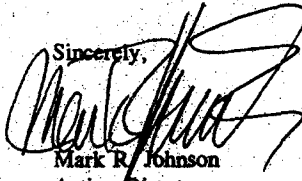
Recommendation No.3. "That USAID/Indonesia determine whether a formal and systematic risk assessment would strengthen the efficiency of its FMFIA process"

Mission Response:

Mission is preparing a risk assessment workplan following the applicable guidelines. As of now, Mission has indentified the assessable units consistent with and following the format of the FMFIA 1998 exercise. Except for the Office of Finance, we are still seeking guidance to design an assessment plan for our technical units. As such, we have not yet concluded the cost and benefit analysis of exercising a formal and systematic risk assessment for technical offices. We will provide you the assessment plan after it is reviewed by the Mission management. Based on this status, we request RIG/A/M to consider this recommendation resolved at the issuance of the final report

Thank you for your attention and cooperation.

Sincerely,



Mark R. Johnson
Acting Director
USAID/Indonesia

Attachment: Representation Letter

