



September 12, 2002

MEMORANDUM

FOR: M/OMS, Stephen Callahan

FROM: IG/A/ITSA, Melinda G. Dempsey /s/

SUBJECT: Risk Assessment of Major Functions Within Overseas Management Support of the USAID Bureau for Management (Report No. A-000-02-004-S)

This memorandum is our report on the subject risk assessment. Although this is not an audit report, this report contains a suggestion for your consideration. We have reviewed your comments, and they are included in Appendix II. I appreciate the cooperation and courtesy extended to my staff during the risk assessment.

Background

The Office of Administrative Services, Bureau for Management, (M/AS) provides logistical support services and administrative services worldwide and is responsible for functions costing approximately \$40 million annually. It is comprised of the Office of the Director¹ and four divisions:

- Consolidation, Property and Services Division,²
- Information and Records Division,³
- Overseas Management Support Division; and
- Travel and Transportation Division.⁴

During the past decade, the Office of Inspector General has performed few audits of the Office of Administrative Services' functions. In addition, the Office of Administrative Services has received limited external reviews and evaluations from other sources. Given the lack of external independent

¹ See risk assessment Report No. A-000-02-001-S.

² See risk assessment Report No. A-000-02-002-S.

³ See risk assessment Report No. A-000-02-003-S.

⁴ See risk assessment Report No. A-000-02-005-S.

reviews, including audits, we performed risk assessments of the major functions of the Overseas Management Support Division⁵ of the Office of Administrative Services.

The General Accounting Office's "Standards for Internal Control in the Federal Government" (November 1999) note that internal controls should provide reasonable assurance that agency objectives are being achieved, operations are effective and efficient, and assets are safeguarded against loss. Internal controls consist of the following five interrelated components. These components are the minimum level for internal control and provide the basis against which internal control is to be evaluated.

1. Management and employees should establish and maintain a control environment throughout the agency that sets a positive and supportive attitude toward internal control and conscientious management.
2. Internal control should provide for a risk assessment of the risks the agency faces from both external and internal sources.
3. Internal control activities should be effective and efficient in accomplishing the agency's control objectives and help ensure that management's directives are carried out.
4. Information should be recorded and communicated to management and others within the agency who need it and in a form and within a time frame that enables them to carry out their internal control and other responsibilities.
5. Internal control monitoring should assess the quality of performance over time and ensure that the findings of audits and other reviews are promptly resolved.

This review focused on the second component—risk assessment. The GAO Standards note that the specific risk analysis methodology used can vary because of differences in agencies' missions and the difficulty in qualitatively and quantitatively assigning risk levels. This review assigned a risk exposure of high, moderate, or low for each major function. A higher risk exposure simply indicates that the particular function is more vulnerable to its program objectives not being achieved or irregularities occurring. Appendix I describes in detail our risk assessment scope and methodology.

⁵ Subsequent to the completion of our fieldwork, the Overseas Management Support Division of the Office of Administrative Services was administratively realigned to report directly to the Office of the Assistant Administrator, Bureau for Management.

Discussion

Overseas Management Support, Bureau for Management, (M/OMS) is responsible for the following six major functions.⁶ Our assessments of the risk exposure for each of these major functions are described below. All dollar amounts discussed below are approximate, unless otherwise noted.

Function Description	Risk Exposure
Administrative purchasing for overseas posts	Low
Risk Assessment Factors	
<p>The administrative purchasing function for overseas posts processes approximately 200 procurement actions worth \$3.5 million annually (\$3.4 million for furniture and \$100,000 for representational items). While almost all the purchase requests and funding come from individual missions, the actual ordering is performed by OMS. The items purchased are furniture for mission residences, representational items (china, crystal, flatware) for mission directors residences, and some office supplies for OMS. The furniture and representational items are ordered from a vendor under contract with General Services Administration and the Department of State.</p> <ul style="list-style-type: none">• There have been no recent internal or external reviews of this function.• One experienced staff member performs the function.• Contractors are relied on as suppliers of goods, not consultants. The contracts are fixed price contracts negotiated by the Department of State and the General Services Administration.• The individual missions originate the purchases and account for the goods once they are delivered. The mission cannot order directly from the vendors. The missions decide when to replace furniture and representational items and which items to replace.• The system for tracking orders is maintained by OMS. It is paper based and does not allow missions to independently track the status of their purchases. OMS is pursuing an electronic ordering system which will provide greater ordering efficiency and reporting capability.	

⁶ Our risk assessments only covered major functions. In addition to major functions described in this report, Overseas Management Support also is responsible for employee environmental health, energy reporting, and overseas schools support.

Function Description	Risk Exposure
Continuity of operations and emergency preparedness for USAID/Washington operations	Moderate
Risk Assessment Factors	
<p>The continuity of operations and emergency preparedness function within OMS contributes to the USAID/Washington Continuity of Operations Plan (COOP) by acting as the Cognizant Technical Officer for the contract to develop, test, and maintain the COOP. OMS does not participate in overseas missions preparedness.</p> <ul style="list-style-type: none"> • The COOP contract is approximately \$230,000. • The COOP is by definition sensitive, as it is the plan for carrying on USAID operations in the event of a significant event that disrupts USAID's operations. • The COOP work is taking nearly 100 percent of an OMS staff's work hours despite being budgeted for 25 percent in the job description. • One staff member manages the function. This staff member is classified and trained as a management analyst with all previous experience and the majority of training related to management analysis. • In October 2001, a contractor was selected to develop, test, and maintain USAID's COOP. • Positive progress has been made in managing vulnerabilities and efforts have been made to allocate additional resources. 	

Function Description	Risk Exposure
Occupational health and safety including evacuation plans	Low
Risk Assessment Factors	
<p>The occupational health and safety function of OMS is responsible for:</p> <ul style="list-style-type: none"> • maintenance of the USAID/Washington Occupant Emergency Plan for the Ronald Reagan Building, • periodic inspections of USAID offices and facilities to ensure safety and environmental rules are being followed, • safety and health training for new employees, and • USAID’s annual report of accident experiences submitted to the U.S. Department of Labor. <ul style="list-style-type: none"> • The volume of work has increased recently with increased emphasis on the Occupant Emergency Plan following September 11, 2001. • There have been no recent internal or external reviews of this function. • One GS-9 staff member is responsible for this function. An extended absence of this staff member has resulted in additional staff being drawn on to update the Occupant Emergency Plan. • Individual health and safety training courses are not scheduled for 2002. However, health and safety training is part of the training provided to new executive officers by OMS in Washington and regionally overseas. 	

Function Description	Risk Exposure
Overseas buildings and land	High
Risk Assessment Factors	
<ul style="list-style-type: none"> • USAID owns or leases buildings and land in about 75 foreign countries. • USAID has purchased about 100 properties (74 residences, 17 offices, 6 warehouses, and 2 other) for \$34 million since 1952. Since, the value of these properties are recorded at their purchase price, the \$34 million does not reflect any appreciation in the market value of the properties. For example, USAID owns a residence in Indonesia with a recorded value of \$92,105 that was purchased in 1952. • USAID is carrying on its property inventory seven Swaziland residences valued at \$370,000—the original purchase prices. The USAID/Swaziland mission officially closed in August 1996. • 6 FAM 715.4 requires that USAID mission directors annually certify to the Department of State that all properties under their control are properly managed and used. OMS does not receive copies of these certifications. The certifications sent to the Department of State are used to report to the the President on internal controls, which is required under the Federal Managers' Financial Integrity Act. • 6 FAM 723 and 727 require a post housing profile to be submitted. Automated Directives System (ADS) 535, as recently amended, requires USAID missions, that manage their own housing program, to initially submit this report to OMS and also whenever the housing profile significantly changes. 	

Function Description	Risk Exposure
Overseas buildings and land (continued)	High
Risk Assessment Factors	
<ul style="list-style-type: none"> • USAID annually pays about \$40 million to lease about 1,200 additional properties (1,030 residences, 44 warehouses, 79 offices and 21 other). • Mission Directors, or their designees, at each mission are directly responsible for leasing buildings and land for USAID's use. • OMS reviews all leases for functional space in the approximately 75 foreign countries that USAID rents buildings and land. Each country has its own property laws and bilateral treaties and other agreements with the United States. • Leases for residential property costing more than \$25,000 annually require a waiver from OMS. Two current leases were executed without required waivers from OMS. • The Chief of OMS manages a property fund that is used to acquire new buildings and land and to retain the receipts from the sale of excess buildings and land. The fund currently has approximately \$2 million. • OMS is coordinating USAID's construction of 22 new office buildings that is projected to cost about \$480 million over fiscal years 2001 through 2007. • The overseas buildings and land property function is staffed by one direct hire employee at the GS-14 level. The staff person's workload has increased about fifty percent due to the new office buildings construction. • The overseas buildings and land function has not been the subject of any audits in the last decade. On the other hand, the Department of State overseas buildings and land function has been reported by Department of State's Office of Inspector General (two audits), the General Accounting Office (one audit), and Congress to be a long standing problem for the Department of State. The major issues have been timely disposal of property and accounting for the proceeds of sale of real property. • The ADS directive is up to date, and the ADS directive references associated Department of State regulations. 	

Function Description	Risk Exposure
Overseas executive officer functional support	High
Risk Assessment Factors	
<p>OMS provides direct assistance and guidance to USAID executive officers in the field. OMS receives requests to research and identify policy and contacts within or outside USAID, supplying information not readily available from sources overseas, liaison with other USAID and Department of State bureaus and offices, and trouble shooting missions' procurement problems. OMS also helps missions identify personnel for temporary duty coverage, disseminate regular information bulletins, assist with opening and closing missions, and conduct management assessment reviews at missions.</p> <ul style="list-style-type: none"> • For fiscal year 2001, the total overseas Operating Expense (OE) dollars was \$216 million. Of this \$216 million, \$70 million was for pay and benefits. The remaining \$146 million was for items under the control of overseas executive officers and included \$15 million for travel and \$2 million for training. The other \$129 million was for other activities with a higher vulnerability, such as transportation for residential furniture, rental payments for offices and residences, utilities, maintenance, supplies and materials, vehicles, telecommunications. • Overseas equipment and furniture under the control of executive officers was valued at \$123 million in fiscal year 2000 (10 percent of missions not reporting). • The 791 overseas vehicles under the control of executive officers were valued at \$21 million in fiscal year 2000 (10 percent of missions not reporting). • There have been no recent independent or internal reviews of this function. • The four USAID/Washington staff members who primarily perform this function are the division chief and three experienced executive officers. The executive officers assist all the missions within the four regional bureaus—Africa, Asia and Near East, Europe and Eurasia, and Latin America and the Caribbean. They are assisted by a policy coordinator who has additional responsibility for the USAID/Washington Continuity of Operations Plan (COOP). 	

Function Description	Risk Exposure
Overseas executive officer functional support (continued)	High
Risk Assessment Factors	
<ul style="list-style-type: none"> • Personal service contractors are relied on to provide temporary duty coverage for mission executive officers. OMS maintains a database of qualified persons available for these temporary postings. Missions may consult the database as needed. • OMS conducts management assessments of the administrative functions of overseas posts. They are designed as a management tool to identify strengths and weaknesses in the following areas: <ul style="list-style-type: none"> ◆ acquisition; ◆ buildings and land; ◆ disaster relief; ◆ environment, safety and security; ◆ information management, communications and records; ◆ International Cooperative Administrative Support Services; ◆ personnel administration; ◆ travel and transportation; and ◆ vehicles, furniture and equipment management. • There is no ADS that addresses management assessment reviews. In the past OMS conducted these reviews based on a review cycle. USAID management has instructed OMS to conduct these reviews only when requested by a mission. OMS conducted one review in 1999, one in 2000, and two in 2001. USAID has approximately eighty overseas posts. The Department of State has a similar assessment function, which is managed by its Office of Inspector General. The Department of State's Office of Inspector General conducts management inspections of the Department of State's 260 overseas posts on a five-year cycle. These reviews are valuable in improving the effectiveness and efficiency of the Department of State's overseas operations. • Since USAID has devolved responsibility and accounting to the mission level, a lack of systematic assessment of the management at missions increases the risk of missions not achieving their goals in the most economic and efficient manner possible. OMS has made their "Management Services Review Guidelines" available on their intranet web page. Missions may use this for self-assessment with the results of the assessment staying at the mission. • OMS provides training in Washington to new executive officers and regionally to existing executive officers. Two regional training opportunities are provided annually. 	

Function Description	Risk Exposure
Overseas equipment, furniture, and vehicles	Low
Risk Assessment Factors	
<p>This is primarily a policy function without direct access to assets, sensitive or otherwise. OMS provides oversight and monitoring of compliance with policy, regulations and procedures for effective property management. OMS makes an annual “data call” for detailed inventory reconciliation reports on all overseas equipment, furniture and vehicles. The required mission reports provide the information for OMS and USAID to complete reports to USAID/M/FM (Financial Management), General Services Administration, General Accounting Office and Office of Management and Budget. OMS approves standardization plans, redistribution, transfer or donation of unneeded replacement property.</p> <ul style="list-style-type: none"> • Overseas equipment, furniture, and vehicles management is not a separate line item in the OMS budget. • The sensitivity of this activity is minimal. • Two OMS staff (GS-7, GS-9), trained as property management specialists, are responsible for the overseas equipment, furniture, and vehicles function. Only one of two property management specialists provided for in the staffing pattern are in place. However, a second property management specialist has been hired and will come on-board once a security clearance is granted. • While there is a risk of submitting incorrect data that could result in misstated financial statements, the risk is low. OMS does not generate the data but instead acts in a clerical role to compile the data from the various missions into a single report that is then forwarded to USAID’s Chief Financial Officer. • While there is a risk that equipment and furniture could be classified and disposed of as excess when it is not, the OMS contribution to that risk is minimal because there are multiple entities involved in the process. Missions bear a larger risk than OMS as they control and account for both the assets and the disposal of the assets. OMS only approves the request to classify the equipment and furniture as excess. 	

Conclusion

Our risk assessments of Overseas Management Support, Bureau for Management, (M/AS) covered six functions and reached the following conclusions.

Function Description	Risk Exposure		
	High	Moderate	Low
Administrative purchasing for overseas posts			✓
Continuity of operations and emergency preparedness for USAID/Washington operations		✓	
Occupational health and safety including evacuation plans			✓
Overseas buildings and land	✓		
Overseas executive officer functional support	✓		
Overseas equipment, furniture, and vehicles			✓

Based on these assessments, we suggest that Overseas Management Support focus its efforts to mitigate the higher risk associated with the functions of (1) overseas executive officer functional support and (2) overseas building and land. For overseas executive officer functional support, we are not making suggestions to mitigate high risk. As noted, there have been no recent independent or internal reviews of this function. In addition, no ADS directive addresses (nor requires) management assessment reviews. In the past, OMS conducted these assessments on a cycle. USAID management has instructed OMS to conduct these reviews only at the request of a mission. It appears that missions are not requesting such reviews based on the few (four) mission management assessment reviews completed within the last three years. In our opinion, the high risk of this function is primarily associated with the lack of such mission management assessment reviews. However, requiring such reviews through an ADS directive or increasing the number of such reviews would require a policy change by USAID management.

Specifically for the overseas building and land program, we suggest that OMS:

- formalize an effective system for identifying surplus and underutilized real property.

The management of Overseas Management Support agreed with our risk assessments and our suggested course of action.

Scope and Methodology**Scope**

The Office of Inspector General, Information Technology and Special Audits Division, conducted a risk assessment of major functions within Overseas Management Support (OMS) of the USAID Bureau of Management. This risk assessment was not an audit. The risk assessment covered operations principally for fiscal year 2001. The risk assessment fieldwork was conducted at USAID headquarters in Washington, D.C. from October 12, 2001 to March 25, 2002.

Our risk assessments of Overseas Management Support's major functions have the following limitations in their application.

- First, we assessed risk at the major function level only, not at the Division or Office level.
- Second, we assessed risk only. Our risk assessments were not sufficient to make definitive determinations of the effectiveness of internal controls for major functions. Consequently, we did not generally (a) assess the adequacy of internal control design, (b) determine if controls were properly implemented, and (c) determine if transactions were properly documented. If we were able to make these types of determinations within the scope of our work, we reported on them accordingly as part of our risk exposure assessments.
- Third, higher risk exposure assessments are not definitive indicators that program objectives were not being achieved or that irregularities were occurring. A higher risk exposure simply indicates that the particular function is more vulnerable to such events.
- Fourth, risk exposure assessments, in isolation, are not an indicator of management capability due to the fact that risk assessments consider both internal and external factors, some being outside the span of control of management.
- Fifth, comparison of risk exposure assessments between organizational units is of limited usefulness due to the fact that risk assessments consider both internal and external factors, some being outside the span of control of management.

Methodology

We interviewed officials as well as reviewed related documentation of major functions performed by Overseas Management Support. These documents covered background, organization, management, budget, relevant laws and regulations, staffing responsibilities, prior reviews, internal controls, and risks (i.e., vulnerabilities). Our review of Overseas Management Support's documentation was limited and judgmental in nature and conducted principally to confirm oral attestations of management.

We identified Overseas Management Support's major functions using the input of OMS's Director and based on the significance and sensitivity of each major function. We determined risk exposure for all major functions in each division, 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. We assessed overall risk as high, moderate, or low. A higher risk exposure simply indicates that the particular function is more vulnerable to its program objectives not being achieved or that irregularities were occurring. We considered the following key steps in assessing risk:

- (a) determined significance and sensitivity;
- (b) evaluated susceptibility of failure to attain program goals, noncompliance with laws and regulations, inaccurate reporting, or illegal or inappropriate use of assets or resources;
- (c) 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;
- (d) considered management support and the control environment;
- (e) considered competence and adequacy of number of personnel;
- (f) identified and understand relevant internal controls, and
- (g) determined what is already known about internal control effectiveness.

These risk assessments were not sufficient to make definitive determinations of the effectiveness of internal controls for major functions. As part of the review methodology, we did (a) identify, understand, and document (only as necessary) relevant internal controls and (b) determine what was already known about the effectiveness of internal controls. However, we did not generally (a) assess the adequacy of internal control design, (b) determine if controls were properly implemented, nor (c) determine if transactions were properly documented. In some cases, we were able to make these assessments and reported on them accordingly as part our risk exposure assessments.

**Management
Comments**

July 29, 2002

MEMORANDUM

TO: Melinda Dempsey, IG/A/ITSA

FROM: Stephen Callahan, M/OMS

SUBJECT: Risk Assessment of Major Functions Within the Overseas Management Support Division.
(Report No. A-000-02-xxx-S)

Overseas Management Support (M/OMS) has no objections to the designated Risk Exposure ratings and the suggestion provided by the OIG.

Formalize an effective system for identifying surplus and underutilized real property.

M/OMS recognizes the high risk inherent in the management of overseas buildings and land. In addition to the cost of leasing property in over 70 foreign countries, the government-owned properties represent a substantial investment for USAID. M/OMS has maintained records of all real property and will review those records annually to identify property that is potentially surplus or underutilized.

In addition, M/OMS will ensure that the Mission Director's annual certification report which indicates that USG properties are properly used and managed, be submitted directly to M/OMS, as well as to the Department of State.

Executive Officers at all overseas posts will be contacted and requested to identify surplus or underutilized USAID-owned real property in their respective countries. This request will be re-issued on an annual basis to coincide with the standard real property reporting requirement for overseas missions.

M/OMS will undertake a review of real property records with particular focus on property in countries in which USAID no longer has a presence. In cases where an agreement may be in place with another government agency for the use of such property, M/OMS will verify that the terms of the agreement remain valid and that it is in the interest of the government that the agreement remains in effect. In cases where continued ownership of the property is not determined to be in the interest of the government, M/OMS will take action to dispose of the property.

M/OMS will continue to focus efforts on the mitigation of risk and particularly on risks associated with overseas executive officer functional support and overseas buildings and land. We appreciate the professionalism demonstrated in the performance of this risk assessment review and look forward to the successful implementation of your suggestion.