

March 30, 2011

MEMORANDUM

TO: USAID/Yemen Mission Director, Robert Wilson

FROM: Regional Inspector General/Cairo, Jacqueline Bell /s/

SUBJECT: Risk Assessment of USAID/Yemen's Major Activities (Report No. 6-279-11-001-S)

This memorandum transmits our final report on the subject review. In finalizing the report, we considered your comments on the draft report and have included your responses in their entirety at Appendix II.

The report includes three recommendations. On the basis of USAID/Yemen's planned actions, management decisions have been reached on all recommendations. Please provide the Audit Performance and Compliance Division in the USAID Office of the Chief Financial Officer with the necessary documentation to achieve final action.

Thank you for the cooperation and courtesy extended to the audit team during this risk assessment.

Background

USAID/Yemen's Country Strategy: *Stabilization through Development 2010–2012* seeks to address instability and conflict in Yemen. In 2009, an independent organization classified Yemen among the top 18 countries in the world whose stability situation is categorized as “alert” in the annual Failed States Index.¹ In 2010, the same report ranked Yemen among the top 15 countries in the world whose stability situation is categorized as “in danger.”

The drivers of instability and conflict in Yemen include (1) a large youth bulge and rapidly growing population, (2) unequal development, (3) political marginalization and repression of the disaffected, (4) widespread corruption, (5) weak state institutions, (6) declining government revenues, (7) growing natural resource scarcity, and (8) violent Islamist extremism. The Government of the Republic of Yemen has been unable to manage or resolve these multiple conflicts within the country. With limited natural resources, increasing reliance on agricultural development for economic growth is constrained by Yemen's finite supply of land suitable for growing crops and one of the world's lowest levels of water availability.

USAID's overarching strategic goal in Yemen is to increase *stability through targeted interventions in highly vulnerable areas*. Stability in Yemen is characterized as reduced support for violent means of resolving conflicts and grievances and increased support for the central government to prevent fragmentation of the state and continued conflict. Increased instability has deterred Yemen's development prospects while increasing human rights abuses, intensifying the competition for resources, and decreasing government attention to reform and development.

Stabilization and conflict mitigation are necessary to create opportunities for job creation and to improve education, health, and governance. USAID/Yemen's goal implies a localized stabilization strategy with an immediate focus on short- and medium-term results that include goals for longer-term sustainability. Over the past 3 years, congressional budget requests for foreign operations in Yemen increased by about 62 percent, from approximately \$34 million to approximately \$55 million.² Although the mission program funding increased, authorized staffing increased by about 13 percent from 16 staff in fiscal year (FY) 2009 to 18 staff in FY 2011. Figure 1 illustrates a trend comparison of the mission's budget requests and authorized staffing levels from FY 2009 to FY 2011.

¹ The Failed States Index is developed annually as a collaboration between *Foreign Policy* magazine (documenting global politics, economics, and ideas) and The Fund for Peace (an independent, nonpartisan research and educational organization that works to prevent war and alleviate the conditions that cause conflict).

² Budget request amounts do not include the Joint State/USAID Foreign Assistance Framework Strategic Objective of *Peace and Security*.

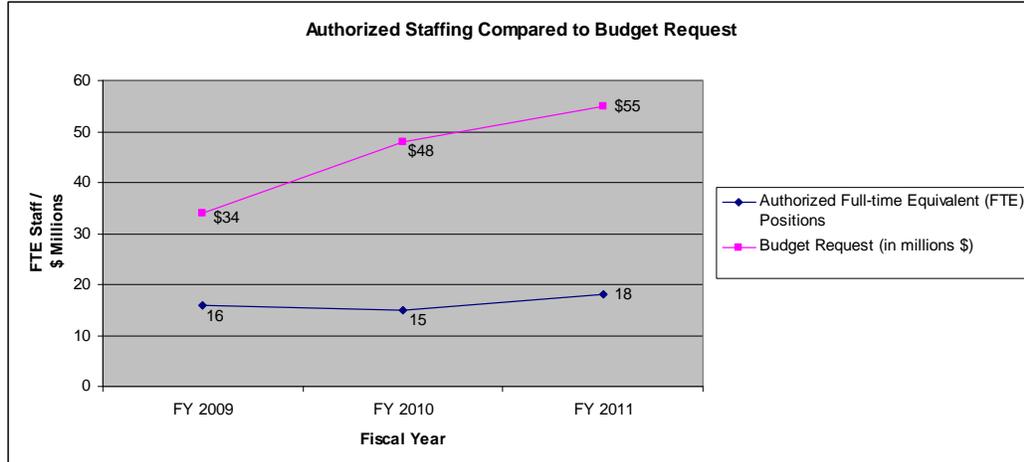


Figure 1: Comparison of Authorized Staffing and Budget Requests.

As of October 2010, USAID/Yemen had plans to spend \$237 million for 15 projects. Appendix III shows the USAID/Yemen project matrix, including all implementing partners as of October 2010.

To accomplish its goals, the Government of The United States of America (USG), acting through USAID, and the Government of the Republic of Yemen, acting through the Ministry of Planning and International Cooperation, established an assistance agreement, USAID Grant Agreement No. 279-AA-00-09-00001, valued at \$121,956,025, on September 16, 2009. In this assistance agreement, USAID/Yemen developed programs to address foreign assistance objectives of governing justly and democratically, health, education, and economic growth. Additionally, the agreement focuses on activities in programs for good governance, political competition and consensus building, civil society, maternal and child health, family planning and reproductive health, basic education, agriculture, and economic opportunity.

To help achieve the objectives of the assistance agreement, USAID/Yemen estimated that the USG would contribute \$121,956,025 to the Government of the Republic of Yemen through September 30, 2012. USAID/Yemen officials established the original FY 2009 budget not to exceed \$30,156,025. However, on August 25, 2010, the mission amended the agreement to increase total funding up to \$78,153,322 and extend the completion date to September 30, 2015, to fund additional projects.

USAID/Yemen operates three offices—the Office of the Director, the Program Office, and the Technical Office—that employ four U.S. direct hires (USDH), 13 foreign service nationals (FSN), and one eligible family member (EFM) who work in the Office of the Director, the Program Office, and on four technical teams. The organization chart in Appendix V shows the reporting relationship at the mission as of February 2011. In addition, the mission augments its staff with experienced staff from USAID/Washington and other missions. The staff normally works physically at USAID/Yemen during tours of 3 to 4 weeks at a time. According to the new mission director scheduled to arrive at post in March 2011, additional USDH staff will be requested to facilitate increased FSN staff supervision and project oversight.

The Office of the Director is responsible for the overall direction and management of mission activities. The Program Office is responsible for the country strategy and country program budget. Although the Technical Office is one office, the director is responsible for four technical teams that monitor the implementation of mission programs and strategy within (1) democracy and governance, (2) economic growth and agriculture, (3) health, and (4) education.

Regional staff offices, located at USAID/Egypt in Cairo, are responsible for the oversight of the financial and administrative management functions for USAID/Yemen to provide procurement, legal, financial, and other support services. Moreover, USAID/Yemen requests the regional offices to augment the staffing needs at the mission with quarterly temporary duty assignments that last about 1 week.

**Risk Assessment
and Control
Activities in a
Control
Environment**

The Regional Inspector General/Cairo (RIG/Cairo) designed the risk assessment to determine the risk factors that may negatively affect USAID/Yemen's operations and program activities. This assessment may allow the mission to take appropriate steps to address any identified vulnerabilities that would hinder its achieving program and project goals.

According to the Government Accountability Office (GAO) *Standards for Internal Control in the Federal Government*,³ internal controls should provide reasonable assurance of compliance with applicable laws and regulations, that operations are effective and efficient, and that financial reporting is reliable. The following five standards define the minimum level of quality acceptable for internal control in government and provide the basis against which internal control is to be evaluated.

1. *Control Environment:* 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. *Risk Assessment:* Internal control should provide for a risk assessment of the risks the agency faces from both external and internal sources.
3. *Control Activities:* 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 and Communications:* Information should be recorded and communicated to management and others in the agency who need it, in a form, and within a timeframe, that enables them to carry out their internal control and other responsibilities.
5. *Monitoring:* 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 standard—risk assessment. The GAO

³ *Standards for Internal Control in the Federal Government*, GAO/AIMD-00-21.3.1 (11/99).

standards note that management needs to comprehensively identify risks and should consider all significant interactions between the entity and other parties as well as internal factors at both the entitywide and activity levels. Furthermore, risk identification methods may include qualitative and quantitative ranking activities, and consideration of findings from audits and other assessments.

The GAO standards also 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 office. A higher risk exposure simply indicates that the particular office is more vulnerable to USAID/Yemen's program objectives not being achieved or to irregularities occurring. Appendix I describes in detail the risk assessment scope and methodology. Management comments are included in their entirety in Appendix II, and our evaluation of management's comments is included in the report on page 13.

Discussion

RIG/Cairo examined the risk associated with the operations to USAID/Yemen's programs by office. The audit team assigned exposure risk levels ranging from low to high for two USAID/Yemen offices and three USAID/Egypt offices that provide support to the mission.

Overall, USAID/Yemen's risk exposure is high based on security issues, staff inability to monitor programs, high staff turnover, and staff inexperience with USAID programs and operations. Since USAID/Yemen relies USAID/Egypt to provide some services regionally, staff are not available to monitor day-to-day financial, procurement, and legal activities. Consequently, the lack of ongoing oversight at USAID/Yemen and USAID/Egypt increases USAID/Yemen's risks for decreased compliance with applicable laws and regulations, ineffective and inefficient operations, and unreliable financial reporting.

A discussion of the assessment of risk exposures for two USAID/Yemen offices responsible for program implementation and three USAID/Egypt regional offices that provide administrative services for USAID/Yemen follows.

Office Description	Risk Exposure
Technical Office	High
Risk Assessment Factors	
<p>USAID/Yemen has four technical teams: (1) Democracy and Governance, (2) Economic Growth and Agriculture, (3) Health, and (4) Education. Eight staff on the technical teams report to the Director of the Technical Office and work closely with the Program Office to design, implement, monitor, and evaluate the mission's programs and contribute to the country strategy and the country program budget. The teams also provide continuing analysis of their technical sectors and maintain close relationships with their counterparts in the relevant Yemeni ministries and agencies. As of December 2010, two USDHs and six FSNs have been employed within the office.</p> <p>Mission officials and some implementing partners identified three vulnerabilities that could hinder USAID/Yemen's achievement of program and project goals:</p>	

- *Lack of continuity with local mission staff* – Mission officials stated that FSN employee turnover at the mission over the past 2 years has been 25 percent (4 of 16 authorized staff) and 20 percent (3 of 15 authorized staff) for FY 2009 and FY 2010, respectively. According to USAID/Yemen officials, the high turnover is attributable to (1) an inadequate compensation and incentive system compared with the local Yemeni market, (2) general staff security concerns, and (3) the current mission management strategy enforcing discipline for employees to adhere to their job descriptions.
- *Travel restrictions* – Owing to instability within the country, the Yemeni government placed travel restrictions to governorates in which USAID/Yemen’s implementers are conducting USAID projects (see Appendix IV). These travel restrictions limit project monitoring and oversight that the implementers and the mission staff can conduct outside of Sana’a, the capital of Yemen. Moreover, one mission official noted that projects implemented under the new USAID/Yemen strategy are falling behind implementation targets partly because of the security conditions. Although the mission hired an implementer to conduct monitoring, the implementer has not been able to travel to the USAID projects across the country. Consequently, the mission cannot ensure that implementers use USAID funds efficiently and effectively to achieve project objectives in a timely manner.
- *Staffing level and experience* – With the exception of two staff, USAID/Yemen’s FSN staff have been employed less than 2 years and have little USAID project experience. The director noted that because of the staffing constraints, the mission’s new staff have responsibilities beyond the scope of their authority that may affect project activity timeliness. For example, an implementer noted that mission staff provided incorrect and unclear guidance on a mission project. Consequently, the implementer contacted mission management for guidance. USAID/Yemen’s mission director noted that the mission was not staffed adequately, and the Technical Office Director noted that this affected the office’s ability to conduct its responsibilities. For example, competing priorities and dual roles for one USDH as office director and agreement officer’s technical representative (AOTR) do not allow the staff person to effectively monitor and provide oversight to assigned projects by reviewing project reports, training staff, and providing program guidance to implementers. Moreover, an implementer noted the mission did not perform certain inherently governmental functions,⁴ such as preparing an environmental assessment before the obligation of funds for construction activities for an education project.

⁴ Inherently governmental functions are functions that should be performed by U. S. Government employees. These functions include activities that require either the exercise of discretion in applying Government authority, or the making of value judgments in making decisions for the Government.

Office Description	Risk Exposure
Program Office	High
Risk Assessment Factors	
<p>The program office is responsible for mission-wide activities, including the development of the mission's strategic plans, budgets, performance management plans, and performance evaluations. As of December 2010, USAID/Yemen staffed the office with one USDH, one EFM, and six FSNs. Mission officials and some implementers identified three vulnerabilities that could hinder the mission's achievement of program and project goals:</p> <ul style="list-style-type: none"> • <i>Weak management controls</i> – Mission officials stated that the mission historically had few controls in place to ensure proper project management. For example, although the mission has drafted 10 mission orders, only 1 of these orders has been finalized and implemented. The office director expressed concern that no mission orders existed to clearly document delegations of authority and key areas of authority and responsibility in a small office structure, as required by agency guidance. Moreover, the office director stated that the mission has not routinely maintained project files. In addition, assessments of prior projects have been either nonexistent or limited. As a result, historical information is not readily available for mission staff review. • <i>Incomplete mission orders</i> – Although USAID/Yemen developed mission orders in 2009, staff has finalized only one of these orders. USAID/Yemen officials noted that these mission orders are needed to define specific mission organizational working relationship and staff functions, delegations of authority, record retention, and employee conduct and integrity. • <i>Staffing level and experience</i> – According to the office director, USAID/Yemen's current program office staff lack experience and an understanding of USAID systems and procedures and require significant supervision. However, the limited USDH staff with multiple roles have insufficient time to provide increased management oversight and training. For example, the office director also serves as a contracting officer's technical representative (COTR), acting deputy mission director, and provides financial management and executive office support. 	

Office Description	Risk Exposure
Financial Management Office	Moderate
Risk Assessment Factors	
<p>As a regional service provider, USAID/Egypt provides financial management support services to USAID/Yemen through a Memorandum of Understanding signed in 2007. Through this memorandum, USAID/Egypt's Financial Management Office (FMO) provides financial analysis and reporting, accounts payable and receivable, and obligation and disbursement services, which totaled approximately \$120 million and \$35 million, respectively, for FY 2010. The mission and implementers identified the following two vulnerabilities that could hinder achievement of program and project goals:</p>	

- *Segregation of duties* – Proper segregation of duties separates the responsibilities of recording, execution, and authorizing transactions to ensure the accuracy and timeliness of financial information and to prevent or minimize loss to fraud, waste, and abuse. According to USAID/Yemen officials, mission staffing levels prevent appropriate segregation of duties, increasing the mission's risk exposure. One example of inappropriate segregation of duties exists as one USAID/Yemen staff member is responsible for both authorizing and approving funding.
- *Staff inexperience* – According to USAID/Egypt FMO staff, inexperienced USAID/Yemen staff have had difficulties providing and submitting supporting financial documentation needed for voucher payment. Although USAID/Yemen relies primarily on USAID/Egypt's FMO, two USAID/Yemen staff currently provide budget and finance support. These two staff members have approximately 3 years' experience combined working with USAID's financial management process. According to USAID/Egypt FMO staff, USAID/Yemen and USAID/Egypt FMO staff complete some financial management processes that are typically the responsibility of USAID/Yemen COTRs. USAID/Yemen COTR/AOTRs rely on FMO staff to complete project accruals, which is not an FMO responsibility. Because FMO staff are not as familiar with USAID/Yemen's projects as COTR/AOTRs, the risk of inaccurate financial reporting increases.

Several factors mitigate the risk posed by the issues identified:

- *USAID/Egypt administrative procedures* – Past reviews and audit results of USAID/Egypt's administrative controls and staff qualifications have determined that risks associated with FMO procedures is low.
- *USAID/Egypt staff experience* – The USAID/Egypt FMO staff members providing support to USAID/Yemen have significant USAID experience and have worked with FMO for more than 8 years.
- *Ongoing communication* – Although USAID/Egypt FMO staff are not co-located with USAID/Yemen, day-to-day oversight on financial issues has been facilitated by regular communication between the two missions' staffs. This includes weekly teleconferences and USAID/Egypt FMO's staff travel to Yemen, according to USAID/Egypt officials.
- *USAID/Egypt training* – USAID/Egypt has conducted training sessions on funds control and accruals for USAID/Yemen staff.

The risks of inexperience within USAID/Yemen staff and lack of segregation of duties are mitigated by USAID/Egypt's FMO administrative procedures, staff experience, ongoing communication, and training. As a result, a risk level of moderate is assigned to USAID/Yemen for financial management support.

Office Description	Risk Exposure
Office of Procurement	Moderate
Risk Assessment Factors	
<p>USAID/Yemen relies on USAID/Egypt's Office of Procurement for its procurement functions for obligations of approximately \$61 million on average during FYs 2009 and 2010. USAID/Egypt's contracting officer is responsible for entering into, administering, and terminating USAID direct contracts on behalf of USAID/Yemen. Moreover, these officers take action on behalf of USAID/Yemen to enter into, change, or terminate a grant or assistance award. Currently, two USAID/Egypt staff members, a contracting officer and a supervisory acquisition specialist, provide primary procurement support to USAID/Yemen. The mission and implementers identified three vulnerabilities that could hinder achievement of program and project goals:</p> <ul style="list-style-type: none"> • <i>Changes in USAID/Egypt Office of Procurement staff</i> – USAID/Egypt's Office of Procurement staff supporting USAID/Yemen both assumed responsibility for the USAID/Yemen portfolio in October 2010. Although USAID/Yemen has been able to provide contract documents, mission officials expressed concern that official project files at USAID/Yemen have not been maintained sufficiently. The condition exposes the mission to elevated legal and procurement risks that could result in unauthorized commitments. • <i>Closeouts of completed projects</i> – USAID/Egypt Procurement staff and USAID/Yemen officials both reported that completed USAID/Yemen projects have not been properly closed out. As of December 2010, USAID/Yemen had not closed out 24 completed projects, with unliquidated obligations valued at \$3.6 million, including one project completed in September 2001. As a result, unliquidated funds cannot be used for other projects. • <i>Regional office support</i> – Although USAID/Yemen is supported by experienced staff from multiple USAID/Egypt offices, USAID/Yemen's Program Office director expressed concern that USAID/Egypt's Procurement office was not providing assistance as often as USAID/Yemen desired. For example, USAID/Yemen requested USAID/Egypt procurement assistance on a quarterly basis. However, USAID/Egypt has provided assistance onsite in Yemen twice during the past 18 months. <p>Several factors mitigate the risk posed by the issues above:</p> <ul style="list-style-type: none"> • <i>USAID/Egypt staff experience</i> – Although the USAID/Egypt Office of Procurement staff members providing support to USAID/Yemen only recently assumed responsibility for the mission's portfolio, one staff member has more than 20 years of USAID experience and the other has approximately 6 years' procurement experience with USAID and multiple years' procurement experience prior to joining USAID. • <i>USAID/Egypt policies and procedures</i> – Procurement staff reported that procedures specific to the office have been developed and communicated to the staff at USAID/Yemen and USAID/Egypt. However, staff could not provide a date of communication. 	

After a procurement official staff rotation in 2010, USAID/Egypt officials reassigned the USAID/Yemen program portfolio to another contracting officer. Accordingly, a risk level of moderate is assigned to the Office of Procurement's support of USAID/Yemen.

Office Description	Risk Exposure
Office of the Regional Legal Advisor	Low
Risk Assessment Factors	
<p>USAID/Egypt's Office of the Regional Legal Advisor (RLA) provides legal services for USAID/Yemen that include counsel related to awards, activities, management actions, USAID policy, ethics training, and drafting and negotiating bilateral agreements and memorandums of understanding. The mission and implementing partners identified the following vulnerability that could hinder achievement of program and project goals:</p> <ul style="list-style-type: none"> • <i>Knowledge of USAID/Yemen project activities</i> – The RLA noted the need for more in-depth knowledge of USAID/Yemen project activities and mission issues as a key challenge. To address this challenge, the office conducts site visits to USAID/Yemen to gain knowledge of USAID/Yemen's project activities and issues. <p>The following factors noted by the RLA mitigate the risks identified above:</p> <ul style="list-style-type: none"> • <i>Legal staff experience</i> – The RLA staff member providing support to USAID/Yemen has more than 9 years' experience with USAID. • <i>Ongoing communication</i> – Although not co-located with USAID/Yemen staff, the RLA provides support through telephone and email communication as well as through periodic site visits to USAID/Yemen. <p>The risks of limited in-depth knowledge of USAID/Yemen project activities and the use of a regional services provider are mitigated by the significant experience of the RLA and the regular communication between USAID/Yemen and the RLA. Consequently, a risk level of low is assigned to the Office of the Regional Legal Advisor's support of USAID/Yemen.</p>	

Conclusion

The table below summarizes the risks associated with the major activities and processes to USAID/Yemen's programs by office.

USAID/Yemen Offices	Risk Exposure		
	High	Moderate	Low
Program Office	X		
Technical Office	X		
Financial Management Office		X	
Office of Procurement		X	
Office of the Regional Legal Advisor			X

USAID/Yemen Performed Little Oversight (see page 6) USAID's Automated Directives System (ADS) 203.3.5.3(b), *Quality assessments of data from implementing partners and secondary data sources*, states that assistance objective teams should consider visiting a broad range of sites; the point is to assess whether reports accurately reflect what occurs in the field. Moreover, USAID/Yemen's monitoring and evaluation project notes that the implementer will also undertake activity-level verification of results and environmental compliance in the field to ensure that all USAID implementing partners' data are effective, complete, accurate, and consistent with agreements and with USAID's environmental regulations.

The mission and implementing partners have not conducted site visits to governorates that use USAID funding valued at \$237 million. Implementers stated that expatriate staff have had limited travel throughout the governorates of Yemen owing to security restrictions and the difficulty in obtaining approval from the Yemeni government. One implementer noted that ideally, expatriate staff would routinely monitor actual projects.

Because of instability within the country, the Yemeni government placed restrictions on governorates in which USAID/Yemen's implementers can travel. Moreover, the U.S. Embassy Regional Security Officer's guidelines advise expatriate staff to avoid travel to certain governorates considered high risk. Although FSN staff do not require clearances from the Yemeni government, they may face challenges because of tribal affiliations. Consequently, it may be difficult for local staff to travel to certain areas because rival tribes may operate insurgent checkpoints throughout an area.

These travel restrictions have severely limited the amount of project activity monitoring and oversight provided by the implementers and the mission. The mission cannot ensure that implementers effectively use USAID funds to achieve project objectives without proper monitoring and oversight of project activities.

The perception of detection is a great attribute to ensure that USAID/Yemen programs are implemented in a highly effective, efficient, and timely manner. Since travel restrictions in Yemen have severely limited the monitoring and oversight of mission programs, USAID/Yemen cannot be assured that USAID funds expended will achieve desired program objectives.

To address this vulnerability, this review makes the following recommendation:

Recommendation 1. *We recommend that USAID/Yemen consult with the Regional Financial Management Office and the Regional Legal Advisor to develop and implement a plan to review and audit program awards to determine whether USAID funds are being used as intended to comply with applicable laws and regulations.*

USAID/Yemen Did Not Document Critical Processes or Provide Recurring Staff Training (see page 8) USAID has much guidance regarding the management controls of documentation and the control environment, which includes staffing issues. In addition, GAO's *Standards for Internal Control in the Federal Government* identifies the control environment as critical to establishing good human capital policies and practices. According to USAID's *Guidance on Preparing Mission Orders*, mission orders are required when additional mission-specific procedures are necessary to implement the Agency's ADS. Furthermore, the GAO standards states that management needs to identify appropriate knowledge and skills needed for various jobs and provide needed training. As good human capital policies, managers should establish appropriate practices for hiring, orienting, training, evaluating, counseling, promoting, compensating, and disciplining personnel. They should also provide a proper amount of supervision.

With one exception, USAID/Yemen does not have any mission orders that would provide mission-specific guidance on critical operations and procedures. Currently the mission is operating with one documented mission order that provides guidance on antiterrorism procedures. This order was finalized in 2009 and now needs to be updated, according to USAID/Yemen staff. USAID/Yemen drafted an additional nine mission orders in 2009. However, 2 years later, USAID/Yemen has not finalized these documents, which would provide staff with information on program and performance requirements related to mission organization and functions, delegations of authority, records retention, and employee conduct and integrity issues. According to the program officer, this occurred because the draft orders developed in 2009 need to be modified to reflect the mission's current staffing and procedures before being submitted for legal review.

Mission officials agreed that mission orders are an important management tool to provide guidance to inexperienced staff, but have not reviewed, revised, or finalized the mission orders. A USAID/Yemen official reported that finalizing the mission orders would be a priority for the current USAID/Yemen USDH staff. After mission officials agree on the number and types of mission orders needed, USAID/Yemen may be better able to mitigate some of its risk exposure caused by staff inexperience and the lack of training.

Effective management controls include documentation of specific mission orders on mission organization and functions, delegations of authority, records retention, training, and employee responsibilities related to conduct. Moreover, effective management controls can help organizations manage shifting environments and evolving demands and priorities. Such management controls have a positive effect to mitigate risks when a mission has limited monitoring capacity, limited staff experience, and inadequate segregation of duties. To address this vulnerability, this review makes the following recommendations:

Recommendation 2. We recommend that USAID/Yemen work with the Regional Executive Office and the Regional Legal Advisor to develop a milestone chart of critical mission orders to be finalized to ensure continuity of operations and to address specific mission vulnerabilities.

Recommendation 3. *We recommend that USAID/Yemen identify training needs and develop and implement annual training plans for mission staff.*

Evaluation of Management Comments USAID/Yemen mission officials agreed with all three recommendations. On the basis of USAID/Yemen's supporting documentation and planned action, RIG/Cairo considers that management decisions have been reached on all recommendations.

Regarding recommendation 1, the mission agrees with the recommendation to work with the RLA to develop and implement a plan to review and audit program awards to determine whether USAID funds are being used as intended to comply with applicable laws and regulations. Mission officials intend to consult with the RLA to devise a prioritized list of awards to be audited by April 30, 2011. However, officials noted that they will not be able to set a definitive timeline for the audits, owing to the current security climate in Yemen.⁵ In addition, the mission intends to seek support from RIG/Cairo to make determinations regarding additional local firms suitable to conduct needed audits. As a result, RIG/Cairo considers that a management decision has been reached on this recommendation.

In response to recommendation 2, the mission agrees with the recommendation to work with the regional offices to develop a milestone chart of critical mission orders and notices. Mission officials noted that the recommended milestone chart of critical mission orders and notices will be completed by April 30, 2011, and will include target dates and responsible parties. As a result, RIG/Cairo considers that a management decision has been reached on this recommendation.

Regarding recommendation 3, the mission agrees with the recommendation to identify training needs and develop and implement annual training plans for mission staff. Mission officials noted intentions to review and finalize individual training plans for its staff, allocate training resources under its operational expense and program budgets, and submit an annual training plan by August 31, 2011. As a result, RIG/Cairo considers that a management decision has been reached on this recommendation.

⁵ On March 24, 2011, the U.S. Department of State website noted that the political situation in Yemen remains uncertain and public demonstrations, which in the past have led to violence, confrontation, and casualties, have grown particularly dangerous. The website continues to state that the U.S. Embassy recommends that U.S. citizens in Sana'a carefully limit their movements, and the U.S. Department of State continues to recommend that U.S. citizens in Yemen consider departing the country.

Scope and Methodology
Scope

The Regional Inspector General/Cairo (RIG/Cairo) conducted this risk assessment of selected offices that provide services to USAID/Yemen. This risk assessment was not an audit. The risk assessment covered operations principally for fiscal year (FY) 2010 and was conducted at USAID/Egypt in Cairo and USAID/OIG in Washington, DC, from December 8, 2010, through March 1, 2011.

The risk assessments of the selected USAID/Yemen and USAID/Egypt offices have the following limitations in their application:

- First, we assessed risk at the 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 whether controls were properly implemented, or (c) determine whether 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 indicates that the particular office is more vulnerable to undesirable negative events.
- Fourth, risk exposure assessments, in isolation, are not an indicator of management capability because risk assessments consider both internal and external factors, some of which are beyond management's control.
- Fifth, comparison of risk exposure assessments between organizational units is of limited usefulness because risk assessments consider both internal and external factors, some of which may be beyond management's control.

Methodology

To perform this risk assessment, we interviewed USAID/Yemen and USAID/Egypt officials and reviewed documentation on the role of each responsible office related to services provided to USAID/Yemen. Our review of documentation from selected USAID/Yemen and USAID/Egypt offices on their roles related to services provided to USAID/Yemen was limited, judgmental in nature, and conducted principally to confirm oral attestations of management.

We identified the selected offices with roles related to USAID/Yemen mission functions based on the functional role of each office. We determined risk exposure for each of these offices regarding services provided to USAID/Yemen—for example, failure to achieve program objectives; failure to ensure program continuity or sufficient monitoring of program changes; and the likelihood of significant abuse, illegal acts, or misuse of resources. Moreover, we reviewed monitoring and financial documentations from USAID/Yemen projects and conducted interviews with four implementers: Academy for Educational Development, Creative Associates International, Inc., Counterpart International, and International Business & Technical Consultants, Inc. These four implementers' projects accounted for \$198.4 million, or 84 percent, of USAID programming for Yemen, which was valued at \$237 million as of October 2010.

We assessed overall risk as high, moderate, or low. A higher risk exposure simply indicates that the particular office is more vulnerable to its program

objectives not being achieved or that irregularities were occurring. We considered the following key factors in assessing risk:

- Significance and sensitivity
- Competence and adequacy of number of personnel
- Susceptibility to failure to achieve program goals, noncompliance with laws and regulations, inaccurate reporting, or illegal or inappropriate use of assets or resources
- Relevant internal controls, including control activities such as documentation of performance monitoring, communication of information both internally and externally, and management of human resource capacity
- Warning signs such as a history of improper administration or material weaknesses identified in prior audits or internal control assessments, poorly defined and documented internal control procedures, or a high rate of personnel turnover

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 identified, understood, and documented (as necessary) relevant internal controls and determined what was already known about the effectiveness of internal controls. However, we did not generally assess the adequacy of internal control design, determine whether controls were properly implemented, or determine whether transactions were properly documented.

**Management
Comments****USAID** | **YEMEN**
FROM THE AMERICAN PEOPLE**MEMORANDUM****UNCLASSIFIED**

To: Jacqueline Bell, Regional Inspector General

From: Robert Wilson, Mission Director /s/

Date: March 29, 2011

Subject: Management Comments on Risk Assessment of USAID/Yemen Major Activities (Report No. 6-279-11-00X-S)

Thank you for providing the final draft report of the Regional Inspector General's Risk Assessment of USAID/Yemen Major Activities (Report No. 6-279-11-00X-S), dated March 24, 2011. I understand that USAID/Yemen's Program and Technical Office staff participated in extensive and very useful conversations with your staff leading up to the final draft report.

This letter is to convey the Mission management comments in response to the recommendations contained in that report. The Mission agrees with the three recommendations and is already taking actions to address and fully comply with them.

Regarding the first recommendation, *that USAID/Yemen consult with the Regional Legal Advisor to develop a plan to review and audit program awards to determine whether USAID funds are being used as intended to comply with applicable laws and regulations*, we will begin immediately, in consultation with the Regional Legal Advisor, to devise a prioritized list of awards to be audited. This prioritized list will be completed by the end of April 2011. However, we will not be able to set a definitive timeline for the audits, due to current events unfolding in Yemen. We will provide a tentative time line. And, once implementing partner staff have fully returned to Yemen and we have determined that it is safe to proceed with normal program operations, we will be better positioned to propose a credible timeline for the audit plan. In the meantime, our Monitoring and Evaluation project will be deployed to intensify field oversight, and validate the activities and reporting data of all implementing partners. We will also seek support from your office to make determinations regarding additional local firms suitable to conduct needed audits.

With regard to the second recommendation, *that USAID/Yemen consult with the Regional Legal Advisor and Executive Office to develop a milestone chart of critical mission orders to be finalized to ensure continuity of operations and to address specific mission vulnerabilities*, consultations between Cairo and the Mission have already begun. The recommended milestone chart of critical mission orders and notices will be completed by April 30, 2011, and will include target dates and responsible parties. Beyond that, as we work with Cairo support offices to complete needed Mission Orders and Notices, we also will seek their support to help train our staff in critical mission operational procedures, which will help ensure procedural compliance.

With regard to the third recommendation, *that USAID/Yemen identify training needs and develop and implement annual training plans for mission staff*, the Mission will be collating, reviewing and finalizing the individual training plans for its staff, allocating training resources under its Operational Expense and Program budgets, and will be in a position to submit an annual training plan by August 31, 2011. The reason for the relatively longer timeline on this recommendation is as follows: As of the date of this memo, USAID/Yemen is on authorized departure. Currently, only two of its four USDH are in country; the third will depart in early May, leaving only the Mission Director in place. It is hoped that the authorized departure status will soon be lifted allowing the return of USDH staff or replacements. But, in the best case scenario, USAID/Yemen will not be at full USDH strength until July. Returnee and new staff will require time to consult with their supervised employees on training plans, and these will have to be reviewed by a training committee, comprised at post. The functions of this committee need to be established in a Mission Notice, as per recommendation 2.

In addition to the above management comments, we would like to mention that insofar as many of the concerns identified in the report relate to our staffing constraints, the Mission is undertaking a number of steps to increase staffing, as much as budget resources and space constraints in Sana'a will permit.

Finally, I would like to request that this Memorandum be attached to the Risk Assessment of USAID/Yemen Major Activities when it is finalized and issued.

Thank you very much for your efforts in helping us identify and mitigate risks to our program.

USAID/Yemen Project Matrix As of October 2010

Program Title	Target Governorates	Implementing Partner	Ceiling Value	Start	End
Basic Health Services (BHS)	Amran	Pathfinder International	\$21,610,315	12/1/2006	12/13/2010
Anticorruption Support	Central-government focused (Sana'a)	MOPIC	\$2,277,372	9/13/2006	5/31/2011
Basic Education Support and Training (BEST)	Hodeidah, Shabwah, Marib, Raymah, and Amran	Academy for Educational Development (AED)	\$17,392,557	9/30/2007	12/31/2011
Ministry of Agriculture Extension Services Support	Sa'adah, Amran, Al-Jawf, Marib, Shabwah	Ministry of Agriculture	\$648,800	10/1/2007	9/30/2010
Small and Medium-Sized Enterprise Promotion (Tomoohi) *	Aden, Lahj, Al-Dhale'e, Abyan, Shabwah	Small Micro Enterprise Promotion Service (SMEPS)	\$2,048,400	9/17/2009	9/16/2011
Al-Saleh Institute Support Project for Youth (AISPY) *	Marib	EDC	\$1,650,000	11/9/2009	5/8/2011
Promoting Civic Youth Engagement and Nontraditional Activities *	Aden, Lahj, Al-Dhale'e	AMIDEAST	\$3,550,000	9/30/2009	9/30/2012
Demographic Health Survey (DHS)	Central-government focused (Sana'a)	Macro International	\$400,000	2/1/2010	12/31/2010
Community Livelihoods Project (CLP)	Amran, Al-Jawf, Marib, Shabwah, Al-Dhale'e, Lahj, Abyan, Aden (and some carry-over activities in Sa'adah)	Creative Associates	\$125,000,000	5/20/2010	5/20/2013
Responsive Governance Project (RGP)	Central-government focused (Sanaa), plus very small civil society development grants in Amran, Al-Jawf, Marib, Shabwah, Al-Dhale'e, Lahj, Abyan, Aden	Counterpart International	\$43,000,000	5/6/2010	5/6/2013
Transition Initiatives **	Hajjah, Amran, Marib, Al-Jawf, Shabwah, Lahj, Al-Dhale'e, Sana'a	IOM	\$3,999,999	3/31/2010	To be determined
Strengthening the Role of Youth in Cross-Tribal Conflict Mitigation Processes and Community Development (DCHA/CMM) **	Marib, Shabwah	NDI	\$600,000	5/1/2010	10/31/2011
Yemen Community-Based Conflict Mitigation Project (DCHA/CMM) **	Marib, Al-Jawf, Shabwah, Al-Baidah	Partners for Democratic Change	\$590,897	4/1/2010	3/31/2012
Strengthening the Role of Youth in Cross-Tribal Conflict Mitigation Processes and Community Development (DCHA/CMM) **	Aden, Lahj	Mercy Corps	\$1,200,000	9/30/2010	9/30/2012
Yemen Monitoring & Evaluation (YM&E)	All governorates in which the rest of USAID is working	International Business and Technical Consultants, Inc.	\$13,000,000	4/27/2010	4/26/2013

Total \$236,968,340

* Denotes that the project was fully funded by FY 2007 1207 funds.

** Denotes that funds are Washington-based and do not impact the USAID/Yemen budget.

Map of the Republic of Yemen Governorates

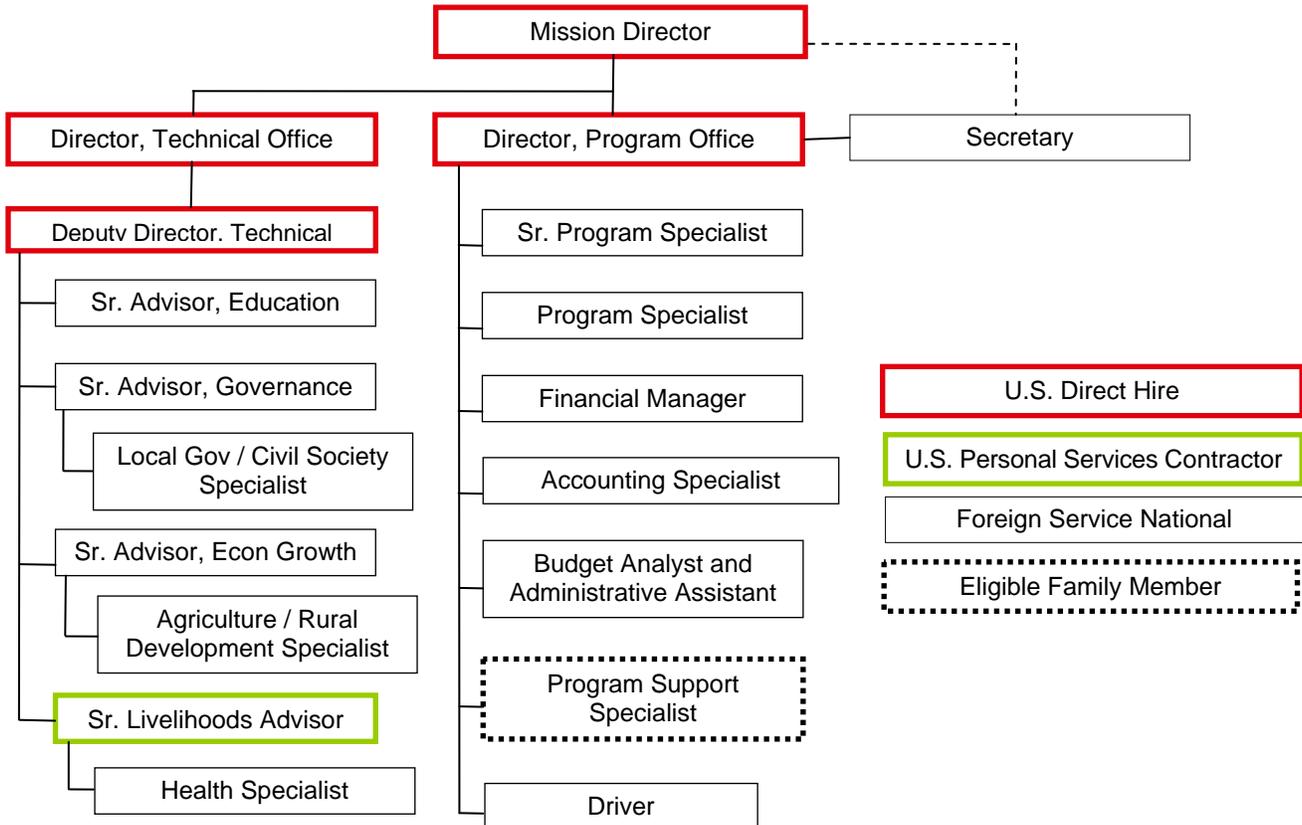


As of February 2011, travel to all Yemeni governorates outside of Sana'a (the capital city) was restricted. However, USAID/Yemen implements projects in the following governorates:

Governorate	No. of projects
Abyan	4
Aden	6
Al-Baidah (Al Bayda)	2
Al-Dhale'e (Ad Dali)	6
Al-Jawf	6
Amran	7
Hajjah	2

Governorate	No. of projects
Hodeidah (Al Hudayday)	2
Lahj (Lahij)	7
Marib (Ma'rib)	9
Raymah	2
Sa'adah (Sa'dah)	3
Sana'a	5
Shabwah	9

USAID/Yemen Organizational Chart As of February 2011



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