September 10, 2002

MEMORANDUM

FOR: M/AS, Roberto J. Miranda

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

SUBJECT: Risk Assessment of Major Functions Within the Consolidation, Property and Services Division of the Office of Administrative Services, Bureau for Management (Report No. A-000-02-002-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 as 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 Director[1] and four divisions:

- Consolidation, Property and Services Division,
- Information and Records Division,[2]
- Overseas Management Support Division,[3] 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

[1] See risk assessment Report No. A-000-02-001-S.
[2] See risk assessment Report No. A-000-02-003-S.
[3] See risk assessment Report No. A-000-02-004-S.
[4] See risk assessment Report No. A-000-02-005-S.

Office of Administrative Services has received limited external reviews and evaluations from other sources. Given the lack of external independent reviews, including audits, we performed risk assessments of the major functions of the Consolidation, Property and Services Division 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.

Discussion

The Consolidation, Property and Services Division of the Office of Administrative Services, Bureau for Management, (M/AS) is responsible for the following seven major functions.[5] Our assessments of the risk exposure for each of these major functions are described below.

Function Description	Risk Exposure
Facilities operations and maintenance in the Ronald Reagan Building and warehouses	Low
Risk Assessment Factors	
• The General Services Administration (GSA) provides services under the building occupancy rental agreement with USAID. These costs are not separately identified under the occupancy agreement. Two USAID staff members are responsible for the management of the facilities operations and maintenance function. • Contracts, other than the building occupancy agreement, are relatively small. For example, the icebox maintenance contract is $1,700 and taken from the GSA approved schedule. • The USAID staff members both have extensive experience—22 years and 9 years. • The process for notifying GSA of a service request is manual. GSA provides weekly reports of service requests and their status. USAID does not maintain its own summary log of service requests. No on-line tracking mechanism is set up to allow USAID to log requests and/or monitor status. • The Automated Directives System (ADS) 519 was just issued to update obsolete requirements. • GSA conducts annual building inspections.	

[5] Our risk assessments only covered major functions. In addition to major functions described in this report, the Consolidation, Property and Services Division also is responsible for motor pool and coordination of art work.

Function Description	Risk Exposure
Mail management	Moderate

Risk Assessment Factors

- Sensitivity is high because the mailroom handles both classified and unclassified material.
- Mail service is entirely contracted out with one USAID staff person overseeing the $485,000 contract. Two additional contracts are used for domestic ($22,500) and international ($36,000) couriers.
- No recent reviews of mail management have been conducted.
- The current contract expires at the end of September 2002. The current contractor and its employees have been employed since 1997. Potential changes in the contractor and employees could lead to additional training, adjustments, and unforeseen issues.
- The USAID staff person in charge of mail management oversees the mail contract. The staff person has attended contract administration training as well as training on computer programs and customer service.
- The ADS Directive is up-to-date, but job description is out of date.

Function Description	Risk Exposure
Management of equipment and furniture in the Ronald Reagan Building and warehouses	High

Risk Assessment Factors

- Two staff persons manage the acquisition, receiving, movement and disposal of equipment and furniture—chairs, tables, file cabinets, etc. The equipment and furniture does not include automated equipment such as computers, fax machines, printers, photocopiers, and telephones.
- The first wall-to-wall inventory was conducted during the summer of 2001. Location and tracking numbers were given to 15,000 items. However, dollar values are not yet assigned to the individual items. Items were entered into the inventory via bar codes from a hand-held scanner. Items are added and deleted manually because the loading dock does not have scanners when an item is delivered or disposed. Due to this manual process, the inventory is not maintained real-time.
- Items are also stored at the USAID Capitol Heights warehouse, with 8,800 square feet. Space is underutilized due to efforts to dispose of unneeded items. Items are included in the overall inventory noted above. However, no distinct inventory is maintained for the warehouse even though new office furniture is stored in the warehouse.
- Segregation of duties appears to be adequate.
- The ADS Directive (ADS 518) was just issued to update obsolete requirements.

Function Description	Risk Exposure
Metro transit subsidy program	Low
Risk Assessment Factors	
• The Office has approximately an annual $1 million contract with the Transportation Administrative Service Center (TASC) of the Department of Transportation to distribute Metrocheks within USAID. • TASC distributes Metrocheks 3 days each month to about 1,000 USAID employees. • A USAID Inspector General audit of the Metrochek program in 1999 revealed a breakdown of internal controls and led to the TASC contract. • Approximately 50 percent of one staff person's time is used to handle Metrochek issues with some help from an administrative assistant. • The Metrochek staff person has proactively looked for ways to make the process more efficient such as the SmartBenefits option offered by the Washington Metropolitan Area Transit Authority. • Applications for Metrocheks are screened for eligibility based on employment status and not concurrently receiving parking subsidies. • TASC provides monthly reports with employee names and the amounts of their Metrocheks. • The Metrochek staff person also keeps a database. However, it is on a hard drive that is not backed up on a regular basis. In addition, the database is overwritten with new data and thus can not be used for historical purposes.	

Function Description	Risk Exposure
Photocopiers in the Ronald Reagan Building	High
Risk Assessment Factors	
• The USAID Inspector General has conducted an audit of the photocopier program. Fieldwork is complete and the final report is soon to be issued (Report No. A-000-02-004-P). • The photocopier program uses three manufacturers to supply about 125 photocopying machines. • The audit findings show that USAID can save at least $400,000 annually. • The audit findings also show that inventory was not maintained and procedures were not documented resulting in a variety of inefficiencies including the underutilization of machines.	

Function Description	Risk Exposure
Printing and graphic services in the Ronald Reagan Building	Moderate
Risk Assessment Factors	
• The USAID Inspector General recently issued on March 22, 2002 an audit report of the printing and graphics services in the Ronald Reagan Building. (Audit Report No. A-000-02-002-P) • The audit findings show that monitoring and measuring systems were inadequate or non-existent and that basic internal controls were lacking. • The Office of Administrative Services agreed with the report, is planning to implement the one report recommendation, and has already started corrective actions.	

Function Description	Risk Exposure
Space management in the Ronald Reagan Building	Low
Risk Assessment Factors	
• Function incorporates policy for managing space and the determination of space usage. An architect manages this function with a staff assistant. The architect has 12 years of experience in this function. • Sensitivity is low. • Outside contractors are occasionally used for planning and redesign projects. • The ADS Directive (ADS 519) was just issued to update obsolete requirements.	

Conclusion

Our risk assessments of the Consolidation, Property and Services Division of the Office of Administrative Services, Bureau for Management, (M/AS) covered seven functions and reached the following conclusions.

Function Description	Risk Exposure		
	High	Moderate	Low
Facilities operations and maintenance in the Ronald Reagan Building and warehouses			✓
Mail management		✓	
Management of equipment and furniture in the Ronald Reagan Building and warehouses	✓		
Metro transit subsidy program			✓
Photocopiers in the Ronald Reagan Building	✓		
Printing and graphics services in the Ronald Reagan Building		✓	
Space management in the Ronald Reagan Building			✓

Based on these assessments, we suggest that the Office of Administrative Services focus its efforts to mitigate the higher risk associated with the functions of management of equipment and furniture and photocopier management. Because the Inspector General has issued (or will soon issue) audit reports with recommendations, we are not making any suggestions in regard to printing and graphic services and photocopier management. In regard to management of equipment and furniture, we suggest that the Office:

- prepare and maintain a periodically updated, distinct inventory for the USAID Capitol Heights warehouse.

Both the Consolidation, Property and Services Division and Office of Administrative Services management 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 the Consolidation, Property and Services Division of the Office of Administrative Services, Bureau for Management (M/AS). 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 April 19, 2002.

Our risk assessments of the Consolidation, Property and Services Division'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 the Consolidation, Property and Services Division. 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 the

Consolidation, Property and Services Division's documentation was limited and judgmental in nature and conducted principally to confirm oral attestations of management.

We identified the Consolidation, Property and Services Division's major functions using the input of the Division 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 22, 2002

MEMORANDUM

TO: Melinda Dempsey, IG/A/ITSA

FROM: Roberto J. Miranda, M/AS/OD

SUBJECT: Risk Assessment of Major Functions Within the Consolidation, Property and Services Division of the Office of Administrative Services (Report No. A-000-02-xxx-S)

M/AS/CPD worked closely with the Inspector General's office on this survey believing that this assessment of vulnerabilities was an opportune first step on the way to the business transformation urged by the Assistant Administrator for the Management Bureau. We concur in the assessment of risk and recommendations.

We are undertaking efforts to prepare an updated, distinct inventory for the USAID Capitol Heights warehouse. It is expected that this endeavor will take approximately four months and will include separating the warehouse inventory from the inventory database, analyzing it and verifying it by conducting a physical inventory.

In addition to the above recommendation, the report identifies other areas and makes useful suggestions which will be incorporated as well.

In closing, M/AS/CPD appreciates the professional assistance, courtesy and help of the IG staff, particularly as we work to implement your recommendations.