

Appendix No. 1

Stage II Risk Assessment Report

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USAID AFGHANISTAN OFFICE OF FINANCIAL MANAGEMENT

Public Financial Management Risk Assessment Framework

**GOVERNMENT OF THE ISLAMIC
REPUBLIC OF AFGHANISTAN
MINISTRY OF PUBLIC HEALTH**

**STAGE II RISK ASSESSMENT
REPORT**

December 15, 2012

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Background

Founded in 1747, Afghanistan has had a tumultuous existence. Rich with natural resources such as natural gas, petroleum, coal, copper, zinc, and iron, the country has all the necessary elements to jump start its economy. However, the Afghanistan economy has been plagued with instability, but is now recovering from decades of conflict. According to Public Expenditure Financial Accountability (PEFA) reports, the economy has improved significantly since the fall of the Taliban regime in 2001 largely because of the infusion of international assistance, the recovery of the agricultural sector, and service sector growth. While the international community remains committed to Afghanistan's development and has pledged significant resources, the Government of the Islamic Republic of Afghanistan (GIRoA) will need to overcome a number of challenges, including low revenue collection, anemic job creation, and high levels of corruption, weak government capacity, and poor public infrastructure.

According to a 2008 PEFA report, Afghanistan's public financial management (PFM) system achieved significant improvements between June 2005 and December 2007. However, capacity development in the line ministries needs strengthening. Compared with the progress in the Ministry of Finance (MoF), developments in most line ministries lag behind. For example, cash management and payment scheduling procedures in line ministries have not improved. The internal audit function in line ministries does not meet recognized professional standards. While technical expertise in the line ministries has significantly improved in several areas, long-term fiscal planning remains uncertain.

In 2008, USAID/Afghanistan entered into an agreement with the Ministry of Public Health (MoPH) to manage U.S. Government funds for implementing health services through nongovernmental organizations (NGOs) under host country contracting mechanisms and signed an implementation letter to provide the MoPH with up to \$236 million over five years to support the delivery of standardized health services in 13 target provinces in support of the Partnership Contracts for Health Services (PCH) Program. The program was expected to improve access, quality, and use of services to improve health status and contribute to meeting Afghanistan's national health objectives. Over the life of the program, activities contributed to:

- Increasing Basic Package of Health Services (BPHS) coverage to more than 90 percent
- Reducing the maternal mortality ratio to 1,360 deaths per 100,000 live births per year
- Reducing the mortality rate for children under 5 to 168 deaths per 1,000 live births per year
- Reducing the infant mortality rate to 104 deaths per 1,000 live births per year

In 2010, the Obama administration made a public strategic foreign-assistance decision announced at the January 2010 London conference and reaffirmed by Secretary of State Clinton and USAID Administrator Shah at the July 2010 Kabul conference, which committed the U.S. Government to provide at least 50 percent of U.S. Government assistance directly to GIRoA, to be channeled through GIRoA's core budget systems within two years (2012)¹. In June 2011, USAID/Afghanistan negotiated a scope of work

¹ London Conference, January 2010 and the Kabul International Conference of Afghanistan, July 2010.

with GIRoA to undertake entity level risk assessments of GIRoA line Ministries. Contracts utilizing the negotiated scope of work were issued to Certified Public Accountant (CPA) firms to undertake the Ministerial engagements. The CPA firm finalized assessment report of the Ministry of Public Health (MoPH) was issued in April, 2012.

The United States is committed to improving the quality of its aid in order to maximize development in Afghanistan. U.S. military action in Afghanistan including USAID's support of the U.S.G. Counterinsurgency strategy is expected to come to an end around December 2014. USAID anticipates that FY 2015 will be the beginning of a transformational decade to a normal USAID longer term development strategy. With that transition to a more robust traditional development strategy will likely result in substantive changes in Government to Government (G2G) assistance.

The G2G commitment comes with the responsibility to ensure effective use of funds provided by U. S. taxpayers and appropriated by Congress, and the need to address fiduciary risk in the Partner Country PFM system being considered for direct Government to Government assistance. For that reason the Agency developed the Public Financial Management Risk Assessment Framework (PFMRAF) Stage I Rapid Appraisal Assessment, the Democracy, Human Rights and Governance enhanced (DRG) review, and the PFMRAF Stage II Risk Assessment to enable it to meet that objective².

The PFMRAF is a multi-stage risk-based methodology whereby USAID seeks to understand the fiduciary risk environment in targeted countries to inform decisions whether to use or to increase the use of partner country public financial management systems in delivering aid assistance. The enhanced DRG review, led by a USAID/W team, is undertaken prior to or in conjunction with the Mission-led Stage I Rapid Appraisal, and seeks to determine whether a G2G investment could empower a government at the expense of its people. Unless the macro-level Stage I Rapid Appraisal and enhanced DRG review determine that there is unacceptable or unmitigated country level fiduciary risk, political constraints, or other insurmountable barriers to the use of partner country systems, an in-depth PFMRAF Stage II risk assessment – which is an entity level assessment – may be completed by the Mission. This Stage II assessment will establish the baseline level of Ministerial entity level risk corresponding to contemplated funding levels, and identify vulnerabilities of the partner country implementing entity. If the assessment reveals clear evidence of vulnerabilities to corruption and other high levels of control risks, and the partner country government fails to respond or agree to appropriate risk mitigation remedy measures, then the use of partner country systems must not be authorized.³

USAID/Afghanistan has never conducted the macro-level enhanced DRG review and the PFMRAF Stage I assessments upon GIRoA as required under currently issued Agency Policy – US Chapter 220 issued in draft in August 2011 and substantially updated in

² In August 2011, the Agency issued a new draft policy - ADS Chapter 220 - pertaining to the use of reliable partner country systems for direct G2G assistance. That policy chapter was substantially updated in late March 2012 and continues to undergo modifications - the latest in July 2012, where risk assessment questionnaire guidelines were modified. This ADS chapter with its latest modifications now requires a three-stage approach in the process leading to a decision of whether USAID should consider use of a partner country's systems to implement direct assistance programs.

³ According to USAID/Afghanistan's Office Social Sector Development MOPH has given it evidence of effort to respond to the identified risks and began to address the identified weaknesses. The outcomes of that effort remain to be assessed during a later review and are not reflected in this Stage II report.

March 2012. Given the history of G2G assistance in Afghanistan, this situation is understandable. The macro-level assessments are to guide the decision process about whether G2G assistance should be considered as a bilateral assistance objective. In Afghanistan, that decision was made several years ago at the highest levels of the U.S. Government. The Obama administration's foreign policy decision in January 2010, which was reaffirmed by Secretary Clinton and Administrator Shah at the Kabul conference in July 2010, strongly reiterated the U.S. commitment to direct G2G assistance to GIRoA. This commitment was not made subject to review of macro-level risk in Afghanistan. Essentially, the foreign policy decision to engage in G2G assistance in Afghanistan has replaced the first two steps under the Agency ADS 220 policy—the enhanced DRG review and the PFMRAF Stage I assessment.

Scopes of work for the entity level Ministerial engagements undertaken by GIRON and USAID may not have complied with every element of the detailed PRMRAF Stage II guidance as currently revised in July 2012, however the Mission believes it has complied with the spirit and purpose of that guidance. In August 2012, USAID Afghanistan addressed an unofficial Stage I review by internally summarizing responses to assessment guidelines using collective information gathered from public expenditure and financial accountability (PEFA) reports, assessments undertaken by the CPA firms to date, and other informal information available to Mission staff. Using that informal process and the MoPH independent CPA firm assessment report issued in April 2012, the Mission is documenting through this framework a Stage II equivalent report based upon the most recently updated ADS Chapter 220 guidance.

Objectives

The overall objective of this Stage II assessment is to determine whether the U.S. government can rely on the Ministry of Public Health's (MoPH) systems operation and internal controls to manage donors' funds. Specifically the assessment will:

- Determine whether MoPH's financial management/accounting system is adequate to properly manage and account for donors' funds.
- Determine whether MoPH's internal controls are adequate to manage donors' funds.
- Determine whether MoPH's procurement management units have sufficient systems and management capacity to implement activities and manage donors' funds.
- Determine whether MoPH complied in all material respects with applicable laws and regulations.

Executive Summary

The United States committed to improving the quality of its aid in order to maximize development benefits in Afghanistan pledged to channel at least 50 percent of its development assistance through the national budget of the Afghan Government⁴. This commitment comes with the responsibility to ensure effective use of funds provided by U. S. taxpayers and appropriated by Congress, and address fiduciary risk in the Partner Country Public Financial Management (PFM) systems being considered for direct implementation of USAID-funded assistance. For that reason USAID developed the Public Financial Management Risk Assessment Stage II to enable it to meet that objective. The Public Financial Management Risk Assessment Framework (PFMRAE) is a multi-stage risk-based methodology whereby USAID seeks to understand the fiduciary risk environment in targeted countries to inform decisions whether to use or increase the use of partner country public financial management systems in delivering aid assistance. If the assessment reveals clear evidence of vulnerabilities to corruption, and the partner country government fails to respond, the use of partner country systems must not be authorized.

This assessment was performed to determine whether USAID can rely on the Ministry of Public Health's (MoPH) systems operation and internal controls to manage donors' funds. The assessment found that USAID cannot rely on the Ministry of Public Health's (MoPH) current systems operation and internal controls to manage donor funds without substantive mitigation measures being incorporated into G2G agreements negotiated with MoPH. The assessment found significant internal control weaknesses in the PFM systems. Examples of weaknesses detected include, lack of reliable payroll systems, lack of access control and management review over financial systems and transactions, and the hiring of unqualified financial management staff. The pervasive nature of the internal control weaknesses implies that the MoPH cannot adequately manage and safeguard donors' funds against loss and or misappropriation.

MoPH senior management officials have made some strategic decisions and have provided to some extent structure within the ministry. In spite of the notable efforts, considerable governance challenges remain unaddressed, especially in the area of personnel policies and procedures where the MoPH HR directorate has an opportunity to improve current practices. As an example, employees' annually required code of conduct and conflict of interest forms are not documented, and employees' job descriptions are not acknowledged and documented. In addition to the governance challenges, the MoPH faces difficulties in many other areas as well. For instance, the procurement department does not have specific mechanisms to prevent collusion between suppliers and procurement agents. Other examples of these difficulties are, management does not consistently use feedback and observations from its monitoring professionals to manage for results, and there are potential conflict of interest issues between the provincial offices and the monitoring and evaluation division.

Under normal circumstances, the results of this assessment would lead USAID not to engage in Government to Government (G2G) assistance with the Ministry. Since the determination has already been made to engage in G2G activity with the Ministry, approaching assistance with precaution and conditions, USAID, working closely with GIRoA and the MoPH, can reasonably mitigate the identified risks. Appendix 1 details the identified risks and proposes possible mitigating measures to manage those risks.

⁴ London Conference on Afghanistan, January 2010 and the Kabul International Conference on Afghanistan, July 2010.

Assessment Conclusion & Results

The assessment found that the U.S. government cannot rely on the Ministry of Public Health's (MoPH) systems operation and internal controls to manage donors' funds.

- MoPH's financial management/accounting system is not adequate to properly manage and account for donors' funds. See page 9
- MoPH's internal controls are not adequate to manage donors' funds. See pages 8 and 9
- MoPH's procurement management units do not have sufficient systems and management capacity to implement activities and manage donors' funds. See page 10
- MoPH did not fully comply with GIRA procurement laws and regulations. See page 10

In addition, the internal control environment is not adequate to mitigate risk of corruption as several key controls are not implemented, and it is unclear if GIRA including the Ministry, has the capacity to combat corruption effectively. Nonetheless, with technical assistance and other support and clear commitment to change on the part of GIRA and the MoPH, USAID believes the identified risks can nonetheless reasonably be mitigated. See pages 8-11 and Appendix 1.

Management and governance structure

Governance is a process by which decisions are made and implemented. Management, be it corporate managers or government officials, sets the tone regarding the importance of standards of conduct, and management controls and business practices. Management provides, structure, discipline and a sense of purpose, and communicates these actions by their attitude toward internal controls. The assessment found that MoPH senior management officials have made some strategic decisions and concerted efforts to operate within GIRA's guidelines, and has provided to some extent structure and discipline within the Ministry. For example, management has developed a five years strategic plan and has demonstrated a certain degree of leadership by updating the plan for another five years (2011 to 2015). In addition, senior management committees meet regularly, and the minutes of these meetings are documented, and action plans are often prepared at the end of the meetings.

In spite of these notable efforts, considerable governance challenges remain unaddressed. The Ministry has devoted considerable resources to develop and update its strategic plan, but there is no mechanism in place to monitor the effectiveness of the plan. Furthermore, the Ministry created an Internal Audit Division (IAD), but did not invest in the development of the division. The IAD does not have a charter, there is no audit committee, and the staff working in the division lacks the professional qualifications to be auditors. The internal auditors perform mainly transaction based audits instead of risks based audits due to the lack of professional expertise. Although the MoPH is operating in a volatile environment, management has not prioritized the development of business continuity and disaster recovery plans. In addition, the lack of physical and access controls over the information technology apparatus is a common threat however it does not get the required attention from senior management. Management has made some visible effort to demonstrate a commitment to good governance; however, because of its failure to implement sufficient internal controls, it is unclear to what degree has management communicated that

commitment to staff. According to other public financial management reports,⁵ MoPH employees are not adequately or consistently aware of their internal control responsibilities. Currently, individual elements of internal control procedures are understood by staff members who execute them, but there is little awareness across the Ministry of risks and controls for the whole internal control system. The same report noted a lack of *internal code of ethics* to help foster a clear internal control philosophy across the Ministry. The inconsistencies in management behavior raise concerns regarding the Ministry's long term commitment to standards of conduct and discipline toward internal control activities. These concerns highlight significant risk implications and raise doubt as to whether the Ministry has the capacity to manage donors' funds without donors' continued involvement to assist the Ministry in mitigating risks.

Financial Management and Accounting Systems

To achieve success in program implementation a reliable public financial management system is vital. The implementation of internal control activities reduces the likelihood of waste and improves program success. In most cases good internal control activities help identify weaknesses in a system, and prompt early corrective actions. Admitted that some organizations may not always have the necessary resources to implement effective internal controls, nonetheless key controls performed by management personnel can overcome the lack of segregation of duties and other control activities. At a minimum, management should review accounting systems reports, inspect supporting documents for selected transactions, and oversee periodic counts of inventories and review bank statements and other reconciliations.

The assessment found no documented evidence of these internal control functions. With only basic controls like comparing expenses to allotted budget, the MoPH public financial management system is weak and is highly vulnerable to errors and misconduct. According to the auditors, the financial management system is not integrated and lacks access controls. For example, there is no mechanism in place to prevent the alteration of payment request documentation after they have been approved by Ministry of Finance. These are significant internal controls weaknesses with obvious opportunities for wrongdoing. More importantly, the assessment discovered that several employees including some of the highest paid officials on the super salary scale received their salaries in cash. To accommodate this practice, the MoPH payroll officer goes to Da Afghanistan Bank every pay period and withdraws enough cash to pay these officials and staff in cash. It is unclear how and if this risky disbursement and receipt of cash for work practice is documented. This practice raises concerns considering that the payroll office does not perform reconciliations of payroll discrepancies. Also, the payroll system is vulnerable to unauthorized changes as there is no mechanism to record, generate and review payroll exceptions. Additionally, there is a systemic lack of internal control practices including accountability. For example, cash collected from blood banks are not regularly and promptly deposited in the bank. Furthermore, fixed assets are not registered, tagged and tracked, and periodic physical verification of fixed assets is not conducted. Lastly, the authorization and approval functions are concentrated with upper management and is not delegated, causing excessive delays and inefficiencies in the system. Because of the pervasive nature of the internal control weaknesses, the MoPH

⁵ Ministry of Public Health Public Finance Management and Public Internal Financial Control Review for Key Line Ministry, GfRA, December 2011, PKF Chartered Accountants, UK

is unable to adequately manage and safeguard donors' funds against loss and or misappropriation.

Personnel Policies and Procedures

Human Resource functions are essential to organizational success, as they ensure employees are treated fairly and equitably. These functions also ensure that qualified employees are recruited and retained. The recruitment process at the MoPH is vulnerable to manipulation and unfair practices as the recruitment committee does not have documented recruitment guidelines and recruitment proceedings are not documented. In addition, there is no evidence that HR conducts reference checks on non Tashkeel⁶ employees (e.g., consultants, advisors), and staff development including continuing professional education for medical doctors are not prioritized. Another critical HR function is to ensure the integrity of payroll data, and safeguard of employee personal data. The assessment noted among other things that the payroll database is vulnerable to unauthorized access and modification, as the HR does not perform monthly payroll reconciliations to document variances and discrepancies. In addition to this vulnerability, the MoPH runs the risk of paying ghost employees and making improper payments to employees, because the HR system does not maintain and track employees' leave, and employees' attendance records are not reviewed and approved. Similarly, personnel records including files with bank account information are not protected and are easily accessed by unauthorized personnel. Finally, the MoPH HR directorate lacks the basic understanding of HR functions. As an example, employees annual code of conduct and conflict of interest forms are not documented, and employees' job descriptions are not acknowledged and documented. We recognized the MoPH is operating in a challenging environment, nonetheless, the lack of attention to basic employment documentation and practices exposes the entity's and donors' funds to risks.

Procurement and Purchasing system

According to GIRA's Procurement Law, the procurement regulation was enacted to ensure transparency in the procurement processes and to ensure effective control of financial affairs and public expenditures. Review of the MoPH's procurement processes revealed that the current process is not transparent and is susceptible to manipulations. Assessors found that the procurement department maintains a list of areas where certain items may be purchased, but does not have an approved list of suppliers for these areas. When the Ministry needs to acquire goods and services, procurement agents go to these predetermined areas and distribute requests for quotation. Then bids are submitted with suppliers' business information. However, there is no control in place to prevent collusion between suppliers and procurement agents, or the use of specific suppliers. Furthermore, there is no mechanism in place to analyze which suppliers are most commonly used by the Ministry. The lack of transparency within the system creates an opaque environment for fraud, waste and abuse. In fact the previous procurement director left the ministry on alleged issues of misappropriation of public funds and operational mismanagement. Contrary to the procurement law, there is no effective control over public expenditures. The law requires that supporting documentation should be submitted to the Control Office, where costs are recalculated, the legality of the procurement process verified, and the completeness and accuracy of the documentation

⁶ Tashkeel is the organizational structure (Staffing establishment or List of sanctioned posts or Staffing structure or Organizational chart or Organ gram) in civil service system of Afghanistan including departments, positions, level of positions and number of positions in each department.

confirmed. However, there is no documented indication that these controls are being implemented by the MoPH.

In addition to an environment conducive to misuse of public funds, the procurement division is fragmented and ineffective. There are several independent procurement departments within the procurement division, as each donor supports separate procurement units within the division. This duplication of efforts and lack of coordination among the procurement management units leads to misallocation of resources. In addition, the donors' supported procurement units operate independently from the Ministry's civil servants and there is no indication of capacity building or knowledge transfer to Ministry procurement staff. In fact according to reviewers, civil servants within the construction procurement division are paid much less than their consultant counterparts supported by the donors. This practice of separate salary standards is resulting in low staff morale and affecting overall procurement efficiency. There are, however, discussions underway by GIRoA and donors, to move toward a common salary scale for tashkeel, while retaining the option of hiring and paying consultants.

The procurement directorate has taken some steps to improve the process and has recently developed procurement plans. In spite of the notable efforts, the procurement directorate is still susceptible to problems. Examples of these problems are; the directorate does not verify vendors' ability to perform until services has been rendered and goods received; while open tendering is the default procurement method, alternative methods used are not documented and justified in the files; communication between procurement and the technical assessment of the goods received is inconsistent; and sensitive procurement information is not protected from unauthorized access.

Finally, the assessment raises concerns regarding consultants' willingness to truly build the Ministry's civil servants capacity. As an example, a consultant at the Ministry developed a procurement tracking database, but has limited the Ministry's involvement and access to the database under the pretext of the Ministry's lack of IT capacity. It is evident that the MoPH has some significant challenges; however, it is unclear if these problems are due to the lack of capacity, management weakness or deliberate acts to exploit the system's shortcomings. Whatever the case, procurement is a critical organizational function, as vast amounts of money are spent every year procuring goods and services. Consequently, donors must be aware of the risks, as there has been allegation of misappropriation of funds by a former senior procurement official.

Program Management and Monitoring

Monitoring and evaluation is the process of collecting and analyzing information about a project to determine whether the project is on track to reaching its objectives, and whether or not the project achieved or contributed to the desired impact. In order to know whether or not a project is on track to achieving intended objectives, management must monitor the project periodically and systematically from implementation through completion. Monitoring the progress of projects allows GIRoA and donors to adapt the project as needed to ensure that objectives are attained. Furthermore, performance management is a commitment to managing for results in order to achieve the best possible outcomes.

The MoPH performance management lacks the apparent commitment needed to manage for results. The assessment revealed that there is no link between operational plan and the annual budget and there is also no mechanism to compare operational plan

and annual budget with the strategic plan. The Ministry does not use a systematic approach in the development of its monitoring plans, as several locations/facilities are not included in the universe used to develop the plans. In addition, monitoring personnel at the district and provincial level report to the provincial directorate rather than the Monitoring and Evaluation directorate in Kabul, reducing transparency and resulting in potential conflict of interests, as the provincial directorate is the direct implementer of the project. Finally, there could be a lack of commitment on the part of management, as management is not consistently using feedback and observations from its monitoring and evaluations professionals to manage projects in order to ensure that objectives are attained and desired results achieved. The auditors reviewed follow-up monitoring reports from three provinces containing eighteen recommendations, and found that management has addressed only three of the eighteen recommendations in the follow-up monitoring reports. Management's lack of consistent commitment to program outcome could impact program results and put donors' funds at risk.

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Risk Assessment Measurement

USAID guidance states, once a risk has been identified, the impact and probability of that risk must be determined. The impact measures the severity of an adverse event associated with the risk and is measured as, Negligible, Marginal, Serious, and Catastrophic. Conversely, probability measures the likelihood of the occurrence of the adverse event associated with the risk and is expressed as, Remote, Occasional, Probable, and Frequent. Combining impact and probability factors categorize risks in clusters of Critical, High, Medium and Low categories. Although subjective, it is nonetheless the basis for the Risk Mitigation plan in USAID.

USAID's PFM Risk Matrix

| | | | | | | |
|--------|---------------------|--------|---------------|-------------------|-----------------|-----------------|
| Impact | <i>Catastrophic</i> | High | Critical | Critical | Critical | |
| | <i>Serious</i> | High | High | Critical | Critical | |
| | <i>Marginal</i> | Medium | Medium | High | High | |
| | <i>Negligible</i> | Low | Low | Medium | Medium | |
| | | | <i>Remote</i> | <i>Occasional</i> | <i>Probable</i> | <i>Frequent</i> |
| | | | Probability | | | |

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Scope and Methodology

The independently contracted auditors conducted the assessment under a scope which focused on five main areas of 1) Corporate Governance Structure and Control Environment, 2) Financial management and accounting system, 3) Personnel policies and procedures, 4) Procurement, and 5) Monitoring and Evaluation. While the auditors conducted an in-depth assessment on the five areas mentioned above, they did not use the Agency's approved Public Financial Management Risk Assessment Framework (PFMRAF) checklist, and did not conform in many ways to the Agency's PFMRAF guidance on risk treatment and risk assessment measurements. However to ensure Mission compliance with the Agency's guidance on required due diligence, we reviewed the assessment report and met with the auditors who conducted the assessment to gain a general understanding of the nature of their work. We also met and discussed with our internal financial analysts who had an understanding of the Ministry's systems. Further, we conducted limited research on other work performed by PKF on the Mission. Based on the auditors' work, our reviews, meetings and research, we completed the PFMRAF checklist and the risk mitigation plan and we summarized our findings and understanding in this report.

At the time of the assessment it was not clear if the auditors understood that they were required to define their findings in terms of risks as prescribed by the Agency in order to mitigate the identified risks. Because our review was conducted after the completion of the assessment, and could not go back to determine the impact and probability of the identified risks, we relied on our understanding gained over the years of collaboration with GIRA. Based on that understanding we defined the potential risks and took a conservative approach and considered most risks to be serious and probable unless the contrary was clearly evident.

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Risk Schedule:

| | Risk of | Impact | Probability | Score | Suggested Mitigation Measures |
|--|--|--------------|-------------|----------|--|
| Management and governance structure | | | | | |
| 1 | <p>Diverting government resources for unintended purposes</p> <p>Waste, fraud and abuse may go undetected</p> | Serious | Probable | Critical | <ol style="list-style-type: none"> 1. Develop a policy which requires the Ministry to compare actual results to strategic plan 2. Prepare Management Accounts that compares periodic actual results against budget 3. Submit quarterly management accounts to USAID which compares actual results against strategic plan |
| 2 | <p>Lack of professional skills to perform risk based audit to mitigate the occurrence of risk</p> <p>Waste, fraud and system abuse may go undetected</p> | Serious | Probable | Critical | <ol style="list-style-type: none"> 1. Establish an Audit Committee with an oversight responsibility over the Internal Audit Department 2. Convene regular audit committee meetings and document meeting minutes 3. Provide relevant training to Internal Audit personnel 4. Audit all USAID projects annually 5. Submit interim risk based audit reports to USAID |
| 3 | <p>Losing vital data and information in the event of system failure or natural disaster</p> <p>Abuse of systems access</p> | Catastrophic | Occasional | Critical | <ol style="list-style-type: none"> 1. Develop a policy to include disaster recovery plan 2. Back-up information technology systems regularly on and off site 3. Put Information Technology (IT) |

| | | | | | |
|--|--|---------|----------|----------|--|
| | rights Lack of physical control over ICT server and equipments | | | | server under locked doors and provide access only to authorized personnel 4. Install fire extinguishers in the IT server room 5. Users of the information systems should have unique user ID and password to log into the system 6. System's access should be clearly defined or restricted according to roles and functions |
| Financial management and accounting systems | | | | | |
| 4 | Manipulation of accounting information after approval and posting to hide illegal actions Diverting donated program funds to finance unauthorized activities Engaging in accounting irregularities to hide true financial position | Serious | Probable | Critical | 1. Segregate duties among accounting staff. 2. Rotate assignments within the staff to ensure all staff know and understand different levels of responsibility 3. Install computerized financial management system with in-built controls 4. Link the computerized financial management system used by MoPH to the AFMIS maintained by MoF 5. Conduct annual financial statement audit 6. Submit audited financial |

| | | | | | statement to USAID |
|---|--|--------------|----------|----------|--|
| 5 | <p>Misappropriation of funds when revenues collected are not recorded properly and deposited into the proper bank account on a timely manner</p> <p>Encouraging environment conducive to fraudulent acts</p> | Serious | Probable | Critical | <ol style="list-style-type: none"> 1. Develop a policy to ensure that all revenues accruing to MoPH have been properly accounted for 2. Deposit all cash receipts into the bank account without delay 3. Perform monthly reconciliation on the revenue account 4. Develop revenue projections and compare projections to actual receipts and investigate the differences 5. Submit annual audited financial statements on USAID program funds |
| 6 | Misappropriation of cash arising from payment of salaries in cash | Catastrophic | Probable | Critical | <ol style="list-style-type: none"> 1. Pay all salaries through the banking system 2. Conduct annual payroll audits 3. Reconcile payroll for discrepancies on monthly basis 4. Modify the payroll system and include the option for reviewing the payroll exceptions and limit the rights of the users |
| 7 | Assets being used for unintended purposes | Serious | Probable | Critical | <ol style="list-style-type: none"> 1. Tag all fixed assets with an identification number 2. Update fixed assets register on |

| | | | | | |
|--|---|--------------|----------|----------|---|
| | <p>Diverting government property for personal use</p> <p>Waste, fraud and abuse may go undetected</p> | | | | <p>regular basis to reflect: date of purchase, asset type, location, serial number, tagged number</p> <ol style="list-style-type: none"> 3. Conduct periodic inventory of fixed assets, possibly every six months 4. Provide USAID a list of all fixed assets funded with USAID money 5. Conduct regular performance audit to include asset verification |
| Personnel policies and procedures | | | | | |
| 8 | <p>Deviation from policies, rules and poor performance</p> | Catastrophic | Probable | Critical | <ol style="list-style-type: none"> 1. Develop clear organizational policies, mission and vision statements 2. Distribute copies of the policies to all employees |
| 9 | <p>Improper payments to employees</p> <p>Funds being used for unintended purposes</p> <p>Lack of accountability of public officials</p> | Serious | Probable | Critical | <ol style="list-style-type: none"> 1. Develop a plan to automate attendance system 2. Document time and attendance for all employees 3. Link employees pay benefits to the time and attendance register and reconcile regularly 4. Supervisors approval required for all time and attendance before salaries are paid to employees |

| | | | | | |
|----|--|----------|------------|----------|--|
| | | | | | 5. Conduct compliance audit |
| 10 | <p>Employees engaging in conflict of interest activities</p> <p>Nepotism and cronyism</p> | Serious | Probable | Critical | <ol style="list-style-type: none"> 1. Update employees' code of conduct forms annually 2. Conduct ethics training for all employees |
| 11 | <p>Inconsistent system and no improvement</p> <p>Employees leaving the organization without returning all assets in their custody and fulfilling their obligations</p> | Marginal | Occasional | Medium | <ol style="list-style-type: none"> 1. Develop procedures for conducting exit interviews 2. Supervisors and employees clear on exit interview clearance forms 3. Retrieve all assets in the custody of the employees |
| 12 | Employees not knowing their responsibilities | Serious | Probable | Critical | <ol style="list-style-type: none"> 1. Develop annual work objectives for all staff 2. Perform personal needs assessment to determine the areas of improvement. 3. Conduct ethics training for all staff |

| Procurement and purchasing systems | | | | | |
|------------------------------------|---|---------|----------|----------|---|
| 13 | <p>Procurement system not being transparent and exposed to conflict of interests</p> <p>Kickbacks and bribery Resulting in inconsistent practices and operational inefficiencies.</p> | Serious | Probable | Critical | <ol style="list-style-type: none"> 1. Develop written policies and procedures for the procurement processes 2. Require OAA's involvement in all critical procurements 3. Obtain signed conflict of interest from personnel who are involved in the procurement processes 4. Develop a plan to introduce procurement reforms |
| Program management and monitoring | | | | | |
| 14 | <p>Concealing vital monitoring and evaluation information</p> | Serious | Probable | Critical | <ol style="list-style-type: none"> 1. Develop written policies and procedures for monitoring and evaluation 2. Send monitoring and evaluation reports to the M&E Directorate at the head office and copies to the provincial offices 3. Submit copies of M&E reports to USAID |