



OFFICE OF INSPECTOR GENERAL

FOLLOW-UP AUDIT OF SELECTED USAID/LEBANON'S DEMOCRACY AND GOVERNANCE ACTIVITIES

AUDIT REPORT NO. 6-268-11-003-P
December 6, 2010

CAIRO, EGYPT



Office of Inspector General

December 6, 2010

MEMORANDUM

TO: USAID/Lebanon Mission Director, Dr. Jim Barnhart

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

SUBJECT: Follow-up Audit of Selected USAID/Lebanon's Democracy and Governance Activities (Audit Report No. 6-268-11-003-P)

This memorandum transmits our final report on the subject audit. In finalizing the report, we carefully considered your comments on the draft report and have included your responses in their entirety in appendix II (attachments excluded).

The report includes 10 recommendations for corrective action. On the basis of USAID/Lebanon's supporting documentation and planned action, we consider that final action has been taken on eight recommendations, a management decision has been made on one recommendation, and no management decision has been reached on the remaining recommendation. RIG/Cairo considers that final action has been taken recommendations 1, 2, 3, 4, 5, 6, 7, and 9. In addition, we consider that a management decision has been reached on recommendation 10 and that a management decision has not been reached on recommendation 8.

Please provide the Audit Performance and Compliance Division in the USAID Office of the Chief Financial Officer (M/CFO/APC) with the necessary documentation to achieve final action for recommendations 8 and 10. A management decision will be recorded for recommendation 8 after USAID/Lebanon has developed a plan of action with a target date for implementing the recommendation.

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

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SUMMARY OF RESULTS

As part of USAID/Lebanon's strategic vision for democracy and good governance, the mission identified a need to improve municipal governance, expand the role of civil society advocacy, and increase the responsiveness of Parliament. These actions are three critical prerequisites to strengthening foundations of governance in Lebanon. Unless the capacities of local government are ensured, many other development projects will fail to achieve their intended results. To help achieve these strategic visions, USAID/Lebanon awarded a 3-year, \$17.7 million cooperative agreement entitled Strengthening Foundations for Governance (No. 268-A-00-04-00232-00) to the State University of New York (SUNY). This agreement provided assistance to sustain local democratic practices in Lebanon beginning November 30, 2004, and ending November 29, 2007. USAID/Lebanon modified the cooperative agreement, extending it to November 30, 2011, and increasing funding to \$28.7 million.

As of July 2010, USAID/Lebanon's portfolio of programs consisted of education, economic growth, democracy and governance, and reconstruction and wastewater projects valued at \$202 million. The mission's democracy and governance portfolio is about 28 percent of the total programs, valued at \$56 million. SUNY implemented the Assistance to Sustain Local Democratic Practices in Lebanon Program, valued at \$28.7 million, or 51 percent of the democracy and governance portfolio. As of June 30, 2010, USAID had obligated \$26.5 million and expended \$23.9 million for the SUNY program. Shortly before the audit began, USAID/Lebanon discontinued the program because officials did not believe that the program was in the best interest of the U.S. Government. USAID/Lebanon officials stated that the inability of the mission and SUNY to extend a memorandum of understanding between SUNY and Government of Lebanon's Ministry of Interior and Municipalities contributed to the decision to modify the agreement.

The Regional Inspector General/Cairo (RIG/Cairo) conducted this followup audit to the Audit of USAID/Lebanon Democracy and Governance Activities conducted during fiscal year (FY) 2008. The FY 2008 audit was a worldwide audit that included a democracy and governance program implemented by SUNY and America-Mideast Educational and Training Services (AMIDEAST). Since the SUNY program accounted for 51 percent of USAID/Lebanon's total democracy and governance portfolio, the follow-up audit focused on SUNY activities and conducted limited procedures on the AMIDEAST program. The audit was designed to answer the following questions:

- Did USAID/Lebanon implement the recommendations from Audit Report No. 6-268-09-002-P, dated November 9, 2008, and were the actions taken effective?

In a 2008 RIG/Cairo audit report (Audit No. 6-268-09-002-P, dated November 9, 2008), auditors recommended that USAID/Lebanon:

- Update its performance management plan to clarify definitions for its democracy and governance indicators to be objective in accordance with Automated Directives System (ADS) 203.3.4.2(b).¹

¹ The previous audit recommendation referred to ADS 203.3.4.2(b), which defined the term "objective." The current ADS version defines the term "objective" in Chapter 203.3.4.2(a), Objective.

- Institute procedures to perform data quality assessments as required by ADS 203.3.5.2.
- Develop a schedule to periodically sample and review its implementing partners' data for completeness, accuracy, and consistency.

USAID/Lebanon took some corrective actions to improve its management oversight over the clarification of its program indicator definition, data quality assessments, and data verification. However, for two recommendations, the mission took actions that have not been effective. For recommendation 1, USAID/Lebanon dropped the ambiguous program indicators from its performance management plan (PMP) and updated it with clearly defined indicators that focused on program sustainability (page 4). To address recommendation 2, USAID/Lebanon hired a consulting firm to conduct a data quality assessment. The assessment reported that the implementer overreported on one indicator and that the mission should clarify and document the definition of its program indicators, standardize reporting procedures, and implement consistent indicators for its implementing partners. However, the mission did not discuss the recommendations with SUNY until April 2010. Accordingly, SUNY did not make appropriate and timely changes to indicators reported in the FY 2009 PMP (page 5). For recommendation 3, the mission director instructed mission staff to conduct quarterly site visits to verify reported data. Mission staff documented site visits and retained documentation of information collected but did not document the results of data verification of program activities (page 6).

Moreover, the followup audit identified additional management oversight issues that USAID/Lebanon should address: strengthening the mission's file documentation (page 7), ensuring that intellectual property rights clauses are included in its agreement (page 8), systematically reviewing program activities for sustainability (page 9), ensuring that federally funded properties are valued (page 11), and conducting end-use checks for property purchased using USAID funds (page 13).

USAID/Lebanon can strengthen its management controls and oversight by:

- Developing a plan to document mission communication to its implementers about actions needed to address audit, assessment, and review recommendations (page 7).
- Developing procedures with the agreement officer's technical representative at the beginning of each program activity to establish methodologies and sampling techniques to conduct appropriate data verification of information provided by the implementing partners in accordance with the terms and conditions of the program activity (page 7).
- Creating a centralized program filing system that includes the first or original agreement, subsequent agreements and modifications, and other identified agreement documents necessary for management review (page 8).
- Developing a plan to ensure that agreements are modified to include relevant provisions, such as the intellectual property rights clause, as appropriate over the life of the award (page 9).
- Developing a plan to document the review of program activities and communicate potential sustainability or vulnerability problems to the agreement officers expeditiously (page 11).
- Documenting procedures to develop, maintain, and communicate explicit system requirements, protocols, and procedures to maintain information technology in an appropriate activity approval document and in the subsequent solicitations and

- awards (page 11).
- Coordinating with the agreement officer to develop a plan to ensure that programs with information technology components are capitalized during the development phase of the asset (page 12).
 - Conducting an audit of locally incurred costs for software programs developed under the Assistance to Sustain Local Democratic Practices in Lebanon program to determine finite values for the programs (page 12).
 - Developing a schedule for the implementer to submit a complete list of USAID-funded equipment with a program description and assigned values to the mission (page 13).
 - Developing a procedure as part of its routine site visits to perform end-use checks and retain documentation of the equipment reviewed (page 13).

The audit's scope and methodology are described in appendix I.

USAID/Lebanon generally agreed with the 10 audit recommendations. In preparing the final report, RIG/Cairo carefully considered management comments and supporting documents provided. On the basis of USAID/Lebanon's supporting documentation and planned action, RIG/Cairo considers that final action has been taken on eight recommendations, a management decision has been made on one recommendation, and no management decision has been reached on the remaining recommendation. RIG/Cairo considers that final action has been taken on recommendations 1, 2, 3, 4, 5, 6, 7, and 9. In addition, a management decision has been reached on recommendation 10 but a management decision has not been reached on recommendation 8 because mission officials believe valuing assets developed by the implementer would not be beneficial for the Government of Lebanon.

Management's comments are included in their entirety in appendix II (attachments excluded).

AUDIT FINDINGS

Did USAID/Lebanon implement the recommendations from Audit Report No. 6-268-09-002-P dated November 9, 2008, and were the actions taken effective?

In a 2008 Regional Inspector General/Cairo (RIG/Cairo) audit report (Audit No. 6-268-09-002-P, dated November 9, 2008), auditors recommended that USAID/Lebanon:

- Update its performance management plan to clarify definitions for its democracy and governance indicators to be objective in accordance with Automated Directives System (ADS) 203.3.4.2(b).
- Institute procedures to perform data quality assessments as required by ADS 203.3.5.2.
- Develop a schedule to periodically sample and review its implementing partners' data for completeness, accuracy, and consistency.

In response to the 2008 RIG/Cairo report recommendations, USAID/Lebanon took corrective actions to improve its management oversight over the clarification of its program indicator definitions, data quality assessments, and data verification designed to measure results of some of its activities within its Assistance to Sustain Local Democratic Practices in Lebanon program implemented by the State University of New York (SUNY). Although the mission has taken corrective action to revise some of its democracy and governance indicators, USAID/Lebanon will need to ensure that the data verification of these indicators is conducted on a timely and consistent basis. Specifically, the mission hired the consulting firm Management Systems International (MSI) to develop the mission's performance management plan (PMP) with clearly defined indicators. The mission also hired MSI to conduct a data quality assessment of its performance plan and report (PPR) for three indicators for the Assistance to Sustain Local Democratic Practices in Lebanon program that SUNY had implemented since 2004.

USAID/Lebanon Has Taken Actions to Improve Program Indicators — ADS 203.3.4.2, *Characteristics of Good Performance Indicators*, defines the characteristics of good performance indicators as objective, practical, useful for management, direct, attributable to USAID/U.S. Government efforts, timely, and adequate.

Although RIG/Cairo recommended that USAID/Lebanon update its PMP to clarify definitions for its democracy and governance indicators in its fiscal year (FY) 2008 PMP report on results, the mission revised its PMP and dropped all of the SUNY performance indicators for the municipality program. In addition, in November 2008 the mission shifted the program focus to sustainability.

For FY 2009, the mission reported on two new indicators for the municipality program: *Number of sub-national government entities demonstrating improved financial management practices* and *Number of technical requests from municipalities resolved by the Ministry of Interior and Municipalities*. In the revised PMP that USAID/Lebanon approved in February 2010, the mission clarified the definitions of the two new indicators to eliminate some of the ambiguity that existed with the FY 2006 and 2007 indicators.

Although USAID/Lebanon clarified the indicators for the SUNY democracy and governance program in FY 2009, the implementer achieved only 41 percent of its target, or 62 of 150 of technical requests for the indicator *Number of technical requests from municipalities resolved by the Ministry of Interior and Municipalities*. USAID/Lebanon and SUNY designed the indicator to measure the sustainability of the program—specifically, to measure the ability of the Ministry of Interior and Municipalities (MOIM) to respond to issues and enable local governments to function more effectively.

On the basis of a new PMP developed as a collaborative effort among USAID/Lebanon, its consultant MSI, and SUNY, the mission revised and updated specific democracy and governance program indicators. Moreover, the group discussed data sources and collection methods for the new or revised program indicators. According to mission staff, the new PMP is simpler.

USAID/Lebanon Should Ensure That Reports on Program Results Are Accurate — USAID provides guidance in several ADS chapters for management control activities over documentation and data verification. ADS 596, *Management's Responsibility for Internal Control*, states that USAID managers and staff must develop and implement appropriate, cost-effective internal controls over management that produce results. Control activities must be effective and efficient in accomplishing the Agency's control objectives and must include appropriate documentation of transactions and internal control. ADS 203.3.5.3, *Conducting Data Quality Assessments*, states that findings from the data quality assessment should be documented in a memo to the file. ADS 203.3.5.2, *Purpose of Data Quality Assessments*, requires that data reported to Washington in accordance with the Government Performance and Results Act should have had a data quality assessment at some time within the 3 years before submission.

In a January 2009 data quality assessment report to USAID/Lebanon, MSI reported that SUNY had overreported on one indicator, *Number of individuals who received U.S. Government-assisted training including management skills and fiscal management to strengthen local government and/or decentralization*, by 30 percent. According to MSI, SUNY reported training 1,168 municipality staff rather than 816 staff for FY 2008. In addition, MSI reported on the two remaining indicators: *Number of sub-national governments receiving U.S. Government assistance to increase their annual own-source revenue* and *Number of local mechanisms supported with U.S. Government assistance for citizens to engage their sub-national government*. However, USAID/Lebanon dropped these two indicators from the mission's 2009 PPR. MSI also recommended that USAID/Lebanon clarify and document the definition of its program indicators, standardize reporting procedures, and implement consistent indicators for its implementing partners.

Although mission officials accepted the data quality assessment results in March 2009, they did not communicate the results of the assessment to SUNY before the reporting period ended in September 2009. In fact, the mission did not communicate the assessment results until about a year later, in April 2010. As a result, SUNY did not make appropriate changes in how the program quantified and reported on its indicator *Number of individuals who received U.S. Government-assisted training including management skills and fiscal management to strengthen local government and/or decentralization* in data that the mission reported in its FY 2009 PPR in December 2009. Thus, USAID/Lebanon reported inaccurate data because of overreporting that included trainees who attended multiple training sessions. SUNY overreported the number of

trainees who received training in management skills and fiscal management by 44 percent, reporting that 1,088 municipality staff were trained when only 758 staff had been trained in multiple sessions

The mission placed less management oversight on ensuring that reports on program results were accurate. From FY 2008 to FY 2010, the agreement officer's technical representative (AOTR) changed four different times. The current AOTR stated that the primary focus was on the sustainability issues for the program. In April 2010, the mission's democracy and governance team requested that the alternate AOTR meet with the implementer to discuss the data quality assessment, and ultimately SUNY agreed to adjust the training figures on the basis of corrections identified in the data quality assessment.

USAID/Lebanon Should Verify Data — SUNY has not maintained accurate supporting documentation for data that USAID/Lebanon has reported since 2008. Although the implementer reported training 1,168 Lebanese municipality staff from December 2007 through November 2008 and 1,088 municipality staff in the FY 2009 Performance Plan and Report for the indicator *Number of individuals who received U.S. Government-assisted training, including management skills and fiscal management, to strengthen local government and/or decentralization*, the implementer stated that its staff documented training using sign-in sheets for workshops and classroom activities only. According to one mission staff person, the implementer stated that its staff also conducted numerous ad hoc one-on-one mini training sessions with municipality staff on technical support issues that sometimes lasted 10 minutes at most. Although SUNY staff maintained brief descriptions of the one-on-one trainings in their database, the implementer did not require its staff or the trainees to sign in or certify the dates and times when these sessions occurred. Although the mission reported this training information in its FY 2009 PPR, USAID/Lebanon did not resolve the discrepancy regarding the number of trainees with the implementer until April 2010, after the reporting period.

In response to recommendations from the 2008 RIG/Cairo audit report to develop a schedule to periodically sample and review implementers' data for completeness, accuracy, and consistency, in October 2008 the USAID/Lebanon mission director issued a memo to staff regarding the need to verify data during quarterly site visits before the audit was published in November 2008. Consequently, mission staff documented 10 site visits and collected a few documents as support for data verification for SUNY during FY 2009. However, the AOTRs did not adequately document results of the data verification in the reports, document dates of verification, document a sampling methodology, or document the results of the data verification to identify anomalies. Although the AOTRs documented site visits of the implementer's activities, the current AOTR for SUNY activities stated that the agency training did not provide sufficient guidance on sampling methodologies for data verification.

Accurate mission data are critical to ensure that USAID missions document and publish data that will be useful to stakeholders and decisionmakers. Timely communication about necessary changes in data collection and verification is of paramount importance to ensure that reported data are complete and accurate. Management controls include actions such as a data quality assessment and documentation review to ensure, in part, that a mission is aware of the integrity of the data reported by its implementers. Because performance influences management decisions, data verification must be accurate and timely and documentation must be complete. Sampling methodologies

used for data verification are not necessarily complex. Some sampling methodologies can be as simple as identifying equipment and goods purchased with USAID funds of a high dollar value and comparing the inventory with receipt records to verify cost, existence, and use. Consequently, this audit makes the following recommendations:

Recommendation 1. *We recommend that USAID/Lebanon develop and implement a plan to communicate results of recommendations from audits, assessments, and reviews to its implementers in a timely manner.*

Recommendation 2. *We recommend that USAID/Lebanon develop and implement procedures with the agreement officer's technical representative at the beginning of each program activity to establish methodologies and sampling techniques to conduct appropriate data verification of information provided by the implementing partners in accordance with the terms and conditions of the program activity.*

USAID/Lebanon Should Strengthen File Documentation

The *Agreement Officer Technical Representative (AOTR) Designation Cooperative Agreement Administration* letter states that AOTRs' files are the primary tools for conducting and accomplishing AOTRs' duties and responsibilities and for documenting staff actions. Moreover, the letter lists the documents that should be included in the AOTR files, including correspondence between the AOTR and the implementer, copies of financial documents, and actions taken by the AOTR. In addition, *Procurement Executive Bulletin (PEB 2005-06) File Standardization Pilot* includes a checklist of various documents that USAID/Washington contracting officers should include in assistance files. The checklist also includes references to specific laws, regulations, and guidance applicable to each document type. Although the bulletin refers to USAID/Washington contracting officers, the checklist is an example of a good business practice for managing and maintaining implementer files for program review.

From FY 2008 to FY 2010, USAID/Lebanon assigned four different AOTRs oversight responsibilities for the cooperative agreement, but agreement files were not transferred to each responsible staff person adequately or staff did not have access to each other's SUNY program files. Although some of the AOTRs placed agreement files on the mission's electronic shared drive, different sets of personal AOTR agreement files existed for each staff person who had been an AOTR for the agreement. In addition, AOTR staff maintained hard copy files that were missing required financial information, such as the basis for historical accruals estimates. Moreover, the AOTRs kept some files in separate locations, rather than transferring the files to a successor AOTR in a timely manner. According to the current AOTR, when trying to review earlier SUNY agreement files at the request for the follow-up audit, an AOTR was not able to access one of the prior AOTR's files because of the mission's secured electronic access restrictions. Later, during May 2010, the AOTR stated that the mission granted access to personal staff files that staff said were related to the SUNY program.

In a second case concerning the mission's agreement files for democracy and governance implementer AMIDEAST, the incumbent AOTR kept both paper and electronic files. Although the AOTR kept numerous files, they did not include most of the files from the prior AOTR, which included all correspondence from the start of the

program in March 2001 until the time the current AOTR assumed duties for the agreement in May 2009. Similar to SUNY's program, the AOTR from March 2001 kept hard copy files in a personal office rather than transferring the files to the current AOTR or to a centrally accessible safeguarded file location. Furthermore, the AOTR files were not accessible in one physical location or in one location on the electronically shared drive. Consequently, USAID/Lebanon did not maintain complete AOTR files that were readily available to file users or for management review.

The mission staff noted that the primary reason for the incomplete files and inadequate file maintenance was the lack of space in their physical offices. Staff stated that when an identified file was needed, they could easily acquire it from an office or colleague.

Inadequate files impede USAID/Lebanon's ability to manage its agreements in an efficient, effective, and timely manner. USAID agreement files include historical program information that documents significant and critical decision points for a USAID program. Since USAID/Lebanon first implemented the SUNY program in 1993, historical files are an invaluable management tool for the review of program activities, management decisions, and financial data. As a prudent management control and good business practice, placing all of the agreement files in one location will facilitate management and staff review regardless of staffing reassignments. Consequently, this audit makes the following recommendation:

Recommendation 3. *We recommend that USAID/Lebanon create a centralized program filing system that includes the first or original agreement, subsequent agreements and modifications, and other identified agreement documents necessary for management review.*

USAID/Lebanon Should Ensure That Intellectual Property Rights Clauses Are Included in Agreements

According to ADS 318.2, *Intellectual Property Rights, Primary Responsibilities*, the Office of General Counsel (General Counsel) is the primary USAID office responsible for reviewing and providing guidance on intellectual property rights reports. Moreover, both contracting officers and agreement officers are responsible for ensuring that (1) appropriate intellectual property rights provisions and clauses are included in solicitation documents and funding agreements; (2) appropriate intellectual property rights provisions and clauses are included in grants and cooperative agreements with U.S. nongovernmental organizations; and (3) claims by offerors, applicants, or current implementers of exclusive or proprietary rights to intellectual property that has specific and frequent application in USAID activities are closely examined. As an additional management oversight, contracting officer's technical representatives (COTRs) and AOTRs ensure that the provisions and other applicable regulations are met. For intellectual property materials used overseas, the COTR and AOTR must coordinate with the Regional Legal Advisor to ensure that the beneficiary rights in intellectual property developed for a project are properly documented under local laws.

As part of USAID/Lebanon's effort to strengthen and improve municipal capacities, SUNY designed and developed 22 software programs to automate several administrative and financial functionalities at 1,684 offices within the Government of Lebanon. SUNY designed and developed 12 software programs under

USAID/Lebanon's 2004 Cooperative Agreement (No. 268-A-00-04-00232-00). However, USAID/Lebanon funded the remaining 10 software programs under different cooperative agreements prior to 2004. SUNY installed these software programs across several government offices throughout Lebanon. (Appendix IV includes a table with the software programs and estimated development dates. Appendix V contains a table with the divisions where the software programs were installed.)

SUNY developed software programs designed to provide continuing value to the Government of Lebanon's MOIM daily fiscal operations. However, in the implementer's 2004 Cooperative Agreement, USAID/Lebanon did not include relevant provisions and clauses to define the rights to the software programs for the mission, the implementer, or the Government of Lebanon. Mission officials stated that the clause was inadvertently left out of the agreement. Furthermore, USAID/Lebanon did not modify the cooperative agreement to define these software program rights in 11 modifications made from FYs 2005 to 2010. (Appendix III contains a table of the modifications and purposes.)

Performing oversight responsibilities is an invaluable service to a mission. An efficient and effective agreement officer and AOTR should routinely communicate to each other the program successes and potential problems and vulnerabilities. Moreover, the agreement officer should ensure that the provisions and other applicable regulations are included in the agreement. An AOTR, who is responsible for program activities, is a mission's direct link to implementers and should alert mission management and the agreement officer about any potential problems and vulnerabilities. Because the SUNY program activities included highly concentrated information technology components during a 6-year period, at a minimum, an agreement officer and AOTR could have reviewed USAID's and its beneficiary's rights to this high-priced commodity. Since USAID/Lebanon did not include intellectual property rights provisions and clauses in its cooperative agreement with SUNY, the Agency and the mission did not leverage resources in a timely manner to provide sustained value to their beneficiaries. Consequently, this audit makes the following recommendation:

***Recommendation 4.** We recommend that USAID/Lebanon's agreement officer's technical representatives, in conjunction with the agreement officer, develop and implement a written plan to ensure that agreements are modified to include relevant provisions, such as the intellectual property rights clause, as appropriate over the life of the award.*

USAID/Lebanon Should Systematically Review Program Activities for Sustainability

Two automated directives define how USAID programs should be designed and the role of an AOTR in monitoring a program for sustainability. ADS 201.3.4, *Planning, USAID Mission/Office Long-Term Planning*, requires USAID to work closely with partners, customers, and stakeholders to (1) design and implement projects and activities that will ensure that results are achieved; (2) include resources required to execute the plan over its proposed time period; (3) include indication of the specific results expected and how performance will be measured and managed; and (4) produce sustainable benefits after termination of USAID funding. In addition, ADS 303, *Grants and Cooperative Agreements to Non-Governmental Organizations, Designation of the Agreement Officer's Technical Representative*, states that the agreement officer and AOTR share

oversight of an assistance award. The agreement officer, who is assigned at USAID/Egypt's Procurement Office, designates the AOTR to monitor the implementer's progress toward achieving program objectives and to verify that an implementer's activities conform to the terms and conditions of the award. Moreover, site visits conducted by the AOTR are to be documented with findings highlighted and retained in the award files. The AOTR is also responsible for communicating potential problems to the agreement officer.

Furthermore, USAID/Lebanon's *Cooperative Agreement No. 268-A-00-04-00232-00, Strengthening Foundations for Governance*, dated September 16, 2004, section 4.3, *Project Sustainability*, required selected MOIM and oversight agency employees to be trained in the maintenance and operation of the systems in order to allow complete transfer of the systems to the Government of Lebanon by the end of the project in 2007.² The 2004 memorandum of understanding (MOU) among USAID/Lebanon, SUNY, and the MOIM also stated that SUNY was to ensure simultaneous software configuration and personnel training during the installation of hardware and software programs. In the 2009 MOU, SUNY agreed to update existing software applications and train MOIM employees to use the software. Under both the 2004 and 2009 MOUs, the MOIM was to provide the appropriate human resources to maintain and operate the installed equipment, software, and special applications on a continuous basis.

Although USAID/Lebanon designed its Assistance to Sustain Local Democratic Practices in Lebanon program to be sustainable, the Government of Lebanon is not able to continuously maintain and upgrade the 22 software programs developed under the program to improve administrative and financial functions. According to USAID/Lebanon, the MOIM did not hire the technical staff as agreed to in either the 2004 and 2009 MOUs for SUNY to conduct the training needed for the Government of Lebanon's technical staff to continuously maintain and upgrade the software programs. Moreover, the 2009 MOU among SUNY, USAID, and the MOIM was signed for 2 years, to end in 2010 instead of 2011. The current AOTR and SUNY's chief of party stated that this was an error; however, the minister of the MOIM would not extend the MOU to 2011 or hire the appropriate human resources.

Although the 2004 MOU required SUNY to conduct system maintenance training simultaneously with the installation of hardware and software programs, the 2004–2008 work plans did not include system maintenance training as an activity to be completed under the 2004 agreement. The only system maintenance training identified in the 2004–2008 work plans was for maintenance of the MOIM Web site. System maintenance training was later listed as an activity in the 2009–2011 work plans to be completed as part of a 2008 extension of the agreement. According to SUNY's chief of party, the implementer did not provide any training that would allow the Government of Lebanon to maintain and upgrade the software programs. Neither of the implementer's 2008 and 2009 Annual Reports on the Program Performance to USAID highlighted the lack of system maintenance training as a problem or vulnerability that had the potential to negatively impact program sustainability.

Moreover, USAID/Lebanon's site visit reports did not document any comparative analysis of program activities and activities outlined in the work plan to demonstrate that the program was monitored on a continuous basis. The prior AOTR provided a

² The mission extended this agreement several times until 2011. Assistance to the Government of Lebanon began in 1993.

summary analysis of the third year's program activities from December 2006 to November 2007 against the work plan that identified political turmoil as a hindrance to the completion of program activities. However, USAID/Lebanon did not document or communicate any problems with program sustainability to the agreement officer. Instead, in June 2008, the prior AOTR submitted a request to the agreement officer for the program to be extended for 3 years, stating that USAID/Lebanon did not achieve the program targets because of political turmoil. Later, in April 2010, the current AOTR communicated to the agreement officer that the program was not sustainable, and in July 2010 mission officials decided to terminate the program.

To achieve desired results, mission officials must ensure that sustainability is an integral component when monitoring program activities for results. Furthermore, monitoring of program activities for sustainability should be documented and potential problems communicated to the agreement officer immediately. For USAID programs with information technology components, communication on system requirements, protocol, and procedures to maintain the information technology infrastructure can be documented in the program's activity approval document. Since the sustainability of USAID/Lebanon's efforts to improve information technology systems to maintain governmental administrative and financial data is questionable, the audit makes the following recommendations:

Recommendation 5. *We recommend that USAID/Lebanon develop and implement a plan to document the review of program activities and communicate potential sustainability or vulnerability problems to the agreement officer expeditiously.*

Recommendation 6. *We recommend that USAID/Lebanon document procedures to develop, maintain, and communicate explicit system requirements, protocols, and procedures to maintain information technology in an appropriate activity approval document and in the subsequent solicitations and awards.*

USAID/Lebanon Should Ensure That Federally Funded Properties Are Valued

According to the American Institute of Certified Public Accountants' *Statement of Position (SOP) Number 98-1, Accounting for Costs of Computer Software Developed or Obtained for Internal Use*, costs incurred for software programs developed internally for internal use may be capitalized if the software will provide future economic benefit to an entity. SOP Number 98-1 specifies that capitalized costs include external direct costs of materials and services consumed in developing or obtaining internal-use computer software; payroll and payroll-related costs for employees who are directly associated with and who devote time to the internal-use computer software project (to the extent of the time spent directly on the project); and interest costs incurred when developing computer software for internal use.

In addition, according to the *Code of Federal Regulations, Title: 22 Foreign Relations, Part 226.34 Equipment*,³ the recipient's property management standards for equipment

³ According to *Code of Federal Regulations*, "equipment" means tangible nonexpendable personal property, including exempt property charged directly to the award, having a useful life of

acquired with federal funds shall include standards to ensure that equipment records are maintained accurately and include a description of the equipment, an identification number, and unit acquisition cost. This regulation refers to tangible nonexpendable property, but it is a best practice for missions with software development projects.

SUNY developed 22 software programs⁴ to modernize the Government of Lebanon's administrative and financial systems. For example, according to the implementer, the Municipal Accounting System was developed to improve financial transparency and enables large municipalities to manage accounting and financial transactions and generate financial reports for government auditor oversight. In addition, the Municipal Revenue System organizes the assessment and collection of fees due to the Government of Lebanon under various laws, and it is installed in more than 700 municipalities.

The implementer's records of the software programs funded by USAID/Lebanon since before 2004 include the software name and the estimated development start and completion dates. Although SUNY tracked the software programs, the implementer did not place a value on any of the software programs. The SUNY chief of party stated that the implementer did not track the direct costs associated with developing software and was not able to provide a finite value for the software. However, 2 weeks later, the SUNY research administrator provided an estimated value of \$2.9 million for 12 software programs. The research administrator stated that the value of the software programs was determined by calculating expenses for the work of 21 consultants hired for software development. Although the implementer valued the software development and programs, SUNY was not able to provide the details or computations for an estimated value. Consequently, the mission may never know the true value of this software, and future audits may not review the level of details to determine a finite value.

The software programs may provide future economic value to the Government of Lebanon's administrative and financial system. Since the implementer plans to transfer all assets to the Government of Lebanon at the end of the program, a finite value will allow the Government of Lebanon to record the software programs as assets within its accounting records. As a prudent management practice, properties acquired with federal funds should be tracked and valued in accordance with regulations. Consequently, this audit makes the following recommendations:

Recommendation 7. *We recommend that USAID/Lebanon, in coordination with the agreement officer, develop and implement a plan that requires capitalization of programs with information technology components during the asset's development phase.*

Recommendation 8. *We recommend that USAID/Lebanon conduct an audit of locally incurred cost for software programs developed under the Assistance to Sustain Local Democratic Practices in Lebanon program to determine finite values for the programs.*

more than one year and an acquisition cost of \$5,000 or more per unit.

⁴ Twelve of the 22 software programs were developed under USAID/Lebanon's *Cooperative Agreement No. 268-A-00-04-00232-00, Strengthening Foundations for Governance* (September 16, 2004). The remaining 10 systems were developed under prior USAID agreements.

USAID/Lebanon Should Conduct Property End-Use Checks

According to the *Code of Federal Regulations, Title 22: Foreign Relations, Part 226.34 Equipment*, the recipient's property management standards for equipment acquired with federal funds shall include standards to ensure that equipment records are maintained accurately and include a description of the equipment, an identification number, and unit acquisition cost. Although this regulation refers to tangible nonexpendable property, the applicability of the requirement to maintain records of software development is a best practice for missions that expend millions of dollars on such programs. Furthermore, ADS 324, *Post Procurement*, states that the mission is responsible for selecting a representative sampling or percentage of commodities at all value levels under the program and reviewing progress reports to verify that commodities financed by USAID are being used effectively.

The program's current AOTR provided a list of USAID-financed equipment for the program. However, the list did not document any equipment values, and the program's site visit reports did not include documentation of end-use checks during the agreement period. The current AOTR stated that the mission planned to conduct end-use checks as part of a Municipal Geographic Information System launching ceremony. However, several dignitaries were present at the ceremony, which the AOTR stated hindered the ability to perform an end-use check. Consequently, according to the current AOTR, the mission was not able to verify any equipment financed by the program or complete an end-use check.

USAID invested more than \$23 million in this democracy and governance program, and procuring computer hardware and software applications was an integral component of the program. Although implementers are required to have standards and procedures in place to account for properties funded by the U.S. Government, it is fundamental that management monitor programs to account for these properties and prevent their loss and misuse. Consequently, this audit makes the following recommendations:

Recommendation 9. We recommend that USAID/Lebanon develop a schedule for the implementer to submit to the mission a complete list of USAID-funded equipment with a program description and assigned values.

Recommendation 10. We recommend that USAID/Lebanon develop and implement a procedure to perform end-use checks as part of its routine site visits and retain documentation of the equipment reviewed.

EVALUATION OF MANAGEMENT COMMENTS

USAID/Lebanon generally agreed with the 10 audit recommendations. In preparing the final report, the Regional Inspector General/Cairo (RIG/Cairo) carefully considered management comments and supporting documents provided. On the basis of USAID/Lebanon's supporting documentation and planned action, we consider that final action has been taken on eight recommendations, a management decision has been made on one recommendation, and no management decision has been reached on the remaining recommendation. RIG/Cairo considers that final action has been taken on recommendations 1, 2, 3, 4, 5, 6, 7, and 9. In addition, we consider that a management decision has been reached on recommendation 10 and that a management decision has not been reached on recommendation 8 because mission officials believe valuing assets developed by the implementer would not be beneficial for the Government of Lebanon.

To address recommendation 1, USAID/Lebanon issued *Mission Order 11/09, Communicating and Implementing Results of Assessments, Audits, and Reviews with Implementing Partners and Host Government Entities*, effective November 22, 2010. The mission order requires contracting and agreement officer's technical representatives (COTRs and AOTRs) to communicate results of any audits, assessments, and reviews to the relevant implementing partner within a maximum of 2 months. Moreover, the AOTRs and COTRs must obtain prior clearance from the office director, program officer, and mission director. On the basis of the mission's response and relevant supporting documents, RIG/Cairo considers that final action has been taken to address the recommendation.

To address recommendation 2, USAID/Lebanon issued *Mission Order 11/08 Oversight and Data Verification*, effective November 22, 2010. The mission order provides guidance on methods and sampling techniques for COTRs and AOTRs in fulfilling duties in the oversight and administration of program-funded contracts, grants, and cooperative agreements. To support its efforts to monitor the program portfolio, USAID/Lebanon hired a monitoring and evaluation contractor to assist staff in developing methodologies to observe performance, assessing progress of programs, and verifying data collected and reported. Consequently, RIG/Cairo considers that final action has been taken to address this recommendation.

Regarding recommendation 3, USAID/Lebanon issued guidance to establish procedures for records retention. Moreover, the mission director developed a checklist for transferring files among assigned staff. Furthermore, the mission reconfigured its electronic filing system to create separate project folders with appropriate access rights for its staff. As a result of these actions, RIG/Cairo considers that final action has been taken to address recommendation 3.

Regarding recommendation 4, on November 12, 2010, USAID/Lebanon revised its Portfolio Review Activity Sheet (or the portfolio implementation review template) to be effective during fiscal year (FY) 2011. The mission added a section entitled "Issues/Concerns to be brought to the Attention of AO or RLA that Prompt the Need for an Agreement Modification" as a reminder to encourage staff to continuously review USAID agreements and elevate issues to the appropriate management officials.

Accordingly, RIG/Cairo considers that final action has been taken to address this recommendation.

In response to recommendation 5, USAID/Lebanon revised its Portfolio Review Activity Sheet to include "Sustainability Plan and Progress Monitoring" as a section that staff will be expected to address during portfolio reviews, effective November 2010. As a result of the planned action, RIG/Cairo considers that final action has been taken to address the recommendation.

To address recommendations 6 and 7, USAID/Lebanon issued *Mission Order 11/10 Information Technology Procedures*, effective November 22, 2010, to establish specific mission protocols for its programs with information technology components. In accordance with the mission order, USAID/Lebanon now requires its staff to document programs with an information technology component valued at \$100,000 or more to identify system requirements, protocols, and procedures in the implementer work plans and program activities. Moreover, the mission order requires staff to coordinate with the agreement officer to develop and implement plans to require financial accounting of information technology components during the development phase of any asset. Consequently, RIG/Cairo considers that final action has been taken to address these two recommendations.

In response to recommendation 8, USAID/Lebanon did not agree with the recommendation to value the software programs developed by the implementer. Although the implementer estimated the value of 12 of 22 software programs to be about \$2.9 million, neither the mission nor the implementer tracked direct costs associated with its software program development. USAID/Lebanon stated that determining the value of software development would not be useful to the Government of Lebanon since a Lebanese decree regarding valuing assets stipulates that the Minister of Finance would be required to issue regulations to value assets. Although mission official insisted that the asset values would not be useful to the Government of Lebanon, the mission did not provide relevant evidence to prove this point. In fact, USAID/Lebanon stated that the Government of Lebanon records only the quantity of assets and does not record the value of nonexpendable property such as software.

However, the Government of Lebanon issued a decree effective June 12, 1997, that addressed accounting for fixed assets. According to Lebanon's Council of Ministers' Article 6 of Decree No. 8620/1996, *Unliquidated Fixed Assets*,⁵ the basis for calculating the cost of fixed assets is determined by (1) the assets' book value, if recognized; or (2) in the case of donated assets, the asset is valued against its estimated cost or its market value. Moreover, the decree did not stipulate that the Minister of Finance would be required to issue any regulations to value assets. Therefore, RIG/Cairo does not consider that a management decision has been reached and requests that USAID/Lebanon provide the Audit Performance and Compliance Division with an action plan to address this recommendation.

In response to recommendation 9, on September 14, 2010, the mission's implementer provided a list of USAID-funded equipment with a program description and assigned

⁵ According to Article 6 of Decree No. 8620/1996, fixed assets are defined as untradeable and considered capital costs that are depreciated annually according to the depreciation rate that is allocated by the Minister of Treasury. Fixed assets include machines, equipments, furniture, supplies, etc.

values to the mission. On the basis of the mission's response, RIG/Cairo considers that final action has been taken to address this issue.

Regarding Recommendation 10, USAID/Lebanon incorporated a requirement for staff to conduct end-use checks as a part of the mission's portfolio implementation review process. Moreover, mission staff plans to conduct an end-use check of equipment purchased under the Assistance to Sustain Local Democratic Practices in Lebanon Program. Consequently, RIG/Cairo considers that a management decision has been reached on this recommendation.

SCOPE AND METHODOLOGY

Scope

The Regional Inspector General/Cairo (RIG/Cairo) conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions on the basis of our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions on the basis of our audit objective. The purpose of this audit was to determine whether USAID/Lebanon implemented the recommendations from Audit Report No. 6-268-09-002-P, dated November 9, 2008, and whether the actions taken were effective.

In planning and performing the audit, we assessed internal controls related to documentation and data verification, supervisory and management review, proper execution of transactions and events, and review of performance measures and indicators. Specifically, we evaluated the mission's program documentation, including USAID/Lebanon's 2008 and 2009 Federal Managers' Financial Integrity Act of 1982 assessment, USAID/Lebanon's 2008 and 2009 full performance plans and reports, the 2009 Lebanon data quality assessment, and oversight performed by the agreement officer's technical representative (AOTR).

The audit reviewed program activities from October 1, 2007, through September 30, 2009, to determine whether the mission implemented the three recommendations of the prior performance audit report.⁶ However, to assess certain management control functions, the audit reviewed historical information prior to the audit review period. As of June 30, 2010, the mission had obligated \$26.5 million and expended \$23.9 million for the program.

We conducted the audit fieldwork at USAID/Lebanon and at the State University of New York (SUNY) Beirut office from August 2 to 12, 2010. We also conducted three site visits (selected divisions within Beirut Municipality, Chiyah Municipality, and Metn Administrative District Unit) to verify the validity of data provided to us as part of the audit. In addition, we performed limited review of the AMIDEAST program AOTR files.

Methodology

To answer the audit objectives, we interviewed USAID/Lebanon's mission staff to gain an understanding of the program history and associated risks, implementation of recommendations, and status of the program. We also interviewed the program implementer (SUNY) and several officials at the Government of Lebanon municipalities. Moreover, we reviewed applicable USAID policies and procedures, the cooperative agreements and modifications, performance management plans, operational plans, site visit reports, AOTR files, and supporting documentation such as training attendance sheets and assessment reports.

⁶ *Audit of USAID/Lebanon's Democracy and Governance Activities*, Audit Report No. 6-268-09-002-P (November 9, 2008).

To verify the implementation of the recommendations, we reviewed the documentation of the corrective actions that the mission took to address the recommendation and validated the accuracy of corrective actions through interviews, observation, and by comparing the mission's program data with program data retained by the implementer. For the program indicator activities reviewed as part of the corrective actions, we judgmentally selected the program indicators and used statistical sampling to select a sample of record. The statistical sampling was based on an assumption of a 5 percent error and a variation of +/-4 percent and 95 percent confidence. The number of records to select was provided by the Office of Inspector General statistician in Washington, and the audit team randomly selected the sample.

The audit team also reviewed the management controls in place to monitor program activities. We conducted the review through interviews with the mission staff and implementer, observations, and review of reports and files that the mission provided as part of its program monitoring activities.

MANAGEMENT COMMENTS



USAID | **LEBANON**
FROM THE AMERICAN PEOPLE

November 22, 2010

MEMORANDUM

To: Regional Inspector General/Cairo, Jacqueline Bell

From: USAID/Lebanon Mission Director, Dr. Jim Barnhart/S/

Subject: Follow-Up Audit of Selected USAID/Lebanon's Democracy and Governance Activities
(Report No. 6-268-11-00X-P)

Recommendation No. 1: We recommend USAID/Lebanon develop and implement a plan to communicate results of recommendations from audits, assessments, and reviews to its implementers in a timely manner.

Mission Response: On pages 5 to 7 of the Audit Report No. 6-268-11-00X-P, the audit reviewed USAID/Lebanon's corrective actions to improve management oversight over program indicator definitions, data quality assessments and data verification, and found that while the Mission took corrective action to conduct data quality assessments, it did not discuss the recommendations with the implementing partner SUNY in time to be reflected in data reported for the FY 2009 PPR. The Mission fully recognizes the need to communicate recommendations in a timely manner to the implementing partners to improve management oversight over program indicator definitions, data quality assessments and data verification. On November 22, 2010, Mission Order 11/09 Communicating and Implementing Results of Assessments, Audits, and Reviews with Implementing Partners and Host Government Entities (Attachment J) became effective requiring Mission AOTRs and COTRs to communicate results of any audits, assessments and reviews to the relevant implementing partner in order for the findings to be addressed in accordance with the audit, assessment, or review recommendations. The Mission will be increasing its staff within the next six months to continue to ensure enhanced oversight of implementing mechanisms.

Based on the above, the Mission believes a management decision has been reached on this audit recommendation and requests closure of audit Recommendation No. 1 upon report issuance.

Recommendation No. 2: We recommend that USAID/Lebanon develop and implement procedures with the Agreement Officer's Technical Representative at the beginning of each program activity to establish methodologies and sampling techniques to conduct

appropriate data verification of information provided by the implementing partners in accordance with the terms and conditions of the program activity.

Mission Response: Mission Order 11/08 Oversight and Data Verification dated November 22, 2010 (Attachment K), provided guidance on methods and sampling techniques for Contracting or Agreement Officer's Technical Representatives (COTR/AOTRs) in fulfilling duties in the oversight and administration of program funded contracts, grants and cooperative agreements. In addition, the Mission established Performance and Monitoring Plans (PMPs) in December 2009 for each Assistance Objective under the 2009-2013 Country Strategy and the recently awarded the Monitoring and Evaluation (M&E) Task Order RAN-I-07-09-00019-00 to Social Impact (copy attached – Attachment A) that will support USAID/Lebanon in portfolio monitoring, including development of methodologies to observe performance, assess progress, and verify data being collected and reported.

Based on the above, the Mission believes a management decision has been reached on this audit recommendation and requests closure of audit Recommendation No. 2 upon report issuance.

Recommendation No. 3: We recommend that USAID/Lebanon create a centralized program filing system that includes the first or original agreement, subsequent agreements and modifications, and other identified agreement documents necessary for management review.

Mission Response: The Mission fully concurs with this recommendation and has taken actions to improve both hardcopy and electronic filing to resolve this audit. In May 2010, the Mission Director issued two emails with filing guidance to establish requirements for hardcopy and electronic filing and a checklist for the transfer of COTR/AOTR files to transfer files to a new COTR/AOTR (Attachment B and C). Recently the Mission reconfigured its electronic filing system to create separate folders with appropriate access rights for technical offices, the Mission Director, and the Program Office and has begun the process of systematically organizing files on the public drive, listed by project name rather than by staff name and with appropriate Mission accessibility (Attachment D). Checklists of TAG and SUNY/CLD project files were handed over to the current AOTR (Attachment E) to ensure that all documents related to the agreements are physically available in the current AOTRs offices.

Based on the above, the Mission believes a management decision has been reached on this audit recommendation and requests closure of audit Recommendation No. 3 upon report issuance.

Recommendation No. 4: We recommend that USAID/Lebanon's Agreement Officer Technical Representatives, in conjunction with the Agreement Officer, develop and implement a written plan to ensure agreements are modified to include relevant provisions, such as the intellectual property rights clause, as appropriate over the life of the award.

Mission Response: The Mission believes that the proper inclusion of activity specific clauses in agreements or their incorporated by reference is the responsibility of the Agreement/Contracting officer (AO/CO) and/or the Regional Legal Advisor. Highly specialized provisions of an agreement such as intellectual property rights are outside

the subject matter, knowledge and jurisdiction of the AOTR/COTR. Furthermore, ADS 318 holds the AO, RLA and AOTRs responsible for the inclusion of the IPR clause. However, since the work plans and program activities change over the life of an award and since the AO/CO is not intimately involved with the program, on November 12, 2010 the Mission revised its Portfolio Review Activity Sheet to include "Issues/Concerns to be brought to the Attention of AO or RLA that Prompt the Need for an Agreement Modification" effective 2011, as part of the Mission's biannual portfolio implementation review process, email and template copy attached (Attachment L).

Based on the above, the Mission believes a management decision has been reached on this audit recommendation and requests closure of audit Recommendation No. 4 upon report issuance.

Recommendation No. 5: We recommend that USAID/Lebanon develop and implement a plan to document the review of program activities and communicate potential sustainability or vulnerability problems to the Agreement Officer expeditiously.

Mission Response: To ensure that sustainability issues are addressed regularly and documented in the future, the Mission revised its Portfolio Implementation Review (PIR) sheets (Attachment G) to require that technical staff address the sustainability of program efforts. The Agreement Officer participates in the PIR, which are conducted twice a year. In addition, the Mission will ensure that AOTRs/COTRs bring any pertinent issues to the Agreement Officer's attention, as required by existing AOTR/COTR guidance. In the specific case of the SUNY/CLD agreement, sustainability of the program was underscored in the Memoranda of Understanding with the Ministry of Interior and Municipal Affairs (MOIM) and this issue was twice brought to the Agreement Officer's attention in 2008 and in 2009/2010. In February 2010, the AOTR actively engaged the MOIM on fulfilling their commitment to sustain the program through the provision of staff for training. When this was unlikely to materialize the Agreement Officer sent a letter dated July 28, 2010, notifying SUNY that their agreement with USAID would end on November 30, 2010 (Attachment F).

Based on the above, the Mission believes a management decision has been reached on this audit recommendation and requests closure of audit Recommendation No. 5 upon report issuance.

Recommendation No. 6: We recommend that USAID/Lebanon document procedures to develop, maintain, and communicate explicit system requirements, protocols, and procedures to maintain information technology in an appropriate activity approval document and in the subsequent solicitations and awards.

Mission Response: Mission Order 11/10 Information Technology Procedures, dated November 22, 2010 (Attachment M), requires that for program-funded activities with an IT component of \$100,000 or more, requirements, protocols, and procedures to maintain information technology within the host country institution or other program beneficiary are to be documented and addressed in implementing partner work plans and program activities.

Based on the above, the Mission believes a management decision has been reached on this audit recommendation and requests that Recommendation No. 6 be closed upon report issuance.

Recommendation No. 7: We recommend that USAID/Lebanon, in coordination with the Agreement Officer, develop and implement a plan that requires capitalization of programs with information technology components during the asset's development phase.

Mission Response: Mission Order 11/10 Information Technology Procedures, dated November 22, 2010 (Attachment M), requires that for program-funded activities with an IT component of \$100,000 or more, COTR/AOTRs are to ensure that the Implementing Partners properly track IT system asset values, including software programs that are designed and built by Implementation Partners. In coordination with the Agreement Officer, COTR/AOTRs are to develop and implement a plan that requires financial accounting of information technology components during the asset's development phase.

Based on the above, the Mission believes a management decision has been reached on this audit recommendation and requests closure of audit Recommendation No. 7 upon report issuance.

Recommendation No. 8: We recommend that USAID/Lebanon conduct an audit of locally incurred cost for software programs developed under the Assistance to Sustain Local Democratic Practices in Lebanon program to determine finite values for the programs.

Mission Response: On page 12 of the Audit Report No. 6-268-11-00X-P, the audit notes that the CFR requirement for asset valuation applies to nonexpendable property, the auditors believe that it is a best practice for missions with software development projects to provide a valuation so that in the transfer of the asset at the conclusion of the activity, its asset value can be entered in the host government's accounting records. The Mission recognizes the logic of the suggestion as a prudent management practice. In this case, the Ministry of Interior and Municipal Affairs does not follow this accounting practice. The Government of Lebanon does not record the value of nonexpendable property and software, but only records asset quantities. Chapter Five (Article 214 – 218) (Attachment N) of Ministry of Finance General Accounting Law Number 14969/1963 constitutes the Government of Lebanon accounting policy for both expendable and non-expendable property without distinction that stipulates “material” accounting in public institutions should include records, necessary documents, and transactions without specifically requiring recording the monetary value of the “material”. A sample inventory list of Ministry of Interior and Municipal Affairs is attached (Attachment O) that provides the “material” description and quantity with no assigned monetary value. In June 1996, Decree number 8620/1996 was issued by the Council of Ministers detailing procedures on how to implement Article 218 of General Accounting Law Number 14969/1963 subject to further implementing regulations to be issued by the Minister of Finance. In this decree the Council of Ministers detailed an accounting policy that would require asset valuation to become effective once implementing regulations are issued by the Minister of Finance that has not yet occurred. Article 4 of decree no. 8620/1996 stated that the Minister of Finance should categorize and assign serial numbers for expendable and non-expandable materials to be adopted by public administrations. To date the Minister of Finance did not issue this order. Moreover, Article 16 states that the each “material” should have an individual record with a serial number as specified in the Minister of Finance decision, showing the date, the

transaction, quantity and value of the material. To date the Minister of Finance did not issue this decision.

Under USAID program, Assistance to Sustain Local Democratic Practices in Lebanon, SUNY/CLD developed a Municipal Inventory and Asset System to manage the business, accounting and reporting processes in municipalities in accordance with the law requirements. This inventory list could be updated easily once the Government of Lebanon issues the decision related to the “material” serial numbering and classification.

As elaborated earlier, an audit of locally incurred costs for the software development would not achieve the intended result as the host government would not record this asset value in their financial accounts.

Based on the above, the Mission believes a management decision has been reached and requests that Audit Recommendation No. 8 be closed upon report issuance.

Recommendation No. 9: We recommend that USAID/Lebanon develop a schedule for the implementer to submit a complete list of USAID-funded equipment with a program description and assigned values to the Mission.

Mission Response: On September 14, 2010, the implementer provided the Mission with a list of USAID-funded equipment with a program description and assigned values (Attachment H).

Based on the above, the Mission believes a management decision has been reached on this audit recommendation and requests closure of audit Recommendation No. 9 upon report issuance.

Recommendation No. 10: We recommend that USAID/Lebanon develop and implement a procedure to perform end-use checks as part of its routine site visits and retain documentation of the equipment reviewed.

Mission Response: In accordance with the CTO Handbook, the AOTR/COTR designation letter, ADS 324 and 22 CFR 226.34, it is the responsibility of all AOTRs/COTRs to review inventory (including a physical inventory every 2 years), conduct random spot checks, complete an end-use check on goods and approve the disposition schedule (that contains values, location, condition and proposed recipient) of such commodities at the end of the agreement. The Mission re-enforced this policy by incorporating guidance on end-use checks into the PIR process disseminated to technical officers by the Mission Director (Attachment G). Prior to the completion date of SUNY CLD, currently planned for November 30, 2010, a complete listing of such properties with values and confirmation of their existence and use will be done as part of the standard close out process (see close out plan attached- Attachment I).

Based on the above, the Mission believes a management decision has been reached on this audit recommendation and requests closure of audit Recommendation No. 10 upon report issuance.

Attachments:

Attachment A: Monitoring and Evaluation (M&E) Task Order RAN-I-07-09-00019-00
Attachment B: Mission Director “Filing Guidance email” dated May 14, 2010

- Attachment C: Mission Director "Checklist-Filing Handover" dated May 14, 2010
- Attachment D: Electronic and hard copy filing instructions to staff and ISC
- Attachment E: Checklist handing over TAG and SUNY/CLD files to current AOTR
- Attachment F: Agreement Officer letter to SUNY/CLD dated July 28, 2010
- Attachment G: PIR Template
- Attachment H: Program description and assigned values for SUNY equipment
- Attachment I: Close out plan for SUNY/CLD
- Attachment J: Mission Order 11/09 Communicating and Implementing Results of Assessments, Audits, and Reviews with Implementing Partners and Host Government Entities
- Attachment K: Mission Order 11/08 Oversight and Data Verification
- Attachment L: Portfolio Implementation Review Email and Template (Revised 2011) dated Nov. 12, 2010
- Attachment M: Mission Order 11/10 Information Technology Procedures
- Attachment N: Chapter Five (Article 214 – 218) of Ministry of Finance General Accounting Law Number 14969/1963
- Attachment O: Inventory list of MOIM

Summary of Agreement Modifications

Modification No.	Effective Date	Description of Modification	Funding Increase (\$)
Cooperative Agreement	11/30/2004	Award to the State University of New York (SUNY)	17,665,655
1	5/17/2005	Provide incremental funding of \$4,000,000	-
2	4/2/2006	Provide incremental funding of \$3,000,000	-
3	7/12/2006	Provide incremental funding of \$4,000,000	-
4	8/31/2006	Provide incremental funding of \$2,000,000	-
5	3/8/2007	Revise language under section 4.2, Project Beneficiaries	-
6	5/10/2007	Provide incremental funding of \$1,308,252	-
7	9/10/2007	(1) Extend the completion date of this Agreement from 11/29/2007 through to 11/30/2008, (2) Add funding of \$1,819,788, (3) Realign the program budget, and (4) Add the Provision entitled "Marking" under USAID-Funded Assistance Instruments.	1,819,788
8	10/29/2008	(1) Extend the completion date of the agreement from 11/30/2008 through to 11/30/2011, (2) Add funding of \$9,262,543, (3) Revise the budget, (4) Increase the cost-sharing amount from \$5,550,229 to \$8,751,116, and (5) Revise the program description to add the additional activities.	9,262,543
9	12/16/2009	(1) Add provision entitled "Participant Training"	-
10	1/13/2010	Increase obligated amount by \$600,000	-
11	2/11/2010	(1) Increase obligated amount by \$2,771,852, and (2) Add the Letter of Credit Number HHS-45A6P.	-
Total Funding for Cooperative Agreement #268-A-00-04-00232-00			28,747,986

Software Systems Developed Under the Assistance to Sustain Local Democratic Practices in Lebanon Program

System Code	Software System	Development Date		Estimated Time to Develop System
		Start	End	
MRS	Municipal Revenue System	Prior to 2005		18 months
MBSS	Municipal Budget System for Small Municipalities - Decree 5598/82	Prior to 2005		9 months
MBSL	Municipal Budget System for Large Municipalities	Prior to 2005		12 months
PPMS	Personnel and Payroll Management System	Prior to 2005		18 months
MDTS	Municipal Document Tracking System	Prior to 2005		6 months
IMDTS	Internet Municipal Document Tracking System	Prior to 2005		3 months
MGIS	Municipal Geographic Information System	Prior to 2005		12 months
GDTs	Government Document Tracking System	Prior to 2005		9 months
MIFS	Municipal Information Form System	Prior to 2005		2 month
MMD	Municipal Member Database	Prior to 2005		4 months
MAS	Municipal Accounting System	Jun-05	May-06	12 months
MIAS	Municipal Inventory and Asset System	Jun-06	Mar-07	10 months
IMRS	Internet Municipal Revenue System	Jul-07	Nov-07	5 months
MGISTS	Municipal Geographic Information System for Touch Screen	Dec-07	Jan-08	2 months
HBS	Health Benefit System - Medical Reimbursement (with Internet access)	Mar-07	May-08	15 months
HBS	Health Benefit System - Hospital Billing	Mar-09	Sep-09	7 months
PIC	Parcel Information Card	Sep-05	Feb-06	6 months
UFS	Union Financial System - General Accounting Law	Dec-05	Nov-06	12 months
UFSS	Union Financial System - Decree 5598/82	Oct-06	Jan-07	4 months
ASF	Application Support Form	Sep-09	Dec-09	3 months
IMF	Independent Municipal Fund	Jan-10	Apr-10	4 months
MFPAS	Municipal Financial Post Audit System	Oct 06	Dec 07	15 months

Government of Lebanon Divisions Where Software Systems Were Installed

Government of Lebanon Divisions							
System Code	Name of Software System	Municipalities	Municipal Unions	Ministry of Interior and Municipalities	Governorates	Administrative District Units	Court of Audits
MRS	Municipal Revenue System	766					
MBSS	Municipal Budget System for Small Municipalities - Decree 5598/82	731					
MBSL	Municipal Budget System for Large Municipalities	34					
PPMS	Personnel and Payroll Management System	12					
MDTS	Municipal Document Tracking System	36					
IMDTS	Internet Municipal Document Tracking System	7					
MGIS	Municipal Geographic Information System	21					
GDTS	Government Document Tracking System			1	5	4	4
MIFS	Municipal Information Form System			1			
MMD	Municipal Member Database			1			
MAS	Municipal Accounting System	10					

Government of Lebanon Divisions							
System Code	Name of Software System	Municipalities	Municipal Unions	Ministry of Interior and Municipalities	Governorates	Administrative District Units	Court of Audits
MIAS	Municipal Inventory and Asset System	3					
IMRS	Internet Municipal Revenue System	9					
MGISTS	Municipal Geographic Information System for Touch Screen	3					
HBS	Health Benefit System - Medical Reimbursement (with Internet access)	2					
HBS	Health Benefit System - Hospital Billing	1					
PIC	Parcel Information Card	6					
UFS	Union Financial System - General Accounting Law		6				
UFSS	Union Financial System - Decree 5598/82		18				
ASF	Application Support Form			1			
IMF	Independent Municipal Fund			1			
MFPAS	Municipal Financial Post Audit System						1
	Total	1641	24	5	5	4	5

U.S. Agency for International Development
Office of Inspector General
1300 Pennsylvania Avenue, NW
Washington, DC 20523
Tel: 202-712-1150
Fax: 202-216-3047
www.usaid.gov/oig