



OFFICE OF INSPECTOR GENERAL

AUDIT OF USAID/LEBANON'S UNIVERSITY STUDENT ASSISTANCE PROGRAM I

AUDIT REPORT NO. 6-268-12-006-P
APRIL 30, 2012

CAIRO, EGYPT



Office of Inspector General

April 30, 2012

MEMORANDUM

TO: USAID/Lebanon Mission Director, Jim Barnhart

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

SUBJECT: Audit of USAID/Lebanon's University Student Assistance Program I
(Report No. 6-268-12-006-P)

This memorandum transmits our final report on the subject audit. In finalizing the report, we considered your comments on the draft report and have included those comments in their entirety (without attachments) in Appendix II.

The report includes seven recommendations to USAID/Lebanon. After reviewing USAID/Lebanon's comments on the draft report, we determined that management decisions have been reached on all recommendations, and final action has been taken on Recommendations 1, 4, 5, and 6. The mission should provide the Audit Performance and Compliance Division of USAID's Office of the Chief Financial Officer with evidence of final action to close all recommendations.

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

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Abbreviations

The following abbreviations appear in this report:

ADS	Automated Directives System
AOTR	agreement officer's technical representative
CFR	Code of Federal Regulations
FY	fiscal year
HHS	Department of Health and Human Services
LAU	Lebanese American University
LOC	letter of credit
OFAC	Office of Foreign Assets Control
OIG	Office of Inspector General
OMB	Office of Management and Budget
RIG	Regional Inspector General
USAP I	University Student Assistance Program I

SUMMARY OF RESULTS

Promoting education is essential to improving economic opportunities for youth in Lebanon and mitigating extremism. However, in March 2010, the nation’s Ministry of Education and Higher Education reported that math and science test scores for Lebanese students lagged behind those of their peers in other countries. In addition, students enrolled in public schools were not performing as well as those in private schools—and therefore had fewer employment opportunities upon graduation.

To address this disparity, in September 2010 USAID/Lebanon awarded about \$13.5 million under the University Student Assistance Program I (USAP I) to Haigazian University and Lebanese American University (LAU). According to the 7-year program, they were to use the funds to give full, need-based scholarships to promising Lebanese public high school students. Haigazian received \$6.6 million, and LAU got \$6.9 million. As of January 2012, USAID/Lebanon had obligated the full grant amounts and disbursed about \$1 million. To assist with program management, USAID/Egypt’s regional procurement and financial management offices provide support services to USAID/Lebanon.



USAID gives promising Lebanese high school students full scholarships to Lebanese American University, left, and Haigazian University. (Photo by Office of Inspector General, January/February 2012)

USAP I undergraduate scholarships give students tuition, books, housing, and a living allowance for the duration of their studies if they maintain minimum grades and meet participation requirements. Scholarships were awarded for study in a variety of fields, including engineering, business, computer science, nursing, and education, at an average cost of about \$10,530 per student per semester. Appendix III provides additional information on the average cost per student and students’ majors. As part of USAP I, students receive academic support

and are expected to participate in leadership and career development activities during their education.

The Regional Inspector General (RIG)/Cairo conducted this audit as part of the its fiscal year (FY) 2012 audit plan to determine whether USAID/Lebanon's USAP I was achieving its goal to provide scholarships to undergraduate students at LAU and Haigazian University based on established criteria.

We found that USAP I had done so (page 4). However, despite the program's achievements, we found that several areas need improvement to continue the program's success. Specifically, the audit found that the mission:

- Did not develop annual and overall program performance targets (page 5).
- Did not establish a time frame to meet scholarship needs (page 7).
- Did not advance funds appropriately (page 8).
- Did not comply with Office of Management and Budget (OMB) Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations" (page 10).
- Did not monitor advances for timely liquidation (page 12).

To address these findings, we recommend that USAID/Lebanon:

1. Develop and document LAU's USAP I monitoring and evaluation plan with annual and overall performance indicators and targets to measure program results (page 6).
2. Conduct a written review of USAP I to determine whether the current program's duration is appropriate based on the program activities and then implement the actions identified, as appropriate (page 8).
3. In coordination with USAID/Egypt's regional procurement and financial management offices, do a written assessment of Haigazian University's financial systems to determine the appropriate method for disbursing funds (page 10).
4. In coordination with USAID/Egypt's regional procurement and financial management offices, implement procedures to document timely submission of implementers' OMB Circular A-133 audit reports to the Federal Audit Clearinghouse for appropriate review (page 11).
5. Give partners written reminders of the requirement to conduct and submit OMB Circular A-133 audit reports to the Federal Audit Clearinghouse (page 11).
6. Make a written determination on whether Haigazian University should refund the unsupported costs of \$2,400 and recover those amounts determined to be unallowable (page 13).

7. Implement procedures to obtain written confirmation from implementers that advances are liquidated in a timely manner (page 13).

Detailed findings appear in the following section, and the audit's scope and methodology are described in Appendix I. Appendix II contains management comments in their entirety, and our evaluation of management comments is included on page 14 of the report.

AUDIT FINDINGS

USAID/Lebanon Provided Scholarships Based on Established Criteria

According to USAID/Lebanon's USAP I grants to Haigazian University and LAU,¹ the schools were charged with recruiting, screening, and selecting Lebanese students who had financial need and academic merit for scholarships. To meet requirements of Executive Order 13224, "Blocking Property and Prohibiting Transactions With Persons Who Commit, Threaten to Commit, or Support Terrorism," the schools also had to verify that scholarship recipients and their parents did not appear on the Specially Designated Nationals List, issued by the U.S. Treasury Office of Foreign Assets Control (OFAC), or the United Nations' Al-Qaida Sanctions List. In addition, students had to certify that they did not knowingly provide material support or resources to any individual or entity that commits, attempts to commit, advocates, facilitates, or participates in terrorist acts.

The universities received 749 Lebanese applications² and awarded USAP I scholarships to 117 of them—65 at Haigazian and 52 at LAU. Scholarships went to 80 women and 37 men from 25 of 26 Lebanese districts;³ the total amount awarded was about \$1.2 million for the fall 2011 semester. Appendix IV provides more information on the distribution of applicants and selected students.

Haigazian and LAU officials recruited USAP I students with brochures and flyers and by visiting public schools throughout Lebanon. They also worked with another nonprofit entity providing services to Lebanese secondary school students to identify potential candidates.

The officials screened applicants based on average secondary school grades, Lebanese baccalaureate or high school completion exams, standardized aptitude tests, English language exams, interviews, financial need, and citizenship, as shown in Table 1 on page 5. The minimum English exam scores of at least 450 for Haigazian and 400 for LAU indicated that very weak English skills were acceptable because, the officials said, students would study English while in school.⁴

The schools did not find the students and their parents on the OFAC and United Nations' lists. The students also signed the USAID antiterrorism certification.

¹ The grants are 268-G-00-10-00054-00 and 268-G-00-10-00053-00, respectively.

² Haigazian received 363 applications, and LAU received 386. These numbers do not reflect the total number of applicants because some applied for USAP I scholarships at both universities.

³ The officials did not find a viable applicant in the northern district of Hermel.

⁴ The maximum English exam score for both universities is 800.

Table 1. Selection Criteria for USAP I Applicants

Criteria	Haigazian	LAU
Average secondary school grades	Grade average of at least 70 percent for Grades 10 and 11	Grade average of at least 11.5 ⁵ (of 20) for Grades 10 through 12
Lebanese baccalaureate	Score of 12 or higher	Score of 12 or higher
Entrance examination/ SAT	N/A	Score of at least 400 for all majors except engineering/ score of at least 450 for engineering
Test of English as a foreign language/university English exam	Test score of at least 450	University test score of at least 400
Applicant interview	Score from 0 to 2+	Score from 0 to 100 percent
Financial need	Financial data review and financial aid interview	Financial data review and financial aid interview
Citizenship	Lebanese	Lebanese

Source: RIG/Cairo analysis of implementer criteria.

Haigazian and LAU used established criteria appropriately to select USAP I scholarship recipients. Both implemented a screening and selection process that identified students of high academic merit and financial need, according to the program’s requirements. Consequently, we are not making any recommendations at this time.

USAID/Lebanon Did Not Develop Annual and Overall Program Performance Targets

Automated Directives System (ADS) 203.3.4.5, “Setting Performance Baselines and Targets,” states that targets should be ambitious but realistic and may be set for both the duration of the project and for the interim years.⁶ According to USAID’s Performance and Monitoring Evaluation TIPS No. 8, “Baselines and Targets,” targets establish clear expectations for implementers, help determine a program’s progress and “motivate individuals involved in a program to do their best to ensure the targets are met.” Furthermore, USAID’s *Project Design Guidance*, issued December 2011, states that defining targets is essential to providing information on project performance and making sure that programs are on track.

LAU has not established targets that could help the school measure progress over the course of the scholarship program annually or overall. While the Year 1 monitoring and evaluation plan included a column for indicators’ overall targets, none were provided. The Year 2 plan did not refer to annual targets for 6 of 42 indicators (14 percent) or any overall program targets. For

⁵ A score of 11.5 is considered a passing grade in a system in which 20 is considered excellent.

⁶ ADS 203, “Assessing and Learning,” was revised on February 10, 2012. The citations in this report refer to the previous version of ADS, in effect at the time of the audit.

five of those six, the plan stated that a target could not be estimated for the indicator. Table 2 gives more information on these indicators.

Table 2. Year 2 Monitoring and Evaluation Indicators Without Targets

Indicator	Rationale Behind Indicator
Number of scholars assuming leadership roles in their clubs	This cannot be estimated this year as scholars will have just started in clubs.
Number of scholars failing their courses per semester	We cannot estimate this at the moment, yet we think that very few scholars, if any, will fail courses.
Number of scholars withdrawing from their courses per semester	We cannot estimate this at the moment, yet we think that very few scholars, if any, will withdraw from courses.
Average percentage of improvement of scholars academically as reported by advisors in their reports	None provided.
Number of scholars referred to counselors	We cannot estimate the number of scholars that will be referred to counselors.
Number of tutors assigned	We cannot estimate how many scholars may need tutors.

Source: LAU monitoring and evaluation documents.

Annual and overall program indicators with targets would help USAID and the schools measure the program's success. LAU officials and USAP I's agreement officer's technical representative (AOTR)⁷ said they did not identify targets for some Year 2 indicators related to failing or withdrawing from courses because officials hoped that no students would fail or withdraw from courses. However, officials recognize that this may not be the case. According to the AOTR, the program's overarching goal is to graduate at least 90 percent of USAP I students in the allowable time frame.⁸ However, neither Haigazian nor LAU had an indicator related to this goal in their monitoring and evaluation plans.

Without clear, realistic annual and overall program targets, neither the implementer nor USAID/Lebanon can be assured that the program is on track to achieve short- and long-term success. Developing these targets would increase the likelihood of identifying problem areas early and determining appropriate courses of corrective action. While USAID/Lebanon communicated with LAU about expected program results, the lack of defined targets limits the school's accountability for poor program results. Consequently, we are making the following recommendation.

Recommendation 1. We recommend that USAID/Lebanon develop and document Lebanese American University's University Student Assistance Program I monitoring

⁷ As of March 12, 2012, USAID revised ADS 303 and changed the term "agreement officer's technical representative" (AOTR) to "agreement officer's representative" to align with changes in the Federal Acquisition Regulation. Because audit fieldwork was done before the change, this report uses AOTR.

⁸ At both universities, the maximum time frame to graduate is 5 years for engineering students (a 4-year program) requiring 1 year of intensive English studies. Other majors have 4 years, including the year of intensive English studies.

and evaluation plan annual and overall performance indicators and targets to measure program results.

USAID/Lebanon Did Not Establish a Time Frame to Meet Scholarship Needs

ADS 202.3.7, “Managing USAID Program Resources and Requesting Funds,” states that USAID missions are responsible for managing Agency resources to ensure results are achieved in a cost-effective, timely manner. A program should only last as long as necessary to accomplish program goals. In addition, several Agency directives address the duration of assistance awards. ADS 201.3.11.2, “Pre-Obligation Requirements,” states that planning for an award must include a budget that provides an estimate of the cost of the assistance to the U.S. Government for the duration of activities under the award. Furthermore, ADS 303.3.3, “Type and Length of Assistance Instrument,” states that the development objective team makes a preliminary determination on the duration and type of assistance instrument.⁹

USAID/Lebanon’s USAP I grant is currently scheduled to end on August 31, 2017—almost 7 years from its start date of September 29, 2010. However, the last USAP I student is projected to graduate by the end of the spring semester of 2016 (June 2016), about 14 months before the grant’s end date. Although the AOTR did not know why the program was extended beyond student graduation dates, the original program planning documents in USAID/Egypt’s Education and Training Office state that the mission anticipated students would graduate in approximately 5 academic years. Equally important, the technical evaluation committee panel responsible for reviewing grant applications also assumed that the additional academic year would enable some of the students—who might not be able to graduate in 5 years because of probation or suspension—to finish their studies. University officials were not able to provide information on why the program’s end date extends more than 1 year beyond the activity completion date. One Haigazian official said officials there assumed the extension was added to finalize the program and to follow up with USAP I graduates.

USAP I exceeded the required time frame because it was based on the USAID/Egypt Education and Training Office’s assumption that the schools would need 1 year for the recruiting and selection process and the students would need up to 6 years to complete their studies. This assumption took into account that some students would need up to 1 year of intensive English, but also relied on the belief that some students would need up to 5 years of study afterward, depending on their major.

However, according to officials from USAID/Lebanon and the universities, students coming to Haigazian and LAU from Lebanese public schools (and most Lebanese private schools) actually start their university studies at the sophomore level, not the freshman level. In other words, the last year of Lebanese secondary school is considered to take the place of the freshman year of college. So the design of USAP I that allowed for up to 5 years of study, rather than 4 years, was incorrect for the two selected implementers.

⁹ ADS 303, “Grants and Cooperative Agreements to Non-Governmental Organizations,” was revised in March 2012. The citations in this report refer to the previous version of ADS, in effect at the time of the audit.

USAID/Egypt procurement office staff members—who help USAID/Lebanon in procurement processes—said USAID/Lebanon officials did not notify them that USAP I students would finish their studies in 2016. The procurement officials also said LAU has budgeted for activities during the final year of the program, after students were expected to have graduated. According to the proposed 2016/17 budget of about \$209,000, university officials have plans to use 95 percent of the budget (\$199,963) for personnel, supplies, and audit fees and only 5 percent (\$9,500) for program activities and USAP I alumni support. USAID/Lebanon’s USAP I AOTR, USAID/Egypt procurement officials, and the schools all noted that the additional program time gives students who have difficulty completing academic requirements an extra year to do so.

Committing funds and USAID/Lebanon employees beyond the time actually needed to ensure program success is an ineffective use of Agency resources. USAID/Lebanon has a fiduciary responsibility to be a good steward and manager of public funds and must ensure that funds are used in a cost-effective, appropriate manner. While some time may be needed for closeout procedures, missions should exercise due professional care to make sure funding does not exceed required needs. Therefore, we make the following recommendation.

Recommendation 2. *We recommend that USAID/Lebanon conduct a written review of the University Student Assistance Program I to determine if the current program duration is appropriate based on the program activities and implement the actions identified, as appropriate.*

USAID/Lebanon Did Not Advance Funds Appropriately

USAID regulations provide guidance for managing assistance awards and program funding mechanisms in ADS 303, “Grants and Cooperative Agreements to Non-Governmental Organizations,” and 636, “Program Funded Advances.”

In accordance with ADS 303.3.9, “Pre-Award Responsibility Determination,” the agreement officer determines whether an implementer has the ability to carry out an award according to the principles established by USAID and OMB. Moreover, ADS 303.3.9.1, “Pre-Award Surveys,” requires an agreement officer who has knowledge of deficiencies in the applicant’s A-133 (or equivalent) audit to conduct a detailed analysis to determine if the applicant’s accounting, record-keeping, and overall financial management systems meet the applicable standards in Title 22 of the Code of Federal Regulations (CFR), Part 226, “Administration of Assistance Awards to U.S. Non-Governmental Organizations,” Section 226.21, “Standards for financial management systems.” These standards state that a recipient’s financial management systems shall have:

- Accurate, current, and complete disclosure of the financial results of each federally sponsored project or program in accordance with reporting requirements.
- Records that identify adequately the source and application of funds for federally sponsored activities.
- Effective control over and accountability for all funds, property, and other assets.

To fund some of its programs, USAID gives advances to recipients of contracts and assistance awards to ensure they have enough money to perform work under their agreements. ADS 636,

“Program Funded Advances,” identifies mechanisms that the agreement officer may use to provide advance funding to recipients, including the use of a letter of credit (LOC).¹⁰ ADS 636.3.2.1, “Agency Issued Letter of Credit (LOC),” states that while an award instrument may authorize using an LOC, the LOC itself is a separate agreement between the recipient and the Agency. In addition, a recipient must be eligible to use this method, and a mission controller is responsible for determining whether a recipient’s financial systems meet the requirements for making advances from overseas missions. When a recipient does not have an acceptable financial management system, mission officials should make payments only on an incurred cost reimbursement basis, not by using advances. USAID/Lebanon relies on USAID/Egypt’s regional procurement and financial management offices to provide support services that assist with program management.

According to ADS 636.3.2.1, the general criteria for using LOCs are:

- The amount of funding equals or exceeds \$120,000 per year.
- There is a continuing relationship with the organization for at least 1 year.
- The organization’s financial management system meets federal standards for fund control and accountability.

Although several audit reports and mission management reviews have shown that Haigazian University does not have a sound financial management system, USAID/Egypt’s regional procurement office did not modify the USAP I grant agreement to discontinue advance payments using an LOC. USAID/Lebanon notified USAID/Egypt’s regional financial management office that Haigazian did not have an acceptable financial management system in place in August 2009 during another award. However, the regional financial management office did not pursue this matter further that month because the A-133 audit conducted for FY 2008 noted no findings and USAID/Lebanon did not anticipate extending the award at that time beyond September 2009. To modify the USAP I award, the agreement officer in USAID/Egypt’s regional procurement office could have asked USAID/Egypt’s regional financial management office to conduct a financial systems review.

When USAID/Egypt made the USAP I award in September 2010, an agreement officer in the regional procurement office there approved a direct payment method that would have required Haigazian to submit receipts prior to reimbursement. According to that agreement officer, the mission did not conduct a preaward survey¹¹ for the school because it had received USAID funds before and provided an A-133 audit conducted for FY 2008 that did not disclose significant deficiencies. During September 2011, a second USAID/Egypt agreement officer approved an LOC payment method for Haigazian University because the school received more than \$120,000 in 1 year and had a continuing relationship with the mission; that officer did not determine whether Haigazian’s financial management system met federal standards.

¹⁰ A letter of credit is a financial instrument certified by USAID that authorizes a recipient to request an advance payment. Using an automated U. S. Department of Treasury system, a USAID implementer sends the request to the U.S. Department of Health and Human Services (HHS), USAID’s servicing agent.

¹¹ A preaward survey includes analyzing a recipient’s financial management, internal controls, property management, and procurement systems to determine if the recipient has the ability to achieve program objectives.

In February 2011, Haigazian's independent external auditor issued an audit report of the university's FYs 2009 and 2010 financial statements. The auditor found financial system weaknesses with the university's fixed asset register and lack of supporting documentation for donations from third parties. At the request of USAID/Lebanon, USAID/Egypt financial management staff members conducted a financial systems review of Haigazian University on December 2, 2011, and identified three critical issues regarding financial controls and measures for accountability. Haigazian lacked (1) a proper physical inventory of nonexpendable property, (2) time and attendance reports, and (3) applicable policies and procedures for requisition and procurement.

Although the USAID/Egypt regional financial management office's controller had primary responsibility for determining whether an implementer's financial systems met requirements for making advances from USAID/Lebanon, regional procurement officials—who were responsible for modifying the payment methods in the Lebanon agreement—did not ask for a review of Haigazian's financial systems because they believed that the LOC's servicing agent (HHS) was responsible for assessing an implementer's financial systems. The procurement officials said the USAP I agreement officer had not taken any action to modify the grant agreement between USAID/Lebanon and Haigazian, and was waiting for USAID/Egypt's regional controller to determine whether the university's financial systems met federal standards for fund control and accountability. Consequently, USAID/Lebanon cannot be assured that Haigazian's financial management systems comply with federal requirements and accounting standards.

Whenever there are unresolved questions regarding the adequacy of partners' financial systems, USAID missions should take necessary precautions and ask financial management offices to review the systems. Compliance with these standards requires that financial systems provide reliable, timely information necessary for managers. Lack of a sound financial management system increases the risk that Agency funds may not be used for allowable program purposes. To address these issues, we make the following recommendation.

Recommendation 3. *We recommend that USAID/Lebanon, in coordination with USAID/Egypt's regional procurement and financial management offices, do a written assessment of Haigazian University's financial systems to determine, in writing, the appropriate method for disbursing funds.*

USAID/Lebanon Did Not Comply With Office of Management and Budget Circular A-133

Federal guidelines and Agency regulations provide guidance for conducting audits of federally awarded funds and identifying staff responsible for this oversight. Within USAID, the Office of Inspector General (OIG) and specific mission staff members oversee audits. ADS 591.3.1.1, "U.S. Nonprofit Organizations," states that U.S. nonprofit organizations that disburse more than \$500,000 in federal awards within their fiscal year must have a single or program-specific financial audit conducted for that year in accordance with OMB Circular A-133. The directive also requires the recipients to "submit OMB Circular A-133 audit reports to the Federal Audit Clearinghouse within the earlier of 30 days after receipt of the auditor's report or 9 months after the end of the period audited."¹² Moreover, after these reports are entered into the

¹² According to its Web site, <http://harvester.census.gov/sac>, the Federal Audit Clearinghouse operates on behalf of OMB to (1) distribute audit information to federal agencies and the public, (2) support OMB

clearinghouse, OIG conducts quality control reviews of selected audits to ensure that they were performed in accordance with OMB Circular A-133. OIG then notifies the responsible mission, recipient, and nonfederal auditor when an audit does not meet the required standards, as documented in ADS 591.3.10, "Review and Issuance of Audit Reports."

OMB Circular No. A-133, revised June 26, 2007, establishes standards for ensuring consistency and uniformity among federal agencies for the audit of nonprofit organizations that spend federal awards. Section 200, "Audit Requirements," states that nonfederal entities that expend \$500,000 or more in federal awards in a year must have a single or program-specific financial audit¹³ conducted. At the mission level, the AOTR designation letter requires the AOTR to verify that an implementer adheres to the award's terms and conditions, which include verifying that A-133 audits are conducted and submitted to the clearinghouse.

LAU and Haigazian are U.S. nonprofit organizations that received more than \$500,000 in federal awards for FY 2010 and conducted A-133 audits. However, neither of them submitted the audit reports to the Federal Audit Clearinghouse for management reviews.

The audit report on Haigazian University's program activities did not meet OMB Circular A-133 standards. Its partial FYs 2008, 2009, and 2010 single audit reports did not conform to the circular standards to describe the scope of testing of internal control—such as physical control over vulnerable assets and accurate, timely recording of transactions and events—nor did they include the results of the tests as described in the scope. In a September 2009 e-mail Haigazian University's comptroller sent to a USAID/Lebanon employee, he said the university's A-133 external auditors believed that the audit reports conformed to OMB standards.

The AOTR and officials from both universities said they were not aware of the OMB requirement to submit audit reports to the Federal Audit Clearinghouse.

Monitoring and oversight exercised by federal audit agencies could identify weaknesses in internal controls that could increase risk of federal awards being used inappropriately. Not submitting audit reports to the clearinghouse for review by OIG's Financial Audits Division limits the Agency's ability to find problems with implementers' internal controls; management's adherence to applicable laws, regulations, and grant provisions; and the competence and experience of personnel who administer the federal programs. Therefore, this audit makes the following recommendations.

Recommendation 4. *We recommend that USAID/Lebanon, in coordination with USAID/Egypt's regional procurement and financial management offices, implement procedures to document timely submission of its implementers' Office of Management and Budget Circular A-133 audit reports to the Federal Audit Clearinghouse for appropriate review.*

Recommendation 5. *We recommend that USAID/Lebanon give partners written reminders of the requirement to conduct and submit Office of Management and Budget Circular A-133 audit reports to the Federal Audit Clearinghouse.*

oversight and assessment of federal award audit requirements, (3) assist federal cognizant and oversight agencies in obtaining OMB Circular A-133 data and reporting packages, and (4) help auditors and auditees minimize the reporting burden of complying with Circular A-133.

¹³ A single audit is one that includes the entity's financial statements and the funds it has received through federal awards.

USAID/Lebanon Did Not Monitor Advances for Timely Liquidation

Agency regulations exist to make sure program funds that exceed immediate disbursement needs are returned to the Agency. ADS 636.3.3.1, "Amount Limitations," states that advances are limited to the minimum amount needed for immediate disbursing needs and must be repaid in 7 days or less if made under an LOC. In addition, ADS 636.3.3.2, "Excessive Advances/Periodic Review of Requirements," states that mission controllers must be certain that requests for program advances are reasonable, not worth more than the recipient's immediate disbursement needs, and that any excess funds are refunded to USAID. Liquidation of the advance should be within 7 days when the advance exceeds \$10,000 and within 30 days when the amount is less than \$10,000. Moreover, the guidance requires mission controllers to make sure outstanding advances for recipients are monitored on an ongoing basis and reviewed to confirm that funds advanced are no more than necessary. Furthermore, the AOTR designation letter makes the AOTR responsible for reviewing advance payments to monitor financial progress to be sure the level of funding advanced is the minimum necessary.

For USAP I, the mission gave Haigazian University more funds than it needed, and LAU did not liquidate an advance in a timely manner.

Using an LOC, Haigazian officials requested and received \$354,890 on October 26, 2011, which included \$326,310 to cover student tuition and fees for the fall 2011 semester. On January 23, 2012, when preparing support documents for this audit, the university program manager discovered that USAP I had incorrectly charged \$2,400 for dormitory charges for a student who did not reside on campus. Because the excess payment of \$2,400 was made on October 26, 2011, the advance should have been spent by November 26, 2011 (30 days after received by the implementer).

According to the university's comptroller, members of the billing staff did not correctly reconcile the list of USAP I students housed on campus with their semester billing statements, causing an inaccurate payment request. Additionally, the AOTR stated that the excess payment was not identified during a review of periodic advances because the university did not provide accurate supporting documents.

LAU got an advance of \$380,000 on October 7, 2011, to pay USAP I student tuition and fees for the fall 2011 semester. However, the school did not pay the students' tuition and fees until November 1, 2011, and should have spent this advance by October 14, 2011, or within 7 days of receipt.

One LAU financial management official said this delay occurred because the university posts transactions in its financial system on the first of the month; although the USAP I student tuition and fees were due on October 1, 2011, and received on October 7, 2011, outstanding balances would not be paid until November 1, 2011. The university official also said the request for an advance occurred after the first of the month because the exact amount of the students' tuition and fees was not known at that time.

Although LAU applied the excess funds to existing allowable program costs and Haigazian plans to apply these funds to future program costs, they received \$382,400 in excess of immediate disbursement needs in October. As financial stewards of government funds, USAID and its implementers should review requests for program advances to verify that they do not

exceed immediate needs and are properly supported. Consequently, these program funds could not be put to better use. To address these concerns, this audit makes the following recommendations.

Recommendation 6. *We recommend that USAID/Lebanon make a written determination on whether Haigazian University should refund the unsupported costs of \$2,400 and recover those amounts determined to be unallowable.*

Recommendation 7. *We recommend that USAID/Lebanon implement procedures to obtain written confirmation from implementers that advances are liquidated in a timely manner.*

EVALUATION OF MANAGEMENT COMMENTS

In response to our draft report, USAID/Lebanon officials generally agreed with all seven recommendations. As a result, management decisions have been reached on all recommendations, and final action was taken on Recommendations 1, 4, 5, and 6. The mission should provide the Audit Performance and Compliance Division of USAID's Office of the Chief Financial Officer with evidence of final action to close all recommendations.

Recommendation 1. USAID/Lebanon officials approved a revised performance management plan for the LAU USAP I award with overall performance indicators and targets to measure program results (including targets for the six indicators noted in the audit report) on April 9, 2012. Accordingly, a management decision has been reached and final action taken on this recommendation.

Recommendation 2. USAID/Lebanon officials submitted recommendations to USAID/Egypt's regional procurement office to reduce Haigazian's USAP I grant duration from August 2017 to February 2017 and maintain the duration for LAU's USAP I grant on April 9, 2012. The target date for regional procurement officials to make a decision is June 30, 2012. Therefore, a management decision has been reached on this recommendation.

Recommendation 3. USAID/Lebanon officials and USAID/Egypt's regional procurement and financial management offices agreed to conduct a review of Haigazian's internal controls and determine the appropriate payment method for disbursing funds by June 30, 2012. Accordingly, a management decision has been reached on this recommendation.

Recommendation 4. USAID/Lebanon officials established a procedure on April 5, 2012, for all implementers to submit their OMB Circular A-133 audit reports to the mission, USAID's Office of Acquisition and Assistance, and the Federal Audit Clearinghouse. Therefore, a management decision has been reached and final action taken on this recommendation.

Recommendation 5. USAID/Lebanon officials sent an e-mail on April 5, 2012, to remind implementers of the requirement to conduct and submit OMB Circular A-133 audit reports to the Federal Audit Clearinghouse. Accordingly, a management decision has been reached and final action taken on this recommendation.

Recommendation 6. USAID/Lebanon officials determined on April 11, 2012, that unsupported costs of \$2,400 were used for allowable program expenditures. Accordingly, a management decision has been reached and final action taken on this recommendation.

Recommendation 7. USAID/Lebanon officials agree with this recommendation and plan to implement procedures by April 30, 2012, to obtain written confirmation from implementers that advances are liquidated in a timely manner. Therefore, a management decision has been reached on this recommendation.

SCOPE AND METHODOLOGY

Scope

The 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 in accordance with our audit objective. We believe that the evidence obtained provides that reasonable basis.

The audit objective was to determine whether USAID/Lebanon was achieving USAP I's goal of providing scholarships to students at LAU and Haigazian University based on established criteria. Audit fieldwork was conducted at USAID/Lebanon from January 30 to February 8, 2012. The audit covered the period from September 29, 2010, to January 18, 2012. The initial amount awarded for two USAP I grants under agreement numbers 268-G-00-10-00054-00 and 268-G-00-10-00053-00 was approximately \$13.5 million for the 7-year period from September 29, 2010, to August 31, 2017. Haigazian was awarded \$6.6 million, while LAU got \$6.9 million. As of January 18, 2012, USAID/Lebanon had obligated approximately \$13.5 million and disbursed about \$1 million. The audit team tested approximately \$949,000, or 91 percent, of that disbursement.

In planning and performing the audit, we assessed management controls related to documentation and data verification, reporting, supervisory and management review at the functional and activity level, physical control over vulnerable assets, and establishment and review of performance measures and indicators. The controls we assessed included verifying reported data to source documents, reviewing authorizing approval of agreements and modifications, and determining appropriate application of established criteria. The audit team also reviewed the management controls in place to monitor program activities through interviews with the mission and university employees, observations, and review of reports and files that the mission provided. We obtained an understanding of and evaluated the following: USAID/Lebanon's USAP I grant agreements with Haigazian and LAU; subsequent modifications to the grants; the annual work plans prepared by both universities; the oversight performed by the AOTR; performance measures; and data verifications. We also considered information provided in the mission's FY 2011 operational plan; FY 2011 Federal Managers' Financial Integrity Act assessment; 2009-2013 country strategy; and for the education sector results framework.

We conducted the audit at USAID/Lebanon in Beirut and visited the partners' campuses in Beirut and Byblos.

Methodology

To answer the audit objective, we met with personnel from USAID/Lebanon and from the implementers. We also met with 13 students who were USAP I beneficiaries. We reviewed documentation provided by USAID/Lebanon and both universities, including the grants and subsequent modifications, annual work plans, monitoring and evaluation plan reports, and site visit reports.

To assess whether the program's goal of awarding scholarships to students of high academic merit and financial need was achieved, we identified a sample of USAP I applicants at each university—67 at Haigazian and 67 at LAU. We also selected a statistical subsample of students selected for the USAP I scholarship program at both universities. With the assumption of 5 percent error, a variation of plus or minus 4 percent, and a 95 percent confidence level, the statistical sample of selected students for Haigazian was 37, while the sample for LAU was 32. The information from each of these samples can be generalized to the full universe of selected students. However, the sample does not allow us to generalize to the full universe of applicants who were not chosen. We tested the sample populations to confirm that the student selection process was implemented appropriately and to validate results reported to USAID/Lebanon. To do this, we (1) compared the actual selection steps and process implemented with the required processes, (2) traced mission-reported results to the schools' documented results and records, and (3) interviewed mission personnel, university staff members, and students.

To test the appropriateness of disbursements, we got lists of transactions for Haigazian and LAU as of January 18, 2012, and judgmentally selected all transactions worth more than \$10,000. For the selected transactions, we matched the amounts to supporting documents such as invoices, payment requests, bank deposit slips, student statement of fees, and salary agreements.

Furthermore, we reviewed applicable laws and regulations and USAID policies and procedures regarding USAID/Lebanon's USAP I, including the grant and modifications; the U.S. Government Accountability Office's *Standards for Internal Control in the Federal Government*; ADS Chapters 201, 202, 203, 253, 303, 591, 620, 621, and 636; OMB Circular A-133; and 22 CFR Part 226.

MANAGEMENT COMMENTS



April 12, 2012

MEMORANDUM

To: Regional Inspector General/Cairo, Jacqueline Bell

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

Subject: Audit of USAID/Lebanon's University Student Assistance Program I (Report No. 6-268-12-00X-P) dated March 28, 2012

USAID/Lebanon is in general agreement with all of RIG recommendations. For recommendations Nos. 2 and 3, the Mission requested a determination from the concerned parties (OAA and FM); for recommendation No. 7, the Mission will take corrective action by April 20th; for all other recommendations, the Mission has taken the corrective actions.

Recommendation No. 1: We recommend that USAID/Lebanon develop and document Lebanese American University's University Student Assistance Program I monitoring and evaluation plan performance indicators and targets and life-of-project performance indicators and targets to measure program results.

Mission Response: On April 9, 2012 the Agreement Officer Representative (AOR) approved a revised Performance Management Plan (PMP) of the Lebanese American University (LAU) University Student Assistance Program to include life-of-project performance indicators and targets to measure program results (Attachments A and B). Four new indicators, graduation, risk of failure, alumni membership, and job assistance were added to the PMP to track the performance and measure program results. Also, targets for the six indicators highlighted in the audit report were added.

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 document, in writing, a review of the University Student Assistance Program I to determine if the current project duration is appropriate based on the program activities and implement the actions identified, as appropriate.

Mission Response: On February 22, 2012 USAID/Lebanon initiated the process of determining the appropriate project duration with both Haigazian and Lebanese American University (LAU). On March 15, 2012 Haigazian University submitted their rationale for shortening the program to the end of February 2017 (Attachment C). LAU submitted their justification to maintain the program duration on April 5, 2012 (Attachment D). The AOR sent his recommendations to OAA on April 9 to seek the Agreement Officer's (AO) decision. The AOR discussed the recommendation with the AO on April 10 (Attachment E). It is expected that this finding be closed by June 30, 2012 pending the official amendment of the agreements expiry dates and issuing a co-signed official modification.

Target date for completion: June 30, 2012

Recommendation No. 3: We recommend that USAID/Lebanon in coordination with USAID/Egypt's Regional Procurement and Financial Management Offices, assess Haigazian University's financial systems to determine, in writing, the appropriate payment method for disbursing funds.

Mission Response: On February 22, 2012 USAID/Lebanon requested that Haigazian University undertake corrective actions to address the internal control weaknesses identified by FM/Cairo. On February 24, Haigazian University submitted a corrective action plan with implementation dates (Attachment F). Corrective actions addressing potential gaps related to Federal funds such as time and attendance related to cost share will be in place by April 15, 2012. It is expected that by the end of November, 2012 internal controls applicable to the entire university will be improved. A second internal control review will be performed by FM/Cairo in June 2012 to assess the improvements made and the corrective actions completed (Attachment G). Based upon the assessment recommendations USAID/Lebanon in coordination with USAID/Egypt's Regional Procurement and Financial Management Offices will determine the appropriate payment method for disbursing funds to Haigazian University.

Target date for completion: June 30, 2012.

Recommendation No. 4: We recommend that USAID/Lebanon develop and implement procedures to document timely submission of its implementers' OMB Circular A-133 audit reports to the Federal Audit Clearinghouse for appropriate review.

Mission Response: On February 21, 2012, USAID/Lebanon notified all implementers of the scholarship programs to comply with OMB-A-133 terms related to the Federal Audit Clearing House. Furthermore, USAID requested that implementing partners complete the upload of the reports by end of March (Attachment H). On April 5, 2012, the remaining implementing partners were asked to adhere to the timely submission requirement of the A-133 audit report to the Mission, OAA, and the Federal Clearing House along with a copy of the upload (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. 4 upon report issuance.

Recommendation No. 5: We recommend that USAID/Lebanon remind implementers, in writing, of the requirement to conduct and submit OMB Circular A-133 audit reports to the Federal Audit Clearinghouse.

Mission Response: On February 21, 2012 the five implementing partners of the scholarship programs were reminded of the requirement to conduct and submit OMB Circular A-133 audit reports to the Federal Audit Clearinghouse (Attachments H). Moreover, On April 5, 2012, the remaining implementing partners were reminded of the requirement to conduct and submit OMB Circular A-133 audit reports to the Federal Audit Clearinghouse (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. 5 upon report issuance.

Recommendation No. 6: We recommend that USAID/Lebanon make a written determination on whether Haigazian University should refund the unsupported costs of \$2,400.

Mission Response: On February 24 and April 10, 2012 Haigazian University provided supportive documentation on the use of funds (Attachment J). On April 11, 2012 USAID/Lebanon, based on these supportive documents and discussion with the AO, made a determination that funds were used under an allowable expenditure, namely scholars' stipends. As such, the \$2,400 oversight was corrected, and Haigazian should not refund this amount (Attachment K).

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

Recommendation No. 7: We recommend that USAID/Lebanon develop and implement procedures to obtain written confirmation from implementers that advances are liquidated in a timely manner.

Mission Response: USAID/Lebanon informed five partners implementing the scholarship programs on February 21st of policies related to use of letter of credit and advances (Attachment H). On February 22, 2012 USAID/Lebanon informed both Haigazian and LAU to ensure that advances are liquidated in a timely manner (Attachment L and M). By April 20, 2012, USAID/Lebanon will notify all implementing partners using the LOC and the respective AORs of the following procedures to obtain written confirmation that advances are liquidated in a timely manner:

- Implementing partners will be requested to submit a brief quarterly confirmation, in addition to the SF-425, that indicates whether they requested an advance and liquidated the funds within the set period (7 days if more than \$10,000, 30 days if less than \$10,000).
- In parallel, the AOR will review the cash-on-hand line item in the SF-425; if any positive cash on hand is reported, the AOR will request confirmation by the implementing partner that their excess funds were liquidated in a timely manner.
- Implementing partners will have to submit, for years when they spend more than \$500,000 in Federal funds if they are a US organization, an independent audit report that complies with OMB circular A-133. The audit will look at compliance matters including the usage of the LOC.

Target date for completion: April 30, 2012.

Attachments A and B:	Recommendation No. 1
Attachment C, D and E:	Recommendation No. 2
Attachment F and G:	Recommendation No. 3
Attachment H and I:	Recommendation No. 4
Attachment H and I:	Recommendation No. 5
Attachment J and K:	Recommendation No. 6
Attachment H, L and M:	Recommendation No. 7

Average Student Costs and Majors

Average Cost per Student for Fall 2011 Semester, as of February 2012 (Unaudited)

	Haigazian University (\$)	Lebanese American University* (\$)
Average tuition	4,080	6,510
Housing	2,412	1,575
Stipend	1,250	2,000
Food	2,250	N/A**
Books	350	300
Insurance	107	245
Total	10,449	10,630

Source: RIG/Cairo review of information from USAID/Lebanon.

* Costs are the same at the Beirut and Byblos campuses.

** Food costs are included the stipend.

USAP I Student Majors, as of Program's Start (Unaudited)

Major	Haigazian University	Lebanese American University	
		Beirut	Byblos
Biology	10	-	
Business	12	3	6
Civil engineering	-	-	5
Communication arts	-	5	1
Computer engineering	-	-	6
Computer science	8	4	1
Education	1	4	-
Electrical engineering	-	-	1
English literature	1	-	-
Hospitality management	2	-	-
Mathematics	7		
Mechanical engineering	-	-	4
Medical lab sciences	22		
Nursing	-	-	4
Nutrition sciences and dietetics	1	4	4
Psychology	1	-	-

Source: RIG/Cairo review of implementer documents.

Program Applicants and Selected Students

District	Number of applicants			Number selected		
	Total	Haigazian	LAU	Total	Haigazian	LAU
Akkar	58	11	47	3	1	2
Aley	56	33	23	11	7	4
Baabda	53	33	20	12	9	3
Baalbeck	49	30	19	7	4	3
Batroun	14	4	10	1	0	1
Becharreh	7	3	4	2	0	2
Beirut	71	44	27	12	10	2
Bint Jbeil	19	4	15	2	1	1
Chouf	26	20	6	4	3	1
Hasbaya	12	7	5	3	1	2
Hermel	12	11	1	0	0	0
Jbeil	15	5	10	4	1	3
Jezzine	7	4	3	1	0	1
Keserwan	24	10	14	2	1	1
Koura	12	2	10	2	0	2
Marjeyoun	13	5	8	1	1	0
Metn	29	14	15	8	3	5
Minieh/Dinneih	46	11	35	3	1	2
Nabatieh	19	16	3	4	3	1
Rashaya	13	9	4	2	2	0
Saida	26	20	6	7	5	2
Sour/Tyre	48	18	30	7	3	4
Tripoli	53	17	36	5	3	2
West Bekaa	14	10	4	6	3	3
Zahle	28	11	17	5	2	3
Zgharta	25	11	14	3	1	2
Total	749	363	386	117	65	52

Source: RIG/Cairo review of implementer documents.

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