



# OFFICE OF INSPECTOR GENERAL

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## AUDIT OF USAID/LEBANON'S LEBANON EDUCATION ASSISTANCE FOR DEVELOPMENT PROGRAM

AUDIT REPORT NO. 6-268-09-005-P  
July 14, 2009

CAIRO, EGYPT



*Office of Inspector General*

July 14, 2009

**MEMORANDUM**

**TO:** USAID/Lebanon Director, Denise A. Herbol

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

**SUBJECT:** Audit of USAID/Lebanon's Lebanon Education Assistance for Development Program (Report No. 6-268-09-005-P)

This memorandum transmits our final report on the subject audit. In finalizing the report, we considered your comments to the draft report and included the comments in appendix II.

This report contains eight recommendations intended to improve the Lebanon Education Assistance for Development Program. Based on information provided by the mission in response to the draft report, we determined that final actions have been taken on the eight recommendations.

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

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# SUMMARY OF RESULTS

The Israeli-Hizballah conflict of July and August 2006 impacted numerous institutions within Lebanon—including its educational infrastructure. In addition to the negative consequences of the Israeli-Hizballah conflict, Lebanese schoolchildren have two separate standards for education. Students attending private schools enjoy better equipped classrooms and laboratories, better trained teachers, and effective psychosocial services, whereas students attending public schools frequently do not have well-equipped classrooms or necessary equipment. Furthermore, about 30 percent of the 1,405 Lebanese primary and secondary public schools do not meet minimum building code standards (page 3).

To support the Government of the Republic of Lebanon's goal of improving conditions in public schools, USAID funded the Lebanon Education Assistance for Development Program under two cooperative agreements awarded on December 6, 2006, to International Orthodox Christian Charities, Incorporated, and Cooperative Housing Foundation International. The purpose of the program is to assist disadvantaged public schools by making physical repairs, providing school and laboratory equipment, and conducting awareness workshops and extracurricular activities (page 3). As of January 2009, USAID/Lebanon had obligated \$9.7 million for the program, and the implementers had expended approximately \$3.6 million and \$3.1 million, respectively. The agreements have anticipated completion dates of June 5, 2009, and September 10, 2009, respectively (page 4).

The Lebanon Education Assistance for Development Program achieved its intended results and had a significant impact in improving the learning environment in 283 Lebanese public schools during 2007 and 2008. This impact was thanks to the education program (1) covering 283 or 20 percent of Lebanon's 1,405 public schools in six governorates and (2) focusing program efforts on schools with the most needs, at the request of the Government of the Republic of Lebanon. Of these 283 schools, 110 were used to shelter internally displaced persons during conflicts. The program's substantial accomplishments included the following examples:

- 134 public school infrastructures were repaired and or rehabilitated.
- 104 public schools were supplied with laboratory equipment.
- 628 medical and mental health, nutrition, drug, and social awareness sessions were conducted.
- 195 school clubs and 61 parent teacher associations were formed (page 6).

Despite the program's successes, the audit concluded that USAID/Lebanon should improve several management controls related to program management and oversight. USAID/Lebanon should notify the appropriate office of two potential funds control violations surrounding the issuance of the program cooperative agreements (page 13), segregate staff programmatic and financial duties (page 16), conduct portfolio reviews (page 18), ensure that subawards include required antiterrorism provisions (page 19), revise documentation to avoid conflicting requirements (page 21), review branding requirements (page 22), and review requirements for customs duties on USAID-funded property (page 24). This audit makes eight recommendations to USAID/Lebanon to address these issues (pages 15, 18, 19, 20, 22, and 25).

## Mission Funding and Organization

In December 1951, U.S. Embassy in Beirut officials signed a technical cooperation agreement between the Government of the United States and the Government of the Republic of Lebanon. The technical cooperation agreement documented the desire of the two countries to cooperate in the interchange of technical knowledge and skills. A technical cooperation agreement differs from a bilateral agreement. A bilateral agreement is an agreement between the U.S. Government and a host government that establishes the USAID mission as a special mission and identifies privileges and immunities.<sup>1</sup> Because USAID/Lebanon is not a bilateral mission, the mission implements USAID-funded programs directly through U.S. and local nongovernmental organizations. Most such implementation arrangements are covered by memorandums of understanding with individual ministries in the Government of the Republic of Lebanon.

USAID/Lebanon implemented a few small programs with limited funding of about \$12 million in fiscal year (FY) 2005. However, in FYs 2007 and 2008, the mission's funding increased to about \$340 million. This amount includes an appropriation of approximately \$40 million and about \$5 million in carryover funds that the mission uses to conduct democracy and governance, economic growth, and education activities. Although USAID/Lebanon has not developed an approved education strategy, in FY 2008 it allocated \$6.2 million, approximately 14 percent of total appropriated funds of \$45 million, to education. Of the 2007 supplemental funding of \$295 million, \$9.2 million was also allocated to education. The remaining \$250 million is planned for economic reform as a cash transfer to be disbursed to the Government of the Republic of Lebanon for debt relief.

USAID/Lebanon agreed with the findings and the eight recommendations in the report. The mission has taken final actions to address the eight recommendations. Management comments are included in appendix II.

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<sup>1</sup> Automated Directives System 349, *International Agreements*, section 349.3.1.1, Framework Bilateral Agreements.

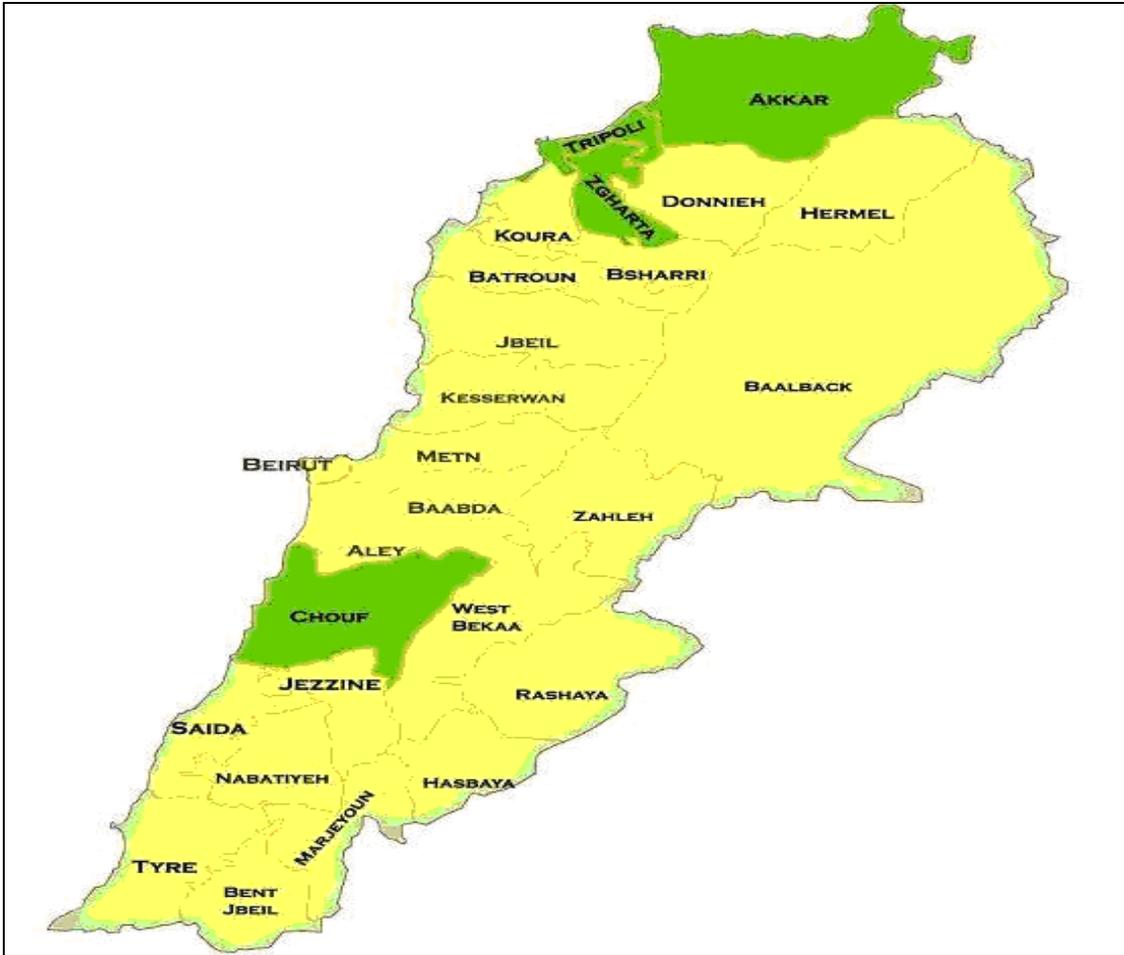
# BACKGROUND

The Israeli-Hizballah conflict of July and August 2006 has impacted numerous institutions within Lebanon, including its educational infrastructure. Although South Lebanon was the most directly affected area, internally displaced persons fled to Beirut, North Lebanon, and Mount Lebanon and took shelter in 800 schools in some of the poorest areas in these regions. In response to the armed hostilities between Israel and Hizballah during July - August 2006, the U.S. Government provided more than \$230 million in humanitarian, reconstruction, and security assistance to Lebanon. Among other urgent reconstruction efforts, the U.S. Government initiated a new Lebanon Education Assistance for Development Program to improve school facilities.

In addition to the negative consequences of the Israeli-Hizballah conflict, Lebanese schoolchildren have two separate standards for education. Students attending private schools enjoy better equipped classrooms and laboratories, better trained teachers, and effective psychosocial services, whereas students attending public schools frequently do not have well-equipped classrooms. Furthermore, about 30 percent of the 1,405 Lebanese primary and secondary public schools do not meet minimum building code standards. Almost all public schools lack adequate laboratory equipment, computers, and the Internet. According to USAID/Lebanon, this deteriorating situation has resulted in increased public school dropout rates, ranging from 7 percent among children ages 6–12 to 39 percent among children ages 12–15.

In response to Lebanon's education crisis, on December 6, 2006, USAID/Lebanon awarded cooperative agreements to the International Orthodox Christian Charities, Incorporated, and Cooperative Housing Foundation International to implement the Lebanon Education Assistance for Development Program. The implementers worked in six governorates covering 283 of Lebanon's 1,405 public schools. Of these 283 schools, 110 were used to shelter internally displaced persons during conflicts. At the request of the Government of Lebanon, the implementers focused their efforts on public schools with the most needs. The International Orthodox Christian Charities worked at 213 schools, while the Cooperative Housing Foundation worked at 70 schools throughout Lebanon, as shown in figure 1. The implementers' activities focused on three objectives:

- Improving school environment—providing infrastructure rehabilitation, school equipment, and laboratories
- Providing education and awareness—producing educational material, awareness lectures, and performances on health, environment, civics, and computer technology
- Establishing extracurricular activities—establishing clubs/associations for parents and youth



**Figure 1. Cooperative Housing Foundation – 70 schools**  
**International Orthodox Christian Charities – 213 schools**

As of January 30, 2009, USAID/Lebanon had obligated \$9.7 million, thereby fully funding the agreements for the Lebanon Education Assistance for Development Program. The International Orthodox Christian Charities and Cooperative Housing Foundation had expended \$3.6 million and \$3.1 million, respectively, and plan to complete their activities by June 5, 2009, and September 10, 2009, respectively.

In 2005, USAID/Washington's Bureau for Middle East authorized the Office of Middle East Programs in Cairo, Egypt, to provide program support services to USAID/Lebanon. Since June 2006, USAID/Egypt has provided regional support services to USAID/Lebanon in finance and accounting, procurement, legal, program, and personnel to augment the mission staff. In 2008, USAID/Lebanon employed 12 staff: a mission director, general program officer, five program specialists, an engineer, an administrative specialist, a secretary, and two chauffeurs. USAID/Washington assigned a new mission director to USAID/Lebanon in October 2008. The mission plans to hire U.S. direct hires as a program officer and an economic growth officer.

## **AUDIT OBJECTIVE**

The Regional Inspector General/Cairo conducted this audit as part of its fiscal year 2008 annual audit plan to answer the following question:

- Have USAID-financed activities for the Lebanon Education Assistance for Development Program achieved planned results, and what has been the impact?

Appendix I contains a discussion of the audit's scope and methodology.

# AUDIT FINDINGS

USAID/Lebanon's Lebanon Education Assistance for Development Program achieved its intended results and has had a positive impact in 283 Lebanon public schools during 2007 and 2008. This education program improved the learning capacity of children by (1) improving the school environment, (2) providing education and awareness, and (3) establishing extracurricular activities. The audit team's assessment of this impact is based on the following findings.

- The education program covered 283 of Lebanon's 1,405 public schools—20 percent of Lebanon's public schools, geographically covering six Lebanese governorates.
- At the request of the Government of the Republic of Lebanon, the implementers focused their efforts on public schools that had the most needs, that had generally been neglected, that were affected by the Israeli-Hizballah conflict of July and August 2006, and that had larger student populations.

The accomplishments of the Lebanon Education Assistance for Development Program were substantial. For example, dilapidated, rundown building walls, toilets, water faucets, and playgrounds were repaired and renovated. Inadequate and empty media, science, and computer laboratories were renovated, refurbished, equipped, and furnished. In addition, students, parents, and community members benefited from dental hygiene, mental health, and wellness activities. These program accomplishments are included the following examples:

- 134 public school infrastructures were repaired and/or rehabilitated.
- 104 public schools were supplied with laboratory equipment.
- 628 medical and mental health, nutrition, drug, and social awareness sessions were provided to students and parents at targeted schools.
- 254,000 copies of an educational awareness magazine were distributed to students in grades four through six in 1,152 primary schools.
- 61 parent teacher associations were activated and supported.
- 195 school clubs were formed to promote a healthy school environment, and 120,000 school club newsletters were distributed to students.

Documentation reviewed and field testing at 43 public schools were based on a statistical sample. The sample came from the universe of 283 public schools that participated in the Lebanon Education Assistance for Development Program activities. The Regional Inspector General (RIG)/Cairo reviewed documentation at the offices of USAID/Lebanon and the two implementers—the Cooperative Housing Foundation and the International Orthodox Christian Charities. Documentation indicated that the implementers prioritized schools based on needs; entered into contractual agreements with suppliers; and procured equipment, supplies, and services for targeted schools. During field visits, the contracted auditors inspected and reviewed activities carried out at targeted schools. In all instances, the documentation review and field testing showed no exceptions to the results reported as achieved.

Specifically, no exceptions were noted during tests performed to verify performance information in the three program objectives: improving the school environment, providing education and awareness, and establishing extracurricular activities.

Consequently, the audit team has a 90 percent confidence level that the results reported by USAID/Lebanon and the two implementers were achieved as reported.

- In the area of improving the school environment, no exceptions were noted regarding tests of the number of schools proposed for rehabilitation, the number of schools with completed repair work, and the costs of repairs. Moreover, discussions with school administrators about signed statements regarding the quality of repair work<sup>2</sup> and whether it met stakeholders' expectations noted no exceptions.
- In the area of providing educational materials, no exceptions were noted for the number of schools that received equipment and supplies, the costs of equipment and supplies, and the school administrators' satisfaction with the quality of equipment and supplies.
- In the area of establishing awareness and extracurricular activities, no exceptions were noted for the number of health and nutrition sessions conducted and how local schools benefited from these interventions, and the number of student clubs formed during school visits.

Judgmentally selected performance indicators for each of the three objectives of the Lebanon Education Assistance for Development Program illustrate that the implementers generally met or exceeded the majority of the planned targets. Performance indicators were those that the implementers and mission officials believed were critical to the success of each of the three objectives of the program. In addition to the results verified by the audit, according to International Orthodox Christian Charities and Cooperative Housing Foundation records, approximately 56,800 public school students benefited from supplied school equipment, and about 94,000 benefited from activities designed to improve the learning environment. Table 1 illustrates the results associated with the performance indicators as of December 31, 2008.

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<sup>2</sup> The Cooperative Housing Foundation and the Government of Lebanon's Ministry of Education and Higher Education employed engineers and other officials to assess both the quality of some of the work and the school administrators' satisfaction. Additionally, the implementer required a school administrator to document both the expectations and the work performed at a school.

**Table 1. Selected Performance Indicators for the Lebanon Education Assistance for Development Program as of December 31, 2008**

<b>Objective 1</b>	<b>Planned Target</b>	<b>Result Achieved</b>	<b>Percentage</b>
Number of schools benefiting from infrastructure rehabilitation or repairs	134	134	100%
Number of schools equipped with computer and science labs and media libraries	104	104	100%
<b>Objective 2</b>			
Number of medical, mental health, nutrition, drug, and social awareness sessions conducted	409	628	153%
Number of educational magazines developed, printed and distributed to students in fourth through sixth grades	252,000	254,000	101%
<b>Objective 3</b>			
Number of parent teacher associations activated and/or supported	55	61	111%
Number of educational posters developed, printed, and distributed to 1,152 primary schools	80,000	75,500	94%
Number of school clubs formed or activated	195	195	100%
Number of school club newsletters distributed to students	120,000	120,000	100%

## **USAID/Lebanon’s Lebanon Education Assistance for Development Program Achieved Positive Impact**

The effectiveness of aid most likely may be conclusively indicated in future years when public school students begin to excel, improve test scores, and enroll in colleges and universities. However, in the short term, USAID/Lebanon’s Lebanon Education Assistance for Development Program has achieved successes in helping the Lebanese education sector to provide a more stimulating learning environment. A December 2007 United Nations report titled *Common Country Assessment* (on Lebanon) attributed the worsening quality of education in the country to the lack of a stimulating learning environment.

One legacy of the Lebanon Education Assistance for Development Program is demonstrated within the Ministry of Education and Higher Education. Through a ministerial partnership with the Directorate of Guidance and Counseling, the Lebanon Education Assistance for Development Program activities are integrated into the action plan of the School Health Department. Consequently, all school health coordinators have incorporated some of the Lebanon Education Assistance for Development Program

activities into their action plans. These activities include awareness sessions with parents, school medical checkups, club activities, educational magazines, and other activities that focus on raising awareness of children and improving their health through extracurricular activities.

USAID/Lebanon's implementers concentrated their activities on improving the schools' infrastructure, learning tools, and special programs. Both implementers indicated that improvement in these areas would positively affect the learning capacity of children and improve their performance by (1) improving the school environment, (2) providing education and awareness, and (3) establishing extracurricular activities—some of which were firsts in the public schools and in the communities.

**Improving School Environment** – Many of the schools that USAID/Lebanon targeted for program activities lacked the minimum basic facilities, such as adequate bathrooms, hand-washing stations, and water fountains. Some of the schools also suffered from severe disrepair that could negatively affect students' health. Windows that were inadequate to protect the students from weather extremes were replaced, and leaking roofs that caused mold and mildew to form on the interior walls and ceilings were repaired. In total, 283 public schools benefited from the Lebanon Education Assistance for Development Program activities. Locations of these schools across the country are shown in appendix III.



**Photographs of dilapidated water fountain in public school, before and after renovation. (Photographs by Cooperative Housing Foundation, Mount Lebanon, December 2007.)**



**Photographs of mold and mildew on classroom walls, before and after renovation. (Photographs by Cooperative Housing Foundation, North Lebanon, April and October 2007.)**

The increase in the numbers of schools with adequate facilities gave students the opportunity to learn and practice in new laboratories using equipment that is essential for proper teaching. During 2007–2008, the two implementers provided 373 computers, established 13 science laboratories, and distributed laboratory equipment to 104 public schools. Before the Lebanon Education Assistance for Development Program was launched, it was not unusual for students to watch a teacher theoretically demonstrate a science experiment because the school did not have the equipment for the students to perform the tasks themselves or to work in interactive groups.



**Photographs of USAID-supplied electronic and laboratory equipment. (Photographs by Cooperative Housing Foundation, North Lebanon, October 2008.)**



**Photograph of a computer laboratory with USAID-supplied equipment. (Photograph by International Orthodox Christian Charities, Mount Lebanon, December 2008.)**

**Providing Education and Awareness** – Through production and distribution of educational material, awareness lectures, and performances on health and respect for the environment, the implementers conducted 628 awareness sessions on mental health, nutrition, dental hygiene, personal hygiene, and tobacco water pipes for smoking and drug prevention.

Another activity is an educational magazine distributed twice a year to students in grades four through six in 1,152 public schools. The magazine, developed by the University of Balamand, an International Orthodox Christian Charities partner, features cartoons of a young boy and girl who present information on healthy habits, respect for the environment, and civics through games, documentaries, stories, and other fun activities.



**Photograph of a banner produced by the International Orthodox Christian Charities. (Photograph by RIG/Cairo auditor, Beirut, Lebanon, September 2008.)**

Kindergarten children also benefited from program activities that stimulate brain development to promote learning. These activities include educational materials and toys such as puzzles, puppets, and musical instruments. Approximately 60 educational play performances were staged for public school children in grades one through six to inform them about traditional life habits in Lebanon, healthy food choices and lifestyles, and conflict resolution. Attending these plays and other activities outside of schools has been a first experience for many targeted children. According to the International Orthodox Christian Charities' program manager, school-aged children in areas where activities are carried out typically come from households with low economic status.

**Establishing Extracurricular Activities** – Although USAID/Lebanon's Lebanon Education Assistance for Development Program focused primarily on schoolchildren, implementers designed the program to raise the awareness of parents through capacity-building activities to promote program sustainability. For example, community members benefited from nutrition awareness sessions and mental health lectures. In addition, the education program developed 195 student clubs and 61 parent teacher associations to teach skills such as fundraising to support student activities, including school travel, scholastic and sports tournaments, and health fairs. The goal, according to an implementer, was to teach the parents and students to be self-reliant.

# OTHER MATTERS

Although USAID/Lebanon and its implementers have achieved success in the Lebanon Education Assistance for Development Program, the mission should improve its management controls regarding reviews of administrative and program activities, and documentation. This report discusses these matters and provides recommendations that should help USAID/Lebanon strengthen management controls in the following areas:

- Funds control violations
- Segregation between programmatic and financial duties
- Portfolio reviews
- Antiterrorism provisions
- Branding requirements
- Conflicts between cooperative agreements and the memorandum of understanding with the Government of the Republic of Lebanon
- Requirements for customs duties on USAID-funded property

## **USAID/Lebanon Should Notify the Appropriate Office About Two Potential Funds Control Violations**

Summary: USAID has published several directives regarding funds control. Particularly, Automated Directives System (ADS) 634, *Administrative Control of Funds*, requires that operating units establish systems to detect potential funds control violations and to immediately report such violations to the proper authority. Although USAID/Lebanon prepared acquisition documents to commit funds for the program, neither the mission nor its regional financial management office changed the program start date or alerted officials about the need to change it. Consequently, agreement officers issued the two cooperative agreements before the funds were committed, resulting in two potential funds control violations. This occurred because management review of documentation was not adequate to detect that the awards were issued prior to funds commitment.

USAID's Automated Directives System addresses various issues regarding funds control and obligations, in ADS 634, *Administrative Control of Funds*; ADS 303, *Grants and Cooperative Agreements to Non-Governmental Organizations*; and ADS 621, *Obligations*.

- ADS 634 documents USAID policy directives and procedures for the administrative control of funds. Specifically, section 634.3.5.2.c states that "an administrative funds control violation occurs when obligations are incurred prior to the commitment of funds." Moreover, section 634.3.5.3 requires any individual with knowledge of a potential funds control violation, either statutory or administrative, to notify the deputy chief financial officer immediately upon discovery; the deputy chief financial officer, among other things, appoints individuals to conduct an inquiry of the alleged violation. The initial inquiry determines whether a violation has occurred, the type of violation (statutory or administrative), and the responsible individual.

- ADS 303.3.14 states that “an agreement officer’s signature serves to obligate funds under a grant or cooperative agreement, as long as the agreement officer accepts the recipient’s application without substantial modification, or negotiates any changes to the proposal with the applicant.”
- ADS 621.3.4 indicates that a valid obligation is one that the agreement officer has signed. The guidance requires that the Office of the Chief Financial Officer must immediately put the document in the accounting system to avoid a potential antideficiency violation. Furthermore, section 621.3.4(b) establishes that, for assistance awards to nongovernmental organizations, the minimum documentation required to establish a valid obligation is the grant or cooperative agreement and one USAID signature indicating approval of the award.

USAID/Lebanon signed an acquisition request<sup>3</sup> for the Lebanon Education Assistance for Development Program after the effective date written on the agreement letter. On December 2, 2006, the USAID/Lebanon program contracting officer’s technical representative signed the acquisition document to commit \$2 million for the issuance of two cooperative agreements to the Cooperative Housing Foundation and the International Orthodox Christian Charities. On December 8, 2006, the USAID/Lebanon mission director approved and signed this document. However, the date on the cover letter for both awards as well as the date that the implementers’ program activities were to begin was listed as December 6, 2006. Despite transmitting the documents to the Regional Financial Management Office at USAID/Egypt on December 8, 2006, neither the contracting officer’s technical representative nor the mission director changed the start date on the implementers’ letters or alerted the Regional Financial Management or Contracting Offices about the need to change the start date. USAID/Lebanon’s Regional Financial Management Office received an electronic copy of the acquisition request on December 8 (during a weekend) and processed a commitment of \$2 million in USAID’s official financial system on December 10, 2006—4 days after the effective date of December 6, 2006. This resulted in two potential administrative funds control violations.

Contrary to the policy in ADS 621.3.4, an agreement officer from USAID/Lebanon’s regional office of procurement at USAID/Egypt transmitted two unsigned cooperative agreements with the agreement letter dated December 6 and with an effective date of December 6 to the Lebanon Education Assistance for Development Program implementers on December 10, 2006. The agreement officer transmitted the agreements electronically. Although the agreements were not signed by USAID/Egypt’s agreement officer as required, the International Orthodox Christian Charities signed the acknowledgment page and returned the document on December 11, 2006, and the Cooperative Housing Foundation returned a signed acknowledgment page to the agreement officer on December 20, 2006.

The agreement officer attempted to correct the oversight by awarding a second and different agreement that more clearly defined the Cooperative Housing Foundation’s geographic work locations and changed the implementer’s agreement effective date. In fact, the agreement officer canceled the December 6 agreement and reissued a new agreement on January 30, 2007, in part because the regional office of procurement at USAID/Egypt had not signed the first agreement, which would render the agreement

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<sup>3</sup> At USAID, staff uses a document called a Modified Assistance and Acquisition Request Document to commit funds for the procurement of awards (contracts, cooperative agreements, or purchase orders), as well as any subsequent modifications of the awards.

invalid. Not only did the agreement officer document that the agreement had not been signed, she documented that neither the original nor a copy of the December 6 agreement could be found at the regional office of procurement.

Much debate occurred between the implementer and USAID/Lebanon's regional office of procurement after the Cooperative Housing Foundation received the January 30 agreement. The agreement officer eventually agreed to retroactively recognize December 11, 2006, as the effective date for the January 30, 2007, agreement. USAID/Egypt recorded an obligation of \$1 million for the Cooperative Housing Foundation on February 21, 2007, and recorded an obligation of \$1 million for the International Orthodox Christian Charities on January 8, 2007. Even though the guidance in ADS 621 requires funds to be obligated at the time an award is made, this did not occur for the Lebanon Education Assistance for Development Program.

Although the agreement officer changed the effective date for the Cooperative Housing Foundation from January 30, 2007, back to December 11, 2006, a new signed award was not issued to the International Orthodox Christian Charities. The corrective action that the agreement officer took to make the award with the Cooperative Housing Foundation valid was not taken for the International Orthodox Christian Charities.

The potential funds control violations occurred because of weak management controls of documentation and supervisory review. In an attempt to revise the geographical locations for one Lebanon Education Assistance for Development Program implementer, the agreement officer admitted that her efforts were motivated, in part, by a desire to avoid a funds control violation. A negative chain reaction began at the time that USAID/Lebanon sent the request to prepare and issue two cooperative agreements for the program to its Regional Financial Management Office at USAID/Egypt. The program effective date had already passed before USAID/Lebanon forwarded the request to USAID/Egypt. Neither USAID/Lebanon nor USAID/Egypt had management control systems to track receipt and disposition of requested financial transactions or to detect errors on commitment documents in a timely manner. Furthermore, the official agreement files lacked key acquisition documents and did not include any pre-award authorizations, thereby allowing the implementers to begin work before an agreement was signed.

Controls are important to minimize risk and detect and correct errors in a timely manner. Since the control of Federal funds is necessary to prevent overspending and to ensure compliance with the rules and restrictions governing Federal obligations and spending, control over financial documentation is essential to avoid potential antideficiency violations. Controls over documentation and top-level review are key aspects of controls designed to improve efficiencies. USAID needs to institute sufficient controls to ensure that financial transactions are executed in a timely and efficient manner. Accordingly, this audit makes the following recommendation:

*Recommendation No. 1: We recommend that USAID/Lebanon notify USAID's deputy chief financial officer regarding the potential administrative funds control violations for determination and resolution.*

Both USAID/Lebanon and USAID/Egypt have begun to review and improve their management controls to prevent the recurrence of potential funds control violations. For example, USAID/Egypt has created an electronic mailbox for the receipt of obligating

documents. Even though almost 2 years have passed since these procurement errors and possible violations occurred, both missions can use the experience to ensure that they develop mitigating controls to avoid repeating these errors and unnecessarily delaying the work of implementers.

## **USAID/Lebanon Should Segregate Staff Program and Financial Duties**

Summary: Federal standards, as well as USAID's Automated Directives System, provide guidance to require managers to segregate key duties among different staff. The U.S. Government Accountability Office's *Standards for Internal Control in the Federal Government* requires Federal agencies to divide or segregate key duties and responsibilities among different staff. ADS 596.3.1, *Management's Responsibility for Internal Control*, requires USAID operating units to establish systems of internal control that require managers to divide or segregate key duties and responsibilities among different staff. Despite the requirements, for 10 years USAID/Lebanon's chief accountant also served as a program management specialist with programmatic job responsibilities as a contracting officer's technical representative. This occurred, in part, because the mission used the chief accountant to augment program staffing when the USAID/Lebanon budget was smaller. This conflict of interest increased the possibility of fraud or abuse.

The U.S. Government Accountability Office's *Standards for Internal Control in the Federal Government* requires Federal agencies to conduct top-level reviews and ensure segregation of duties, among other things. Moreover, ADS 596.3.1, *Management's Responsibility for Internal Control*, requires USAID operating units to establish systems of internal control that require managers to divide or segregate key duties and responsibilities among different staff. This includes separating responsibilities for authorizing, processing, recording, and reviewing transactions. Contrary to these standards, USAID/Lebanon's chief accountant also served as a program management specialist.

USAID/Lebanon assigned two duties—chief accountant and program management specialist—to one staff member. According to the incumbent's job description, the chief accountant/program management specialist was assigned both financial and programmatic job responsibilities. As a chief accountant, the staff member has been responsible, among other things, for maintaining financial obligation records for all mission programs, including the Lebanon Education Assistance for Development Program. Although the staff member was responsible for maintaining some cuff records for the program, some of the program financial records were inaccurate. For example, the chief accountant maintained financial information on the Lebanon Education Assistance for Development Program that did not reconcile with the financial information in the official agreement file. Specifically, the mission information, which is used to respond to urgent inquiries, documented that the program funding level as \$9,473,064. However, the information that the chief accountant maintained was not accurate and did not reconcile with the funding level of \$9,623,064 documented in the official agreement file. Moreover, the chief accountant is responsible for directing the mission's budget process, as well as acting as the principal advisor on budget issues to the mission director for programs valued at \$45 million in appropriated funds and approximately \$295 million in supplemental and cash transfer funds in fiscal years 2007 and 2008. For

the second duty as a program management specialist, the staff member was responsible for managing mission democracy and governance activities as well as professional training, altogether valued at approximately \$40 million. Table 2 summarizes the program management specialist/chief accountant's additional duties as a program management specialist within the democracy and governance sector.

**Table 2. 2008 Program Portfolio for USAID/Lebanon's Program Management Specialist/Chief Accountant**

<b>Program Area</b>	<b>Life of Project Funding</b>	<b>Implementer</b>	<b>Duration</b>
Transparency and Accountability	\$9,350,901	AMIDEAST	03/2001 to 02/2011
Professional Training	\$1,734,435	AMIDEAST	09/2001 to 09/2011
Assistance to Municipalities	\$28,747,901	State University of New York	11/2004 to 11/2011
<b>Total</b>	<b>\$39,833,237</b>		

Although the staff member's job description included major financial responsibilities as the mission's chief accountant, the incumbent stated that chief accountant responsibilities have not been exercised because financial transactions were the responsibility of the Regional Financial Management Office at USAID/Egypt, which receives and inputs USAID/Lebanon's budget data into the official financial and accounting system. According to the staff member's job description, the staff member is required to establish and maintain parallel accounting records for USAID/Lebanon.

For approximately 10 years, the program management specialist/chief accountant has performed programmatic duties as a contracting officer's technical representative for democracy and governance activities to augment the program staff when the USAID/Lebanon budget was smaller. The chief accountant stated that all programs she has managed were paid as a letter of credit, and as a contracting officer's technical representative, she could do little to affect payments. However, her signed contracting officer's technical representative designation letter indicated that she was responsible for reviewing payment documents and approving payments made by the implementer and could question costs to either increase or reduce future payments.

USAID management relies on factual information to make management decisions. At missions with high-profile and politically sensitive programs, frequent requests for financial and programmatic information are not unusual. Moreover, missions play a key role in creating a control environment to foster integrity and ethical values. Although the duties of chief accountant and program management specialist created a conflict of interest for the past 10 years, mission management did not question or realign staff responsibilities. Since USAID/Lebanon's chief accountant's job description requires the chief accountant to be the principal and expert assistant with responsibility for all financial aspects, a conflict of interest exists with the same staff member's programmatic duties. Inasmuch as a contracting officer's technical representative reviews and approves implementer payments, the risk of errors increases and risk mitigation decreases when the same person oversees financial transactions associated with

programmatic performance. Key duties and responsibilities must be divided or segregated among different people, since no one individual should control or be able to control key budget aspects and simultaneously have control of mission programs. As a result, this audit makes the following recommendations:

*Recommendation No. 2: We recommend that USAID/Lebanon's mission director develop an action plan to review staff responsibilities and take appropriate action to segregate programmatic and financial responsibilities.*

*Recommendation No. 3: We recommend that USAID/Lebanon's mission director revise the chief accountant/program management specialist's job description to reflect actual staff responsibilities more accurately.*

Subsequent to the audit fieldwork, USAID/Washington approved the USAID/Lebanon mission director's request for additional staff. As a result, the mission director has taken action to realign staff and reassign program responsibilities, including those of the chief accountant. In January 2009, the mission director reassigned one program valued at \$29 million to the mission's general program officer. According to the USAID/Lebanon mission director, other duties will be reassigned after a program officer and program specialist begin work at the mission later in 2009.

## **USAID/Lebanon Should Conduct Portfolio Reviews**

Summary: ADS 203.3.7, *Portfolio Reviews*, requires USAID missions and offices to conduct at least one portfolio review each year. The portfolio review is a periodic review of a specific operating unit's activities, designed, in part, to examine operational issues and determine whether USAID-supported activities are on track to achieve intended results. As of January 2009, USAID/Lebanon had not conducted a portfolio review in 6 years. Consequently, unresolved program issues such as the Lebanon Education Assistance for Development Program branding, antiterrorism, and customs duties requirements were not readily identified or elevated for prompt management attention.

Although the Lebanon Education Assistance for Development Program has achieved many intended results, several management control issues were not identified through management reviews such as portfolio reviews. In fact, it was only in January 2009 that USAID/Lebanon conducted its first portfolio review in 6 years. According to USAID/Lebanon staff, portfolio reviews were not a management focus because the mission was reacting to other priorities, including a program expansion. The implementers had raised several unresolved issues to the contracting officer's technical representative that required timely management attention, including, for example, branding and customs duties requirements.

During the life cycle of a USAID program, managers rely on information from various sources to make informed decisions about problem resolution, funding, and future program direction. Activity monitoring reports, documentation from site visits, implementer reports, and annual reviews are some of the information necessary to make informed decisions about future work plans. In addition to not conducting annual portfolio reviews, USAID/Lebanon did not conduct site visits to monitor activities and

document activity monitoring reports. As a result, mission management did not have the best available documentation on which to base decisions about particular problems the staff and the implementers might have experienced. Consequently, unresolved program issues such as the Lebanon Education Assistance for Development Program branding, antiterrorism, and customs duties requirements were not readily identified or elevated for prompt management attention. As a result, this audit makes the following recommendation:

*Recommendation No. 4: We recommend that USAID/Lebanon's mission director develop an action plan to conduct and document annual portfolio reviews of the Lebanon Education Assistance for Development Program.*

## **USAID/Lebanon Should Ensure That Required Antiterrorism Provisions Are Included in Subawards**

Summary: USAID's *Acquisition and Assistance Policy Directive 02-04*, issued on March 20, 2002, implemented Executive Order 13224 on Terrorist Financing. The directive establishes the legal responsibility for compliance with the order and other laws by recipients of USAID funds. The Cooperative Housing Foundation did not include the mandatory clauses in subawards with local vendors and suppliers for the procurement of schools equipment and supplies. Nor did the International Orthodox Christian Charities include the clauses in subawards with local implementing partners. Both chiefs of party stated that USAID/Lebanon's contracting officer's technical representative did not share any information about the documentation required to implement the order. As a result, USAID/Lebanon cannot be reasonably assured that USAID funds have not been inadvertently used to provide support to entities or individuals associated with terrorism.

Executive Order 13224 on Terrorist Financing prohibits transactions with, and the provision of resources and support to, individuals and organizations associated with terrorism. To implement the executive order, USAID published several acquisition and assistance policy directives. Acquisition and Assistance Policy Directive number 02-04, published on March 20, 2002, documents the legal responsibility of USAID recipients to comply with the order. Furthermore, the policy directive makes it mandatory to include the provision in all subcontracts and subawards issued under prime contracts and agreements.

In addition, on April 14, 2008, USAID/Lebanon issued a mission order detailing the procedures to be followed by USAID partners to comply with the executive order to ensure that the mission's assistance funds do not inadvertently support entities or individuals associated with terrorism. The mission order implements Executive Order 13224 through three specific requirements:

- Certification – requires all U.S. and non-U.S. entities to certify that they do not provide material support or resources for terrorism.
- Vetting – requires inquiries from individuals and searches of special databases for background information on contractors and subcontractors who receive in excess of \$25,000, as well as recipients of assistance instruments regardless of the dollar amount.

- **Mandatory Clauses** – require a mandatory provision to be included in all solicitations and awards for contracts, grants, cooperative agreements, subcontracts, and subawards indicating that a recipient will comply with antiterrorism guidance.

USAID/Lebanon's regional office of procurement included the mandatory clause in the cooperative agreements with the Cooperative Housing Foundation and the International Orthodox Christian Charities. The clause required the recipients' compliance with this executive order and other laws that prohibit terrorism financing. The clause also holds the recipients to the legal responsibility of including this provision in all subcontracts and subawards issued under the prime cooperative agreements.

Both implementers demonstrated due diligence in completing some actions required to ensure that USAID financing was not inadvertently provided to terrorists. They completed the antiterrorism certifications and the vetting requirements. However, the Cooperative Housing Foundation did not include the mandatory clause in subawards given to local vendors and suppliers for the procurement of school equipment and supplies. The International Orthodox Christian Charities did not include the mandatory clause in its subawards with two of its local implementers.

The chiefs of party for both implementers stated that USAID/Lebanon's contracting officer's technical representative did not share the mission's April 2008 guidance with them. In addition, the International Orthodox Christian Charities staff stated that they did not think they were required to include the mandatory clause in their subawards.

Lebanon Education for Development Program implementers should be informed about what USAID requires to implement the executive order. The mission must communicate requirements to its implementers and periodically verify that procedures are followed to provide USAID some assurance that its program does not inadvertently provide support to entities or individuals associated with terrorism. Accordingly, this audit makes the following recommendations:

*Recommendation No. 5: We recommend that USAID/Lebanon's mission director develop a procedure to review its recipients' agreements and ensure that antiterrorism provisions are included in its existing Lebanon Education Assistance for Development Program awards.*

*Recommendation No. 6: We recommend that USAID/Lebanon provide the implementers of the Lebanon Education Assistance for Development Program with documented USAID requirements to implement antiterrorism measures.*

In January 2009, the mission director contacted USAID/Egypt's regional office of procurement to request documented guidance that the mission will provide to all of its implementers to fully explain how USAID implements the requirements of the executive order.

## **USAID/Lebanon Should Revise Documentation to Avoid Conflicting Requirements**

Summary: USAID/Lebanon's memorandum of understanding with the Republic of Lebanon for the Lebanon Education Assistance for Development Program required the Ministry of Education and Higher Education to designate representatives who would facilitate communication with and obtain approvals for all program activities. However, USAID's cooperative agreement for one implementer required the implementer to explicitly coordinate program interventions with a specific Lebanese governmental entity, creating a conflict. As a result, the program suffered some bureaucratic barriers that negatively affected the timely approval of some of the Lebanon Education Assistance for Development Program activities.

Two cooperative agreements have guided USAID/Lebanon's Lebanon Education Assistance for Development Program. To document the mission's activities and expectations of the Government of the Republic of Lebanon, USAID/Lebanon signed a memorandum of understanding with the Government of the Republic of Lebanon for the Lebanon Education Assistance for Development Program in March 2007. The memorandum of understanding required the ministry, through designated representatives, to facilitate communication with and obtain approvals of other government ministries, agencies, and municipalities necessary for program implementation. However, in January 2007, USAID/Lebanon signed a cooperative agreement with Cooperative Housing Foundation that required the implementer to coordinate the program interventions with the Education Center for Research and Development of the Ministry of Education and Higher Education.

The March 2007 USAID/Lebanon memorandum of understanding with the Government of the Republic of Lebanon included requirements that conflicted with the January 2007 cooperative agreement with the Cooperative Housing Foundation. Specifically, in the implementation plan of the cooperative agreement, USAID/Lebanon required the Cooperative Housing Foundation to work with officials in the Educational Center for Research and Development of the Ministry of Education and Higher Education. As a conflicting requirement, in the memorandum of understanding for the Lebanon Education Assistance for Development Program, the Ministry of Education and Higher Education had broad latitude in overseeing the program activities. For example, the memorandum of understanding authorized the ministry to designate its representatives and did not require the program implementers to work with a specific office of the ministry.

The conflicting requirements caused some bureaucratic barriers that negatively affected the timely approvals for education assistance activities. For example, in March 2007, the implementer reported that it had difficulties obtaining assistance and informed the mission that the implementer was being prevented from working or consulting with the Educational Center for Research and Development—an integral part of the Ministry of Education and Higher Education—based on a ministry decision. The Cooperative Housing Foundation petitioned USAID/Lebanon to clarify the roles and responsibilities of the Ministry of Education and Higher Education and its agencies responsible for oversight of the program and to revise the partnerships that were required in the USAID cooperative agreements.

Although the Lebanon Education Assistance for Development Program activities achieved many successes, the implementer endured time-consuming negotiations in an attempt to work with specific ministry authorities. This situation negatively affected the timely approvals for education assistance activities. Accordingly, this audit makes the following recommendation:

*Recommendation No. 7: We recommend that USAID/Lebanon consult with the regional legal advisor to revise the cooperative agreement and related memorandum of understanding to eliminate any contradictions.*

## **USAID/Lebanon Should Review Branding Requirements**

Summary: ADS chapter 320, *Branding and Marking*, requires an approved marking plan for USAID projects. USAID-funded programs, projects, activities, public communications, and commodities are required to be branded with a standard graphic identity. Despite the requirement, the USAID/Lebanon implementers encountered some resistance in placing USAID-approved exterior signs on some public school buildings. Although the implementers notified USAID/Lebanon officials about unresolved branding issues and security concerns, mission management did not pursue a waiver that would be applicable when compelling political, safety, or security concerns exist.

ADS 320, *Branding and Marking*, requires an approved marking plan for USAID projects. USAID programs, projects, activities, public communications, and commodities with USAID funding are required to be “branded with a standard graphic identity.” Moreover, USAID/Lebanon’s Lebanon Education Assistance for Development Program’s cooperative agreements require implementers to brand all aspects of its program assistance. Although the directive requires branding, it also provides that a USAID principal officer can waive marking requirements, in whole or in part, for each program in exceptional circumstances when USAID marking requirements would pose compelling political, safety, or security concerns.

USAID/Lebanon’s implementers have been successful in branding most of the equipment, supplies, and materials for the Lebanon Education Assistance for Development Program. However, the implementers have encountered resistance in placing USAID-approved exterior signs on the public school buildings in the South Lebanon, North Lebanon, Mount Lebanon, and Bekaa governorates. Nine of the 67 schools repaired by International Orthodox Christian Charities throughout Lebanon did not agree to put the signs on the buildings, and at another nine schools, the signs were removed or defaced after they were placed on the buildings. The Cooperative Housing Foundation purchased signs for 70 public schools for approximately \$4,700 to mark the schools for which it performed rehabilitation, purchased equipment, or conducted other activities. However, as of December 2008, the implementer continued to encounter resistance from school principals who feared attack and retribution. In addition, the Ministry of Education has not formally approved the placement of the USAID signs on the exterior of school buildings.

Although both implementers documented this signage placement problem in their quarterly reports to USAID/Lebanon, mission management did not pursue a waiver that

would be applicable for these exceptional circumstances. This occurred because the contracting officer's technical representative did not explain the severity of the problem to USAID/Lebanon management in a timely manner. In fact, the staff did not raise the issue to USAID/Lebanon management until the audit identified the problem.



**Photograph of Cooperative Housing Foundation's unused branding signs.  
(Photograph by RIG/Cairo auditor, Beirut, Lebanon, December 2008.)**

During the audit in January 2009, the USAID/Lebanon mission director reviewed the branding requirements for the Lebanon Education Assistance for Development Program activities and found that the mission did not have a specific requirement to place USAID signs on the front of schools. According to the mission director, USAID/Lebanon required that the signs be placed on equipment and supplies and in the entryways of buildings. Consequently, based on this information, the mission director granted waivers to the implementers regarding signs on the front of public schools. As a result of the mission's corrective action, the audit team is not making a recommendation.

## USAID/Lebanon Should Review Requirements for Customs Duties on USAID-Funded Property

Summary: ADS 155.3.2, *Tax Exemptions*, requires that operating units negotiate exemptions of USAID assistance from taxes and customs duties with a host government. However, USAID-funded equipment and supplies purchased by one Lebanon Education Assistance for Development Program implementer were confined at Beirut ports for extended periods of time and were subject to customs duties and storage fees. This occurred because the Ministry of Education and Higher Education was not able to grant the program implementer the necessary customs duties exemptions in a timely manner. Consequently, USAID-funded school equipment and supplies were held up in customs from 15 to 47 days and not provided to the intended recipients in a timely manner.

ADS 155.3.2, *Tax Exemptions*, states that USAID has a long-standing policy that USAID assistance should be exempt from host government taxes and customs duties. Although the policy is not self-executing, it states that operating units must negotiate exemptions with a host government by negotiating exemption clauses in bilateral, strategic objective grant agreements, and other agreements.

To facilitate a rapid commencement of reconstruction projects, on December 15, 2006, the USAID Administrator authorized USAID/Lebanon a waiver from the source, origin, and nationality rules as needed for goods and services purchased for the school rehabilitation program. In March 2007, USAID/Lebanon and the Government of the Republic of Lebanon, represented by the Ministry of Education and Higher Education, signed a memorandum of understanding for the implementation of the Lebanon Education Assistance for Development Program. This agreement held the ministry responsible for arranging exemptions from any and all national and local customs duties and fees as well as value-added taxes on all materials, supplies, equipment, and vehicles purchased for the education program.

The ministry submitted the signed memorandum of understanding to the Council of Ministers for approval and submission to the Parliament for ratification into law, but the Parliament did not function for almost 18 months for political reasons. Consequently, the ministry was not able to grant the required tax exemptions in a timely manner.

In March 2008, the Cooperative Housing Foundation chief of party contacted USAID/Lebanon's contracting officer's technical representative for assistance in obtaining waivers and exemptions for two shipments of USAID-funded school equipment and supplies valued at \$686,034 that were held up at customs for periods ranging from 15 to 47 days. The shipments were released only when the implementer's suppliers paid \$1,291 and \$798 in customs duties and storage fees to the Lebanese customs authority. The contracting officer's technical representative advised the implementer's chief of party to make the Ministry of Education and Higher Education the consignee of the shipments. Thus, the ministry would assume the responsibility for the shipments' release from the Beirut port.

This situation occurred, in part, because USAID programs have not been implemented under a bilateral agreement that extends coverage such as specific exemptions to USAID implementers and because the ministry did not grant the necessary waivers and

exemptions prior to the arrival of school equipment and supplies at the port of Lebanon. Although U.S. Embassy Beirut officials signed a technical cooperation agreement<sup>4</sup> between the Government of the United States and the Government of the Republic of Lebanon in December 1951, USAID/Lebanon partners are not covered under that agreement. Since USAID/Lebanon is not a bilateral mission (with the exception of a \$295 million cash transfer agreement), the mission implements USAID-funded programs directly through U.S. and local nongovernmental organizations.

Until a bilateral agreement is signed, USAID/Lebanon and its implementers will continue to experience programmatic inefficiencies and lack specific exemptions that could help to ensure that equipment and supplies for the Lebanon Education Assistance for Development Program reach intended beneficiaries in a timely manner. Although USAID/Lebanon and the implementer could have explored other options in procuring school equipment and supplies and negotiating with the ministry before shipments arrived in port, actions were not taken until after the goods arrived in port. Consequently, some Lebanese public school students did not have access to needed equipment and supplies during the 2007 school year. Therefore, this audit makes the following recommendation:

*Recommendation No. 8: We recommend that USAID/Lebanon consult with the regional legal advisor on measures needed to protect USAID-funded property from being subjected to taxes and customs duties imposed by the host country government.*

According to the USAID/Lebanon mission director, in January 2009, the mission developed an action plan to engage the U.S. Ambassador in Beirut and Lebanese governmental officials to establish a dialog about the necessity of a bilateral agreement, since the funding to Lebanon has significantly increased. Negotiations on a bilateral agreement among the Government of the Republic of Lebanon, USAID/Washington, and the regional legal advisor are ongoing.

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<sup>4</sup> A technical cooperation agreement differs from a bilateral agreement. A technical cooperation agreement documents the desire of two countries to cooperate in exchanging technical knowledge and skills. A bilateral agreement is an agreement between the U.S. Government and a host government that establishes the USAID mission as a special mission, and identifies its privileges and immunities.

# EVALUATION OF MANAGEMENT COMMENTS

Based on an evaluation of the mission's response to the draft report, the Office of Inspector General determined that USAID/Lebanon agreed with all the eight recommendations in this report.

In response to recommendation no. 1, USAID/Lebanon's mission director notified the deputy chief financial officer about two potential administrative funds control violations for determination and resolution on June 16, 2009. Therefore, the mission has taken final action to address the recommendation.

In response to recommendation no. 2, USAID/Lebanon's mission director reviewed staff positions, established a new structure for the duties of contracting staff and agreement officer's technical representatives in coordination with USAID/Egypt's Office of Acquisition and Assistance, and reassigned duties among staff. To document staff members' duties and responsibilities, USAID/Egypt's Office of Acquisition and Assistance issued designation letters to staff that corresponded with the new or revised job assignments. Accordingly, the mission has taken final action to address the recommendation.

In response to recommendation no. 3, USAID/Lebanon's mission director revised the job description of the program management specialist/chief accountant so that the staff member no longer has contracting officer's technical representative duties. Consequently, a management decision has been reached and the mission has taken final action to address the recommendation.

Regarding recommendation no. 4, pursuant to its action plan, the mission conducted and documented its first semiannual portfolio review in January 2009 and the second portfolio review in June 2009. Accordingly, the mission has taken final action to institute an action plan to address the recommendation.

In response to recommendation no. 5, the mission director provided a USAID/Lebanon mission order to awardees, grant recipients, contractors, and subcontractors about the procedures to conduct background checks of individuals and organizations to ensure that USAID funding does not support terrorist activities. The mission order includes guidance on vetting, mandatory clauses, antiterrorism certification, pre-award review, and post-award monitoring and audits. In addition, on February 5, 2009, the mission director requested USAID/Egypt's Office of Acquisition and Assistance to issue a reminder to each implementing partner about the provision and certification on terrorism financing and reminded partners to submit certification that the terrorist financing clause was included in all subagreements. Consequently, the mission has taken final action to address the recommendation.

Regarding recommendation no. 6, USAID/Lebanon requested USAID/Egypt's Office of Acquisition and Assistance on February 19, 2009, to issue a reminder to all contractors about the responsibility for ensuring that subawardees comply with antiterrorism

financing provisions. Further, the mission required partners to submit certification that the terrorist financing clause was included in all subagreements by April 18, 2009. Therefore, the mission has taken final action to address the recommendation.

For recommendation no. 7, the mission consulted with USAID/Egypt's Office of Acquisition and Assistance and issued an amendment to remove the provision requiring the Cooperative Housing Foundation to work with the Ministry of Education's Educational Center for Research and Development. Therefore, the mission has taken final action to address the recommendation.

Regarding recommendation no. 8, in response to USAID/Lebanon's request, on June 17, 2009, the Lebanese Ministry of Finance agreed to offer USAID implementers exemptions from value-added taxes and customs duties for equipment and vehicles. Accordingly, the mission has taken final action to address the 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 based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. The purpose of this audit was to determine whether USAID/Lebanon's Lebanon Education Assistance for Development Program achieved planned results and what has been the impact. There were no prior audits associated with the areas reviewed.

We conducted this audit at USAID/Lebanon from September 22, 2008, to January 30, 2009, and at the offices of International Orthodox Christian Charities and the Cooperative Housing Foundation in Beirut, Lebanon. We also conducted audit fieldwork at USAID/Egypt's Regional Contracting and Financial Management Offices in Cairo, Egypt.

The audit team conducted field visits to Jal Ed-Dib public school, Wardanieh public school, and the offices of the General Director of the Ministry of Education and Higher Education for the Government of Lebanon in Beirut.

RIG/Cairo entered into a contract with the audit firm PricewaterhouseCoopers of Beirut to perform agreed-upon procedures on a statistical sample of public schools to verify achieved results. With the assumption of a 5 percent error and a variation of +/- 4 percent and 90 percent confidence, the Office of Inspector General (OIG)/Washington statistician selected a random statistical sample of 43 public schools in six governorates covered by the Lebanon Education Assistance for Development Program. The audit firm verified the December 2006 to January 30, 2009, reported results by making site visits to the 43 sampled schools from December 18, 2008, to January 20, 2009.

The audit covered policies, procedures, and the mission's controls from December 2006 through January 2009, with updates through May 2009. We obtained an understanding of the management controls related to management review at the functional level to determine the roles and responsibilities of USAID/Lebanon and USAID/Egypt regional staff, documentation, recording of transactions, and separation of duties.

## Methodology

To answer the audit objective, we reviewed activities in the implementers' work plans, which described the specific activities that both the mission and the implementers agreed to do under the cooperative agreements, including timelines showing when individual activities were expected to be completed. We determined whether or not the activities for eight selected performance indicators in the implementers' work plans

achieved their planned results based on interviews with the mission technical staff and documentation provided, including quarterly progress reports.

Specifically, this determination was based on a comparison of actual results with planned results. To determine the impact of the program, we interviewed officials from USAID/Lebanon and the implementers, as well as Lebanese Ministry of Education and Higher Education officials.

To answer our audit objective, we reviewed the following documents:

- Automated Directives System chapters 202, *Achieving*; 203, *Assessing and Learning*; 634, *Administrative Control of Funds*; 303, *Grants and Cooperative Agreements to Non-Governmental Organizations*; 596, *Management's Responsibility for Internal Control*; and 621, *Obligations*. In addition, we reviewed the *Standards for Internal Control in the Federal Government*, issued in 1999 by the U.S. Government Accountability Office.
- Executive Order 13224, *Blocking Property and Prohibiting Transactions With Persons Who Commit, Threaten to Commit, or Support Terrorism*; USAID/Lebanon's mission order pertaining to antiterrorism procedures issued on April 14, 2008; and Acquisition and Assistance Policy Directive 02-04, issued on March 20, 2002, for the implementation of Executive Order 13224.
- The Lebanon Education Assistance for Development Program's cooperative agreements and the related amendments and modifications.
- Implementer work plans for 2007 and 2008.
- Memorandum of understanding between USAID/Egypt regional support mission and USAID/Lebanon as a client mission.
- Memorandum of understanding between USAID/Lebanon and the Lebanese Ministry of Education and Higher Education.
- Subawards to local Lebanese implementing partners, including Rene Moawad Foundation; Injaz Lebanon; IJMA3; University of Balamand; and Eduware, Inc.; and the related modifications.
- Implementer subawards to local suppliers of school equipment and the related tender documentation.
- Implementer subcontracts to local construction contractors for school repairs and the related tender documentation.
- Quarterly progress reports; financial reports including Standard Forms 272, "Federal Cash Transaction Report" and 269, "Request for Advance."
- Correspondence between implementers and USAID/Lebanon, as well as between officials from the Lebanese Ministry of Education and Higher Education.
- USAID/Lebanon staff organizational chart and position descriptions.

While the RIG/Cairo audit team was reviewing the implementers' documentation for 43 randomly selected schools, a PricewaterhouseCoopers audit team was testing the achieved results for December 2006 to June 2008 during actual site visits. The audit firm submitted a draft report that covered procedures performed by its auditors with updates through January 2009. RIG/Cairo reviewed and approved the draft in February 2009 after performing a contracting officer's technical representative's review, an audit management review, and a regional inspector general review of working papers that support the auditors' findings and conclusions. These desk reviews resulted in

## APPENDIX I

RIG/Cairo comments to PricewaterhouseCoopers' auditors, who provided additional information. RIG/Cairo confirmed that the audit procedures were conducted and results were reported in accordance with generally accepted Government auditing standards.

Through school visits, the contracted auditors reported that results of schools rehabilitation (i.e., repair work and school equipping) were achieved without exception. The auditors noted no exception in the review of the Lebanon Education Assistance for Development Program schools' health, nutrition, and social awareness programs. The auditors also noted no exceptions with regard to extracurricular activities.

For evaluating project results, the materiality threshold was established at 10 percent. In other words, if 90 percent or more of the activities reviewed were determined to have achieved the planned results, we would determine that USAID/Lebanon's Lebanon Education Assistance for Development Program achieved planned results as stated in the audit objective. In regard to achieving the targets for individual performance indicators, we concluded that USAID/Lebanon achieved the result for that indicator if it met or exceeded 80 percent of the target.

Since the sample was statically selected with a 90 percent confidence level and standard error less than 5 percent, the results can be extrapolated to the entire universe. Since the auditors noted 100 percent verification in the sample of 43 schools, the audit results can be projected to the entire universe of schools included in the Lebanon Education Assistance for Development Program.

# MANAGEMENT COMMENTS



July 2, 2009

## MEMORANDUM

To: Regional Inspector General/Cairo, Jacqueline Bell

From: USAID/Lebanon Mission Director, Denise A. Herbol /s/

Subject: Audit of USAID/Lebanon's Lebanon Education Assistance for  
Development Program (Report No. 6-268-09-00X-P)

USAID/Lebanon has taken action to close the following eight audit recommendations:

**Recommendation No. 1 states:** We recommend that USAID/Lebanon notify USAID's deputy chief financial officer regarding the potential administrative funds control violations for determination and resolution.

**Mission Response:** The Mission Director sent an email on June 16, 2009 to Deputy Chief Financial Officer (D/CFO) Robbin Burkhardt pursuant to the RIG recommendation that we notify the D/CFO of a potential administrative funds control violation for D/CFO determination and resolution. A copy of this email is attached.

The Mission requests closure of Recommendation No. 1 upon report issuance.

**Recommendation No. 2:** We recommend that USAID/Lebanon's mission director develop an action plan to review staff responsibilities and take appropriate action to segregate programmatic and financial responsibilities.

**Recommendation No. 3:** We recommend that USAID/Lebanon's mission director revise the chief accountant/program management specialist's job description to reflect actual staff responsibilities more accurately.

**Mission Response:** For the past six years, the mission has been extremely short-staffed in contrast to the continued increased program budget allocated to the field. The Mission Director identified staffing as a priority upon her arrival to post in October, 2008. In addition to increasing staff, the Mission Director also identified clarifying staff roles

and responsibilities as a priority. All positions within USAID/Lebanon were reviewed and a new structure was established regarding COTR and AOTR duties in coordination with OAA in Cairo. This division divided the mission into three distinct operating units: a Program office, a Democracy and Governance/Education Office and an Economic Growth/Water Office. Staff has been separated into each of these units. At the head of each operating unit is a USDH. The mission will grow from 2 to 4 USDH (the two additional positions already approved) in September 2009 with the arrival of the Economic Growth and Program Officer. Additional LES staff positions have been created and hired. Since February 09 three additional FSNPSC staff were hired to relieve workload including a new Development Outreach and Communication Officer (DOC), an Administrative officer to handle procurement and vouchering, and a replacement for the senior FSN economic growth officer has been identified. A Project Assistant will be brought on board later this year to complete staff within the DG/Education Office.

The Mission re-assigned duties among staff and OAA Cairo issued the corresponding designation letters as per the attached (see Annex 1). In addition, employees now report through a hierarchy within each operating unit, instead of the previous structure where all employees reported to the Mission Director (see Annex 2). Finally, the Program Management Specialist/Chief Accountant, as noted in both the COTR and AOTR designation sheet, no longer has any COTR or AOTR responsibilities for programs. Because of the small staff within the mission, that individual is the alternate Mission Disaster Relief Officer (MDRO). Since the MDRO duties fall within the Program Office, there is no conflict of this designation. The revised SOW for the Program Management Specialist/Chief Accountant (now titled Senior Program Officer which clearly reflects the duties of this position) is also attached (see Annex 3).

The Mission requests closure of Recommendation No. 2 and Recommendation No. 3 upon report issuance.

**Recommendation No. 4:** We recommend that USAID/Lebanon's mission director develop an action plan to conduct and document annual portfolio reviews of the Lebanon Education Assistance for Development Program.

**Mission Response:** The Mission has set in place a schedule to conduct semi-annual Portfolio Reviews. An initial portfolio review took place in January 2009, documented in the attached email entitled "FW: Lebanon Portfolio Review Documents", dated January 31, 2009

The next Mission portfolio review schedule is May and November of each year as documented in the attached email entitled "Re: Part I Portfolio reviews schedule". Due to the parliamentary elections this year on June 7, 2009 and the ban on travel by the Embassy before and immediately after elections, the May review will take place June 22 and 23, 2009.

Based on the above, the Mission requests closure of Recommendation No. 4 upon report issuance.

**Recommendation No. 5:** We recommend that USAID/Lebanon's mission director develop a procedure to review its recipients' agreements and ensure that antiterrorism provisions are included in its existing Lebanon Education Assistance for Development awards.

**Recommendation No. 6:** We recommend that USAID/Lebanon provide the implementers of the Lebanon Education Assistance for Development Program with documented USAID requirements to implement anti-terrorism measures.

**Mission Response:** Annex 4 USAID Lebanon Mission Order was issued on April 14, 2008.

The Mission confirms that the Lebanon Education Assistance for Development awards includes the A.12.1 “EXECUTIVE ORDER ON TERRORISM FINANCING (FEB 2002): The Contractor/Recipient is reminded that U.S. Executive Orders and U.S. law prohibits transactions with, and the provision of resources and support to, individuals and organizations associated with terrorism. It is the responsibility of the contractor/recipient to ensure compliance with these Executive Orders and laws. This provision must be included in all subcontracts/sub awards issued under this contract/agreement.”

In addition, in January 2009, the Mission Director in her email titled “FW: Mission Order on Anti-Terrorism”, dated February 5, 2009 requested that OAA/Cairo re-issue to all partners modifications to their contracting instruments to reinforce these requirements. Accordingly, OAA/Cairo issued Annex 5 to contractors on February 19, 2009 and Annex 6 was issued to all Recipients on March 19, 2009. Each was reminded of the Provision and Certification on Terrorism Financing. Partners were reminded to submit certification that terrorist financing was included in all sub-agreements by April 18, 2009.

Based on the above, the Mission requests closure of Recommendation No. 5. and Recommendation No. 6 upon report issuance.

**Recommendation No. 7:** We recommend that USAID/Lebanon consult with the regional legal adviser to revise its cooperative agreements and related memorandum of understanding to eliminate any contradictions.

**Mission Response:** The mission acknowledges that because the program required the implementer to coordinate through the Educational Center for Research and Development, there was some difficulties in program implementation because access and coordination with this GOL unit was not possible. To correct this situation, modification 7 was issued by OAA/Cairo on May 28, 09 modification # 7 to CHF’s agreement #268-A-00-07-00008-00 removing the Educational Center for Research and Development component from the program description.

The Mission requests closure of Recommendation No. 7 upon report issuance.

**Recommendation No. 8:** We recommend USAID/Lebanon consult with the regional legal adviser on measures needed to protect USAID-funded property from being subjected to taxes and custom duties imposed by the host country government.

USAID/Lebanon has an extremely old bilateral agreement in place. The Mission Director and Regional Legal Advisor from Cairo have re-started negotiations with the GOL to update the bilateral agreement and ensure that taxes and customs duties issues are addressed. The initial meeting took place at the Ministry of Foreign Affairs on April 16, 2009. Following this meeting, the mission sent an email to MOF on April 23, 2009 requesting details on tax exemptions that were discussed in the meeting. Annex 7 is the

May 21, 2009 response from the Ministry of Finance to the Mission letter of May 4, 2009 on this subject.

USAID/Lebanon has requested approval on June 17, 2009 from the Ministry of Finance to release this letter to our partners until a new bilateral agreement can be negotiated. The mission will release to all partners the contents of the letter as a "white paper" if the ministry does not concur with the release of the official letter by the end of June 2009.

Based on the above, the mission requests closure to Recommendation No. 8 upon report issuance.

APPENDIX III

School Locations  
Lebanon Education Assistance for Development Program

Governorate	District	Number of Schools	
		IOCC	CHF
<b>Beirut</b>	Beirut	17	
<b>Mount Lebanon</b>	Jbeil	10	
	Kesserwan	10	
	Metn	12	
	Baabda	16	
	Aley	11	
	Chouf		20
<b>North Lebanon</b>	Akkar		24
	Donnieh	13	
	Tripoli		17
	Tripoli suburbs		2
	Zgharta		7
	Bsharri	4	
	Koura	9	
	Batroun	8	
<b>Bekaa</b>	Hermel	6	
	Baalback	20	
	Zahleh	13	
	West Bekaa	10	
	Rashaya	5	
<b>South</b>	Jezzine	3	
	Sidon	14	
	Tyre	13	
<b>Nabatieh</b>	Nabatih	10	
	Bint Jbeil	3	
	Marjeyoun	2	
	Hasbaya	4	
<b>Total</b>		<b>213</b>	<b>70</b>

Note: IOCC = International Orthodox Christian Charities, Incorporated; CHF = Cooperative Housing Foundation International

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