OFFICE OF INSPECTOR GENERAL

AUDIT OF USAID/LEBANON'S LANDMINES AND WAR VICTIMS PROGRAM

AUDIT REPORT NO. 6-268-12-004-P
JANUARY 18, 2012

CAIRO, EGYPT

Office of Inspector General

January 18, 2012

MEMORANDUM

TO: USAID/Lebanon Mission Director, Jim Barnhart

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

SUBJECT: Audit of USAID/Lebanon's Landmines and War Victims Program (Report No. 6-268-12-004-P)

This memorandum transmits our report on the subject audit. In finalizing the report, we carefully considered your comments on the draft and have included them in Appendix II.

The report includes 14 recommendations to USAID/Lebanon. In response to the draft report, USAID/Lebanon officials generally agreed with all recommendations. As a result, management decisions have been reached on all recommendations except Recommendation 9 and parts of Recommendation 12, and final action taken on Recommendations 4, 5, 6, 7, 10, 11, 13, and 14. Please provide action plans and target dates for implementing Recommendation 9 and a revised action plan for Recommendation 12 within 30 days of the final report. In addition, please 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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The following abbreviations appear in this report:

ADS	Automated Directives System
AOTR	agreement officer's technical representative
FY	fiscal year
GAO	Government Accountability Office
OMB	Office of Management and Budget
SME	small to medium-sized enterprise
USG	U.S. Government
WRF	World Rehabilitation Fund Inc.

SUMMARY OF RESULTS

Landmines course below the ground in much of Lebanon, lethal reminders of the war and conflicts that have ravaged the country since the 1970s. Their devastation is especially obvious in the southern District of Jezzine, where more than 1,350 people have been disabled by landmines, according to USAID. They—as well as their families and communities—have needed help to become productive again and improve their livelihoods. Therefore, part of USAID/Lebanon's 5-year country strategy emphasizes support for small and medium-sized enterprise (SME) development to improve the well-being of the Lebanese people.

Since June 1998, USAID/Lebanon, with funding from the Leahy War Victims Fund,[1] has awarded the World Rehabilitation Fund Inc. (WRF) about $10 million through two cooperative agreements to implement the Landmines and War Victims Project. Details of the agreements appear in the table below.

Table 1. Cooperative Agreements Awarded to WRF

Name	Purpose	Dates	Amount
Preventing Landmine Injuries and Managing the Social Burden of Landmines in Lebanon	To prevent landmine injuries and manage the social burden of landmine victims in Lebanon	June 1998–September 2006	$4.6 million
Expanding Economic Opportunities for Victims of War in the District of Jezzine – South Lebanon	To expand economic opportunities for war and landmine victims and survivors	September 2006–August 31, 2008; Extended through August 30, 2012*	$2.8 million $5.7 million*

* The agreement was modified seven times; the date and amount shown reflect the last modification as of September 30, 2011.

As of June 30, 2011, USAID/Lebanon had obligated approximately $4.9 million and disbursed approximately $4.4 million of the current award.

Under the project, WRF, a U.S. nonprofit organization, seeks to create economic opportunities through viable businesses and jobs for disadvantaged victims of war, including landmine survivors. The project also seeks to create a viable, bankable, and sustainable legal organization—the development cooperative in Jezzine (the co-op).

WRF was tasked with providing technical and material assistance to the co-op and its members to improve the productivity and profit of at least eight program activities, including the following:

- *Honey-processing facility and related activities.* WRF was expected to provide each beneficiary with (1) 15 beehives complete with bees, accessories, and supplies (shown below); (2) training and technical assistance on modern methods of beekeeping and processing; (3) quality control through laboratory testing and certification; (4) access to modern honey-processing facilities and techniques; (5) technical assistance and training on

[1] According to USAID's Web site, the Leahy War Victims Fund is one of USAID's efforts to provide a dedicated source of financial and technical assistance for people living with disabilities, particularly those who have sustained mobility-related injuries from unexploded ordnance or landmines.

innovative specialty products; (6) access to co-op's wax processing and recycling capabilities; and (7) product marketing support.

Beehives provided by the project come complete with bees, accessories, and supplies. (Photos by Regional Inspector General/Cairo, September 21, 2011)

- *Feed mill.* WRF was to develop a program that processes animal feed for poultry, cows, and goats. The mill (1) provides the appropriate types of good-quality feed, (2) creates additional jobs at the co-op, (3) provides animal feed to project beneficiaries and other farmers at affordable and competitive prices, and (4) generates income for the co-op.

- *Poultry farm.* WRF was to provide each beneficiary with (1) 210 chicks that are 3 months old; (2) building materials, including cement, doors, windows, and wire fencing, as well as labor to build shelter for the chicks; (3) equipment (feeders and drinkers); (4) initial feed to cover feeding needs for 3 months; (5) training; (6) veterinary services; and (7) product marketing support.

The Regional Inspector General/Cairo conducted this audit to determine whether USAID/Lebanon's Landmines and War Victims Project was achieving its main goals of expanding viable, sustainable economic opportunities for victims of landmines and war in the District of Jezzine, Lebanon.

Although the project has had some successes in providing income-generating opportunities and ancillary or indirect benefits to some beneficiaries, its sustainability is questionable. According to WRF, the project has provided grants to 305 recipients since 1998. The grants have included provision of commodities, such as bees, poultry, and goats, and business supplies and accessories such as beehives and wiring for fences. Of the 305 recipients, 154 (51 percent) were active in the co-op as of June 30, 2011, and at least 32 (10 percent) have graduated from the project over the past decade by establishing personal businesses or becoming gainfully employed with other organizations or businesses. However, 119 recipients (39 percent) dropped out of the project because of poor business management practices or for personal reasons—death, marriage, and relocations outside of Jezzine. Moreover, mission officials stated that some recipients were not able to sustain operations because of diseases, war, water shortages, and inability or unwillingness to deal with challenges.

USAID/Lebanon officials agree that the project has enabled marginalized, disadvantaged people and communities to regain value-added roles in society. For example, a project beneficiary who lost an arm during a war participates in the beekeeping activity and earns about

$3,000 of additional annual income. Another beneficiary earns an additional $200 per month by raising chickens (shown in photos) to sell.

These chickens belong to a project beneficiary in Jezzine who sells them to generate income. (Photos by Regional Inspector General/Cairo, September 21, 2011)

In addition, as part of the project's strategy to develop sustainability, the co-op created the brand B. Balady[2] for its goods, including herbs, chicken products, honey, and eggs (shown on the next page). According to WRF, the co-op distributes products to 108 grocery stores, food retail businesses, and a variety of minimarkets around Lebanon. To help ensure sustainability, co-op officials plan to seek external funding from options that include (1) private donors, (2) rental of facility equipment and space to generate income, and (3) coordination with other USAID projects to create production and delivery efficiency. According to WRF, the external funding is needed because the co-op has not generated profit without USAID assistance for 4 of the 8 previous years.

USAID/Lebanon officials do not believe the sustainability of the co-op is questionable, because its revenues have steadily increased from 2003 to 2010. However, revenue alone is not an accurate measure of a business's potential sustainability. A better measure is net income, measured as the funds that a business retains after all expenses are paid. Acknowledging the need for this kind of measure, three separate evaluations conducted in July 2005, December 2008, and June 2010 by a consultant for USAID/Lebanon and the Leahy War Victims Fund identified sustainability and profitability as main project concerns.

The co-op's successes have been limited. During fiscal year (FY) 2010, WRF reported that 169 beneficiaries earned a total net income of $403,000. Based on the numbers of beneficiaries, the average annual income earned through the project was $2,400 per beneficiary, and only 64 of 169 beneficiaries (38 percent) met or exceeded their annual target for expected net income during FY 2010. Furthermore, WRF reported that the co-op did not generate profit without USAID/Lebanon's assistance for 4 of 8 years of operation (beginning in 2003) and experienced an average annual net loss of about $8,800.

[2] According to one USAID/Lebanon employee, the term *B. Balady* means "my village" in the agri-food sector and is used to refer to natural food products.

The development cooperative in Jezzine sells these herbs, chicken products, honey, and eggs under the brand B. Balady to various venues in Lebanon. (Photos by Regional Inspector General/Cairo, September 21, 2011)

Mission officials measured the success of the project using two types of indicators—work plan indicators and performance management plan indicators—which measure actual results compared with intended results. Work plan indicators measure immediate results of activities, such as revenues from poultry production, the feed mill, and honey and wax processing. Performance management plan indicators measure cumulative project information such as total sales revenue and net income of the co-op, number of grant recipients, and the number of co-op members.

Although the project did not achieve five of its eight work plan indicator targets in 2010 and six of its eight work plan indicator targets in 2011[3] (Appendix III), USAID/Lebanon officials do not see slippage on work plan targets as a signal of poor performance of the co-op. Moreover, the implementer, WRF, did not meet its targets for 3 of 16 performance management plan indicators for FY 2010 and was not on track to meet 6 of 16 performance management plan indicators for FY 2011, as shown in Appendix IV.

Regarding project management, USAID/Lebanon did not:

- Obtain approval for project extension (page 6).
- Obligate project funds appropriately (page 7).
- Monitor the sustainability of the development cooperative adequately (page 9).
- Submit a revised project budget for agreement officer approval (page 12).
- Seek approval of subawards for construction activities (page 13).
- Obtain equipment disposition instructions (page 15).
- Assess the environmental impact of imported livestock (page 17).

To strengthen management controls and address these findings, this audit recommends that the mission:

1. Request written approval from the director of the Office of Acquisition and Assistance for the approval of the award extension beyond 10 years (page 7).

[3] Target measurements for 2011 are as of June 30, 2011.

2. Provide and document refresher training to mission employees on obtaining approval for project extensions (page 7).

3. Review its portfolio to identify, in writing, any current projects in excess of 10 years and document actions to extend these projects based on the approval of the director of the Office of Acquisition and Assistance (page 7).

4. Notify the Office of the Chief Financial Officer, in writing, of the potential funds control violations for determination and resolution (page 9).

5. Update project work plans to include indicators that measure sustainability of the development cooperative created with USAID funding (page 12).

6. Require WRF to present the cooperative's financial statements in a consistent format year to year so that the mission can monitor financial ratios as indicators of sustainability (page 12).

7. Develop and implement procedures to require approval by the appropriate authority of project revisions affecting project budgets (page 13).

8. Require staff to submit, in writing, to the agreement officer for approval all proposals for activities to be funded with reallocated funds (page 13).

9. Determine the allowability of the $195,000 in questioned costs for deleted project components, and recover any amounts determined to be unallowable. (page 13).

10. Develop and implement procedures that require implementers of nonconstruction assistance awards to provide a list of proposed or pending subawards and subcontracts before hiring a subcontractor to do the work (page 14).

11. Notify the agreement officer, in writing, of completed, proposed, or pending subawards and subcontracts for any work under nonconstruction assistance awards before the implementer hires a subcontractor to begin work (page 14).

12. Require agreement officer's technical representatives (AOTRs) to submit for agreement officer approval all requests for equipment disposition (page 16).

13. Determine the allowability of the $8,000 in questioned costs from the insurance company, plus any accrued interest, and recover from WRF any amounts determined to be unallowable (page 17).

14. Complete an Initial Environmental Examination for the importation of goats to Lebanon and submit to the environmental officer for approval (page 18).

Detailed findings are included in the following section. Appendix I contains information on the scope and methodology. Management comments are included in their entirety in Appendix II, and an evaluation of management comments is included on page 19.

AUDIT FINDINGS

USAID/Lebanon Did Not Obtain Approval for Project Extension

USAID's Automated Directives System (ADS) 303.3.6.5.a,[4] "Follow-on Assistance Agreements and Amendments," effective June 1, 2006, states that a follow-on assistance award is a new agreement subsequent to the completion of an existing agreement for either the same activity or to further develop an existing assistance relationship. USAID may implement a follow-on assistance award through an amendment to the original award or as an entirely separate award. This authority must not be used to extend an award made to U.S. organizations beyond 10 years of its original award date unless the director of the USAID Office of Acquisition and Assistance approves an exception. ADS 303.3.6.5.b,[5] "Unsolicited Applications," effective June 1, 2006, further states that a recipient's request to extend an ongoing relationship must not be considered an unsolicited application. To make such an extension without competition, USAID must prepare a justification for the extension as an amendment or follow-on assistance award.

USAID/Lebanon awarded funds to WRF from June 1998 to August 2012, more than 10 years beyond the agreement's original award date, without an approval from the director of the USAID Office of Acquisition and Assistance. In June 1998, USAID/Lebanon awarded a cooperative agreement to WRF to work with landmine victims and later expanded the agreement to include survivors of landmines and victims of war in the District of Jezzine in South Lebanon. The first cooperative agreement included creating and commissioning a development cooperative facility; providing beneficiaries with income-generating opportunities in beekeeping, herb cultivation, and raising poultry, goats, and dairy cows; and expanding B. Balady brand marketing.

On the basis of an unsolicited proposal submitted by WRF to USAID/Lebanon and to the Leahy War Victims Fund on June 23, 2006, USAID/Lebanon's cognizant regional agreement office at USAID/Egypt awarded a second cooperative agreement in September 2006 to continue activities for war victims under the same project with an end date of August 2008, 2 months past the 10-year limitation. The mission then extended the agreement to February 2009 and August 2009. In August 2009, the regional agreement office amended the agreement to add a fifth phase to the project and to extend the agreement to August 2012, more than 4 years beyond the 10-year limitation.

According to a July 2006 negotiation memorandum, the agreement officer's technical representative (AOTR) responsible for managing the first cooperative agreement was aware of the 10-year limitation and noted it in the memorandum she sent to the agreement officer. Despite this disclosure, in September 2006 the agreement officer signed and approved the second agreement beyond the 10-year limitation. The AOTR believed that, because a new

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[4] Effective November 16, 2011, USAID updated its policy on follow-on awards. The changes can now be found in ADS 303.3.6.6.a(2)(h), "Follow-on Awards and Extensions." The policy revisions state that approvals for extensions beyond 10 years must now be approved by the cognizant assistant administrator.

[5] This directive was applicable when the problem occurred. Although USAID updated the ADS language effective November 16, 2011, the revision did not affect the audit finding for information cited in this report. The updated language can be found currently in ADS 303.3.6.6.a(2)(g), "Unsolicited Applications."

cooperative agreement was signed, the 10-year limitation would restart. In addition, the regional procurement specialist responsible for the negotiations of the fifth phase was not aware that this program was an extension of a prior agreement because the agreement officer for the second award did not include the negotiation memorandum in the official files. This memorandum would have provided background information for the award of the second cooperative agreement.

In recent years, USAID has encouraged partnership, innovation, and results as part of its efforts to reform the way it does business. Goals include procurement reform to contract with and provide grants to more local partners. Goals also include innovation in which creative solutions can be funded, piloted, and brought to scale. By continuing to do business with the same implementer for more than 14 years for the same activity, USAID/Lebanon is not ensuring that the Agency meets its overall goals of reform. Therefore, the audit makes the following recommendations.

> ***Recommendation 1.*** *We recommend that USAID/Lebanon request written approval from the director of the Office of Acquisition and Assistance for the approval of the award extension beyond 10 years.*
>
> ***Recommendation 2.*** *We recommend that USAID/Lebanon provide and document refresher training to mission employees on obtaining approval for project extensions.*
>
> ***Recommendation 3.*** *We recommend that USAID/Lebanon review its portfolio to identify, in writing, any current projects in excess of 10 years and document actions to extend these projects based on the approval of the director of the Office of Acquisition and Assistance.*

USAID/Lebanon Did Not Obligate Project Funds Appropriately

Extensive guidance governs federal funding, appropriations, and obligations. A Government Accountability Office (GAO) publication, *Principles of Federal Appropriations Law*,[6] Chapter 7, Section E, states that funds that are deobligated after the expiration of the original period of availability are not available for new obligations but may be available for adjustments.[7] Chapter 10, Section F, "Obligation of Appropriations for Grants,"[8] states that a "replacement grant" does not create a new obligation (i.e., an obligation that must be charged to the current appropriation). However, a replacement grant requires three conditions to be met: (1) the bona fide need for the grant project must continue, (2) the purpose of the grant from the government's standpoint must remain the same, and (3) the revised grant must have the same scope.

Moreover, the guidance in "Recap on Deobligations, Reobligations, and Upward Adjustments," an Additional Help Reference for ADS Chapter 621, states that deobligated funds may be used for an upward adjustment to an old obligation. However, if USAID wants to use these deobligated funds for new obligations, the Office of Management and Budget (OMB) has to apportion them to USAID after being notified by the Agency.

[6] GAO-06-382SP Appropriations Law—Vol. II, January 2004.
[7] USAID (ADS 621.6) defines an upward adjustment as an increase of an amount of a previously recorded obligation when the actual amount is determined and is larger than the estimated amount.
[8] Grants refer to assistance awards such as cooperative agreements and grants.

ADS 634.3.2, “General Standards for Funds Control,” states that for the administrative control of funds at USAID, obligations and expenditures may not be authorized or incurred in excess of any legal or administrative limitations, and an obligation of funds must be within the available time limit of the appropriation. ADS 634.3.5.3, “Investigation of Funds Control Violations,” states that any individual with knowledge of a potential funds control violation or knowledge of any proposed action that may lead to a funds control violation, either statutory or administrative, must contact the director of the Financial Policy and Support Division in the Office of the Chief Financial Officer immediately.

In August 2008, USAID/Lebanon obligated $250,000 as an upward adjustment with development assistance funds that expired in FY 2006. These funds were available for an upward adjustment, but not for a new obligation after the funds expired in FY 2006. Two years earlier, in December 2006, USAID/Lebanon’s cognizant financial management analyst deobligated the $250,000 from FY 2006 funds under a prior cooperative agreement to expand economic opportunities to target beneficiaries in the District of Jezzine. According to a memorandum between USAID/Lebanon and the regional agreement officer, the mission intended to reobligate these funds under a second cooperative agreement for the same activities, mainly to construct the co-op.

Because of delays under the first cooperative agreement—such as the challenges in finding suitable land to build the co-op facility, the avian flu threat and its consequences on the market, and the July 2006 conflict in Lebanon—the implementer did not build the co-op facility as approved in modification 15 of the project’s first award, during September 2004. Consequently, USAID/Lebanon officials decided to postpone this component and add it to the second cooperative agreement.

The reobligation was considered a new obligation and did not qualify as an upward adjustment because the second cooperative agreement met only two of the three GAO conditions for a replacement grant. The third condition was not met because the scope of the second agreement was expanded to include new activities, such as the milk- and cheese-processing unit and goat-raising activities, and to provide grants to 600 additional direct beneficiaries. Thus, the reobligation under the second cooperative agreement no longer qualified as an upward adjustment, but a new obligation. Although the mission wanted to use the $250,000 to reobligate funds for a new obligation, USAID/Lebanon did not ask the Office of Management and Budget (OMB), through USAID’s Office of the Chief Financial Officer, to apportion the deobligated funds to USAID, as required. Consequently, the mission charged a new obligation of $250,000 in August 2008 against an expired fund account, resulting in a potential funds control violation.

This potential violation occurred because the prior AOTR provided, and in April 2008 the mission director approved, a written justification to the regional agreement officer stating that these funds would be used to implement activities that were delayed under the first cooperative agreement. This justification was reinforced by a Leahy Fund staff member at USAID/Washington, who also asserted that these funds were for the same scope as the old agreement. According to e-mail correspondence in July 2008, USAID/Washington’s Chief Financial Officer’s Central Accounting and Reporting staff used this justification to provide account information for the expired funds to USAID/Lebanon’s financial management analyst for use as an upward adjustment instead of seeking approval from OMB to apportion the deobligated funds to create a new obligation with the expired funds.

Control of federal funds is necessary to ensure that USAID-appropriated funds are used as intended. Control is also necessary to avoid potential statutory or administrative violations that could result in disciplinary or criminal penalties. It is incumbent on each USAID mission to institute sufficient controls to ensure that financial transactions are executed appropriately and that funds are allocated to priority projects to make the best use of USAID's limited resources. Therefore, the audit makes the following recommendation.

> ***Recommendation 4.*** *We recommend that USAID/Lebanon notify the Office of the Chief Financial Officer, in writing, of the potential funds control violations for determination and resolution.*

USAID/Lebanon Did Not Monitor Sustainability of the Development Cooperative Adequately

The Foreign Assistance Act of 1961, as amended (codified at 22 U.S.C. 2151), Part 1, Chapter 1, "Policy; Development Assistance Authorizations," Section 101, "General Policy," states that one of the five principal goals of U.S. development cooperation should be to promote conditions enabling developing countries to achieve self-sustaining economic growth with equitable distribution of benefits.

Furthermore, ADS 303.2.f, "Primary Responsibilities," requires the AOTR to ensure that USAID exercises prudent management over its awarded assistance by monitoring and evaluating the recipient and its performance during the award. To monitor and evaluate the award, the AOTR is required to:

- Review and analyze reports and monitor reporting requirements.
- Ensure compliance with the terms and conditions of the award.
- Notify the agreement officer promptly of any developments that could have a significant impact on the recipient's performance.
- Prepare internal documents to support amendments to the award.
- Perform other duties, as requested or delegated by the agreement officer, to ensure prudent management of assistance funds.

The AOTR designation letter for USAID/Lebanon's Landmines and War Victims' Project states that the AOTR is responsible for monitoring the recipient's progress in achieving the objectives and for verifying that the recipient's activities being funded by USAID conform to the terms and conditions of the award. Furthermore, the letter states that properly discharging AOTR duties minimizes the risk of facing disciplinary action and that AOTRs should be particularly cautious in financial management because improper actions could indicate gross negligence.

USAID/Lebanon added a fifth phase to the project in August 2009 to enable the co-op to function as a sustainable, efficient, profitable, stand-alone business entity without the need for external financial support. To achieve this goal, USAID/Lebanon established FY 2010 and 2011 work plans that included indicators of revenues from co-op activities such as the feed mill, beekeeping, and chicken production; total revenue; and total income.

Consultant evaluations submitted to the Leahy War Victims Fund and USAID/Lebanon in July 2005, December 2008, and June 2010 identified sustainability and profitability as main concerns of the project. In addition, the June 2010 project evaluation stated that, to be sustainable, the co-op would need to generate sufficient revenue to cover costs and earn a modest profit.

In general, key performance indicators such as financial ratios are useful to interpret numbers found in financial statements and can help answer critical questions, such as whether customers are paying according to the terms of their agreements, whether the entity's assets are being used properly to generate income, and whether operating expenses are too high. Furthermore, ratios that measure efficiency, such as accounts receivable turnover and inventory turnover, indicate how well an entity manages its assets. Ratios that measure profitability, such as net profit margin, can show how well an entity has managed operating expenses to ensure sustainability.

- *Accounts receivable turnover* is calculated as total net sales divided by accounts receivable. This ratio shows the number of times that accounts receivable are paid and reestablished during the accounting period. The higher the turnover, the faster the business is collecting its receivables and the more cash it generally has on hand.

- *Inventory turnover* is calculated as the cost of goods sold divided by inventory. This ratio shows how many times in one accounting period a company sells its inventory. Faster turnovers are viewed as a positive trend; they increase cash flow and reduce warehousing and related costs.

- *Net profit margin* is calculated as total net profit divided by total sales. This ratio indicates how well a business has managed its operating expenses. The higher the profit margin, the better the entity is thought to have managed its costs.

The project did not achieve indicator targets used to measure co-op revenues and net income during 2010 and in 2011, which resulted in $73,000 that the mission could have reallocated to activities that are more profitable. The project did not achieve five of eight indicator targets used to measure co-op revenues and net income for 2010 and did not achieve six of eight indicator targets as of June 30, 2011. Moreover, the project did not make sound business decisions or end activities that were not meeting revenue targets. Specifically, the beekeeping activities did not meet their targets for 2010 and, the $35,000 in the remaining budget could have been reallocated. In addition, the poultry (broiler) activities did not meet their targets for 2010 and had a remaining budget of $38,000. Although the two activities valued at $73,000 did not meet 2010 targets, the mission did not reallocate funds to profitable activities during 2011. Since the second agreement focused on sustainability of the co-op, WRF reported that the co-op generated positive net income for the past 2 years. However, without USAID funding, the co-op averaged an annual net loss of about $8,800 in 4 of 8 previous years, as shown in Table 2.

Table 2. Development Cooperative Net Income without Project Funding 2003–2010 (unaudited)

	2003	2004	2005	2006	2007	2008	2009	2010	Average
Total revenues	145,697	220,601	334,280	475,746	818,271	1,035,791	1,116,530	970,211	639,641
Total expenses	123,944	192,370	278,765	453,619	776,579	989,686	1,082,264	946,444	605,459
Net income	21,753	28,231	55,515	22,127	41,692	46,105	34,266	23,767	34,182
USAID assistance	6,396	29,541	44,521	72,373	80,414	76,496	29,591	4,490	42,978
Net income (without project assistance)	15,357	(1,310)	10,994	(50,246)	(38,722)	(30,391)	4,675	19,277	(8,796)

Moreover, since FY 2004 the co-op's accounts receivable turnover decreased from 7.25 to 3.04, or 58 percent, and inventory turnover ratios decreased from 48.99 to 13.26, or 73 percent. In other words, using 365 days divided by the turnover ratio, the co-op normally collected outstanding credit sales about every 50 days in 2004 and about every 120 days in 2010. The co-op normally sold inventoried products about every 7 days in 2004 and about every 27 days in 2010. This indicates that over the past 7 years, the co-op's efficiency at collecting on credit sales and selling inventory decreased. According to USAID/Lebanon officials, collecting accounts receivable is problematic for most Lebanese producers that supply supermarkets because retailers in Lebanon make delayed payments that slow the overall sales cycle. Tables 3 and 4 present accounts receivable and inventory turnover ratios, respectively.

Table 3. Accounts Receivable Turnover Ratio for the Development Cooperative 2004–2010 (unaudited)

	2003	2004	2005	2006	2007	2008	2009	2010
Accounts receivable	$25,296	$35,601	$56,054	$105,121	$165,097	$230,297	$316,917	$320,963
Sales	$145,697	$220,601	$334,280	$475,746	$818,271	$1,035,791	$1,116,530	$970,211
Turnover	-	7.25	7.29	5.90	6.06	5.24	4.08	3.04
Percentage change	-	-	1%	-19%	3%	-14%	-22%	-25%
Total percentage change	-	-	-	-	-	-	-	58%

Table 4. Inventory Turnover Ratio for the Development Cooperative 2004–2010 (unaudited)

	2003	2004	2005	2006	2007	2008	2009	2010
Inventory	$4,587	$ 3,368	$ 16,232	$22,496	$ 44,375	$ 42,037	$57,599	$58,025
Cost of goods sold	$124,888	$194,861	$267,372	$414,577	$684,842	$846,569	$883,040	$766,367
Turnover	-	48.99	27.28	21.41	20.48	19.59	17.73	13.26
Percentage change	-	-	-44%	-22%	-4%	-4%	-10%	-25%
Total percentage change	-	-	-	-	-	-	-	73%

In addition, the co-op's net profit margin decreased from 11 percent in 2003 to 2 percent in 2010, indicating that it has not effectively managed costs and expenses. Table 5 presents the net profit margin of the co-op, which was negative for at least 4 of 8 years.

Table 5. Net Profit Margin for the Development Cooperative 2003–2010 (unaudited)

	2003	2004	2005	2006	2007	2008	2009	2010
Net income, without project assistance	$15,357	$(1,310)	$10,994	$(50,246)	$(38,722)	$(30,391)	$4,675	$19,277
Sales	$145,697	$220,601	$334,280	$475,746	$818,271	$1,035,791	$1,116,530	$970,211
Net profit margin	11%	-1%	3%	-11%	-5%	-3%	0%	2%

Since March 2010, the current AOTR has relied on the co-op's quarterly financial statement reports provided by WRF. The AOTR did not challenge the validity of the financial statements because mission staff believed that the statements were compiled from annually audited financial information. However, the net income without project assistance shown in the financial statements depicted an average annual net loss of almost $8,800 over the past 8 years, as shown in Table 2. In addition, the most recent audited financial statement, as of December 31, 2010, indicated net losses for the co-op of 14.8 million Lebanese lira, or about $9,900. The remaining budget for the two less profitable activities noted above, valued at about $73,000, should have been reallocated to profitable project activities.

To achieve self-sustaining growth with an equitable distribution of benefits in USAID projects, mission officials must have data that reflect the most accurate reports and analyses of project results. These reports and analyses provide the foundation for logical management decisions formulated by AOTRs and mission management officials. If AOTRs' responsibilities for oversight are minimized, significant events that may limit project development and performance may not be elevated to management to ensure that funds are put to the best uses to achieve intended results. Budgeted funds for nonperforming projects should be reallocated to more profitable activities that will increase the return on investment. Therefore, this audit makes the following recommendations.

> ***Recommendation 5.*** *We recommend that USAID/Lebanon update project work plans to include indicators that measure sustainability of the development cooperative created with USAID funding.*
>
> ***Recommendation 6.*** *We recommend that USAID/Lebanon require the World Rehabilitation Fund to present the cooperative's financial statements in a consistent format year to year so that the mission can monitor financial ratios as indicators of sustainability.*

USAID/Lebanon Did Not Submit a Revised Project Budget for Agreement Officer Approval

Title 22 of the Code of Federal Regulations, Part 226, "Administration of Assistance Awards to U.S. Non-governmental Organizations," Section 25(b), states that recipients are required to report deviations from budget and program plans, and request prior approvals for budget and program plan revisions. In addition, USAID's ADS 303.3.17a, "Administrative Duties," states that when a modification to the award is necessary, the AOTR prepares internal USAID documentation that supports the modification and satisfies the agreement officer.

On February 26, 2009, USAID/Egypt, as the mission's procurement office, approved modification 3 of the second cooperative agreement, which deleted the milk and cheese component, valued at about $195,000, from the project. Even though modification 3 resulted in a deviation from the approved budget by deleting a project component, the agreement officer did not include a revised budget reallocating the funds that had been budgeted to the component deleted in the modification.

According to the current project AOTR, a previous AOTR was not aware that the revised budget needed to be submitted for approval by the agreement officer for program plan revisions. In addition, mission officials stated that a transitional budget was instituted in April 2007, shifting funds from the milk and cheese component to the construction of the co-op with the intent to continue the milk and cheese component when additional funds became available. However, mission officials stated that project records do not clearly identify where the mission reallocated funds for the deleted component.

As an administrative duty, the AOTR must prepare documentation that satisfies an agreement officer in support of agreement modifications. Since the AOTR did not prepare documentation to clearly identify where the deleted component funds were reallocated, the mission cannot be sure that USAID funds totaling $195,000 were spent on allowable project costs. To address this concern, this audit makes the following recommendations.

> ***Recommendation 7.*** *We recommend that USAID/Lebanon develop and implement procedures to require approval by the appropriate authority of project revisions affecting project budgets.*

> ***Recommendation 8.*** *We recommend that USAID/Lebanon require staff to submit, in writing, to the agreement officer for approval all proposals for activities to be funded with reallocated funds.*

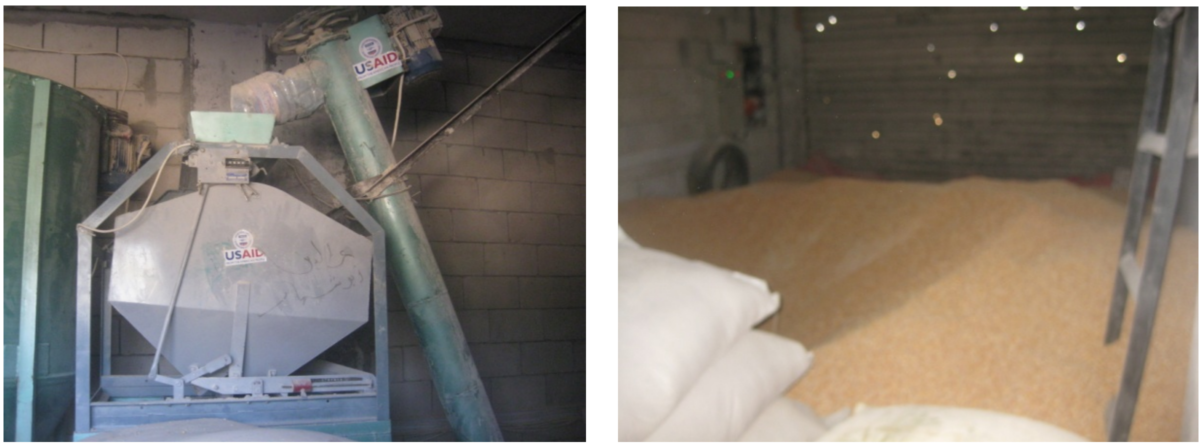
> ***Recommendation 9.*** *We recommend that USAID/Lebanon determine the allowability of the $195,000 in questioned costs for deleted project components, and recover any amounts determined to be unallowable.*

USAID/Lebanon Did Not Seek Approval of Subawards for Construction Activities

Title 22 of the Code of Federal Regulations, Part 226, “Administration of Assistance Awards to U.S. Non-Governmental Organizations,” Section 25(c)(8), states that for nonconstruction awards, the recipient shall request prior approvals from the USAID agreement officer for the subaward, transfer, or contracting out of any work under an award. As noted in ADS 303.3.17a, “Administrative Duties,” the AOTR and the agreement officer share in the oversight of an assistance award and should work as a team to administer the cooperative agreement effectively. As part of that responsibility, the agreement officer represents the U.S. Government to enter into, administer, and terminate contracts and make related determinations and findings. In addition, the AOTR’s designation letter requires that the AOTR verify that the recipient’s USAID-funded activities conform to the terms and conditions of the award, which includes the project’s budget plan.

USAID/Lebanon approved the project’s second cooperative agreement for the implementer to construct a building to house the operations of the co-op and the activities of the project. The co-op construction had an initial budget of $359,000 that USAID/Lebanon increased to about $704,000 on September 1, 2008, by modification 2 of the agreement. WRF subcontracted the construction of the co-op facility to a local construction firm at a cost of $579,000 without obtaining approval from USAID/Lebanon's regional agreement officer. Although records indicate that the AOTR at the time informed the agreement officer of the construction activities, mission officials agreed that project files do not contain any documentation to show that the agreement officer approved the construction work.

Although the agreement officer and AOTR provide the primary level of management oversight to ensure that the agreement officer approves the subcontracting of any work under an award, the project's AOTR stated that the AOTR at the time of construction activities was not aware that subcontracting work under the award needed agreement officer approval. The agreement officer did not approve the work for the project because the AOTR at the time did not provide subaward information for the agreement officer's approval.



The mill (left) at the cooperative facility in Jezzine supplies feed (right) for livestock and chickens. (Photos by Regional Inspector General/Cairo, September 21, 2011)

A budget plan is the financial expression of a project that is approved during the award process. The budget plan may include a federal share and a nonfederal share, depending on USAID requirements documented in the agreement. In addition, the agreement officer's approval of subcontracts serves to assist in the performance of a project—specifically, meeting budget requirements. Even though the AOTR and agreement officer share oversight responsibilities for meeting budget requirements, the agreement officer should have approved the subcontract to construct the co-op facility. Exercising such management oversight could have provided controls that would have decreased construction costs, which nearly doubled from initial estimates. To address this issue, the audit makes the following recommendations.

> ***Recommendation 10.*** *We recommend that USAID/Lebanon develop and implement procedures that require implementers of nonconstruction assistance awards to provide a list of proposed or pending subawards and subcontracts before hiring a subcontractor to do the work.*

> ***Recommendation 11.*** *We recommend that USAID/Lebanon notify the agreement officer, in writing, of completed, proposed, or pending subawards and subcontracts for any work under nonconstruction assistance awards before the World Rehabilitation Fund hires a subcontractor to begin work.*

USAID/Lebanon Did Not Obtain Equipment Disposition Instructions

The U.S. Government and its federal agencies have documented guidance regarding property use and disposal in numerous regulations. Title 22 of Code of Federal Regulations, Part 226, “Administration of Assistance Awards to U.S. Non-Governmental Organizations,” Section 34, “Equipment,” states that when the recipient no longer needs equipment, the recipient shall request disposition instructions from the USAID agreement officer. Furthermore, the agreement officer shall issue instructions to the recipient no later than 120 calendar days after the recipient's request to perform one of the following procedures:

- The recipient shall sell the equipment and reimburse USAID an amount computed by applying to the sales proceeds the percentage of federal participation in the cost of the original project or program. However, the recipient shall be permitted to deduct and retain $500 or 10 percent of the proceeds from the federal share, whichever is less, for the recipient’s selling and handling expenses.

- If the recipient is instructed to ship the equipment elsewhere, the recipient shall be reimbursed by the U.S. Government (USG) for an amount that is computed by applying the percentage of the recipient's participation in the cost of the original project or program to the current fair market value of the equipment, plus any reasonable shipping or interim storage costs incurred.

- If the recipient is instructed to dispose of the equipment otherwise, USAID will reimburse the recipient for costs incurred in its disposition.

On March 28, 2008, while driving a USAID-funded vehicle, a WRF employee was involved in an accident that totaled the vehicle, as shown in the photo on the next page. In accordance with the vehicle’s insurance policy, an auto insurance company determined the damaged vehicle to be a total loss valued at $8,000 on May 21, 2008. Although WRF submitted the insurance reports to the AOTR and requested guidance regarding the disposal of the vehicle on May 22, 2008, the AOTR did not request disposition instructions from the cognizant agreement officer. Moreover, the AOTR at the time stated in an e-mail response to WRF that USAID does not get involved in the terms of the implementer’s contract with an insurance company.

This USAID-funded vehicle sits in traffic after being totaled in an accident. (Photo provided by World Rehabilitation Fund Inc., March 28, 2008)

According to the current AOTR, she was not aware at the time of the accident that agreement officer approval was needed prior to disposition of equipment. In addition, mission officials stated that the AOTR made an error in responding that USAID does not get involved in the terms of an implementer's contract with an insurance company.

The agreement officer did not ensure that WRF used the proceeds from the total vehicle loss toward allowable project expenditures. According to USAID/Lebanon officials, WRF deposited the insurance funds in its account and expected instructions from USAID on procedures to reimburse the project. As a result, the agreement officer could not make a disposition determination that would allow the $8,000 from the insurance company to be put to better use.

USAID mission officials and implementers are responsible for ensuring that project equipment financed by the Agency is safeguarded and used appropriately. Since USAID-funded project equipment is provided to implementers to assist in project operations, an implementer must use the equipment entrusted to and in the custody of its organization for specific purposes until the equipment is no longer needed. If USAID-funded equipment has been destroyed, is not usable, and does not reach its projected remaining service life, both the AOTR and the implementer should inform management officials and ask for instructions on proper disposition. When information about equipment destruction is not conveyed to the responsible managers, the costs of a USAID project increase, and managers do not have the relevant information with which to make the best financial decisions about proposed project expenditures. Therefore, this audit makes the following recommendations.

Recommendation 12. *We recommend that USAID/Lebanon require agreement officer's technical representatives to submit for agreement officer approval all requests for equipment disposition.*

Recommendation 13. *We recommend that USAID/Lebanon determine the allowability of the $8,000 in questioned costs from the insurance company, plus any accrued interest, and recover from the World Rehabilitation Fund any amounts determined to be unallowable.*

USAID/Lebanon Did Not Assess the Environmental Impact of Imported Livestock

Title 22 of the Code of Federal Regulations, Part 216, Section 1(b), "Environmental Procedures," states that USAID's policy is to ensure that the environmental consequences of USAID-financed activities are identified and considered by USAID and the host country prior to a final decision to proceed and that appropriate environmental safeguards are adopted. USAID's policy is also to identify impacts upon the environment resulting from USAID's actions. Title 22 of the Code of Federal Regulations, Part 216, Section 3(a), "General Procedures," requires an Initial Environmental Examination for all activities that are not otherwise exempt, such as education, technical assistance, or training programs. Based on the Initial Environmental Examination, the originating office decides whether the proposed activity will significantly affect the environment, resulting in one of two recommendations for the Bureau Environmental Officer's approval:

- A *Positive Threshold Decision* is a finding that the proposed action will have a significant effect on the environment and may require a more extensive Environmental Impact Statement or Environmental Assessment to be completed.

- A *Negative Threshold Decision* is a finding that the proposed action will not have a significant effect on the environment.

USAID/Lebanon's Landmines and War Victims Project approved two waivers to acquire 118 Saanen goats to be imported from France without examining the environmental consequences. In March 2007 and February 2009, USAID/Lebanon's mission director gave approval to the implementer to import 116 female goats and 2 male goats to assist the income-generating activities of the project. Although USAID included language on raising goats in the latest cooperative agreement, dated September 2006, the mission did not mention goat activities in any Initial Environmental Examination. More important, USAID/Lebanon did not mention the importation of a foreign breed of goats into Lebanon in either of the Initial Environmental Examinations completed in May 2006 or July 2009. In addition, project beneficiaries mated imported goats with local goats to sell offspring as meat. As reported by WRF, some Saanen goats were infected by bluetongue disease, which affected all goats throughout Europe during 2008. As a result, European authorities vaccinated these goats and prohibited their exportation from Europe. Although goats were not to be exported, the implementer reported that the supplier received permission from French authorities to export goats that were free from the bluetongue disease.

These goats belong to a project beneficiary in Jezzine who sells their meat and dairy products made from their milk to generate income. (Photos by Regional Inspector General/Cairo, September 21, 2011)

The problem occurred because the mission official preparing the Initial Environmental Examinations did not include any language on the overall goat-raising activity in the project file for review by USAID's Middle East Bureau environmental officer. Although some activities require an Initial Environmental Examination to determine whether a USAID activity will affect the environment, according to the AOTR, livestock was not believed to have an environmental impact because the regulations did not specifically list livestock as one of the classes of actions normally having a significant effect on the environment. Consequently, the environmental officer did not determine whether the goat activities might have a significant impact on the environment.

Without evaluating the environmental impact of importing a nonnative goat breed into Lebanon, the mission cannot be sure that environmental consequences of USAID-financed activities—such as introducing new diseases to Lebanon or contaminating local goat breeds—have been considered and appropriate environmental safeguards have been adopted. Therefore, the mission cannot provide assurance that the environmental impact of USAID's actions has been documented or mitigated. Therefore, the audit makes the following recommendation.

> ***Recommendation 14.*** *We recommend that USAID/Lebanon complete an Initial Environmental Examination for the importation of goats to Lebanon and submit to the environmental officer for approval.*

EVALUATION OF MANAGEMENT COMMENTS

In response to our draft report, USAID/Lebanon officials generally agreed with all 14 recommendations. As a result, management decisions have been reached on all recommendations except Recommendation 9 and parts of Recommendation 12, and final action taken on Recommendations 4, 5, 6, 7, 10, 11, 13, and 14. The mission should provide action plans and target dates for implementing Recommendation 9 and a revised action plan for Recommendation 12 within 30 days of the final report. In addition, 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 agreed to request written approval from the director of the Office of Acquisition and Assistance by January 31, 2012, to extend the award beyond ten years. Accordingly, a management decision has been reached on this recommendation.

Recommendation 2. USAID/Egypt's regional procurement officials agreed to conduct refresher training during a planned visit to USAID/Lebanon by January 20, 2012. Therefore, a management decision has been reached on this recommendation.

Recommendation 3. Mission officials identified in writing current projects in excess of 10 years submitted a request to the Ambassador on December 7, 2011, to end projects valued at about $4.6 million not competitively awarded by February 29, 2012. Accordingly, a management decision has been reached on this recommendation.

Recommendation 4. USAID/Egypt's regional financial management officials notified the Office of the Chief Financial Officer of the potential funds control violation on December 27, 2011. Therefore, a management decision has been reached and final action taken on this recommendation.

Recommendation 5. USAID/Lebanon officials approved a revised project work plan on December 16, 2011, that includes indicators to measure sustainability of the development cooperative. Accordingly, a management decision has been reached and final action taken on this recommendation.

Recommendation 6. Mission officials asked the World Rehabilitation Fund to present financial statements of the development cooperative in a consistent format, and on December 19, 2011, the World Rehabilitation Fund provided updated financial statements as of September 30, 2011, that reflected a comparable format to prior financial statements. Accordingly, a management decision has been reached and final action taken on this recommendation.

Recommendation 7. USAID/Lebanon officials revised its semiannual portfolio implementation reviews on November 12, 2010 to include regional procurement office and regional legal advisor review of project budget issues. Therefore, a management decision has been reached and final action taken on this recommendation.

Recommendation 8. Mission officials requested approval from the agreement officer for activities to be funded with reallocated funds and expect a determination by January 20, 2012. Accordingly, a management decision has been reached on this recommendation.

Recommendation 9. USAID/Lebanon officials agreed to review the questioned costs to determine whether any amounts are unallowable and to recover, by January 20, 2012, deleted project funds. A management decision has not been reached on this recommendation.

Recommendation 10. Mission officials sent a letter to current implementers on December 16, 2011, requesting them to provide the mission with a list of proposed or pending subawards for any work under nonconstruction assistance awards before subawardees begin work. In addition, on December 30, 2011, mission officials implemented a procedure in their procurement plan that requires AOTRs to ensure implementers provide listings of proposed or pending subawards to agreement officers for review. Accordingly, a management decision has been reached and final action taken on this recommendation.

Recommendation 11. USAID/Lebanon officials sent USAID/Egypt's regional procurement office USAID/Lebanon's project implementers' list of completed, proposed, or pending subawards for any work under nonconstruction assistance awards for management review on December 21, 2011. Therefore, a management decision has been reached and final action taken on this recommendation.

Recommendation 12. Mission officials issued a mission order effective November 22, 2010, that specifies the responsibilities of AOTRs, which include verifying the disposition of equipment. In addition, USAID/Egypt's financial management officials conducted training on November 10, 2010, that covered the disposition of equipment. However, the mission order does not specifically require the AOTR to obtain approval from the agreement officer prior to disposing of equipment. A management decision will be reached when the mission order has been revised to specifically require the AOTR to obtain approval from the agreement officer prior to disposing of equipment.

Recommendation 13. USAID/Lebanon officials agreed that the questioned costs of $8,000 were unallowable and recovered $8,000 from the World Rehabilitation Fund on December 20, 2011. Consequently, a management decision has been reached and final action taken on this recommendation.

Recommendation 14. Mission officials revised its initial environmental examination for the importation of goats and obtained approval from the environmental officer on December 14, 2011. Therefore, a management decision has been reached and final action taken on this recommendation.

SCOPE AND METHODOLOGY

Scope

The Regional Inspector General/Cairo conducted this performance audit in accordance with generally accepted government auditing standards.[9] 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 audit objective was to determine whether USAID/Lebanon was achieving its goals of expanding viable, sustainable economic opportunities for victims of war in the District of Jezzine, Lebanon. Audit fieldwork was conducted at USAID/Lebanon from September 19 to September 29, 2011. The audit covered the period from October 1, 2009, to June 30, 2011. The initial amount awarded for agreement no. 268-A-00-06-00065 was approximately $2.8 million for the 2-year period from September 1, 2006, to August 31, 2008. Subsequently, USAID/Lebanon modified the project agreement, increasing the estimated award amount to approximately $5.7 million and extending the life of the project by 4 years, resulting in a new closing date of August 30, 2012. The audit team tested approximately $3 million, or 69 percent, of about $4.4 million that was disbursed to WRF, the implementing partner, as of June 30, 2011.

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 specific management controls assessed included verifying reported data to source documents, reviewing authorizing approval of agreements and modifications, performing inventory observation of selected assets, and recalculating indicator amounts for accuracy. The audit team also reviewed the management controls in place to monitor project activities. We conducted the review through interviews with the mission and implementer staff, observations, and review of reports and files that the mission provided as part of its project monitoring activities. Specifically, we obtained an understanding of and evaluated the following: USAID/Lebanon's Expanding Economic Opportunities for Victims of War in the District of Jezzine, South Lebanon's cooperative agreement with WRF; subsequent modifications to the agreement; the mission's performance management plans; the annual work plans prepared by WRF; the mission's FY 2010 Federal Managers' Financial Integrity Act assessment; the oversight performed by the AOTR; performance measures; and data quality assessments.

We conducted the audit at USAID/Lebanon in Beirut, visited implementing partner offices in Beirut, and conducted site visits in Jezzine.

Methodology

To answer the audit objective, we met with personnel from USAID/Lebanon and from WRF, as well as with eight beneficiaries. We reviewed documentation provided by USAID/Lebanon and WRF, including the performance management plans, annual work plans, monitoring and

[9] *Government Auditing Standards*, July 2007 Revision (GAO-07-731G).

evaluation plan reports, the cooperative agreement, and subsequent modifications. We also reviewed progress reports and site visit reports.

To assess whether the goals and objectives of the project were achieved, we judgmentally selected eight activities from project component 2—Strengthening and Expanding the Income-Generating Programs of the Co-op and Increasing Co-op Membership for FY 2010 and FY 2011—and reviewed selected target indicators and achievements for both fiscal years as of June 30, 2011. The audit team considered a FY 2010 target achieved if reported actual amounts met at least 90 percent of the work plan target and a FY 2011 target is achieved if reported actual amounts are within 10 percent of 75 percent of work plan targets as of June 30, 2011.

We validated reported results using numerous techniques to review project component 2 (1) tracing mission-reported results to documented results and records (e.g., beneficiary record sheets, implementer invoices compared with disbursements, and progress reports) in the office of the implementing partner; (2) visiting the project co-op to observe the retail shop and feed mill activity; and (3) interviewing mission personnel, implementing partner staff, and beneficiaries. In addition, we also reviewed supervisory review and the level of monitoring conducted by the AOTR and USAID/Lebanon by reading site visit reports, and data quality assessments.

Furthermore, we reviewed applicable laws and regulations and USAID policies and procedures regarding USAID/Lebanon's Landmines and War Victims Program, including the cooperative agreement and modifications with WRF; the Foreign Assistance Act of 1961; the U.S. GAO's *Principles of Federal Appropriations Law*; ADS Chapters 303 ("Grants and Cooperative Agreements to Non-Governmental Organizations"), 621 ("Obligations"), and 634 ("Administrative Control of Funds"); and Title 22 Code of Federal Regulations Part 226 (*Administration of Assistance Awards to U.S. Non-Governmental Organizations*) and Part 216 (*Environmental Procedures*).

MANAGEMENT COMMENTS

USAID | LEBANON
FROM THE AMERICAN PEOPLE

January 3, 2012

MEMORANDUM

To: Regional Inspector General/Cairo, Jacqueline Bell

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

Subject: Audit of USAID/Lebanon's Landmines and War Victims Program (Report No. 6-268-12-0XX-P)

USAID/Lebanon is in general agreement with all of RIG recommendations. For Recommendations Nos. 1, 4, 8 and 9, the Mission requested a determination by the concerned parties (OAA and the CFO); for all other recommendations, the Mission has taken the corrective actions.

Recommendation No. 1: We recommend that USAID/Lebanon request a written determination from USAID/Lebanon's regional agreement officer regarding the applicability of the requirement to obtain the approval of the award extension beyond 10 years.

Mission Response: The Mission agrees with this recommendation. On November 28, 2011 (Attachment A) a written request was sent to the Office of Assistance and Acquisition (OAA) in Cairo to determine the applicability of the requirement to obtain the approval of the award extension beyond 10 years. On December 29, 2011, the Regional Agreement Officer (AO) responded as follows (Attachment A-1):"Following an extensive review of the initial award file, other documents and applicable regulations at the time of award, the current Agreement Officer determines that approval should have been sought from the Director M/OAA to extend the award beyond a ten year period in accordance with ADS 303.3.6.5 a "Follow-on Assistance Agreements and Amendments." By end of January 2012, the OAA will send a message to Procurement staff and Lebanon staff to reinforce the requirement for Director M/OAA approval for awards that exceed 10 years. Specifically, in those cases where an award was made non-competitively, if the justification was based on the "Follow-on exception to competition, the AO needs to ensure that the modification for an extension when added to the length of the current and previous awards does not exceed 10 years in total."

Target date for completion: January 31, 2012

Recommendation No. 2: We recommend that USAID/Lebanon provide refresher training to mission employees regarding procedures to obtain approval for project extensions appropriately and in a timely manner.

Mission Response: The Mission agrees with this recommendation. The Regional Office of Assistance and Acquisition Office (OAA) in Cairo is heavily involved in USAID/Lebanon's ongoing activities and future procurement planning through daily communication. The Regional Contracting Officer and Regional Contracting Specialist provide quarterly temporary duty trips and participate in the Mission's semi-annual portfolio reviews and hence provide procurement guidance as appropriate, and constantly update mission staff with the procurement rules and regulations governing both assistance and acquisition. OAA provides ongoing guidance of procurement related policy updates. For example, on August 25, 2011, OAA sent an update of the approvals required for extensions for both acquisition (ADS 302) and Assistance (ADS 303) to USAID/Lebanon staff. In addition, the Regional Contracting Officer will conduct a refresher training session to USAID/Lebanon Mission staff during a planned visit to Lebanon between January 10-15, 2012.

Target date for completion: January 20, 2012.

Recommendation 3: We recommend that USAID/Lebanon review its portfolio to identify any current projects in excess of ten years and document actions to extend the project based on authorized approval of USAID/Lebanon's cognizant Assistant Administrator.

Mission Response: The Mission reviewed its portfolio and identified one current beneficiary, the American Community School (ACS) as having received funding under essentially the same program in excess of ten years (2000-2012). ACS is among five American educational institutions (AEIs) in Lebanon historically subject to Congressional earmarks. In the past, the Mission processed exemption from competition waivers for funding of AEIs based on ADS 303.3.6.5 (h) Congressional mandated Programs (waivers for the current ACS program 2006-2012 are summarized in Attachment C). On December 7, 2011, the Mission sought approval by the U.S. Ambassador to phase out further direct, non-competed support to the International College and the American Community School (Attachment C-1). The Ambassador asked that USAID/Lebanon to establish a competitive process that allows financially needy students to attend such elite schools. To address the audit recommendation, OAA will terminate the existing award to ACS once the final voucher payment has been processed anticipated to be completed February 29, 2012. In addition, any future programming, pending funding availability, to IC and ACS will be awarded competitively and will shift focus possibly to support financially needy upper secondary students from heading to university. USAID/ Lebanon's portfolio includes other current partners with consecutive awards in excess of ten years (Attachment C-2), but these partners received funding under different agreements awarded competitively. For example, current awards to the Lebanese American University, the American University of Beirut, and Haigazian University were made under the University Student Assistance Program (USAP) Annual Program Statements (Phase I and II) under full and open competition with exemption to competition waivers granted as follow-on awards.

The Mission is adhering to applicable agency procedures on extensions and follow-on awards including procurement reforms announced by USAID/General Notice dated August 24, 2011.

Target date for completion: February 29, 2012.

Recommendation 4: We recommend that USAID/Lebanon notify USAID's Director of the Bureau of Management, Chief Financial Officer's Financial Policy and Support Division regarding the potential funds control violations for determination and resolution.

Mission Response: On December 27, 2011, USAID's Director of the Bureau of Management, Chief Financial Officer's Financial Policy and Support Division was notified regarding the potential funds control violations for determination and Resolution (Attachment D). In addition, the Mission has been educating staff as opportunity arises. For example, on June 25, 2009, Cairo Chief Accountant, Sherif Zohdi, conducted a half day training to USAID/Lebanon Mission staff on covering accruals, obligations (de-ob/re-ob) and funds control (Attachment E).

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 5: We recommend that USAID/Lebanon update project work plans to include indicators that monitor and measure sustainability efforts of the development cooperative created with USAID funding.

Mission Response: On December 16, 2011 the AOTR approved a revised work plan and Performance Management Plan (PMP) of the program to include several activities that build and ensure the sustainability of Jezzine Cooperative (COOP) (Attachment F). Three new indicators, Accounts Receivable Turnover Ratio, Inventory Turnover Ratio, and Net Profit Margin, were added to the PMP to track the financial performance and sustainability of the COOP.

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 6: We recommend that USAID/Lebanon require the implementer to present financial statements of the cooperative in a consistent format for comparability from year to year for mission review to monitor financial ratios as indicators directly related to sustainability.

Mission Response: On December 12, 2011, the AOTR requested that the implementer presents consistent financial statements of the cooperative in a consistent format for comparability from year to year. The implementer's income statement was adjusted to include a depreciation column for 2010 reflecting the depreciation corrections that were made retrospectively for the previous years (Attachment G). Moreover, the depreciation for the calendar year 2011 will be adjusted and shown accordingly in the December 2011 report.

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 7: We recommend that USAID/Lebanon develop and implement procedures to ensure project revisions that would affect project budgets are approved by the appropriate responsible authority.

Mission Response: The Mission has strengthened activity review processes that ensure that work plan changes that affect project budgets are approved by the appropriate responsible authority**.** Two years ago, the Mission institutionalized semi-annual Portfolio Implementation Reviews in collaboration with RLA, OAA and FM to collectively review program performance including analysis of budget issues. On November 12, 2010, the Mission revised its Portfolio

Implementation Activity Sheet to include OAA and RLA actions (Attachment H). The last two portfolio reviews were conducted in June and November 2011 including the Landmines and War Victims Program (Attachment H-1).

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

Recommendation No. 8: We recommend that USAID/Lebanon submit proposed activities to be funded by reallocated funds to the agreement officer for approval.

The Mission response to both Recommendations 8 and 9 is given below.

Recommendation No. 9: We recommend that USAID/Lebanon determine if deleted project component funds valued at $195,000 were used for project costs that were allowable.

In response to Recommendations 8 and 9, the Mission compiled the information below on the use of funds programmed for the milk/cheese activity and requested OAA review of its allowability.

2007: WRF submitted, on April 27, 2007, a transitional budget for Phase IV, that proposed shifting $190,300 in funds from the milk/cheese processing to make available $652,000 for the COOP building construction. This transitional budget was approved by the AOTR in an email dated May 14, 2007. Subsequently, the Mission requested that the Regional Agreement Officer (AO) realign the budget accordingly in an action memorandum dated June 7, 2007. However, while Modification # 01 dated September 23, 2007 indicates that a purpose of the amendment was to realign the budget, the budget was not attached to the agreement amendment. Thus, funds amounting to $190,300 were “borrowed” from the milk/cheese line item to contribute to financing of construction of the COOP building, and the official file copy for Modification # 01 did not fully clarify the transitional budget realignment.

2008: In the next project budget, approved by the AO as part of a six-month extension (Modification # 02) dated August 28, 2008, the milk/cheese line item continued to be shown as a planned project activity, but the estimated value was increased to $215,786 (**Attachment I-2**). Of the funds approved for Dairy in Modification No. 2, a total amount of $28,941 was used in December 2008 to cover installation of the cold storage / fermentation rooms as part of the building construction. Thus, only $28,941 of the $215,786 budgeted for the Dairy activity were expended for that purpose, the balance of $186,845 remained as a “debit” “borrowed” from the milk/cheese line but used for COOP building construction.

2009: In January 2009, discussions between the Mission and the implementing partner led to dropping of the “dairy” component. As a result, the implementing partner submitted, on February 11, 2009, a new request for incremental funding of $289,874 with two columns, one labeled “Total Obligated Amount” and the other unfunded as “Suggested allocation of the amount remaining to be obligated” with the milk/cheese line item allocation shown as “zero” (Attachment I).

The Mission concludes that the amount of $186,845 was “borrowed” from the milk/cheese activity for the COOP building construction. OAA determination was requested.

Target date for completion: January 20, 2012.

Recommendation No. 10: We recommend that USAID/Lebanon develop and implement procedures that require implementers to provide a list of proposed or pending subawards and subcontracts for any work under non-construction assistance awards before implementers hire a subcontractor to begin work.

Mission Response: On December 16, 2011, the Mission Director sent letters (Attachment J) to the current implementing partners requested that the implementers adhere to the Code of Federal Regulations, Post award Requirements 22CFR226.25.c 8 that states "For non-construction awards, recipients shall request prior approvals from the USAID Agreement Officer for one or more of the following program or budget related reasons:
(8) Unless described in the application and funded in the approved budget of the award, the subaward, transfer or contracting out of any work under an award. This provision does not apply to the purchase of supplies, material, equipment or general support services."
The implementers were also requested to provide the Mission with a list of proposed or pending subawards and subcontracts for any work under non-construction assistance awards before implementers hire a subcontractor to begin work.
The Mission implemented a procedure for review of subawards by notifying AOTRs of the requirement to ensure implementers provide listings of proposed or pending subawards and to incorporate OAA reviews of such subawards as part of the Mission's annual procurement plan. This procurement plan is updated on a continuous basis based on biweekly conference calls between the Mission Program Office and OAA. (Attachment J-1 provides the procurement plan template and Attachment J-2 provides the notice to USAID staff to include 22CFR226.25.c 8 reviews in the procurement plan).

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

Recommendation 11: We recommend that USAID/Lebanon notify the agreement officer, in writing, of completed, proposed or pending subawards and subcontracts for any work under non-construction assistance awards before the implementer hires a subcontractor to begin work.

Mission Response: On December 21, 2011 the Mission forwarded the implementers list of completed, proposed or pending subawards and subcontracts for any work under non-construction assistance awards to the Officer of Acquisition and Assistance (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. 11 upon report issuance.

Recommendation 12: We recommend that USAID/Lebanon provide training to agreement officer's technical representatives on procedures to ensure that request for equipment dispositions are submitted to the agreement officer for approval.

Mission Response: The Mission has reinforced procedures for ensuring effective use of project equipment and its disposal through issuance of Mission Order 11/08 (Attachment L) on fulfilling duties of program, during PIR reviews and periodic refresher training. On November 10, 2010, a Cairo Financial Analyst provided USAID/Lebanon Mission staff with an End-Use

Verification Presentation covering the end use planning phase, implementation phase, and reporting and follow up phase (Attachment L-1).

Based on the above, the Mission believes a management decision has been reached on this audit recommendation and requests closure of Audit Recommendation No. 12 upon report issuance.

Recommendation 13: We recommend that USAID/Lebanon determine the allowability of $8,000 plus any accrued interest in questioned costs and recover from the implementer any amounts determined to be unallowable.

Mission Response: The WRF Head office in New York submitted the refund on December 20th, 2011, and provided documentation of their payment to USAID on December 21, 2011 (Attachment M).

Based on the above, the Mission believes a management decision has been reached on this audit recommendation requests closure of Audit Recommendation No. 13 upon report issuance.

Recommendation 14: We recommend that USAID/Lebanon complete an initial environmental examination for the importation of goats to Lebanon and submit to the environmental officer for review and concurrent approval.

Mission Response: The Initial Environmental Examination was revised to include the importation of goats to Lebanon. On December 14, 2011, Robert Macleod, the Bureau Environmental Officer approval was obtained (Attachment N).

Based on the above, the Mission believes a management decision has been reached on this audit recommendation and requests closure of Audit Recommendation No. 14 upon report issuance.

Selected Work Plan Indicators - Project Component 2: Strengthening and expanding the income generating programs of the co-op and increasing co-op membership
(Amounts reported by implementer to USAID/Lebanon)

		Calendar Year 2010				For the period October 1, 2010 to June 30, 2011			
Performance Indicators		Target ($)	Actual ($)	% of Target	Achieved	Target ($)	Actual ($)	% of Target*	Achieved
Co-op Revenues and Net Income	**Co-op revenues from honey and wax processing**	**25,649**	**1,019**	**4**	**No**	**3,000**	**1,486**	**50**	**No**
	Co-op revenues from the retail shop	50,068	50,280	100	Yes	54,000	53,458	99	Yes
	Co-op revenues from the feed mill	**626,402**	**333,765**	**53**	**No**	450,000	360,910	80	Yes
	Co-op revenues from the poultry program	153,354	431,528	281	Yes	**450,000**	**327,750**	**73**	**No**
	Co-op revenues from the beekeeping program	**23,559**	**16,458**	**70**	**No**	**22,980**	**11,200**	**49**	**No**
	Co-op revenues from the chicken broiler program	**156,131**	**103,612**	**66**	**No**	**129,600**	**77,116**	**60**	**No**
	Total revenues of the co-op	1,039,434	969,702	93	Yes	**1,200,000**	**859,028**	**72**	**No**
	Net income of the co-op	**33,193**	**23,767**	**72**	**No**	**65,000**	**255**	**0**	**No**

* A target was considered on track if its percentage equaled at least 75 percent of the annual target. Test work included the third quarter ended June 30, 2011.

World Rehabilitation Fund's Performance Management Plan Indicators for Fiscal Year 2010

USAID PMP Intermediate Result/Indicator	Unit of measure	Baseline Year Value/Actual FY 2009	FY 2010 Target	FY 2010 Actual	**% Achieved**	**Target Met***	**Verified**
IR 2.1.2.a Number of agricultural related firms benefiting directly from U.S. Government [USG]-supported interventions (cumulative)	(# beneficiaries/ farms)	282	298	298	100	Yes	298 (cumulative)
IR 2.1.2.b Number of microenterprises receiving business development services from USG-assisted sources	1 (co-op)	1	1	1	100	Yes	1
IR 2.1.3 Number of microenterprises participating in USG-assisted value chains	1 (co-op)	1	1	1	100	Yes	1
IR 2.3.a Number of beneficiaries that successfully accessed bank loans as a result of USG assistance (cumulative)	**(# beneficiaries/ farms)**	**5**	**15**	**5**	**33**	**No**	**5**
IR 2.3.b Number of beneficiaries that successfully accessed private equity as a result of USG assistance (cumulative)	(# beneficiaries/ farms)	282	298	298	100	Yes	298 (cumulative)
IR 2.3.c Number of SMEs that successfully accessed bank loans as a result of USG assistance	**1 (co-op)**	**0**	**1**	**0**	**0**	**No**	**0**
IR 2.3.d Number of SMEs that successfully accessed private equity as a result of USG assistance	1 (co-op)	1	1	1	100	Yes	1
WRF Indicator							
1. Number of grant recipients (cumulative)	Number	282	298	298	100	Yes	298 (cumulative)
2. Number of co-op members (cumulative)	**Number**	**229**	**245**	**219**	**89**	**No**	**217 (cumulative)**
3.a Number of co-op members who received training	Number	30	24	31	129	Yes	27
3.b Number of co-op board members and staff who received training	Number	21	22	22	100	Yes	22
3.c Number of co-op members who received coaching and technical assistance	Number	30	46	182	396	Yes	121
4. Number of job opportunities created (beneficiaries and co-op) (cumulative)	Number	349	367	379	103	Yes	370
5. Sales revenues of the co-op	USD	1,175,988	1,000,000	920,958	92	Yes	925,557
6.a Net Income of the co-op (excluding WRF cash grants)	USD	4,675	33,000	32,160	97	Yes	39,558
6.b Estimated net income of beneficiaries	USD	409,677	396,252	402,909	102	Yes	402,909

* For FY 2010, if the implementer met 90 percent of the target, the audit considered the target met or substantially met.

World Rehabilitation Fund's Performance Management Plan Indicators Fiscal Year 2011 as of June 30, 2011

USAID PMP Intermediate Result/Indicator	Unit of Measure	FY 2011 Target	FY 2011 Actual	**% Achieved**	**Target on Track**	**Verified**
IR 2.1.2.a Number of agricultural related firms benefiting directly from USG supported interventions (cumulative)	(# beneficiaries/ farms)	311	305	98	Yes	305 (cumulative)
IR 2.1.2.b Number of microenterprises receiving business development services from USG-assisted sources	1 (co-op)	1	1	100	Yes	1
IR 2.1.3 Number of microenterprises participating in USG-assisted value chains	1 (co-op)	1	1	100	Yes	1
IR 2.3.a Number of beneficiaries that successfully accessed bank loans as a result of USG assistance (cumulative)	**(# beneficiaries/ farms)**	**25**	**6**	**24**	**No**	**6**
IR 2.3.b Number of beneficiaries that successfully accessed private equity as a result of USG assistance (cumulative)	(# beneficiaries/ farms)	311	305	98	Yes	305 (cumulative)
IR 2.3.c Number of SMEs that successfully accessed bank loans as a result of USG assistance	**1 (co-op)**	**1**	**0**	**0**	**No**	**0**
IR 2.3.d Number of SMEs that successfully accessed private equity as a result of USG assistance	**1 (co-op)**	**1**	**0**	**0**	**No**	**0**
WRF Indicator						
1. Number of grant recipients (cumulative)	Number	311	305	98	Yes	305 (cumulative)
2. Number of co-op members (cumulative)	Number	258	221	86	Yes	221 (cumulative)
3.a Number of co-op members who received training	Number	37	30	81	Yes	30
3.b Number of co-op board members and staff who received training	Number	26	20	77	Yes	20
3.c Number of co-op members who received coaching and technical assistance	Number	59	182	308	Yes	182
4. Number of job opportunities created (beneficiaries and co-op) (cumulative)	Number	380	379	100	Yes	379
5. Sales revenues of the co-op	**USD**	**1,200,000**	**859,028**	**72**	**No**	**859,030**
6.a Net income of the co-op (excluding WRF cash grants)	**USD**	**65,000**	**255**	**0**	**No**	**255**
6.b Estimated net income of beneficiaries	**USD**	**354,996**	**142,328**	**40**	**No**	**142,328**

Project Agreements and Modifications as of September 29, 2011

Cooperative Agreement	Project Title	Effective Date	Remarks
268-A-00-98-00076-00	***Preventing Landmine Injuries and Managing the Social Burden of Landmines in Lebanon***	***3-Jun-98***	
	Modification 01	13-Aug-98	
	Modification 02	25-Sep-98	
	Modification 03	25-Feb-99	
	Modification 04	6-Jul-99	
	Modification 05	12-Jul-99	
	Modification 06	10-Aug-99	
	Modification 07	27-Sep-99	
	Modification 08	13-Sep-00	
	Modification 09	30-Sep-01	Jezzine Project Phase I
	Modification 10	2-Apr-02	
	Modification 11	30-Sep-02	
	Modification 12	24-Feb-03	Phase II
	Modification 13	13-Nov-03	
	Modification 14	22-Jul-04	
	Modification 15	30-Sep-04	Phase III
	Modification 16	11-Nov-04	
	Modification 17	19-Sep-05	
	Modification 18	12-Apr-06	
	Modification 19	9-Sep-06	
268-A-00-06-000065-00[10]	***Expanding Economic Opportunities for Victims of War in the District of Jezzine - Lebanon***	***1-Sep-06***	***Phase IV***
	Modification 01	23-Sep-07	
	Modification 02	28-Aug-08	
	Modification 03	26-Feb-09	
	Modification 04	30-Aug-09	Phase V
	Modification 05	16-Dec-09	
	Modification 06	26-Apr-10	
	Modification 07	15-Sep-11	

[10] This audit report focuses on Phases IV and V.

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