

JOINT EVALUATION AND AUDIT

OF THE

FAC CONTRIBUTION TO THE
ORGANIZATION OF THE FRANCOPHONE SUMMIT IN BEIRUT,
LEBANON

September 2004

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ACRONYMS

AIF:	Agence intergouvernementale de la Francophonie
CEA:	Canadian Executing Agency
CIDA:	Canadian International Development Agency
DFAIT:	Department of Foreign Affairs and International Trade
IMF:	Francophonie Affairs Division
MLC:	Lebanese Ministry of Cultural and Educational Affairs
MOU:	Memorandum of Understanding
ODA:	Official Development Assistance
OIF	International Organisation of the Francophonie
RMAF:	Results-based Management and Accountability Framework
SIE:	Evaluation Division
SIV:	Audit Division
TBS:	Treasury Board Secretariat

EXECUTIVE SUMMARY

The Canadian government provides support to the Francophonie Summits when they are held in developing countries, along with other major contributors. Without this support, these countries could not play an active role in this highly important forum. The most recent Francophone Summit was held in Beirut, Lebanon. The Summit was initially planned for October 26-28, 2001, but as a result of the events of September 11, 2001, it was postponed to October 18-20, 2002.

SIX undertook a joint evaluation and audit (herein referred to as the review) of the contribution of the Department of Foreign Affairs and International Trade in support of the organization of the Francophone Summit in Lebanon.

The review found:

- Despite tight deadlines, the goods and equipment associated with the Canadian contribution were delivered in suitable condition and on time;
- The three accreditation centres operated problem free under an excellent coordination regime;
- The cultural activities raised Canada's visibility in Lebanon before and during the Summit; and,
- The Beirut Summit was a resounding success, despite the postponement and other challenges associated with holding it. An atmosphere of security prevailed throughout the Summit regardless of the tensions in Lebanon and the country's fragile geopolitical environment.

Notwithstanding the success of the Summit, the Francophonie Division (IMF) lacked an appropriate management control framework to ensure that DFAIT's funding was used as intended. It is now clear that the six month time-frame between the signing (i.e. April 2001) of the MOU and the planned date (i.e. October 2001) of the event, did not provide sufficient time for the implementation of appropriate administrative and contracting procedures, given the inherent risks associated with the event.

The review found:

- Because time was of the essence there was not an open, fair and competitive process applied in the selection of the Canadian Executing Agency (CEA);
- Computers purchased for the 2001 Summit were not properly safeguarded;
- DFAIT authorized payments to the CEA in 2001/02 totalling \$3.8M on the basis of the contract between Lebanon and the CEA that stipulated three payments

without submission of invoices. As a result, at the time of the audit, the supporting invoices were not available to the Review Team because the CEA did not have the responsibility to submit invoices to Lebanon.

- Accordingly, SIX cannot provide assurance that the 2001/02 payments present fairly the eligible costs related to the organization of the Summit as the Department failed to put into place appropriate due diligence practices; and,
- The Mission in Beirut operated with due diligence when managing the \$250K in funds received from IMF for the Summit as the associated 2002/03 payments were substantiated with supporting documentation.

1.0 BACKGROUND

In response to a request during a State visit by the Lebanese Prime Minister in April 2001, the Canadian government agreed to provide a total of \$4,000,000 in support of the organization of the Francophone Summit, which was scheduled to take place less than six months later, in October 2001. The Government of the Republic of Lebanon was identified as the recipient in the Treasury Board Decision. The events of September 11th led to the postponement of the Summit from October 2001 to October 2002. A second contribution was approved by the Treasury Board, which extended the program to March 31, 2003 and provided an additional \$250,000.

1.1 Strategic importance of Summits

The Summit, which consists of the Heads of State and Government of the countries that have French as a shared language, is the supreme authority of La Francophonie. It is held every two years and is chaired by the *host* government's Head of State who retains chairmanship until the next Summit.

This forum is an opportunity for dialogue and cooperation in which the major orientations and objectives of La Francophonie are defined in order to ensure its growth.

To give a voice to less affluent countries, the major contributors of La Francophonie, and particularly Canada, contribute financially to the physical organization of the Summits when they are held in developing countries. In these cases (Senegal, Mauritius, Benin, Vietnam), the signatory of the MOU with the *host* country is usually CIDA. This accountability link can be explained by the fact that 90% of the Canadian budget allotted to international Francophonie comes from the Official Development Assistance (ODA)¹ program which is managed by CIDA.

1.2 Canada's contribution to the Beirut Summit

Since the Dakar Summit, Canada's contribution to the *host* developing countries of these Summits has consisted of goods and technical assistance in fields where Canada has a comparative advantage, including accreditation, coordination, security and health.

During the Beirut Summit, Canada contributed to six areas of intervention: accreditation, informatics, coordination centre, health, security and cultural activities.²

¹ Contributions to summits held in countries eligible for ODA come from this envelope.

² Sectors consistent with Canada's traditional involvement.

The contributions for organizing previous Summits held in developing countries were managed by the Canadian International Development Agency (CIDA) who was also the signatory of the MOU with the host country. In this case, due to the very short time frame before the Summit, it was decided that DFAIT would assume the responsibility to sign the MOU and manage the contribution.

2.0 SCOPE AND OBJECTIVES

2.1 Scope

The scope of the review included the operation of the Francophonie Affairs Division (IMF), which is the administrative unit responsible for coordinating and managing Canadian participation in the International Francophonie for DFAIT. IMF directs:

- departmental and interdepartmental coordination of a variety of programs relating to the International Francophonie; and,
- management of budgetary appropriations for a number of activities, including summits and ministerial meetings between member countries of the International Organisation of the Francophonie (OIF), statutory contributions to Francophonie operators and carrying out projects and activities resulting from summits and meetings.

The review focussed on the Summit's outputs and outcomes and IMF's practices and controls as they relate to managing its contribution program in accordance with Treasury Board and Departmental Transfer Payment Policies.

2.2 Objectives

The objectives of the review were to:

- assess the outputs and outcomes achieved;
- assess the project implementation process;
- provide assurance as to whether IMF payments regarding the organization of the Summit were made in accordance with sound comptrollership practices; and,
- provide assurance whether IMF managed the contributions in accordance with the requirements of the Treasury Board and Departmental Transfer Payment Policies.

3.0 METHODOLOGY AND LIMITS

3.1 Methodology

The review examined the major business processes and key controls associated with DFAIT's financial support of the organization of the Francophone Summit in Beirut, Lebanon. A comprehensive review of all relevant program documentation was carried out and key personnel in IMF, the Area Management Office (IAM), and Financial Services (SMFH) were interviewed. Outside DFAIT headquarters, the CEA and staff at CIDA and the Canadian Embassy in Beirut were interviewed.

3.2 Limits and Constraints

The limited number of individuals interviewed was a major constraint in carrying out the review. The delivery of outputs, within the prescribed time limits, their suitability, use and effective functioning, as well as the intermediate results (i.e. the summary of security conditions) could only be documented through discussions with employees of DFAIT, CIDA and the Canadian Embassy in Beirut.

Efforts to contact the Lebanon authorities and delegates from other countries proved difficult, if not impossible. Lebanese officials initially assigned to organize the Summit in October 2001, had other responsibilities when the Summit was finally held in October 2002. However, despite the small number of interviews carried out, the Review Team was able to thoroughly document the *Project* implementation process.

4.0 OVERVIEW OF THE BEIRUT SUMMIT

4.1 Presentation of Key Project Milestones, Documents and Time Line

In the winter of 2001, CIDA transferred \$3,875,000 to DFAIT's resource base. DFAIT became accountable for the Canadian contribution to the Beirut Summit. Representatives from IMF, and the company that would ultimately be awarded the execution contract for the *Summit*, travelled to Lebanon in January 2001 to undertake a needs assessment. For this purpose, the company was awarded a contract by IMF in the amount of \$20,000.

4.1.1 Memorandum of understanding between the Canadian and Lebanese governments

In the MOU signed on April 30, 2001 between the Government of Canada (represented by DFAIT) and the Government of Lebanon (represented by the Ministère libanais de la Culture [MLC]), it was stipulated that Canada's contribution to the Beirut Summit must not exceed \$4,000,000. The funds covered the following six areas of intervention:

- Accreditation - three centres (delegates, media and local staff);
- informatics - a complement of 65 computers;
- coordination centre - radiocommunication equipment, computer stations, installation and training;
- health - seven medical stations and two ambulances;
- security - in addition to accreditation centres and telecommunication equipment, the provision of detection and radio equipment; and,
- cultural activities organized around the *Summit*.

The MOU included certain specific features such as the requirement for most of the procurement to occur in Canada. Responsibility for selecting an executing agency was assigned to the Lebanese government. However, in previous summits funded by CIDA, the executing agency was contracted directly with CIDA and not by the recipient country.

The MOU for the Beirut Summit was based on a triangulation of relations. The Lebanese government was responsible for selecting the CEA, supervising its execution of the *Project*, approving its three invoices and recommending payment to the designated officials at DFAIT, i.e. IMF.

The MOU also stipulated that DFAIT would make three payments to the CEA: first payment: \$2,208,000 on August 1, 2001; second payment: \$1,177,600 on September 23, 2001; and third payment: \$294,400 on October 20, 2001.

4.1.2 Feasibility study

In May 2001, a feasibility study that was worth \$120,000, was carried out by the same company that undertook the needs assessment in January 2001.

4.1.3 Amendment to the MOU between the Canadian and Lebanese governments

In the amendment to the MOU signed in August 2001, the financial allocation of the funding was set out as follows:

- \$3,680,000 to cover the material, transportation, installation, training, and management expenses of the CEA;
- \$120,000 to cover the cost of the feasibility study - a retroactive contract since the study was carried out in May 2001;
- \$125,000 for cultural activities - funded from DFAIT's *Public Diplomacy Fund*; and,
- \$75,000 for the installation of simultaneous interpretation booths at the Lebanese parliament - an element that was added to arrive at the total funding (\$3,875,000)

approved by the TBS, provided that the cost of cultural activities was paid from the *Public Diplomacy fund*.

In the Annex to the Amendment (Annex 3, Records, page 2), the general provisions state that *“the Recipient will maintain relevant accounts and records of the cost of the work and of the expenditures or commitments it incurs, and in particular invoices, receipts and vouchers, which may be audited or inspected at any reasonable time by the authorized representatives of DFAIT, who may make copies or extracts of them.”*

4.1.4 Results-based Management and Accountability Framework (RMAF)

The RMAF sets out the roles and responsibilities of the partners involved. It states that *“the Government of Canada will make direct payments to the CEA on submission of invoices and vouchers by the Lebanese government”*. This provision was designed to reduce the government’s exposure to financial risks. In fact, the RMAF states that *“Canadian experience of financial management through other countries has not always been encouraging.”*

4.1.5 Risk-based Audit Framework (RBAF) for Contributions

The Risk-based Audit Framework (RBAF) for Contributions for the organization of the Beirut Summit - a framework that was also an integral part of the TBS submission - states that a right to audit is included in the MOU between the Canadian and Lebanese governments. It also stipulates that *“CEAs are required to provide evidence that the funds were used prudently. The documents required include evidence of the supply of goods and services under conditions of competition, purchase orders, invoices and signed manifests indicating receipt and acceptance of the goods by Lebanese officials.”*

4.1.6 Restricted announcement of bidding to companies

On June 7, 2001, a restricted request for proposals for the services of a CEA was issued by the Lebanese government to the following three companies: Savard, Massé et associés, Gervais, Gagnon, Covington et associés, and Leroux et associés. It should be noted that these three companies have been very involved in organizing events for La Francophonie (summits and games) for more than fifteen years. The request for proposals consisted essentially of items identified in the feasibility study of May 2001, for which a quotation was requested in Canadian dollars.

On June 15, 2001, two companies were selected but one of them withdrew officially in July 2001. The company that was finally awarded the contract began work on June 11, 2001, prior to the scheduled cut-off date of the tender call period (June 15, 2001).

4.1.7 Contract between the Ministère libanais de la Culture and the CEA

The execution contract was for \$3,680,000, payable in three payments. The first contract was concluded on June 25, 2001 while the amendment took place on August 3, 2001 after the withdrawal of one of the two selected CEAs.

The amount of \$3,680,000 did not include the cost of the feasibility study that had been completed³ by the CEA. The cost (\$120,000) of the feasibility study, once added to the lump sum value (\$3,680,000) of the execution contract, resulted in total payments to the CEA in the amount of \$3,800,000.

4.1.8 Submission to the Treasury Board Secretariat - 2001

In August 2001 a submission was made to the TBS for the approval of \$4,000,000 as the Canadian contribution to the Beirut Summit. However, the MOU with Lebanon was signed in April 2001 and the contract with the CEA in June 2001.

4.1.9 Submission to the Treasury Board Secretariat to obtain additional funding - 2002

On October 8, 2001, following the events of September 11, 2001, the decision was made to postpone the Beirut Summit. By that time, all the goods and equipment for the *Project* were in Lebanon, however, activities such as installation of accreditation booths and training were not completed.⁴

In August 2002, when the new summit date was decided, a second submission to the TBS for \$250,000 was prepared to update Lebanon's needs because some items had expired (medication), others were in need of maintenance or new parts, etc. The computers had to be repurchased and reconstituted since the computers supplied in 2001 had been permanently installed at the MLC. Lastly, some training activities had to be completed. Responsibility for managing this additional \$250,000 was assigned to the Canadian Embassy in Beirut, which directly paid the Lebanese providers of goods and service that had been selected by the MLC.

5.0 EVALUATION FINDINGS AND CONCLUSIONS

The outputs and outcomes review was not exhaustive, in view of the constraints associated with the evaluation, especially the limited sample of interviewees and the lack of paper-based information available at DFAIT.

³ Between May 7 and 28, 2001.

⁴ However, simulations were carried out.

5.1 Planning

The following points emerged clearly with respect to the planning process:

- The Beirut Summit was implemented in “emergency management” mode, with limited thought to the inherent risks associated with the event.
- The planning and execution framework was unrealistic. By signing the MOU six months before the event, DFAIT was placing itself at risk in two ways: i) the human resources with the necessary experience might not be in place, and ii) it allowed a CEA to commit approximately \$4,000,000 without the Treasury Board Secretariat’s approval. By comparison, the Hanoi Summit MOU with the government of Vietnam was signed 18 months before the event and the funding had already been frozen in CIDA’s budget estimates.

5.2 Outputs

The following summarizes the key observations with respect to the outputs of the Summit:

- Despite the tight deadlines, all goods and equipment associated with the contribution were delivered within the deadlines;
- The planned training was given (accreditation, coordination centre, telecommunications, security and detection) in the form of simulations in 2001. There was nothing in the IMF files to indicate whether this training was repeated in 2002. One respondent indicated that *training was given*.
- After the announcement that the *Project* was being postponed, the goods and equipment were used for various purposes, for the benefit of Lebanon. For example, the 65 computers acquired in 2001 were installed at the MLC and remained there. As a result, computers had to be replaced in 2002 at a cost of approximately \$100,000, covered by the additional influx of funds in the amount of \$250,000;
- All the staff interviewed who were at the Embassy in Beirut during the event, and throughout the preceding year, agreed that the goods and equipment were adequate. The three accreditation centres operated without problems and coordination was excellent - all the radiocommunication equipment was functional and met the needs;
- Any event which brings together Heads of State and Government, requires an emergency plan, including equipment required to deal with health problems. Although not used during the Beirut Summit, two ambulances and first-aid medical kits were available.

- A report prepared by the Embassy in Beirut, dated February 21, 2003, concluded that the 23 cultural activities planned for and held in 2001-2002 and 2002-2003, raised Canada's visibility during the *Summit* and in Lebanon generally.

5.3 Attainment of Outcomes

There was unanimous agreement concerning outcomes:

- In the opinion of all the respondents present at the Beirut Summit, the Summit was a resounding success, despite its postponement and the challenges associated with holding it. Regardless of the sporadic - indeed ongoing - tensions characteristic of Lebanon, and the country's fragile geopolitical environment, an atmosphere of security prevailed throughout the *Summit*.

6.0 IMPLEMENTATION PROCESS

It is now clear that the six month time-frame between the signing (i.e. April 2001) of the MOU and the planned date (i.e. October 2001) of the event did not provide sufficient time for the implementation of appropriate administrative and contracting procedures, given the inherent risks associated with the event. Because "time is of the essence", IMF decided to have the CEA contracted directly by the Lebanese government, as reflected in the MOU dated 30 April, 2001 between Canada (represented by DFAIT) and Lebanon (represented by the Ministère libanais de la Culture, MLC).

The recipient country contracting option was chosen by DFAIT as it allowed the recipient country to award contracts to a third party. The recipient country contract does not fall under Canadian law, nor is it subject to Treasury Board policies or the requirements of any trade agreements (AIT, NAFTA, AGP-WTO). However, since DFAIT provided the funds and most of the goods were purchased in Canada, such an approach should not conflict with the spirit of the laws and policies that govern Canadian Government contracting procedures and its underlying principles of fairness. In other words, this option should not be used to circumvent those laws and policies which are in place for DFAIT's contracting procedures.

Often when the recipient country contracting option is chosen, a third party procurement monitor or procurement advisor is contracted by the donor to assist the recipient country in the selection process of the CEA and ensure that all procedures comply with Canadian government contracting principles. IMF had no previous experience with the recipient country contracting procedures and did not consider a contract with a procurement advisor/monitor to act as an independent monitor of the selection, procurement and payment process to ensure due diligence.

7.0 AUDIT FINDINGS AND CONCLUSIONS

The audit identified a number of incidences where due diligence was lacking with respect to DFAIT's initial funding of \$3.8M:

- There was insufficient time to allow the recipient country to put in place a transparent and fair competitive process in the selection of a Canadian Executing Agency (CEA). There was only four days between the issuance of the request for proposal (RFP) and the defacto selection of the CEA;
- Work began two weeks before the contract was signed between the Lebanon government and the CEA;
- There was inconsistency between the MOU (April 2001) and the contract between Lebanon and the CEA which was a "turn-key" contract for a fixed amount to be paid in three installments without submission of invoices. However, the subsequent amendment to the MOU (August 2001) required the Lebanese government to maintain receipts which may be subject to audit by DFAIT. It must be noted that the terms and conditions in the Treasury Board Decision stated that "contributions will normally be paid as reimbursement of actual expenditures incurred on the basis of submitted invoices". Payment requisitions from the Lebanon government were certified under Section 34 of the Financial Administration Act (FAA) by IMF without verifying proof of actual expenditures as DFAIT did not receive the related CEA invoices and supporting documentation from either the Lebanon government or the CEA;
- Section 33 of the FAA was certified by SMFS. SMFS did not, however, conduct a spot check on the Section 34 process to ensure that IMF was following the terms and conditions prescribed by Treasury Board (TB). Sections 4(c) and (d) of the Account Verification Policy stipulate that "Responsibility for the system of account verification and related financial controls rests ultimately with those officers who are delegated payment authority pursuant to FAA Section 33. Financial officers with payment authority pursuant to FAA Section 33, must provide assurance of the adequacy of the Section 34 account verification and be in a position to state that the process is in place and is being properly and conscientiously followed". Given that this was the first time DFAIT applied the recipient country contracting option, and because there was no independent procurement monitor in place, SMFS should have applied a more rigorous Section 33 certification to ensure IMF managers understood their responsibilities under Section 34 with respect to the terms and conditions approved by TB;
- Some of the assets (i.e. computers) purchased were disposed of before being used for the purposes of the Summit. After the event was postponed for a year, most of the goods and equipment were used for other purposes. For example, the computers were made available to the MLC, and the security gates were

used during major events such as the book fair in December 2001. Almost all the goods and equipment were used at the Summit of Arab countries in the spring of 2002. IMF should have ensured that there was an appropriate plan to safeguard the assets for the one year period. Such a task would normally be the duty of a procurement monitor. A large portion of the second contribution of \$250,000 was used to procure assets that had been previously procured, but disposed and transferred to the Government of Lebanon;

- The additional influx of funds in the amount of \$250K was transferred to the Mission under two separate COs. The Mission effectively managed the disbursement of the \$250K during fiscal year 2002-03.

In summary, the Review Team could not assess the appropriateness of the payments made to the CEA during 2001/02 as it was not provided with the relevant supporting documentation from either IMF, the Lebanon government or the CEA. Accordingly, SIX cannot provide assurance that the 2001/02 payments present fairly the eligible costs related to the organization of the Summit as the Department failed to put into place appropriate due diligence practices.

8.0 RECOMMENDATIONS

8.1 Recommendations for IMF

- **A risk assessment relating to the execution of a project should be conducted in order to properly plan for the implementation of the Canadian contribution in developing countries and provide for adequate resources and a means to ensure sound management of the contribution;**
- **A reasonable amount of time must be allowed for the planning, implementation and performance of the tasks of the CEA;**
- **When developing a project management strategy for future summits, IMF should, well in advance of the event, set up a project management team of professionals from various disciplines within DFAIT to examine the various delivery/contracting options available for the design and delivery of such initiatives. The pros and cons of each option, including their inherent risks, should be thoroughly examined before making a final decision;**
- **For future contribution programs where the option of recipient country contracting is chosen, IMF should first select an independent procurement monitor to:**

- a) review the recipient country's contracting process to ensure that all procedures comply with the principles of fairness, competitiveness and transparency; and,
 - b) to perform a full account verification of the bills paid to a supplier, or an executing agency, in support of DFAIT's certification under Section 34 of the Financial Administration Act (FAA);
- Ensure that the MOU between the Canadian government and the host country provides for the requirement to have an audit clause in all subsequent agreements between the host country and third parties; and;
 - Ensure that the MOU between the Canadian government and the host country respects the TBS policies and regulations.

8.1 IMF Responses

As indicated in the report, IMF had to manage Canada's contribution to the Beirut Summit in emergency mode, since Canada's \$4 million contribution was announced barely six months before the Summit was held. Under the circumstances, CIDA, which normally managed the contribution, preferred to transfer this responsibility to DFAIT. The events of September 11, 2001 led to the postponement of the Summit, which added to the complexity of managing this contribution.

IMF recognizes that an inconsistency between the memorandum of understanding signed with Lebanon stipulating that vouchers be made available to Canada in connection with the use of the funds, and the turnkey contract signed by Lebanon with the CEA-lump sum, definite and firm-made review of such vouchers impossible without the consent of the CEA.

IMF endorses all of the report's recommendations:

- A review of the risks associated with implementation should be carried out to ensure sound management of the contribution.
- Provision should be made for a reasonable time frame for the purpose of planning, implementing and carrying out the tasks of the CEA, although this is not the exclusive responsibility of IMF.
- A team of DFAIT professionals in various areas of expertise should be set up in future to review the various options available for the design and completion of this type of project. This recommendation has already been applied to the Canadian contribution to the next Summit, to be held in Ouagadougou, Burkina Faso, and it was decided that CIDA was better

equipped than DFAIT to carry out this task. The file has therefore been transferred to CIDA.

8.2 Recommendation for SMFS

SMFS should periodically challenge the adequacy of the Section 34 process as it pertains to unconventional contribution agreements.

8.2 SMFS Response

Since the subject contribution agreement, the Department's Centre of Expertise (CoE) for Grants and Contributions is fully operational. The CoE offers an advisory, reviewing and approval service to those programs that wish to participate. Most program managers are utilizing this new service and the results to date are very encouraging with the identification and prevention of potential problems prior to their occurrence. The recommendation will be expanded to ensure that program managers are aware of their responsibilities under Section 34 of the FAA with regard to non-conventional non-assessed transfer payments.

The SMFS audit of the payment requisition will ensure that the CoE's recommendations are reflected in the resulting agreements and payments to non-conventional non-assessed transfer payments.