OFFICE OF INSPECTOR GENERAL

AUDIT OF USAID/INDONESIA'S STRENGTHENING INTEGRITY AND ACCOUNTABILITY PROGRAM I

AUDIT REPORT NO. 5-497-14-006-P
SEPTEMBER 12, 2014

MANILA, PHILIPPINES

Office of Inspector General

September 12, 2014

MEMORANDUM

TO: Acting USAID/Indonesia Mission Director, Derrick Brown

FROM: Acting Regional Inspector General/Manila, Steven Ramonas /s/

SUBJECT: Audit of USAID/Indonesia's Strengthening Integrity and Accountability Program I (Report No. 5-497-14-006-P)

This memorandum transmits our final report on the subject audit. We have considered carefully your comments on the draft report and included them in Appendix II. The report includes five recommendations to help the mission address problems found in our audit of the Strengthening Integrity and Accountability Program I.

The mission agreed to take action on Recommendation 3 through 5 and disagreed with Recommendations 1 and 2. We conclude that management decisions have been reached on Recommendations 1, 2, 3, and 5. Final action has been taken on Recommendations 1 and 2. We disagree with the mission's decisions on Recommendations 1 and 2, and explain why in our evaluation of management comments.

Please provide the Audit Performance and Compliance Division of USAID's Office of the Chief Financial Officer with documentation of final action on the remaining recommendations when available.

Thank you and your staff for the cooperation and courtesies extended to us during this audit.

U.S. Agency for International Development
Annex 2 Building
U.S. Embassy
1201 Roxas Boulevard
1000 Ermita, Manila, Philippines
http://oig.usaid.gov

CONTENTS

Summary of Results 1

Audit Findings 4

Demand-driven Focus Hampered Performance Management 4

Lack of Host-government Support Prevented Implementation of Fraud Control System 5

Program's Sustainability Is Questionable 7

Evaluation of Management Comments 9

Appendix I—Scope and Methodology 11

Appendix II—Management Comments 13

Appendix III—Indicator Results Versus Targets 20

Abbreviations

The following abbreviations appear in this report:

BPK	Badan Pemeriksa Keuangan
FCS	fraud control system
KPK	Komisi Pemberantasan Korupsi
MOU	memorandum of understanding
MSI	Management Systems International
NGO	nongovernmental organization
PMP	performance management plan

SUMMARY OF RESULTS

According to USAID, Indonesia made a successful transition to democratic politics after the end of the Suharto era in 1998. Yet weak rule of law, lack of transparency and accountability in government, dysfunctional intergovernmental relations, and the strong role money plays in politics continue to threaten that transition, as well as development and economic growth.

To help the Southeast Asian nation overcome these impediments, in January 2011 USAID/Indonesia awarded a 5-year, $13.6 million cooperative agreement to Management Systems International (MSI) to implement the Strengthening Integrity and Accountability Program I.[1] USAID increased the award to $17.6 million in June 2013.

The program consists of two components:

1. Supporting key accountability agencies—such as and *Badan Pemeriksa Keuangan* (BPK), Indonesia's supreme audit institution and *Komisi Pemberantasan Korupsi* (KPK) (Corruption Eradication Commission)—in their efforts to strengthen integrity and accountability[2] in government

2. Bolstering political accountability by supporting efforts to curb the use of money by various political parties to win votes.

Some 69 percent of the program budget went to support for BPK and KPK. As of December 2013, USAID/Indonesia had obligated $9.5 million and disbursed $7.9 million for the program.

The Regional Inspector General (RIG)/Manila conducted this audit to determine whether USAID/Indonesia's Strengthening Integrity and Accountability Program I was achieving its main goal of contributing to democratic governance and economic growth by strengthening the integrity and accountability of government agencies. The audit concluded that it was.

For example, it provided beneficiary agencies with various forms of technical assistance. The Indonesian Government's 2011-2015 plans for BPK and KPK called for building the professional capacity of their employees. To support the plans, the program provided training courses and assessments, which included audits and studies. In September 2013 former executives from the U.S. Government Accountability Office taught a course on performance auditing to 83 BPK auditors. The program also provided certified fraud examiner preparation to 35 BPK employees in 2012 and 16 KPK employees in 2013.

KPK and BPK's plans prioritized communications to build awareness and maintain public support. At the request of KPK, the program produced "Kita vs. Korupsi" (Us vs. Corruption), a group of four short films that targeted urban youth. About 515,000 people saw the film in

[1] Cooperative Agreement No. AID-497-A-II-00001, signed January 28, 2011.

[2] The program defines integrity as a "set of laws, procedures, incentives and norms that create an environment that discourages corruption and malfeasance and rewards lawfulness and professionalism." It defines accountability as a relationship in which citizens, politicians, and government officials have the power to oversee other politicians and government officials, and have the ability to impose consequences for wrongdoing.

theaters and online by the end of 2012. The program uploaded the film to YouTube, as shown in the screenshots below.

Screenshots of "Kita vs. Korupsi" on YouTube

These short films present instances of corruption that occur in everyday life. (Screenshots taken by RIG/Manila, June 26, 2014 and September 9, 2014)

However, the audit found that the program missed several performance targets during the first 3 years, which could diminish its impact. This happened because of problems with how USAID and MSI managed the program.

- The program's demand-driven focus hampered performance management (page 4).
- Lack of host-government support prevented implementation of a fraud control system (FCS)[3] at BPK (page 5).
- Sustainability is questionable because the program was not tracking it or addressing a key obstacle to achieving it (page 7).

Because the mission is not considering a follow-on program, we have five recommendations to expand and sustain the current program's efforts.

[3] A fraud control system is a set of policies and procedures designed to prevent, detect, and investigate fraud at every level of an organization. A system could include a fraud risk profile to help allocate resources to areas that pose the greatest risk, an organizational culture that combats fraud, and a way to report wrongdoing that protects whistleblowers.

1. Conduct a comprehensive review of the program's strategy, and use the results of the review to align objectives and performance targets with activities (page 5).

2. Obtain a written commitment to implement an activity, signed by the highest decision-making authority in a beneficiary organization, before approving and funding it (page 7).

3. Require MSI to report on sustainability in all remaining program annual reports. The final report should ex plain which results are sustainable and why (page 8).

4. Report on sustainability in all remaining portfolio reviews of the program (page 8).

5. Conduct a final evaluation that focuses on sustainability (page 8).

Detailed findings appear in the following section. Appendix I contains information on the scope and methodology. OIG's evaluation of management comments is included after the audit findings, and the full text of management comments is in Appendix II. A table of the program's indicator results for the first 3 years is in Appendix III.

AUDIT FINDINGS

Demand-driven Focus Hampered Performance Management

USAID's Automated Directives System (ADS) 203.3.9, "Setting Performance Baselines and Targets," states that targets should be ambitious, but achievable. Moreover, the mission should maintain the performance management plan (PMP) so that indicator reference sheets reflect changes to indicators and targets. As explained in ADS 203.3.2, "Performance Monitoring," comparing targets to actual results is critical to determine whether a program is achieving its objectives and whether the objectives need to be changed.

In describing the approach of Strengthening Integrity and Accountability Program I, the chief of party said it was "demand-driven." A USAID official said the mission made concerted efforts to tailor the program's activities to the needs and priorities of the Indonesian agencies. For example, in June 2013 USAID approved $2 million in additional funding for various program activities the government requested. These included training in basic skills for 300 KPK investigators and developing a "mystery shopper" to monitor the quality of government services to the public.

During the third year, the program tracked performance with 13 indicators and impact with 2 (Appendix III). The performance indicators tracked results from training, assessments, and public outreach. However, after 3 years, the program missed targets for three of six output indicators and five of seven intermediate result indicators.[4] The program also did not reach the midpoint target for the two impact indicators.

Due to the demand-driven focus, the program did report outperforming targets in training activities, but fell short of other performance targets. It trained 2,077 people from government agencies in 3 years, which was 519 percent of the target, and 1,333 people from nongovernmental organizations (NGOs), exceeding the 3-year target by 78 percent.

In terms of performance, support for KPK was the largest subcomponent of the program, but intermediate results for assessments *(Number of recommendations to improve capacity of KPK adopted by leadership*) fell short of the 3-year target of 30 by 23 percent. Activities in support of the Office of the Ombudsman, Central Information Commission, and Ministry for Bureaucratic Reform had mixed results: while the program met the target for training people at the agencies, the training did not lead to the expected outcome (measured by *Number of complaints resolved with niche anticorruption agencies*), which missed the target of 4,879 by 24 percent.

Finally, with 2 years left, the program is falling short of targets for impact, as measured by scores for Corruption Perception and National Integrity indexes, although both showed gradual improvement since the program began.

According to a mission official and mission records, the program had difficulty adhering to work plans because accommodating the agencies' requests and changes affected scheduling and

[4] According to ADS 200.3.5.3, "Results Framework," intermediate results are results that are sufficient to achieve development objectives and serve as the basis for programs. Intermediate results indicators are performance indicators used to assess the outcomes of program activities.

recruiting consultants. Moreover, the official said an ambitious program might have taxed MSI's ability to deliver all activities as planned.

In the third year, USAID and MSI acknowledged the problems that came from the demand-driven focus. The mission's fiscal year 2014 portfolio review said USAID/Indonesia's approach to program management made it difficult to make long-term plans due to government beneficiaries changing plans at the last minute about content or schedule dates. MSI stated in the Year 3 work plan that "while all of the [activities] were beneficiary-driven and valuable, [the program] believes that such a proliferation of programming is not optimal."

USAID's focus on responding to requests for activities, such as specific trainings, from the Indonesian Government was rooted in the politic climate: a mission official said the government wanted to demonstrate to the world that it had made progress in combatting corruption. The country was receiving increased attention in this area because of the July 2014 presidential elections and its membership in the steering committee of the Open Government Partnership, an initiative led by governments and civil society organizations to fight corruption and improve transparency.

During the first 3 years, USAID and MSI struggled to find the right balance between being responsive and executing a strategy. The program's widely varying results illustrates this challenge. As a result, USAID is left without a reliable means of evaluating performance and the program's official results may not reflect the accomplishments.

To address this issue, we make the following recommendation.

> ***Recommendation 1****. We recommend that USAID/Indonesia conduct a comprehensive review of the strategy for the Strengthening Integrity and Accountability Program I, and use the results of the review to align objectives and performance targets with activities.*

Lack of Host-government Support Prevented Implementation of Fraud Control System

During the program's first year, MSI made implementation of FCS at BPK a key component. The first year was spent designing the system, and the second year was spent testing it and training employees to use it, in keeping with the goal of eventually expanding FCS to the rest of the agency's 68 units[5] throughout the country. In May 2011 MSI added an indicator to the PMP to track implementation and then added three more in April 2012.

A group of senior managers at BPK had asked MSI for support in designing and implementing FCS at the agency. The idea came from the Australian National Audit Office, which had an on-site adviser at BPK. The managers said they had two goals for the system: (1) to serve as a model of best practices for other government agencies, and (2) to improve BPK's performance audit capability.

The key milestone in the first year was completing the draft of an implementation manual, which the BPK vice chairman presented to the board of directors in October 2011. Anticipating the

[5] Even though the 3-year target was to implement in 17 units (as shown in Table 1), the program goal was to implement FCS within the agency's 68 units.

board's approval, MSI tested the FCS at two sites in 2012 and also trained employees from BPK units throughout Indonesia on how to implement the system and presented more training courses than planned by the end of the year.

BPK's board, however, did not approve the FCS. The BPK managers with whom MSI had planned the system did not want to proceed without the board's blessing. So MSI revised its work plan halfway into Year 2 and pursued a piecemeal approach that focused on parts of the system, accompanied by more training courses and another assessment.

By Year 3, full implementation was no longer in the annual work plan, yet MSI made more edits to the manual and trained an additional 68 BPK employees.

The 3-year results for indicators tracking the implementation of the system summarize this outcome, as shown in the table below.

Table 1. Indicator Results Versus Targets, 2011-2013 (audited)

Indicator	3-Year Target	3-Year Cumulative Result	Variance (percent)
Training activities on the BPK fraud control system conducted with support from [the program]	15	26	73
Reported allegations of fraud received by BPK inspectorate	34	2	(94)
BPK units implementing the Fraud Control System	17	2	(88)

The primary reason that BPK did not implement FCS was because the agency's board of directors did not support it. The reason was unknown, and in any event, not within USAID's control. The program did not identify the issue with the board before planning FCS because the program did not establish a memorandum of understanding (MOU) for FCS and was unclear on who had the authority to implement the system.

No MOU. The chief of party said the program did not undertake activities without a previous agreement. However, the agreements were not always in writing or signed by the highest level of management in the organization. For example, KPK and the Central Information Commission signed an agreement with the program, but the Ombudsman's Office did not. A mission official explained that an MOU is symbolically important, even if not legally binding. As a result, the mission was receiving so many requests for MOUs that it gave the chief of party the authority to sign them on behalf of the program

Unclear authority. The managers at BPK were not expecting the board to turn down FCS. They believed they had the authority to implement it because operations fell under their jurisdiction. They explained that the board's reaction to FCS showed them that the division of authority between them as senior managers (career civil servants) and the board (politicians representing the political parties) was "not supported by a legal framework."

Because the system probably will not be implemented as planned, it is no longer a goal of the program. In February 2014 MSI submitted a new PMP[6] to USAID that included 5-year program targets, but did not include the two intermediate result indicators for FCS.

Program funds spent on developing the manual and training 340 BPK personnel on FCS implementation may be lost[7] because MSI did not require BPK's board of directors to sign an MOU to implement the system, which would have alerted MSI that political support for the initiative was both necessary and lacking. Some activities, such as creation of a whistleblower program, may help BPK eventually. The other goal for the system—to enable BPK to serve as a role model for other agencies—cannot be achieved unless all components of FCS are implemented.

To reduce the likelihood of a similar occurrence in another area of the program during its remaining 2 years, improve the chances of achieving program goals, and strengthen the stewardship of public funds, we make the following recommendation.

> ***Recommendation 2****. We recommend that USAID/Indonesia obtain a written commitment signed by the highest decision-making authority in a beneficiary organization to implement an activity before approving and funding it under the Strengthening Integrity and Accountability Program I.*

Program's Sustainability Is Questionable

Several components comprise the Strengthening Integrity and Accountability Program I's sustainability strategy, including training-of-trainers and working with reform "champions" within the beneficiary organizations. By working with internal champions, the program promotes and instills local ownership of activities, increasing the likelihood of sustainability. The cooperative agreement also required cost share of $650,000 over 5 years. USAID officials said the cost-share's purpose was to promote support and sustainability.

USAID and other international donors have said the primary constraint to development in Indonesia is lack of expertise to manage financial and human resources well rather than lack of funds. For anticorruption agencies, another constraint is politics. Ostensibly well-funded agencies like KPK and BPK still rely on donors to finance their training and public outreach because their budgets are controlled by Parliament, whose members can be subjects of corruption investigations. MSI reported that KPK's budget for outreach was cut in 2013.

The audit found that the program worked with reform champions on many activities and used training-of-trainer methodology in some training. For example, the commissioners at the Central Information Commission trained in mediation and adjudication were expected to train their successors. Another example was a corruption trial monitoring activity in 2011 that KPK is now continuing without program support.

On the other hand, these approaches were not consistent. The program supported a preparation course for 16 KPK investigators who passed the certified fraud examiner test in

[6] USAID had not yet approved the new PMP at the time of the audit.
[7] The audit could not verify the amount spent on these activities because the program does not track costs at the activity level, only at the subcomponent level.

2013. A KPK official said various donors had been supporting the course that consultants led for KPK since 2006 because the training-of-trainer approach was not used.

The program's overall sustainability is questionable for two reasons. First, it was not addressing the political obstacles that prevent BPK and KPK from paying for their own training and public outreach. Although the agencies receive financial support from various international donors for training, two donors we interviewed said they do not pay for certain types of outreach activities that the program does, like film production.

Second, the program did not have ways to measure sustainability for many training, assessment, and outreach activities, as listed below.

- While training-of-trainer is a key element of MSI's sustainability strategy, the program had no indicators for it.

- The program used recommendations implemented to track increased capacity at the recipient organization, which would indicate some degree of sustainability. However, it tracked this at only one agency, KPK.

- The program stopped tracking *Number of U.S. government-supported anti-corruption measures implemented* at the end of the second year.

- The program stopped tracking public awareness resulting from outreach activities after the first year.

In addition, MSI's annual reports and USAID's portfolio reviews did not mention progress toward sustainability, even though mission officials said it was a priority.

MSI reported on cost share, as required, but did not link it to the sustainability strategy. Moreover, even as USAID's funding increased 29 percent from $13.6 million at inception to $17.6 million in June 2013, the total cost share remained static at $650,000, 3.6 percent of the increased award amount.

Not making sustainability a priority in the program's last 2 years risks the progress and momentum it has created. Because the program is past its midpoint, adding new indicators would not be worthwhile. However, since USAID did not conduct a midterm evaluation, it should consider conducting a final evaluation that focuses on sustainability. To increase the chances of sustaining the program's efforts, we make the following recommendations.

Recommendation 3*. We recommend that USAID/Indonesia require Management Systems International to report on sustainability in all remaining annual reports of the Strengthening Integrity and Accountability Program I. In addition, USAID/Indonesia should instruct Management Systems International in writing to identify in the program's final report which results are sustainable and why.*

Recommendation 4*. We recommend that USAID/Indonesia report on sustainability in remaining portfolio reviews of the Strengthening Integrity and Accountability Program I.*

Recommendation 5*. We recommend that USAID/Indonesia conduct a final evaluation, focusing on sustainability, of the Strengthening Integrity and Accountability Program I.*

EVALUATION OF MANAGEMENT COMMENTS

USAID/Indonesia agreed with Recommendation 3 through 5 and disagreed with Recommendations 1 and 2. We acknowledge management decisions on Recommendations 1, 2, 3, and 5. Our evaluation of management comments follows.

Recommendation 1. The mission disagreed with the recommendation to conduct a comprehensive review of the program strategy and use the results to align objectives and performance targets with activities. It did not propose to take any action to address the recommendation.

While we acknowledge that the mission has reached a management decision and taken final action, we disagree with the decision. The recommended action would ensure that the program's performance targets reflected what it was truly trying to achieve. For example, one action that would support the recommendation would be to increase the targets for training. The Year 4 draft PMP that MSI submitted to USAID in February 2014 had 5-year targets for two training indicators that were lower than the cumulative results for the first 3 years.

Recommendation 2. The mission disagreed with the recommendation to require written commitments from beneficiaries to implement an activity before approving and funding it. The mission did not propose an alternative action.

While we acknowledge that the mission has reached a management decision and taken final action, we disagree with the decision. The mission contended that requiring beneficiaries to sign an MOU was impractical and would impose constraints on the program's ability to complete activities on time. While we understand the concern for activities already approved or ongoing, we do not agree that obtaining an MOU would limit flexibility. An MOU is a symbolic document that does not imply a legal commitment, yet it expresses agreement between parties and allows a great deal of latitude in its design.

Recommendation 3. The mission agreed to require MSI to address sustainability in the program's final report. However, the mission pointed out that the final report would not be completed within 1 year of the audit report's issuance. For this reason, we amended the report to recommend that USAID/Indonesia instruct MSI in writing to address sustainability in the final report. The mission has already stated it plans to do this with a target date for completion of September 30, 2015. We acknowledge that the mission has reached a management decision.

Recommendation 4. The mission said that the program expects to achieve higher-level results only if the reforms the mission supports are sustained by demand from the Indonesian public and resources from its government. The mission described a series of planned actions and set a target date for completion of September 30, 2015. However, the mission did not say what steps it plans to take to report on sustainability as part of the program's remaining portfolio reviews. Therefore, the mission has not reached a management decision.

Recommendation 5. The mission said it approved a peer review evaluation of Indonesia's efforts to promote open, accountable governance. The mission said this would be carried out by

Organization for Economic Cooperation and Development and would begin by the end of the fiscal year; it will include most program-supported activities and address sustainability. The target date for completion is September 30, 2015. We acknowledge that the mission has reached a management decision.

SCOPE AND METHODOLOGY

Scope

RIG/Manila conducted this audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions in accordance with our audit objective. We believe that the evidence obtained provides that reasonable basis.

The objective of the audit was to determine whether USAID/Indonesia's Strengthening Integrity and Accountability Program I was achieving its main goal of contributing to democratic governance and economic growth by strengthening the integrity and accountability in government agencies. USAID/Indonesia had obligated approximately $9.5 million and disbursed $7.9 million under the program, as of December 31, 2013.

The audit examined activities carried out under the first of two components, to which the program allocated $15.2 million, 89 percent of the Agency's total contribution over 5 years (excluding cost share). Under Component 1 the program supported BPK, KPK, and other Indonesian Government agencies with training, assessments, and public outreach. The audit also reviewed cost share, which represented 3.6 percent of the total estimated cost of $17.6 million.

The audit team interviewed or obtained supporting documentation from officials representing USAID/Indonesia, MSI, four beneficiary agencies, an NGO subgrantee, and two other international donors.

We conducted audit fieldwork from February 24 to March 20, 2014. The audit covered activities carried out during the first 3 years of the program, from January 2011 through January 2014. Discussions took place in Jakarta.

In planning the audit, the team assessed the program's internal controls, particularly for monitoring and reporting. These included monitoring procedures, and quarterly progress and site visit reports. Finally, we examined the mission's fiscal year 2013 annual self-assessment of management controls, which the mission was required to perform to comply with the Federal Managers' Financial Integrity Act of 1982.

Methodology

To answer the audit objective, we obtained an understanding of the program, PMP, and results by examining documentation, including the cooperative agreement and modifications between the mission and MSI, and annual work plans and performance reports. We examined requirements in the cooperative agreement and subsequent modifications, and relevant chapters of ADS. The audit team interviewed USAID/Indonesia officials from the mission director's office, Office of Financial Management, Office of Acquisition and Assistance, and the Office of Democratic Governance.

We also interviewed officials from BPK, KPK, the Central Information Commission, and the Office of the Ombudsman. A member of our team conducted a site visit to observe a training course in progress for KPK investigators. We interviewed senior BPK officials who brought the idea for FCS to MSI and helped plan and design it. We did not interview members of the BPK board of directors or the vice chairman who acted as the liaison between MSI, BPK officials, and the board during the planning and implementation of FCS.

To gain an understanding of the program's operating environment and assess its strategy and activities, we interviewed officials from two other international donors: the German Society for International Cooperation, which was supporting KPK, and the Australian National Audit Office (part of the Australian Department of Foreign Affairs and Trade), which was supporting BPK.

In assessing the status of the activities carried out under the agreement, we reviewed progress reports covering the first 3 years (January 2011 through January 2014), supplemented by interviews conducted with representatives from the mission, MSI, and beneficiary agencies. To validate data for the activities, the auditors cross-referenced reported results against supporting documentation, and then corroborated them in interviews. The audit team also reviewed independent reports to verify impact indicator results. After verifying them, the team compared progress reports to work plans, award documents, and strategy documents to see whether there were any problems with implementation.

The team judgmentally selected 11 of 15 performance indicators to assess whether the program was achieving its goals and to verify the reliability of the results reported in the PMP. We selected indicators to obtain a mix of training, assessment, and public outreach activities. We performed a judgmental selection because we did not need to project the results. Therefore, the results of the performance indicator testing cannot be extrapolated to the entire universe of a particular indicator or to the entire universe of indicators. We believe the selection provides a reasonable basis for our conclusions.

MANAGEMENT COMMENTS

USAID | INDONESIA
FROM THE AMERICAN PEOPLE

MEMORANDUM

TO: Matthew Rathgeber
Regional Inspector General/Manila

FROM: Derrick S. Brown /s/
Acting Mission Director, USAID/Indonesia

SUBJECT: Audit of USAID/Indonesia's Strengthening Integrity and Accountability I Program (SIAP-1) Report No. 5-497-XXX-P

DATE: August 20, 2014

This memorandum conveys USAID/Indonesia's management response to the above referenced Office of Inspector General (OIG) audit report of the SIAP-1 program, implemented by Management Systems International (MSI), dated July 18, 2014. The Mission thanks the OIG audit team for its professionalism and the opportunity to use the program audit as a management tool to improve program performance. USAID/Indonesia agrees with the audit report conclusion that the SIAP-1 program is achieving its main goal of contributing to democratic governance and economic growth by strengthening integrity and accountability of Indonesian government agencies.

USAID/Indonesia's specific comments and responses to the audit's five recommendations are provided below. In addition, since the audit team's field work and exit briefing on March 20, 2014, USAID/Indonesia and MSI have taken several measures to address the findings highlighted during the field work. These also are reflected below to suggest possible solutions to challenges that we agree would result in improved program performance.

Recommendation 1: *We recommend that USAID/Indonesia conduct a comprehensive review of the strategy for the Strengthening Integrity and Accountability Program 1, and use the results of the review to align objectives and performance targets with activities.*

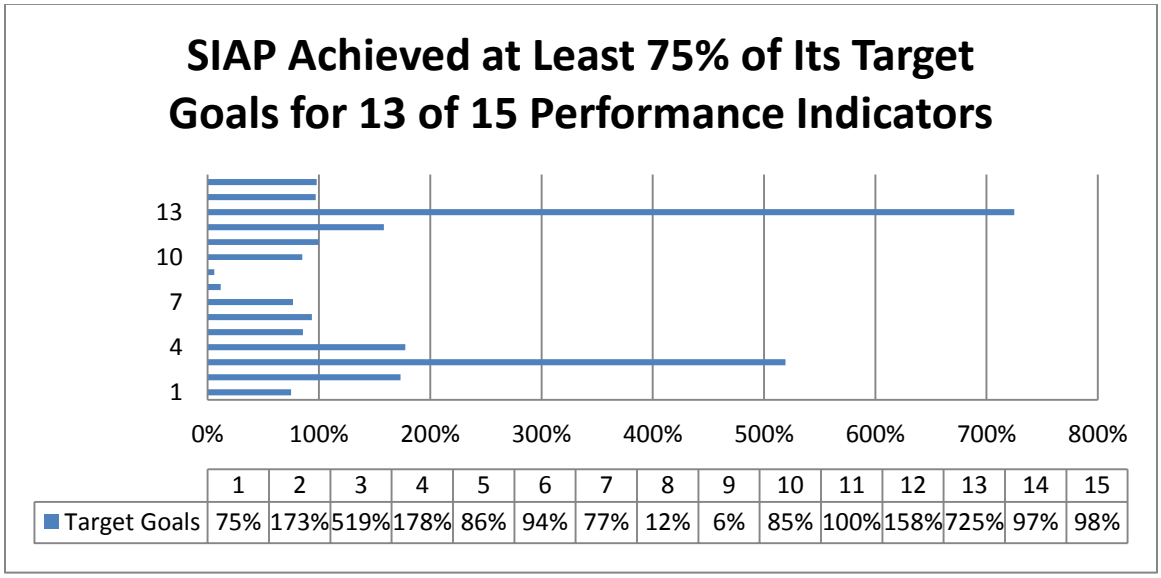
Mission Response: USAID/Indonesia does not agree with this recommendation. As this was a performance audit, USAID/Indonesia expected the Regional Inspector General (OIG) team to provide a more tailored review of how best to improve program effectiveness and efficiency

during remaining period of program implementation. Instead, the OIG redirects this responsibility back to the Mission and concludes that it should conduct its own comprehensive review of the program and realign it as appropriate.

The performance indicators demonstrate that the strategy is working. The OIG report finds that after three years, the program "missed targets for 3 of 6 output indicators and 5 of 7 intermediate results indicators …. and two impact indicators." By using essentially a "pass/fail" assessment of SIAP-1's performance indicators at a mid-point review, the OIG has applied a rigid and narrow methodological approach. Mission management believes that this results in an inaccurate assessment of the program's results. We believe that the following interpretation provides a more accurate way of assessing the extent to which SIAP-1 achieved its performance targets, based on the actual data in the OIG report (Appendix III). In our view, indicators that approach or exceed the 100% threshold represent considerable success that is not recognized in the OIG report.

Except for the performance indicators related to the Fraud Control System (8 and 9), SIAP-1 achieved considerable success in reaching its performance targets. SIAP-1 achieved at least 75 percent of its target goals for 13 of 15 performance indicators as shown in Table 1 below.

Table 1



	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Target Goals	75%	173%	519%	178%	86%	94%	77%	12%	6%	85%	100%	158%	725%	97%	98%

For several indicators, SIAP-1 only fell short of achieving 100% compliance because the indicators suffer from a distortion created by relying on small units of measurement. A minor change can produce wide variances in the results. For example, if SIAP-1 had helped draft ONE more election law (indicator 5) and ONE more political finance recommendation (indicator 6), it would have achieved a 100% target rather than the commendable if not perfect rates of 86 and 94 percent, respectively.

In addition, attributing the program's minor problems to a "demand driven focus" is a *cause* lacking any *conditions* or *criteria* and supporting an unsubstantiated bad *effect*. Based on the data cited in the OIG report, the key audit finding would be more accurate as follows: The

SIAP-1 program established ambitious but achievable performance targets (criteria) and achieved at least 75% of these targets in 13 of 15 performance indicators (condition) at the project's mid-point. These achievements resulted (cause) from the program's cooperative working relationships with its key clients and focus on meeting the needs of the intended beneficiaries. As a result (effect), the program has contributed to democratic governance and economic growth by strengthening the integrity and accountability of Indonesian government agencies. Finally, opportunities presented by a new government administration, which takes office on October 20, 2014, will allow minor adjustments in activities through the final year work plan to further enhance performance.

Recommendation 2: *We recommend that USAID/Indonesia obtain a written commitment signed by the highest decision-making authority in a beneficiary organization to implement an activity before approving and funding it under the Strengthening Integrity and Accountability Program 1.*

Mission Response: USAID/Indonesia does not agree with this recommendation. That said, the Mission is pleased that the audit team focused on the Fraud Control System (FCS) based on an appreciation of its importance, compared to the many other initiatives undertaken by SIAP-1 with the Indonesia's supreme audit agency, BPK. The OIG report finds that the primary reason that BPK did not completely implement the FCS was because BPK's Board of Directors (Board) did not support the initiative. The report contends this was due to the lack of a formal Memorandum of Understanding (MOU) between SIAP-1 and BPK, as well as not having a clear understanding of who had the authority to implement the system.

USAID/Indonesia agrees that the SIAP-1 program did not fully achieve two indicators related to the implementation of a Fraud Control System within BPK. However, the lack of a signed MOU between BPK and the SIAP-1 program does not explain the challenges surrounding the implementation of the FCS. We also believe that use of a signed MOU does not represent a flexible approach required for future project activities intended to sustain the program's accomplishments over its remaining two years.

SIAP-1 did receive support to develop and implement an FCS from two of BPK's highest ranking officials – the Board's Vice Chair and the Chief of Staff. Prior to these endorsements, the program undertook extensive outreach to understand BPK's critical needs and align SIAP-1 funded activities to its strategic goals, objectives and priorities. The outreach was not static but continuous as the SIAP-1 program matured and both BPK and SIAP- 1 adjusted their engagement to take advantage of joint opportunities.

The reasons the Board did not accept the FCS full implementation are unclear – no USAID or program representative attended the Board meeting where the nine politically appointed Board members discussed full implementation of the FCS. Furthermore, to our knowledge, the audit team did not discuss the Board's decision with any BPK representatives. Specifically, the OIG draft report's methodology section states that "the OIG did not interview members of the BPK board of directors or the vice chairman who acted as the liaison between MSI, BPK officials and the board during the planning and implementation of FCS."

It is, thus, purely speculative for the OIG to conclude that the Board's rejection of full FCS implementation was caused by the lack of an MOU between the SIAP-1 program and BPK. In fact, the lack of an MOU between SIAP-1 and BPK did not prevent the program from successfully achieving its performance goals related to FCS training. The program trained 67 BPK units and 648 staff on the Fraud Control System – exceeding its performance targets.

Furthermore, based on USAID/Indonesia's oversight and monitoring of this activity, when the SIAP-1 program encountered challenges in implementing all 10 FCS components at once, it appropriately adjusted its strategy. SIAP-1 and BPK are now focusing on implementing the risk assessment component of the FCS, first, to develop a foundation for successful implementation of the remaining components. Accordingly, key indicators for the FCS are being revised to reflect the client's changing needs and circumstances. SIAP- 1 continues to seek ways to ensure FCS implementation. Specifically, three of BPK's new Board members will participate in an exchange visit to the United States in September 2014. At BPK's suggestion, a key topic during the exchange visit will be fraud control systems in the US. Furthermore ITAMA, BPK's Principle Auditorate (the equivalent of a U.S. Inspector General), has become more engaged on fraud risk assessments, a key element in a FCS. Most importantly, ITAMA has agreed to establish FCS as an umbrella program within BPK's internal reform agenda.

USAID/Indonesia believes that the OIG's recommendation for written commitments between the SIAP-1 program and beneficiary organizations is not based on sufficient and appropriate evidence. Furthermore, we are concerned that such an approach imposes a constraint on the program's efforts to complete activities with the program's remaining time period. Mission Management believes that introducing new requirements with established clients will expend time and resources better spent on completing the established activities detailed in the December 2013 approved work plan for year 4 and the activities expected for 2015 that will continue or complete current activities.

In those cases where it has been programmatically advantageous and workable, SIAP- 1 has actively engaged its other Government of Indonesia (GOI) beneficiaries to sign MOUs. However, implementing the OIG's "MOU before programming" recommendation and making further cooperation contingent on these agreements is inflexible and impractical, and should only be considered on a case-by-case basis.

For Recommendations 3, 4 and 5, which are all related to sustainability, we believe they should be combined into one recommendation. This would be much more efficient and eliminate unnecessary duplication of efforts. We propose a single recommendation (i.e., a new Recommendation 3) as follows: " We recommend that USAID/Indonesia track sustainability by: (a) requiring Management Systems International to report on sustainability in all remaining annual reports of the Strengthening Integrity and Accountability Program 1; (b) reporting on sustainability in remaining portfolio reviews of the Strengthening Integrity and Accountability Program 1." USAID's specific responses to Recommendations 3, 4 and 5 are provided below.

Recommendation 3: *We recommend that USAID/Indonesia require Management Systems International to report on sustainability in all remaining annual reports of the Strengthening*

Integrity and Accountability Program 1. In addition, the final report should explain which results are sustainable and why.

Mission Response: USAID/Indonesia agrees that annual reporting should reflect sustainability prospects by identifying obstacles and recommended course of action to help ensure that results achieved have an enduring quality to them. Since the final report on SIAP-1 is likely to occur in early 2016, the Mission is concerned that closing of the OIG report's recommendations will not be possible until mid-2016, well beyond the one year window that we are required to address recommendations. Nevertheless, the larger issue here that USAID/Indonesia would like to raise is that it does not concur with the inference that the program's sustainability is questionable. We respectfully disagree with the report's findings that the program was not addressing the political obstacles that prevent the Anti-Corruption Commission (KPK) and BPK from paying for their own training and public outreach and that the program did not have ways to measure sustainability for many training, assessment, and public education and outreach activities.

The report offers no criteria, incorporates anecdotal information, and presents incorrect findings to support its conclusions on sustainability.

- The OIG criticizes the program's lack of a sustainability plan yet provides no criteria defining the key elements of such a plan and therefore the criteria the OIG used to reach its conclusions. Did the OIG use best practices from other agencies or the private sector to determine the appropriate criteria for assessing sustainability efforts within a USAID project? What are the specific elements that should be included in a sustainability plan? The report's methodology section does not articulate any criteria that the OIG used in assessing program sustainability efforts. Lacking criteria, the OIG offers anecdotal and testimonial evidence as the basis for its conclusions.
- The OIG contends that the program did not address political obstacles that prevent KPK and BPK from paying for their own training and outreach. Are addressing political obstacles part of the criteria that sustainability plans should address? What are the specific political obstacles that OIG observed and how would the OIG expect USAID /Indonesia to address them?
- The OIG states that two other donors interviewed for the audit do not fund certain public education and outreach activities that the SIAP-1 program does. Is testimonial evidence from two sources the criteria upon which the OIG used to conclude that the SIAP-1 program should not have funded these activities? Under auditing standards, testimonial evidence is considered the weakest form of evidence. In addition, more than just two donors are engaged in this type of cooperation. For example, Denmark's development cooperation agency, Danida recently agreed to support another large-scale outreach effort for KPK, while the World Bank and the Germans have supported similar efforts in the past. Further, best practice in donor coordination would suggest that some donors may take on selected activities while others concentrate in other areas and the fact of a particular donor's absence does not seem strong evidence that the activity should not be funded.
- The OIG criticizes the program's static $650,000 cost share in light of the 29% increase in the program's overall budget and warns that "this decreased overall share could weaken any potential link between cost share and sustainability." This statement is not

supported by data provided to the auditors. As of April 2014, SIAP- I had collected approximately $377,000 in cost share through its implementing partners. In addition, government beneficiaries and private partners contributed over $300,000 in the form of in-kind contributions. Accordingly, SIAP-1 expects to exceed its cost share target by the end of the program. The link between cost and sustainability is therefore strengthened by these noteworthy program accomplishments.

Despite the limitations inherent to the sustainability raised in the OIG report, USAID/Indonesia intends to articulate a sustainability approach to guide the project's remaining years and institutionalize its key accomplishments. A senior MSI Technical Director was already planning to conduct a sustainability review and draft a sustainability approach. A draft is complete and has been shared with USAID/Indonesia. The sustainability approach considers several components: the addition of a sustainability requirement in the grant application and review process; an increased focus on Training of Trainers; semi-annual sustainability fora with beneficiaries; additional training for NGO grantees; enhanced tracking of government cost contributions; and increased focus on collecting additional cost share through the engagement of private sponsors for public and educational events. In order to be relevant and effective, several of these actions are being incorporated into the current annual work plan and will have been carried out by August 2015. Others will continue into the final year of SIAP-1 activities to help ensure that these investments are institutionalized in the beneficiary organizations as integral parts of their reforms aimed at change and improvement.

Recommendation 4: *We recommend that USAID/Indonesia report on sustainability in remaining portfolio reviews of the Strengthening Integrity and Accountability Program 1.*

Mission Response: USAID/Indonesia shares the OIG's concern and recommendation that sustainability be foremost on our mind if the challenges of more open and accountable governance are to be overcome. Our periodic portfolio and quarterly financial reviews compare progress against objectives and the after action notes continuously reference the higher level results that activities such as SIAP-1 are expected to help achieve. Clearly these can only be achieved if the reforms that we are supporting are and will in the future - such as more effective use of audit and investigative tools- be sustained by demand from Indonesian citizens and resources dedicated by its government. USAID/Indonesia has begun the process of engaging the new government's transition team to understand its priorities and see how best our programming, including that of SIAP-1, continues its activities aimed at integrity and accountability. The Mission's most recent portfolio review identified the need to engage commissioners from the Anti-Corruption Commission (KPK), one of SIAP-1's key beneficiaries, on our contribution to higher level results aimed at organizational growth and improvement. We see no reason why the same conversation with the BKP commissioners, once the new members are appointed and in place, cannot take place to ensure that our support remains relevant and consistent with its strategic plan and recent international peer review findings and recommendations.

Recommendation 5: *We recommend that USAID/Indonesia conduct a final evaluation, focusing on sustainability of the Strengthening Integrity and Accountability Program 1.*

Mission Response: Mission Management has approved a path-breaking Public International Organization (PIO) Agreement with the Organization for Economic Cooperation and Development (OECD) based in Paris to support a peer review evaluation of Indonesia's efforts to promote open and accountable governance. Most of the areas assisted by SIAP-1 are expected to be included as part of the peer review, which will provide the Mission with an evaluation of the impact and sustainability of our program efforts to improve government accountability. Work should begin by the end of this fiscal year in which OECD, in close cooperation with the Government of Indonesia, will apply the same rigor and standards expected of its members. The aim is to identify actionable recommendations on how Indonesia, together with its development partners, can institutionalize government accountability improvements. With a year and a half left in the life of this activity, this larger review, funded by USAID/Indonesia, will inform needed changes during the remaining months of SIAP-1 and the Mission's signature effort on accountability under its CDCS and new government taking office in October 2014. This OECD review which is expected to be completed by October 2015, coupled with the actions the Mission will take related to the OIG performance audit, will address fully the sustainability issues raised in the OIG report and avoid final actions on this audit that extend beyond a year.

The final action target date for the combined recommendations No. 3, 4 and 5 would be September 30, 2015

Table 2. Indicator Results Versus Targets, 2011-2013 (audited)

Indicator	3-year Target[8]	3-year Result[9]	Variance (Percent)
Outputs			
Priority studies/assessments conducted to support KPK in order to improve its internal management	12	9	(25)
Training activities on the BPK fraud control system conducted with support from SIAP I	15	26	73
Government officials receiving USG-supported anti-corruption training	400	2,077	419
People affiliated with non-governmental organizations receiving USG-supported anti-corruption training	750	1,333	78
Laws or amendments to ensure credible elections drafted with USG technical assistance	7	6	(14)
Analyses and recommendations to support political finance reform developed with support by SIAP I	16	15	(6)
Intermediate Results			
Recommendations to improve capacity of KPK adopted by leadership	30	23	(23)
BPK units implementing the Fraud Control System	17	2	(88)
Reported allegations of fraud received by BPK inspectorate	34	2	(94)
People exposed to anti-corruption campaigns conducted by Government of Indonesia and NGOs supported by SIAP I	4 million	3.4 million	(15)
Percentage of niche anticorruption agencies' staff who improved their knowledge as a result of training supported by SIAP I[10]	75	75	0
Complaints resolved with niche anticorruption agencies	4,879	3,723	(24)
Media news and articles which inform issues of the political party financing reform advocated with support by SIAP I	60	435	625
Impact[11]			

[8] Three-year targets are cumulative except where noted otherwise.
[9] Three-year results are cumulative except where noted otherwise.
[10] Year 3 result and target. The audit did not obtain a 3-year cumulative target and result for this indicator.
[11] Targets for impact indicators were annual index scores. Results are not cumulative.

Corruption Perception Index score[12]	3.3	32	NA
National Integrity Index score	6.95	6.80	NA

[12] The Corruption Perception Index score was based on a scale of ten at the beginning of the program. The score was converted to a scale of 100 in 2013.

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