

4770187011801

UNITED STATES GOVERNMENT

Memorandum

(2)

PD-AAF-884

TO : Bureau for Development Support:
Office of Development Information &
Utilization

FROM : Fred C. Shaver: *Fred C. Shaver*
AAG/EA

DATE: Feb. 25, 1980

SUBJECT: Memorandum Audit Report No. 2-497-80-8
Assistance Agriculture Project No. 497-0189

Enclosed for your information are four copies of subject audit report. The report contains five recommendations for USAID/Indonesia.

Encls: a/s

UNITED STATES GOVERNMENT

Memorandum

TO : Mr. Thomas C. Niblock, Director
USAID/Indonesia

FROM : *Fred C. Shaver*
Fred C. Shaver, AAG/EA

DATE: February 20, 1980

SUBJECT: Memorandum Audit Report No. 2-497-80-8
Assistance to Agriculture Project No. 497-0189

INTRODUCTION AND SCOPE

The 12-year old \$2.8 million grant Assistance to Agriculture Project (No. 492-0189) in Indonesia has funded a wide range of technical assistance, commodities, and training activities in the agriculture sector.

Since inception in 1968, the project has been revised twice -- in 1975 and 1977. Originally, it was designed to strengthen the administration, organization and operation of Project Bimbingan Massal (BIMAS), an existing Indonesian agricultural credit and extension program. BIMAS' role was to promote increased food grain production through wide scale application of modern technology -- fertilizer, high yielding seeds, and other agriculture inputs. In early 1975, the project design was revised to expand its coverage to agricultural planning, that is, identifying agricultural projects, which contribute to the Government of Indonesia (GOI) and AID program objectives, while concurrently recognizing the GOI Department of Agriculture's implementation and coordination capabilities. In 1977, the project design was further refined to specify that the project was to assist in the development of new agricultural programs and policies and corresponding increase in the Department of Agriculture's capability to design and implement such programs and policies.

The overall project goal has remained unchanged over its 12 year life: the increase of agricultural production and rural incomes.

Although the project was originally planned to be completed by fiscal year 1974, its completion date was extended in 1975 and 1977. Both times the project design was revised, necessitating new project papers and their approval, and additional funding authorizations. The estimated project completion date is February 1981.

As of September 30, 1979, the total funds authorized for the project were about \$2.8 million. Of that amount about \$2.7 million had been obligated and nearly all the funds were expended. The project funding component breakout as of September 30, 1979 was as follows:

<u>Component</u>	<u>Cumulative Obligations</u>	<u>Cumulative Expenditures</u>	<u>Unexpended Balance</u>
	--in thousands--		
U.S. Personnel	\$1,200	\$1,179	\$21
Participant			
Training	890	874	16
Commodities	222	222	0
Other Costs	371	371	0
Total	<u>\$2,683</u>	<u>\$2,646</u>	<u>\$37</u>

Over the life of the project about \$100,000 was deobligated. At the time of our audit, no funds remained available for obligation and the unexpended balance was fully committed.

The last audit report which covered this project was issued in August 1976, "United States AID Mission to Indonesia, Audit Report No. 9-497-76-30". That audit was a comprehensive audit of all USAID/Indonesia activities and did not contain any specific recommendations concerning this project. In the current audit, we reviewed project activities since Fiscal Year 1975, concentrating primarily on how they were managed, and whether they adhered to AID regulations and directives. We excluded a review of the International Rice Research Institute's (IRRI) contract for "Consulting Services on Small Scale Agriculture Equipment Extension" because the contract is included in an ongoing separate audit of all IRRI contracts in Indonesia.

We examined records and files at USAID/Indonesia, and discussed the project and our findings with concerned USAID officials. Their comments are included in the report as appropriate.

STATEMENT OF FINDINGS AND RECOMMENDATIONS

A. Success of Project in Meeting Its Objectives

The overall objective of the Assistance to Agriculture project is twofold: 1) improve or strengthen the administration, organization, and operations of BIMAS, the Indonesian agriculture credit and extension program, and 2) improve the Department of Agriculture's capabilities in agricultural planning, and the identification and implementation of new agricultural programs and policies.

According to the February 1978 joint GOI/USAID Project Evaluation Summary, the project has been used effectively in both areas. We were able to confirm this statement to be valid then, and at the time of our audit. We found that \$2.50 million out of \$2.65 million (94 percent) of the assistance provided under the project was directed towards the primary project purpose, with about \$0.15 million (6 percent) having a less immediate relevance. We also established that prior to 1975, the BIMAS program received substantial technical assistance and the majority of the commodity assistance through the project. During a field visit to a BIMAS program seed farm, which received some assistance from this project, we verified that equipment supplied prior to 1975 was still in use and being maintained. We were told that the World Bank had assumed the primary donor role for the BIMAS program and that AID has discontinued assistance.

Since 1975, project funds have financed a wide variety of technical assistance activities. In effect, the project has been a "catch all" for the GOI's Department of Agriculture. Project funds purchased consultant services, ranging from fisheries development to small scale agriculture equipment extension. Funds were also used to support agriculture planning seminars, and reports addressing Indonesia's agriculture potential. Participants trainees received financing for short or long-term training in the United States and other countries, covering a wide range of subjects, as for instance Agriculture Economics, Plant Breeding, Fisheries Development, and Pest Control. Commodities purchased from project funds, since 1975, included 11 vehicles, 2 outboard motor sets and a photo copier which are still in use at the respective subproject sites.

The effectiveness of BIMAS has diminished in recent years, according to USAID/Indonesia, but the organization is still in existence.

In the second area, agricultural planning and new programs, the current project was used to identify 11 potential future projects, in the agriculture assistance category. Only one of the 11 proposals was considered as lacking viability. Nine of the remaining 10 projects were approved and funded, as separate projects, while the tenth proposal was in the approval process at the time of our review. Exhibit A lists these details of this \$51 million effort, and reports on the status of each component, as of September 30, 1979.

At the same time, the project has also funded several activities which are not directly compatible with its stated purpose. The activities and the amount of funding are described below:

<u>Amount Provided</u>	<u>Title</u>	<u>Description of Activity</u>
\$119,515	Rural Dynamics Research in East Java	Rural Development Planning, a research study, concentrating on a) rural production systems, b) labor force and employment, and c) rural institutions, with emphasis on inter relationships and identification of constraints on development. Funding for 12 months.
\$10,000	Training Center for Image Interpretation	Construction of a building to be used as a laboratory and training center for aerial photography interpretation at Gajah Mada University.
\$10,000	Deepwater Well for Maros Research Station	Drilling at exploratory deep-water well and related equipment at the Agriculture Research Institution at Maros, South Sulawesi.
\$7,300	Operational Support for Cropping Systems Research	Two months operational support for the Central Research Institute for Agriculture's project on Cropping Systems in Southern Sumatra.
<u>\$146,815</u>		

According to USAID/Indonesia officials, there exists an indirect linkage even between these four activities and the project's purpose. They stated that each sub-project contributed to the Department of Agriculture's ability to plan better and implement new agriculture programs.

Specifically, "Rural Dynamics Research" is being carried out by the only group in Indonesia capable of performing baseline social/economic investigations on which better agricultural planning can be based. USAID/Indonesia was considering assistance to ensure continuation of this research activity; thus some compatibility can be established at least indirectly, with the Project 497-0189's purpose.

Likewise, the Training Center for Image Interpretation is to be absorbed into another proposed USAID/Indonesia project on the use of aerial and satellite photography in agriculture planning. While aerial photographic data was available in

Indonesia, Gajah Mada University lacked a center for interpretation and training. Because of aerial photography's relevance to agricultural planning, this activity ties in indirectly to the project's purpose.

The Agriculture Research Institute at Maros lacked an adequate water supply. While funding of the well construction was only indirectly linked to the project purpose, the overall viability of the Institute tied directly to the project goal -- the increase of agricultural production and rural incomes.

The last activity is also research related. The Cropping System Research project was being funded by other donors and the GOI, but a budget shortfall occurred because follow-on funds were tied up in project negotiations. To prevent a research stoppage, Assistance for Agriculture funds were used to make up the shortfall, because of the importance of crop research to agricultural improvements.

USAID/Indonesia officials further defend the support of these activities by citing the project's quick response capability to the GOI's needs, with an overall gain of goodwill between USAID and GOI. The 1978 joint project evaluation commented specifically on these beneficial trends.

We do not question the need to finance the four sub-projects identified in this section. However, we believe that current directions in project management require that each project has a discrete purpose and that project funds should be directed to that purpose. We can accept USAID/Indonesia's position that these sub-projects can be linked indirectly to the project's purpose and goal statements. But, we must also disclose actions which deviate from published directives. We believe that the project's purpose statements should be written to cover all the sub-projects funded under the project and that the project office should insure that proposed sub-projects can be directly linked to the project's purpose.

Recommendation No. 1

We recommend that USAID/ Indonesia instruct project officers that project inputs should be directly linked to the approved project purpose statements or that the statement be revised to incorporate the sub-project(s).

Sub-project Extension Overlooked

The \$119,515 grant for "Rural Dynamics Research" was to be fully disbursed and accounted for by March 1, 1979, according to the Letter of Agreement. Excess funds, if any, were to be returned to USAID/Indonesia. The study was to be continued under another USAID/Indonesia project, whose authorization was still being finalized at the time of our audit.

Apparently, the project was extended until the grant funds were fully utilized. The first accounting of grant funds was submitted in December 1979 and it showed expenditures through November 1979. According to USAID/Indonesia officials, they had held several discussions with the grantee about funding the continuation of the research group's activities. While no formal memoranda were prepared, all parties agreed that the project should be extended.

The grantee had prepared numerous reports since the study began, and had complied with USAID/Indonesia requirements on submitting these reports. USAID/Indonesia was satisfied with the reports submitted.

Since USAID/Indonesia concurred with an extension beyond the date set out in the Letter of Agreement, the grantee was not at fault in continuing to expend the grant funds. However, USAID/Indonesia should have concurred formally. We believe that USAID/Indonesia should review the grantee's recent progress and formally extend the project to cover all expenditures beyond March 1, 1979, if warranted. In the event the Mission disagrees, it should request a refund of the March 1, 1979 unused balance.

Recommendation No. 2

We recommend that USAID/Indonesia review the progress of the grantee and formally extend the project to authorize the expenditures under the project since March 1, 1979. Conversely, if USAID/Indonesia does not agree to this extension, it should request a refund of the unused grant funds balance as of March 1, 1979.

B. Accounting for Sub-project Advances

Four sub-projects, funded under Assistance to Agriculture, obtained advances for operational purposes. At the beginning of our audit, only two accounting reports on the use of these funds had been obtained by USAID/Indonesia. During our audit, the project officer requested and received the remaining two reports.

In the course of our examination of the internal controls and procedures governing advances for sub-projects, we determined that USAID/Indonesia does not have automatic follow-up procedures to detect delinquent expenditure reports.

The remaining two reports were past due by more than 9 months. The sub-project's advances were for Rural Dynamics Research in East Java -- \$119,515-- and the Agriculture Research Institute at Maros -- \$7,300. Both accountability reports were due in March 1979, according to the respective Letters of Agreement.

Recommendation No. 3

We recommend that USAID/Indonesia establish a follow-up procedure for advances to sub-projects enabling the Controller's Office to inform project officers whenever such accounting is 30 days past due. The project officer should routinely contact recipients of advances and obtain an adequate accounting of expenditures, together with refunds of unused funds.

The project officer for this project has followed the practice of submitting expenditure reports for sub-projects to the Controller's Office for financial analysis.

The December 1979 accounting report for Rural Dynamics Research did not contain receipts or vouchers supporting about \$112,000 of expenditures. The project office subsequently requested and received the documents supporting the reported expenditures. Until these are reviewed, we cannot attest to the validity of the expenditures. However, the accounting report did show the expenditures charged against the approved budget line items for the sub-project.

In the case of another advance of \$18,500 for an agriculture planning course, the financial analyst questioned five expenditures totalling less than \$250 and requested more information. While the project officer stated that these questions were adequately resolved, no record of the resolution was in the project files. Subsequently, the project officer requested a report on these five questioned expenditures.

Since the project office is taking corrective action, we are not making a recommendation for improving expenditure documentation.

C. Participant Training

Since inception in 1968 through September 1979, Assistance to Agriculture has contributed to the funding of about 169 participant trainees. The vast majority -- 156-- participants were sent for short term training and the balance -- 13-- were involved in long term/academic degree training.

During fiscal years 1975 through 1978, 44 participants were sent for training under the project -- 36 participants for short term training and 8 for long term training. We selected 13 participants to determine whether:

- 1) training was completed,
- 2) the trainee returned to Indonesia, and
- 3) the trainee was still in a position to utilize the training received.

We found that 11 of the 13 participants had completed their training program, returned to Indonesia and were reported to be in positions commensurate with their training. The remaining two participants, were still enrolled in their training programs.

For 11 participants who had returned, the training office had current data on 10 participants and their positions. One trainee, who had returned from a one month observational tour, had not responded to USAID/Indonesia since he had returned in August 1976.

The USAID/Indonesia participant training follow-up program relies heavily on the participant response to a questionnaire. Since only one of the 11 returned participants selected had not responded, we are not making a recommendation on this point.

The Participant Training Handbook (AID Handbook 10) states that successive academic degrees are not programmed, and exceptions require full justification. We found that USAID/Indonesia had programmed one participant, under Assistance to Agriculture, to obtain a masters degree and a doctorate. We were unable to find a written justification for programming the successive degrees.

A senior training official informed us that it has been the practice of USAID/Indonesia to prepare the Project Implementation Order/Participant (PIO/P) showing successive degrees when the position the participant is scheduled to return to benefits by the higher qualification. He pointed out, however, that it is not automatic that

a participant would obtain the successive degree. In the case in point, the participant would have to maintain a high academic standing to warrant acceptance into a doctoral program. Further, this successive training is subject to fund availability.

In our opinion, the requirements of the Handbook must be followed more closely. If successive degrees for participants are warranted, then USAID/Indonesia should back up the merits of its case with a written justification.

Recommendation No. 4

We recommend that USAID/Indonesia identify all participants programmed for successive academic degrees and justify them in writing.

Clarification Needed on Paying Amenity Service Charges on Contractor-Administered Participants

All AID participant trainees are included in compulsory "amenity service" contracts which include: Health insurance, information and motivation materials, education resource materials, training and evaluation, and port of entry reception and orientation. The basic charge for these services has been set at \$50 per month for each trainee, and is payable to the AID master disbursing account.

AID's guidance on this subject is contained in AIDTO Circular A-53 "Participant Training - Cost Procedures for Contractor Administered Participants" dated February 6, 1977. It requires USAIDs to report quarterly on the Summary of Allotment Ledger Transactions and Reconciliation with Disbursing Officer's Account (U-101 Report) the accrued expenditures applicable to participants under contractor-administered programs. These funds are to be identified separately and the "U-101's" footnoted showing the contract number, contractor's name, cost being accrued, and the number of person-months of training.

Under Assistance to Agriculture, two participants were sent to a contractor-administered training program -- Benchmark Soils (AID/TA-C-1108). Respective PIO/P's were completed by USAID/Indonesia, identifying "Assistance to Agriculture" as the project and allocating \$600 for each participant to fund the compulsory services. These PIO/P's cite that the \$600 was transferred to the master disbursing account, in accordance with the AIDTO Circular A-53.

According to the Controller's Office personnel, they had not reported the accrued expenditures on the "U-101 Report",

because they believe that these funds should be charged against the AID/Washington contract or funds. These officials explained that the PIO/P's citing Assistance to Agriculture were memorandum PIO/P's and not sub-obligating PIO/P's. Therefore, no funds were obligated under the project and no funds could be transferred. We were told that no questions have been raised by AID/Washington on either these two PIO/P's or the absence of any accrual on USAID/Indonesia's "U-101 Report."

We believe that USAID/Indonesia should ask AID/Washington whether these funds were transferred to the AID master disbursing account, as advised by these PIO/P's. Further, AID/Washington should be asked if USAID/Indonesia has any procedural requirement to report these charges on its "U-101 Report", as footnoted items.

Recommendation No. 5

We recommend that USAID/Indonesia ask AID/Washington (a) whether the funds for amenity services on contractor-administered programs were transferred to the AID master disbursing account, and (b) if the Mission should be reporting these accrued expenditures on its "U-101 Report."

EXHIBIT AUSAID/Indonesia
Status of Project 497-0189 Related Agricultural Assistance Projects
September 30, 1979

<u>Project Number</u>	<u>Title</u>	<u>Authorized Funding</u> in thousands	<u>Status</u> <u>09/30/79</u>
497-0198	Agricultural Research	\$ 2,166	on going
497-0236	Brackish Water Fisheries Production	217	on going
497-0265	Agriculture Development Planning and Administration	7,300	on going
497-0286	Small Scale Fisheries Development	1,500	on going
497-0244	Luwu Area and Transmigration Development	15,000	on going
497-0238	Area Development Project Planning	408	completed
497-0242	Sederhana Irrigation and Land Development I	23,700	on going
497-0312	Land Mapping and Titling	500	on going
	Small Scale Agriculture Equipment Extension	(Funded through AID/W)	on going
Planned	Agro-Economic Survey (Studies)	<u>N.A.</u>	Project Paper prepared
	Total	<u>\$50,791</u>	

REPORT RECIPIENTS

USAID/Indonesia

Director 5

AID/W

Deputy Administrator 1

Bureau for Asia:

Assistant Administrator 1

Deputy Assistant Administrator (Audit
Liaison Officer) 1

Office of Indonesia and South Pacific/
ASEAN Affairs 1

Bureau of Development Support:

Office of Development Information
and Utilization (DS/DIU/DI) 4

Office of International Training (DS/IT) 1

Bureau for Program and Management Services:
Assistant Administrator (AA/SER/W) 5

Office of the Auditor General:(AG) 1

Auditor General (AG) 1

Executive Management Staff (AG/EMS) 12

Policy, Plans & Programs (AG/PPP) 1

Office of Legislative Affairs 1

Office of Financial Management (OFM) 1

Office of the General Counsel 1

Area Auditor General:

AAG/Washington 1

AAG/Africa (East) 1

AAG/Egypt 1

AAG/Latin America 1

AAG/Near East 1

OTHER

Auditor General, Inspections and Investigations
Staff (AG/IIS/Manila) 1

UNITED STATES GOVERNMENT

Memorandum

TO : Mr. Thomas C. Niblock, Director
USAID/Indonesia

FROM : *Fred C. Shaver*
Fred C. Shaver, AAG/EA

DATE: February 20, 1980

SUBJECT: Memorandum Audit Report No. 2-497-80-8
Assistance to Agriculture Project No. 497-0189

INTRODUCTION AND SCOPE

The 12-year old \$2.8 million grant Assistance to Agriculture Project (No. 492-0189) in Indonesia has funded a wide range of technical assistance, commodities, and training activities in the agriculture sector.

Since inception in 1968, the project has been revised twice -- in 1975 and 1977. Originally, it was designed to strengthen the administration, organization and operation of Project Bimbingan Massal (BIMAS), an existing Indonesian agricultural credit and extension program. BIMAS' role was to promote increased food grain production through wide scale application of modern technology -- fertilizer, high yielding seeds, and other agriculture inputs. In early 1975, the project design was revised to expand its coverage to agricultural planning, that is, identifying agricultural projects, which contribute to the Government of Indonesia (GOI) and AID program objectives, while concurrently recognizing the GOI Department of Agriculture's implementation and coordination capabilities. In 1977, the project design was further refined to specify that the project was to assist in the development of new agricultural programs and policies and corresponding increase in the Department of Agriculture's capability to design and implement such programs and policies.

The overall project goal has remained unchanged over its 12 year life: the increase of agricultural production and rural incomes.

Although the project was originally planned to be completed by fiscal year 1974, its completion date was extended in 1975 and 1977. Both times the project design was revised, necessitating new project papers and their approval and additional funding authorizations. The estimated project completion date is February 1981.

As of September 30, 1979, the total funds authorized for the project were about \$2.8 million. Of that amount about \$2.7 million had been obligated and nearly all the funds were expended. The project funding component breakout as of September 30, 1979 was as follows:

<u>Component</u>	<u>Cumulative Obligations</u>	<u>Cumulative Expenditures</u>	<u>Unexpended Balance</u>
	--in thousands--		
U.S. Personnel Participant	\$1,200	\$1,179	\$21
Training	890	874	16
Commodities	222	222	0
Other Costs	<u>371</u>	<u>371</u>	<u>0</u>
Total	<u>\$2,683</u>	<u>\$2,646</u>	<u>\$37</u>

Over the life of the project about \$100,000 was deobligated. At the time of our audit, no funds remained available for obligation and the unexpended balance was fully committed.

The last audit report which covered this project was issued in August 1976, "United States AID Mission to Indonesia, Audit Report No. 9-497-76-30". That audit was a comprehensive audit of all USAID/Indonesia activities and did not contain any specific recommendations concerning this project. In the current audit, we reviewed project activities since Fiscal Year 1975, concentrating primarily on how they were managed, and whether they adhered to AID regulations and directives. We excluded a review of the International Rice Research Institute's (IRRI) contract for "Consulting Services on Small Scale Agriculture Equipment Extension" because the contract is included in an ongoing separate audit of all IRRI contracts in Indonesia.

We examined records and files at USAID/Indonesia, and discussed the project and our findings with concerned USAID officials. Their comments are included in the report as appropriate.

STATEMENT OF FINDINGS AND RECOMMENDATIONS

A. Success of Project in Meeting Its Objectives

The overall objective of the Assistance to Agriculture project is twofold: 1) improve or strengthen the administration, organization, and operations of BIMAS, the Indonesian agriculture credit and extension program, and 2) improve the Department of Agriculture's capabilities in agricultural planning, and the identification and implementation of new agricultural programs and policies.

According to the February 1978 joint GOI/USAID Project Evaluation Summary, the project has been used effectively in both areas. We were able to confirm this statement to be valid then, and at the time of our audit. We found that \$2.50 million out of \$2.65 million (94 percent) of the assistance provided under the project was directed towards the primary project purpose, with about \$0.15 million (6 percent) having a less immediate relevance. We also established that prior to 1975, the BIMAS program received substantial technical assistance and the majority of the commodity assistance through the project. During a field visit to a BIMAS program seed farm, which received some assistance from this project, we verified that equipment supplied prior to 1975 was still in use and being maintained. We were told that the World Bank had assumed the primary donor role for the BIMAS program and that AID has discontinued assistance.

Since 1975, project funds have financed a wide variety of technical assistance activities. In effect, the project has been a "catch all" for the GOI's Department of Agriculture. Project funds purchased consultant services, ranging from fisheries development to small scale agriculture equipment extension. Funds were also used to support agriculture planning seminars, and reports addressing Indonesia's agriculture potential. Participants trainees received financing for short or long-term training in the United States and other countries, covering a wide range of subjects, as for instance Agriculture Economics, Plant Breeding, Fisheries Development, and Pest Control. Commodities purchased from project funds, since 1975, included 11 vehicles, 2 outboard motor sets and a photo copier which are still in use at the respective subproject sites.

The effectiveness of BIMAS has diminished in recent years, according to USAID/Indonesia, but the organization is still in existence.

In the second area, agricultural planning and new programs, the current project was used to identify 11 potential future projects, in the agriculture assistance category. Only one of the 11 proposals was considered as lacking viability. Nine of the remaining 10 projects were approved and funded, as separate projects, while the tenth proposal was in the approval process at the time of our review. Exhibit A lists these details of this \$51 million effort, and reports on the status of each component, as of September 30, 1979.

At the same time, the project has also funded several activities which are not directly compatible with its stated purpose. The activities and the amount of funding are described below:

<u>Amount Provided</u>	<u>Title</u>	<u>Description of Activity</u>
\$119,515	Rural Dynamics Research in East Java	Rural Development Planning, a research study, concentrating on a) rural production systems, b) labor force and employment, and c) rural institutions, with emphasis on inter relationships and identification of constraints on development. Funding for 12 months.
\$10,000	Training Center for Image Interpretation	Construction of a building to be used as a laboratory and training center for aerial photography interpretation at Gajah Mada University.
\$10,000	Deepwater Well for Maros Research Station	Drilling at exploratory deep-water well and related equipment at the Agriculture Research Institution at Maros, South Sulawesi.
\$7,300	Operational Support for Cropping Systems Research	Two months operational support for the Central Research Institute for Agriculture's project on Cropping Systems in Southern Sumatra.

\$146,815

According to USAID/Indonesia officials, there exists an indirect linkage even between these four activities and the project's purpose. They stated that each sub-project contributed to the Department of Agriculture's ability to plan better and implement new agriculture programs.

Specifically, "Rural Dynamics Research" is being carried out by the only group in Indonesia capable of performing baseline social/economic investigations on which better agricultural planning can be based. USAID/Indonesia was considering assistance to ensure continuation of this research activity; thus some compatibility can be established at least indirectly, with the Project 497-0189's purpose.

Likewise, the Training Center for Image Interpretation is to be absorbed into another proposed USAID/Indonesia project on the use of aerial and satellite photography in agriculture planning. While aerial photographic data was available in

Indonesia, Gajah Mada University lacked a center for interpretation and training. Because of aerial photography's relevance to agricultural planning, this activity ties in indirectly to the project's purpose.

The Agriculture Research Institute at Maros lacked an adequate water supply. While funding of the well construction was only indirectly linked to the project purpose, the overall viability of the Institute tied directly to the project goal -- the increase of agricultural production and rural incomes.

The last activity is also research related. The Cropping System Research project was being funded by other donors and the GOI, but a budget shortfall occurred because follow-on funds were tied up in project negotiations. To prevent a research stoppage, Assistance for Agriculture funds were used to make up the shortfall, because of the importance of crop research to agricultural improvements.

USAID/Indonesia officials further defend the support of these activities by citing the project's quick response capability to the GOI's needs, with an overall gain of goodwill between USAID and GOI. The 1978 joint project evaluation commented specifically on these beneficial trends.

We do not question the need to finance the four sub-projects identified in this section. However, we believe that current directions in project management require that each project has a discrete purpose and that project funds should be directed to that purpose. We can accept USAID/Indonesia's position that these sub-projects can be linked indirectly to the project's purpose and goal statements. But, we must also disclose actions which deviate from published directives. We believe that the project's purpose statements should be written to cover all the sub-projects funded under the project and that the project office should insure that proposed sub-projects can be directly linked to the project's purpose.

Recommendation No. 1

We recommend that USAID/ Indonesia instruct project officers that project inputs should be directly linked to the approved project purpose statements or that the statement be revised to incorporate the sub-project(s).

Sub-project Extension Overlooked

The \$119,515 grant for "Rural Dynamics Research" was to be fully disbursed and accounted for by March 1, 1979, according to the Letter of Agreement. Excess funds, if any, were to be returned to USAID/Indonesia. The study was to be continued under another USAID/Indonesia project, whose authorization was still being finalized at the time of our audit.

Apparently, the project was extended until the grant funds were fully utilized. The first accounting of grant funds was submitted in December 1979 and it showed expenditures through November 1979. According to USAID/Indonesia officials, they had held several discussions with the grantee about funding the continuation of the research group's activities. While no formal memoranda were prepared, all parties agreed that the project should be extended.

The grantee had prepared numerous reports since the study began, and had complied with USAID/Indonesia requirements on submitting these reports. USAID/Indonesia was satisfied with the reports submitted.

Since USAID/Indonesia concurred with an extension beyond the date set out in the Letter of Agreement, the grantee was not at fault in continuing to expend the grant funds. However, USAID/Indonesia should have concurred formally. We believe that USAID/Indonesia should review the grantee's recent progress and formally extend the project to cover all expenditures beyond March 1, 1979, if warranted. In the event the Mission disagrees, it should request a refund of the March 1, 1979 unused balance.

Recommendation No. 2

We recommend that USAID/Indonesia review the progress of the grantee and formally extend the project to authorize the expenditures under the project since March 1, 1979. Conversely, if USAID/Indonesia does not agree to this extension, it should request a refund of the unused grant funds balance as of March 1, 1979.

B. Accounting for Sub-project Advances

Four sub-projects, funded under Assistance to Agriculture, obtained advances for operational purposes. At the beginning of our audit, only two accounting reports on the use of these funds had been obtained by USAID/Indonesia. During our audit, the project officer requested and received the remaining two reports.

In the course of our examination of the internal controls and procedures governing advances for sub-projects, we determined that USAID/Indonesia does not have automatic follow-up procedures to detect delinquent expenditure reports.

The remaining two reports were past due by more than 9 months. The sub-project's advances were for Rural Dynamics Research in East Java -- \$119,515-- and the Agriculture Research Institute at Maros -- \$7,300. Both accountability reports were due in March 1979, according to the respective Letters of Agreement.

Recommendation No. 3

We recommend that USAID/Indonesia establish a follow-up procedure for advances to sub-projects enabling the Controller's Office to inform project officers whenever such accounting is 30 days past due. The project officer should routinely contact recipients of advances and obtain an adequate accounting of expenditures, together with refunds of unused funds.

The project officer for this project has followed the practice of submitting expenditure reports for sub-projects to the Controller's Office for financial analysis.

The December 1979 accounting report for Rural Dynamics Research did not contain receipts or vouchers supporting about \$112,000 of expenditures. The project office subsequently requested and received the documents supporting the reported expenditures. Until these are reviewed, we cannot attest to the validity of the expenditures. However, the accounting report did show the expenditures charged against the approved budget line items for the sub-project.

In the case of another advance of \$18,500 for an agriculture planning course, the financial analyst questioned five expenditures totalling less than \$250 and requested more information. While the project officer stated that these questions were adequately resolved, no record of the resolution was in the project files. Subsequently, the project officer requested a report on these five questioned expenditures.

Since the project office is taking corrective action, we are not making a recommendation for improving expenditure documentation.

C. Participant Training

Since inception in 1968 through September 1979, Assistance to Agriculture has contributed to the funding of about 169 participant trainees. The vast majority -- 156-- participants were sent for short term training and the balance -- 13-- were involved in long term/academic degree training.

During fiscal years 1975 through 1978, 44 participants were sent for training under the project -- 36 participants for short term training and 8 for long term training. We selected 13 participants to determine whether:

- 1) training was completed,
- 2) the trainee returned to Indonesia, and
- 3) the trainee was still in a position to utilize the training received.

We found that 11 of the 13 participants had completed their training program, returned to Indonesia and were reported to be in positions commensurate with their training. The remaining two participants, were still enrolled in their training programs.

For 11 participants who had returned, the training office had current data on 10 participants and their positions. One trainee, who had returned from a one month observational tour, had not responded to USAID/Indonesia since he had returned in August 1976.

The USAID/Indonesia participant training follow-up program relies heavily on the participant response to a questionnaire. Since only one of the 11 returned participants selected had not responded, we are not making a recommendation on this point.

The Participant Training Handbook (AID Handbook 10) states that successive academic degrees are not programmed, and exceptions require full justification. We found that USAID/Indonesia had programmed one participant, under Assistance to Agriculture, to obtain a masters degree and a doctorate. We were unable to find a written justification for programming the successive degrees.

A senior training official informed us that it has been the practice of USAID/Indonesia to prepare the Project Implementation Order/Participant (PIO/P) showing successive degrees when the position the participant is scheduled to return to benefits by the higher qualification. He pointed out, however, that it is not automatic that

a participant would obtain the successive degree. In the case in point, the participant would have to maintain a high academic standing to warrant acceptance into a doctoral program. Further, this successive training is subject to fund availability.

In our opinion, the requirements of the Handbook must be followed more closely. If successive degrees for participants are warranted, then USAID/Indonesia should back up the merits of its case with a written justification.

Recommendation No. 4

We recommend that USAID/Indonesia identify all participants programmed for successive academic degrees and justify them in writing.

Clarification Needed on Paying Amenity Service Charges on Contractor-Administered Participants

All AID participant trainees are included in compulsory "amenity service" contracts which include: Health insurance, information and motivation materials, education resource materials, training and evaluation, and port of entry reception and orientation. The basic charge for these services has been set at \$50 per month for each trainee, and is payable to the AID master disbursing account.

AID's guidance on this subject is contained in AIDTO Circular A-53 "Participant Training - Cost Procedures for Contractor Administered Participants" dated February 6, 1977. It requires USAIDs to report quarterly on the Summary of Allotment Ledger Transactions and Reconciliation with Disbursing Officer's Account (U-101 Report) the accrued expenditures applicable to participants under contractor-administered programs. These funds are to be identified separately and the "U-101's" footnoted showing the contract number, contractor's name, cost being accrued, and the number of person-months of training.

Under Assistance to Agriculture, two participants were sent to a contractor-administered training program -- Benchmark Soils (AID/TA-C-1108). Respective PIO/P's were completed by USAID/Indonesia, identifying "Assistance to Agriculture" as the project and allocating \$600 for each participant to fund the compulsory services. These PIO/P's cite that the \$600 was transferred to the master disbursing account, in accordance with the AIDTO Circular A-53.

According to the Controller's Office personnel, they had not reported the accrued expenditures on the "U-101 Report",

because they believe that these funds should be charged against the AID/Washington contract or funds. These officials explained that the PIO/P's citing Assistance to Agriculture were memorandum PIO/P's and not sub-obligating PIO/P's. Therefore, no funds were obligated under the project and no funds could be transferred. We were told that no questions have been raised by AID/Washington on either these two PIO/P's or the absence of any accrual on USAID/Indonesia's "U-101 Report."

We believe that USAID/Indonesia should ask AID/Washington whether these funds were transferred to the AID master disbursing account, as advised by these PIO/P's. Further, AID/Washington should be asked if USAID/Indonesia has any procedural requirement to report these charges on its "U-101 Report", as footnoted items.

Recommendation No. 5

We recommend that USAID/Indonesia ask AID/Washington (a) whether the funds for amenity services on contractor-administered programs were transferred to the AID master disbursing account, and (b) if the Mission should be reporting these accrued expenditures on its "U-101 Report."

EXHIBIT AUSAID/Indonesia
Status of Project 497-0189 Related Agricultural Assistance Projects
September 30, 1979

<u>Project Number</u>	<u>Title</u>	<u>Authorized Funding in thousands</u>	<u>Status 09/30/79</u>
497-0198	Agricultural Research	\$ 2,166	on going
497-0236	Brackish Water Fisheries Production	217	on going
497-0265	Agriculture Development Planning and Administration	7,300	on going
497-0286	Small Scale Fisheries Development	1,500	on going
497-0244	Luwu Area and Transmigration Development	15,000	on going
497-0238	Area Development Project Planning	408	completed
497-0242	Sederhana Irrigation and Land Development I	23,700	on going
497-0312	Land Mapping and Titling	500	on going
	Small Scale Agriculture Equipment Extension	(Funded through AID/W)	on going
Planned	Agro-Economic Survey (Studies)	<u>N.A.</u>	Project Paper prepared
	Total	<u>\$50,791</u>	

REPORT RECIPIENTS

USAID/Indonesia

Director 5

AID/W

Deputy Administrator 1

Bureau for Asia:

Assistant Administrator 1

Deputy Assistant Administrator (Audit
Liaison Officer) 1

Office of Indonesia and South Pacific/
ASEAN Affairs 1

Bureau of Development Support:

Office of Development Information
and Utilization (DS/DIU/DI) 4

Office of International Training (DS/IT) 1

Bureau for Program and Management Services:
Assistant Administrator (AA/SER/W) 5

Office of the Auditor General: (AG) 1

Auditor General (AG) 1

Executive Management Staff (AG/EMS) 12

Policy, Plans & Programs (AG/PPP) 1

Office of Legislative Affairs 1

Office of Financial Management (OFM) 1

Office of the General Counsel 1

Area Auditor General:

AAG/Washington 1

AAG/Africa (East) 1

AAG/Egypt 1

AAG/Latin America 1

AAG/Near East 1

OTHER

Auditor General, Inspections and Investigations
Staff (AG/IIS/Manila) 1

UNITED STATES GOVERNMENT

Memorandum

TO : Mr. Thomas C. Niblock, Director
USAID/Indonesia

DATE: February 20, 1980

FROM : *Fred C. Shaver*
Fred C. Shaver, AAG/EA

SUBJECT: Memorandum Audit Report No. 2-497-80-8
Assistance to Agriculture Project No. 497-0189

INTRODUCTION AND SCOPE

The 12-year old \$2.8 million grant Assistance to Agriculture Project (No. 492-0189) in Indonesia has funded a wide range of technical assistance, commodities, and training activities in the agriculture sector.

Since inception in 1968, the project has been revised twice -- in 1975 and 1977. Originally, it was designed to strengthen the administration, organization and operation of Project Bimbingan Massal (BIMAS), an existing Indonesian agricultural credit and extension program. BIMAS' role was to promote increased food grain production through wide scale application of modern technology -- fertilizer, high yielding seeds, and other agriculture inputs. In early 1975, the project design was revised to expand its coverage to agricultural planning, that is, identifying agricultural projects, which contribute to the Government of Indonesia (GOI) and AID program objectives, while concurrently recognizing the GOI Department of Agriculture's implementation and coordination capabilities. In 1977, the project design was further refined to specify that the project was to assist in the development of new agricultural programs and policies and corresponding increase in the Department of Agriculture's capability to design and implement such programs and policies.

The overall project goal has remained unchanged over its 12 year life: the increase of agricultural production and rural incomes.

Although the project was originally planned to be completed by fiscal year 1974, its completion date was extended in 1975 and 1977. Both times the project design was revised, necessitating new project papers and their approval, and additional funding authorizations. The estimated project completion date is February 1981.

As of September 30, 1979, the total funds authorized for the project were about \$2.8 million. Of that amount about \$2.7 million had been obligated and nearly all the funds were expended. The project funding component breakout as of September 30, 1979 was as follows:

<u>Component</u>	<u>Cumulative Obligations</u>	<u>Cumulative Expenditures</u>	<u>Unexpended Balance</u>
	--in thousands--		
U.S. Personnel Participant	\$1,200	\$1,179	\$21
Training	890	874	16
Commodities	222	222	0
Other Costs	<u>371</u>	<u>371</u>	<u>0</u>
Total	<u>\$2,683</u>	<u>\$2,646</u>	<u>\$37</u>

Over the life of the project about \$100,000 was deobligated. At the time of our audit, no funds remained available for obligation and the unexpended balance was fully committed.

The last audit report which covered this project was issued in August 1976, "United States AID Mission to Indonesia, Audit Report No. 9-497-76-30". That audit was a comprehensive audit of all USAID/Indonesia activities and did not contain any specific recommendations concerning this project. In the current audit, we reviewed project activities since Fiscal Year 1975, concentrating primarily on how they were managed, and whether they adhered to AID regulations and directives. We excluded a review of the International Rice Research Institute's (IRRI) contract for "Consulting Services on Small Scale Agriculture Equipment Extension" because the contract is included in an ongoing separate audit of all IRRI contracts in Indonesia.

We examined records and files at USAID/Indonesia, and discussed the project and our findings with concerned USAID officials. Their comments are included in the report as appropriate.

STATEMENT OF FINDINGS AND RECOMMENDATIONS

A. Success of Project in Meeting Its Objectives

The overall objective of the Assistance to Agriculture project is twofold: 1) improve or strengthen the administration, organization, and operations of BIMAS, the Indonesian agriculture credit and extension program, and 2) improve the Department of Agriculture's capabilities in agricultural planning, and the identification and implementation of new agricultural programs and policies.

According to the February 1978 joint GOI/USAID Project Evaluation Summary, the project has been used effectively in both areas. We were able to confirm this statement to be valid then, and at the time of our audit. We found that \$2.50 million out of \$2.65 million (94 percent) of the assistance provided under the project was directed towards the primary project purpose, with about \$0.15 million (6 percent) having a less immediate relevance. We also established that prior to 1975, the BIMAS program received substantial technical assistance and the majority of the commodity assistance through the project. During a field visit to a BIMAS program seed farm, which received some assistance from this project, we verified that equipment supplied prior to 1975 was still in use and being maintained. We were told that the World Bank had assumed the primary donor role for the BIMAS program and that AID has discontinued assistance.

Since 1975, project funds have financed a wide variety of technical assistance activities. In effect, the project has been a "catch all" for the GOI's Department of Agriculture. Project funds purchased consultant services, ranging from fisheries development to small scale agriculture equipment extension. Funds were also used to support agriculture planning seminars, and reports addressing Indonesia's agriculture potential. Participants trainees received financing for short or long-term training in the United States and other countries, covering a wide range of subjects, as for instance Agriculture Economics, Plant Breeding, Fisheries Development, and Pest Control. Commodities purchased from project funds, since 1975, included 11 vehicles, 2 outboard motor sets and a photo copier which are still in use at the respective subproject sites.

The effectiveness of BIMAS has diminished in recent years, according to USAID/Indonesia, but the organization is still in existence.

In the second area, agricultural planning and new programs, the current project was used to identify 11 potential future projects, in the agriculture assistance category. Only one of the 11 proposals was considered as lacking viability. Nine of the remaining 10 projects were approved and funded, as separate projects, while the tenth proposal was in the approval process at the time of our review. Exhibit A lists these details of this \$51 million effort, and reports on the status of each component, as of September 30, 1979.

At the same time, the project has also funded several activities which are not directly compatible with its stated purpose. The activities and the amount of funding are described below:

<u>Amount Provided</u>	<u>Title</u>	<u>Description of Activity</u>
\$119,515	Rural Dynamics Research in East Java	Rural Development Planning, a research study, concentrating on a) rural production systems, b) labor force and employment, and c) rural institutions, with emphasis on inter relationships and identification of constraints on development. Funding for 12 months.
\$10,000	Training Center for Image Interpretation	Construction of a building to be used as a laboratory and training center for aerial photography interpretation at Gajah Mada University.
\$10,000	Deepwater Well for Maros Research Station	Drilling at exploratory deep-water well and related equipment at the Agriculture Research Institution at Maros, South Sulawesi.
\$7,300	Operational Support for Cropping Systems Research	Two months operational support for the Central Research Institute for Agriculture's project on Cropping Systems in Southern Sumatra.

\$146,815

According to USAID/Indonesia officials, there exists an indirect linkage even between these four activities and the project's purpose. They stated that each sub-project contributed to the Department of Agriculture's ability to plan better and implement new agriculture programs.

Specifically, "Rural Dynamics Research" is being carried out by the only group in Indonesia capable of performing baseline social/economic investigations on which better agricultural planning can be based. USAID/Indonesia was considering assistance to ensure continuation of this research activity; thus some compatibility can be established at least indirectly, with the Project 497-0189's purpose.

Likewise, the Training Center for Image Interpretation is to be absorbed into another proposed USAID/Indonesia project on the use of aerial and satellite photography in agriculture planning. While aerial photographic data was available in

Indonesia, Gajah Mada University lacked a center for interpretation and training. Because of aerial photography's relevance to agricultural planning, this activity ties in indirectly to the project's purpose.

The Agriculture Research Institute at Maros lacked an adequate water supply. While funding of the well construction was only indirectly linked to the project purpose, the overall viability of the Institute tied directly to the project goal -- the increase of agricultural production and rural incomes.

The last activity is also research related. The Cropping System Research project was being funded by other donors and the GOI, but a budget shortfall occurred because follow-on funds were tied up in project negotiations. To prevent a research stoppage, Assistance for Agriculture funds were used to make up the shortfall, because of the importance of crop research to agricultural improvements.

USAID/Indonesia officials further defend the support of these activities by citing the project's quick response capability to the GOI's needs, with an overall gain of goodwill between USAID and GOI. The 1978 joint project evaluation commented specifically on these beneficial trends.

We do not question the need to finance the four sub-projects identified in this section. However, we believe that current directions in project management require that each project has a discrete purpose and that project funds should be directed to that purpose. We can accept USAID/Indonesia's position that these sub-projects can be linked indirectly to the project's purpose and goal statements. But, we must also disclose actions which deviate from published directives. We believe that the project's purpose statements should be written to cover all the sub-projects funded under the project and that the project office should insure that proposed sub-projects can be directly linked to the project's purpose.

Recommendation No. 1

We recommend that USAID/ Indonesia instruct project officers that project inputs should be directly linked to the approved project purpose statements or that the statement be revised to incorporate the sub-project(s).

Sub-project Extension Overlooked

The \$119,515 grant for "Rural Dynamics Research" was to be fully disbursed and accounted for by March 1, 1979, according to the Letter of Agreement. Excess funds, if any, were to be returned to USAID/Indonesia. The study was to be continued under another USAID/Indonesia project, whose authorization was still being finalized at the time of our audit.

Apparently, the project was extended until the grant funds were fully utilized. The first accounting of grant funds was submitted in December 1979 and it showed expenditures through November 1979. According to USAID/Indonesia officials, they had held several discussions with the grantee about funding the continuation of the research group's activities. While no formal memoranda were prepared, all parties agreed that the project should be extended.

The grantee had prepared numerous reports since the study began, and had complied with USAID/Indonesia requirements on submitting these reports. USAID/Indonesia was satisfied with the reports submitted.

Since USAID/Indonesia concurred with an extension beyond the date set out in the Letter of Agreement, the grantee was not at fault in continuing to expend the grant funds. However, USAID/Indonesia should have concurred formally. We believe that USAID/Indonesia should review the grantee's recent progress and formally extend the project to cover all expenditures beyond March 1, 1979, if warranted. In the event the Mission disagrees, it should request a refund of the March 1, 1979 unused balance.

Recommendation No. 2

We recommend that USAID/Indonesia review the progress of the grantee and formally extend the project to authorize the expenditures under the project since March 1, 1979. Conversely, if USAID/Indonesia does not agree to this extension, it should request a refund of the unused grant funds balance as of March 1, 1979.

B. Accounting for Sub-project Advances

Four sub-projects, funded under Assistance to Agriculture, obtained advances for operational purposes. At the beginning of our audit, only two accounting reports on the use of these funds had been obtained by USAID/Indonesia. During our audit, the project officer requested and received the remaining two reports.

In the course of our examination of the internal controls and procedures governing advances for sub-projects, we determined that USAID/Indonesia does not have automatic follow-up procedures to detect delinquent expenditure reports.

The remaining two reports were past due by more than 9 months. The sub-project's advances were for Rural Dynamics Research in East Java -- \$119,515-- and the Agriculture Research Institute at Maros -- \$7,300. Both accountability reports were due in March 1979, according to the respective Letters of Agreement.

Recommendation No. 3

We recommend that USAID/Indonesia establish a follow-up procedure for advances to sub-projects enabling the Controller's Office to inform project officers whenever such accounting is 30 days past due. The project officer should routinely contact recipients of advances and obtain an adequate accounting of expenditures, together with refunds of unused funds.

The project officer for this project has followed the practice of submitting expenditure reports for sub-projects to the Controller's Office for financial analysis.

The December 1979 accounting report for Rural Dynamics Research did not contain receipts or vouchers supporting about \$112,000 of expenditures. The project office subsequently requested and received the documents supporting the reported expenditures. Until these are reviewed, we cannot attest to the validity of the expenditures. However, the accounting report did show the expenditures charged against the approved budget line items for the sub-project.

In the case of another advance of \$18,500 for an agriculture planning course, the financial analyst questioned five expenditures totalling less than \$250 and requested more information. While the project officer stated that these questions were adequately resolved, no record of the resolution was in the project files. Subsequently, the project officer requested a report on these five questioned expenditures.

Since the project office is taking corrective action, we are not making a recommendation for improving expenditure documentation.

C. Participant Training

Since inception in 1968 through September 1979, Assistance to Agriculture has contributed to the funding of about 169 participant trainees. The vast majority -- 156-- participants were sent for short term training and the balance -- 13-- were involved in long term/academic degree training.

During fiscal years 1975 through 1978, 44 participants were sent for training under the project -- 36 participants for short term training and 8 for long term training. We selected 13 participants to determine whether:

- 1) training was completed,
- 2) the trainee returned to Indonesia, and
- 3) the trainee was still in a position to utilize the training received.

We found that 11 of the 13 participants had completed their training program, returned to Indonesia and were reported to be in positions commensurate with their training. The remaining two participants, were still enrolled in their training programs.

For 11 participants who had returned, the training office had current data on 10 participants and their positions. One trainee, who had returned from a one month observational tour, had not responded to USAID/Indonesia since he had returned in August 1976.

The USAID/Indonesia participant training follow-up program relies heavily on the participant response to a questionnaire. Since only one of the 11 returned participants selected had not responded, we are not making a recommendation on this point.

The Participant Training Handbook (AID Handbook 10) states that successive academic degrees are not programmed, and exceptions require full justification. We found that USAID/Indonesia had programmed one participant, under Assistance to Agriculture, to obtain a masters degree and a doctorate. We were unable to find a written justification for programming the successive degrees.

A senior training official informed us that it has been the practice of USAID/Indonesia to prepare the Project Implementation Order/Participant (PIO/P) showing successive degrees when the position the participant is scheduled to return to benefits by the higher qualification. He pointed out, however, that it is not automatic that

a participant would obtain the successive degree. In the case in point, the participant would have to maintain a high academic standing to warrant acceptance into a doctoral program. Further, this successive training is subject to fund availability.

In our opinion, the requirements of the Handbook must be followed more closely. If successive degrees for participants are warranted, then USAID/Indonesia should back up the merits of its case with a written justification.

Recommendation No. 4

We recommend that USAID/Indonesia identify all participants programmed for successive academic degrees and justify them in writing.

Clarification Needed on Paying Amenity Service Charges on Contractor-Administered Participants

All AID participant trainees are included in compulsory "amenity service" contracts which include: Health insurance, information and motivation materials, education resource materials, training and evaluation, and port of entry reception and orientation. The basic charge for these services has been set at \$50 per month for each trainee, and is payable to the AID master disbursing account.

AID's guidance on this subject is contained in AIDTO Circular A-53 "Participant Training - Cost Procedures for Contractor Administered Participants" dated February 6, 1977. It requires USAIDs to report quarterly on the Summary of Allotment Ledger Transactions and Reconciliation with Disbursing Officer's Account (U-101 Report) the accrued expenditures applicable to participants under contractor-administered programs. These funds are to be identified separately and the "U-101's" footnoted showing the contract number, contractor's name, cost being accrued, and the number of person-months of training.

Under Assistance to Agriculture, two participants were sent to a contractor-administered training program -- Benchmark Soils (AID/TA-C-1108). Respective PIO/P's were completed by USAID/Indonesia, identifying "Assistance to Agriculture" as the project and allocating \$600 for each participant to fund the compulsory services. These PIO/P's cite that the \$600 was transferred to the master disbursing account, in accordance with the AIDTO Circular A-53.

According to the Controller's Office personnel, they had not reported the accrued expenditures on the "U-101 Report",

because they believe that these funds should be charged against the AID/Washington contract or funds. These officials explained that the PIO/P's citing Assistance to Agriculture were memorandum PIO/P's and not sub-obligating PIO/P's. Therefore, no funds were obligated under the project and no funds could be transferred. We were told that no questions have been raised by AID/Washington on either these two PIO/P's or the absence of any accrual on USAID/Indonesia's "U-101 Report."

We believe that USAID/Indonesia should ask AID/Washington whether these funds were transferred to the AID master disbursing account, as advised by these PIO/P's. Further, AID/Washington should be asked if USAID/Indonesia has any procedural requirement to report these charges on its "U-101 Report", as footnoted items.

Recommendation No. 5

We recommend that USAID/Indonesia ask AID/Washington (a) whether the funds for amenity services on contractor-administered programs were transferred to the AID master disbursing account, and (b) if the Mission should be reporting these accrued expenditures on its "U-101 Report."

EXHIBIT AUSAID/Indonesia
Status of Project 497-0189 Related Agricultural Assistance Projects
September 30, 1979

<u>Project Number</u>	<u>Title</u>	<u>Authorized Funding in thousands</u>	<u>Status 09/30/79</u>
497-0198	Agricultural Research	\$ 2,166	on going
497-0236	Brackish Water Fisheries Production	217	on going
497-0265	Agriculture Development Planning and Administration	7,300	on going
497-0286	Small Scale Fisheries Development	1,500	on going
497-0244	Luwu Area and Transmigration Development	15,000	on going
497-0238	Area Development Project Planning	408	completed
497-0242	Sederhana Irrigation and Land Development I	23,700	on going
497-0312	Land Mapping and Titling	500	on going
	Small Scale Agriculture Equipment Extension	(Funded through AID/W)	on going
Planned	Agro-Economic Survey (Studies)	<u>N.A.</u>	Project Paper prepared
	Total	<u>\$50,791</u>	

REPORT RECIPIENTS

USAID/Indonesia

Director 5

AID/W

Deputy Administrator 1

Bureau for Asia:

Assistant Administrator 1

Deputy Assistant Administrator (Audit
Liaison Officer) 1

Office of Indonesia and South Pacific/
ASEAN Affairs 1

Bureau of Development Support:

Office of Development Information
and Utilization (DS/DIU/DI) 4

Office of International Training (DS/IT) 1

Bureau for Program and Management Services:
Assistant Administrator (AA/SER/W) 5

Office of the Auditor General:(AG) 1

Auditor General (AG) 1

Executive Management Staff (AG/EMS) 12

Policy, Plans & Programs (AG/PPP) 1

Office of Legislative Affairs 1

Office of Financial Management (OFM) 1

Office of the General Counsel 1

Area Auditor General:

AAG/Washington 1

AAG/Africa (East) 1

AAG/Egypt 1

AAG/Latin America 1

AAG/Near East 1

OTHER

Auditor General, Inspections and Investigations
Staff (AG/IIS/Manila) 1

UNITED STATES GOVERNMENT

Memorandum

TO : Mr. Thomas C. Niblock, Director
USAID/Indonesia

DATE: February 20, 1980

FROM : *Fred C. Shaver*
Fred C. Shaver, AAG/EA

SUBJECT: Memorandum Audit Report No. 2-497-80-8
Assistance to Agriculture Project No. 497-0189

INTRODUCTION AND SCOPE

The 12-year old \$2.8 million grant Assistance to Agriculture Project (No. 492-0189) in Indonesia has funded a wide range of technical assistance, commodities, and training activities in the agriculture sector.

Since inception in 1968, the project has been revised twice -- in 1975 and 1977. Originally, it was designed to strengthen the administration, organization and operation of Project Bimbingan Massal (BIMAS), an existing Indonesian agricultural credit and extension program. BIMAS' role was to promote increased food grain production through wide scale application of modern technology -- fertilizer, high yielding seeds, and other agriculture inputs. In early 1975, the project design was revised to expand its coverage to agricultural planning, that is, identifying agricultural projects, which contribute to the Government of Indonesia (GOI) and AID program objectives, while concurrently recognizing the GOI Department of Agriculture's implementation and coordination capabilities. In 1977, the project design was further refined to specify that the project was to assist in the development of new agricultural programs and policies and corresponding increase in the Department of Agriculture's capability to design and implement such programs and policies.

The overall project goal has remained unchanged over its 12 year life: the increase of agricultural production and rural incomes.

Although the project was originally planned to be completed by fiscal year 1974, its completion date was extended in 1975 and 1977. Both times the project design was revised, necessitating new project papers and their approval, and additional funding authorizations. The estimated project completion date is February 1981.

As of September 30, 1979, the total funds authorized for the project were about \$2.8 million. Of that amount about \$2.7 million had been obligated and nearly all the funds were expended. The project funding component breakout as of September 30, 1979 was as follows:

<u>Component</u>	<u>Cumulative Obligations</u>	<u>Cumulative Expenditures</u>	<u>Unexpended Balance</u>
		--in thousands--	
U.S. Personnel	\$1,200	\$1,179	\$21
Participant Training	890	874	16
Commodities	222	222	0
Other Costs	371	371	0
Total	<u>\$2,683</u>	<u>\$2,646</u>	<u>\$37</u>

Over the life of the project about \$100,000 was deobligated. At the time of our audit, no funds remained available for obligation and the unexpended balance was fully committed.

The last audit report which covered this project was issued in August 1976, "United States AID Mission to Indonesia, Audit Report No. 9-497-76-30". That audit was a comprehensive audit of all USAID/Indonesia activities and did not contain any specific recommendations concerning this project. In the current audit, we reviewed project activities since Fiscal Year 1975, concentrating primarily on how they were managed, and whether they adhered to AID regulations and directives. We excluded a review of the International Rice Research Institute's (IRRI) contract for "Consulting Services on Small Scale Agriculture Equipment Extension" because the contract is included in an ongoing separate audit of all IRRI contracts in Indonesia.

We examined records and files at USAID/Indonesia, and discussed the project and our findings with concerned USAID officials. Their comments are included in the report as appropriate.

STATEMENT OF FINDINGS AND RECOMMENDATIONS

A. Success of Project in Meeting Its Objectives

The overall objective of the Assistance to Agriculture project is twofold: 1) improve or strengthen the administration, organization, and operations of BIMAS, the Indonesian agriculture credit and extension program, and 2) improve the Department of Agriculture's capabilities in agricultural planning, and the identification and implementation of new agricultural programs and policies.

According to the February 1978 joint GOI/USAID Project Evaluation Summary, the project has been used effectively in both areas. We were able to confirm this statement to be valid then, and at the time of our audit. We found that \$2.50 million out of \$2.65 million (94 percent) of the assistance provided under the project was directed towards the primary project purpose, with about \$0.15 million (6 percent) having a less immediate relevance. We also established that prior to 1975, the BIMAS program received substantial technical assistance and the majority of the commodity assistance through the project. During a field visit to a BIMAS program seed farm, which received some assistance from this project, we verified that equipment supplied prior to 1975 was still in use and being maintained. We were told that the World Bank had assumed the primary donor role for the BIMAS program and that AID has discontinued assistance.

Since 1975, project funds have financed a wide variety of technical assistance activities. In effect, the project has been a "catch all" for the GOI's Department of Agriculture. Project funds purchased consultant services, ranging from fisheries development to small scale agriculture equipment extension. Funds were also used to support agriculture planning seminars, and reports addressing Indonesia's agriculture potential. Participants trainees received financing for short or long-term training in the United States and other countries, covering a wide range of subjects, as for instance Agriculture Economics, Plant Breeding, Fisheries Development, and Pest Control. Commodities purchased from project funds, since 1975, included 11 vehicles, 2 outboard motor sets and a photo copier which are still in use at the respective subproject sites.

The effectiveness of BIMAS has diminished in recent years, according to USAID/Indonesia, but the organization is still in existence.

In the second area, agricultural planning and new programs, the current project was used to identify 11 potential future projects, in the agriculture assistance category. Only one of the 11 proposals was considered as lacking viability. Nine of the remaining 10 projects were approved and funded, as separate projects, while the tenth proposal was in the approval process at the time of our review. Exhibit A lists these details of this \$51 million effort, and reports on the status of each component, as of September 30, 1979.

At the same time, the project has also funded several activities which are not directly compatible with its stated purpose. The activities and the amount of funding are described below:

<u>Amount Provided</u>	<u>Title</u>	<u>Description of Activity</u>
\$119,515	Rural Dynamics Research in East Java	Rural Development Planning, a research study, concentrating on a) rural production systems, b) labor force and employment, and c) rural institutions, with emphasis on inter relationships and identification of constraints on development. Funding for 12 months.
\$10,000	Training Center for Image Interpretation	Construction of a building to be used as a laboratory and training center for aerial photography interpretation at Gajah Mada University.
\$10,000	Deepwater Well for Maros Research Station	Drilling at exploratory deep-water well and related equipment at the Agriculture Research Institution at Maros, South Sulawesi.
\$7,300	Operational Support for Cropping Systems Research	Two months operational support for the Central Research Institute for Agriculture's project on Cropping Systems in Southern Sumatra.
<u>\$146,815</u>		

According to USAID/Indonesia officials, there exists an indirect linkage even between these four activities and the project's purpose. They stated that each sub-project contributed to the Department of Agriculture's ability to plan better and implement new agriculture programs.

Specifically, "Rural Dynamics Research" is being carried out by the only group in Indonesia capable of performing baseline social/economic investigations on which better agricultural planning can be based. USAID/Indonesia was considering assistance to ensure continuation of this research activity; thus some compatibility can be established at least indirectly, with the Project 497-0189's purpose.

Likewise, the Training Center for Image Interpretation is to be absorbed into another proposed USAID/Indonesia project on the use of aerial and satellite photography in agriculture planning. While aerial photographic data was available in

Indonesia, Gajah Mada University lacked a center for interpretation and training. Because of aerial photography's relevance to agricultural planning, this activity ties in indirectly to the project's purpose.

The Agriculture Research Institute at Maros lacked an adequate water supply. While funding of the well construction was only indirectly linked to the project purpose, the overall viability of the Institute tied directly to the project goal -- the increase of agricultural production and rural incomes.

The last activity is also research related. The Cropping System Research project was being funded by other donors and the GOI, but a budget shortfall occurred because follow-on funds were tied up in project negotiations. To prevent a research stoppage, Assistance for Agriculture funds were used to make up the shortfall, because of the importance of crop research to agricultural improvements.

USAID/Indonesia officials further defend the support of these activities by citing the project's quick response capability to the GOI's needs, with an overall gain of goodwill between USAID and GOI. The 1978 joint project evaluation commented specifically on these beneficial trends.

We do not question the need to finance the four sub-projects identified in this section. However, we believe that current directions in project management require that each project has a discrete purpose and that project funds should be directed to that purpose. We can accept USAID/Indonesia's position that these sub-projects can be linked indirectly to the project's purpose and goal statements. But, we must also disclose actions which deviate from published directives. We believe that the project's purpose statements should be written to cover all the sub-projects funded under the project and that the project office should insure that proposed sub-projects can be directly linked to the project's purpose.

Recommendation No. 1

We recommend that USAID/ Indonesia instruct project officers that project inputs should be directly linked to the approved project purpose statements or that the statement be revised to incorporate the sub-project(s).

Sub-project Extension Overlooked

The \$119,515 grant for "Rural Dynamics Research" was to be fully disbursed and accounted for by March 1, 1979, according to the Letter of Agreement. Excess funds, if any, were to be returned to USAID/Indonesia. The study was to be continued under another USAID/Indonesia project, whose authorization was still being finalized at the time of our audit.

Apparently, the project was extended until the grant funds were fully utilized. The first accounting of grant funds was submitted in December 1979 and it showed expenditures through November 1979. According to USAID/Indonesia officials, they had held several discussions with the grantee about funding the continuation of the research group's activities. While no formal memoranda were prepared, all parties agreed that the project should be extended.

The grantee had prepared numerous reports since the study began, and had complied with USAID/Indonesia requirements on submitting these reports. USAID/Indonesia was satisfied with the reports submitted.

Since USAID/Indonesia concurred with an extension beyond the date set out in the Letter of Agreement, the grantee was not at fault in continuing to expend the grant funds. However, USAID/Indonesia should have concurred formally. We believe that USAID/Indonesia should review the grantee's recent progress and formally extend the project to cover all expenditures beyond March 1, 1979, if warranted. In the event the Mission disagrees, it should request a refund of the March 1, 1979 unused balance.

Recommendation No. 2

We recommend that USAID/Indonesia review the progress of the grantee and formally extend the project to authorize the expenditures under the project since March 1, 1979. Conversely, if USAID/Indonesia does not agree to this extension, it should request a refund of the unused grant funds balance as of March 1, 1979.

B. Accounting for Sub-project Advances

Four sub-projects, funded under Assistance to Agriculture, obtained advances for operational purposes. At the beginning of our audit, only two accounting reports on the use of these funds had been obtained by USAID/Indonesia. During our audit, the project officer requested and received the remaining two reports.

In the course of our examination of the internal controls and procedures governing advances for sub-projects, we determined that USAID/Indonesia does not have automatic follow-up procedures to detect delinquent expenditure reports.

The remaining two reports were past due by more than 9 months. The sub-project's advances were for Rural Dynamics Research in East Java -- \$119,515-- and the Agriculture Research Institute at Maros -- \$7,300. Both accountability reports were due in March 1979, according to the respective Letters of Agreement.

Recommendation No. 3

We recommend that USAID/Indonesia establish a follow-up procedure for advances to sub-projects enabling the Controller's Office to inform project officers whenever such accounting is 30 days past due. The project officer should routinely contact recipients of advances and obtain an adequate accounting of expenditures, together with refunds of unused funds.

The project officer for this project has followed the practice of submitting expenditure reports for sub-projects to the Controller's Office for financial analysis.

The December 1979 accounting report for Rural Dynamics Research did not contain receipts or vouchers supporting about \$112,000 of expenditures. The project office subsequently requested and received the documents supporting the reported expenditures. Until these are reviewed, we cannot attest to the validity of the expenditures. However, the accounting report did show the expenditures charged against the approved budget line items for the sub-project.

In the case of another advance of \$18,500 for an agriculture planning course, the financial analyst questioned five expenditures totalling less than \$250 and requested more information. While the project officer stated that these questions were adequately resolved, no record of the resolution was in the project files. Subsequently, the project officer requested a report on these five questioned expenditures.

Since the project office is taking corrective action, we are not making a recommendation for improving expenditure documentation.

C. Participant Training

Since inception in 1968 through September 1979, Assistance to Agriculture has contributed to the funding of about 169 participant trainees. The vast majority -- 156-- participants were sent for short term training and the balance -- 13-- were involved in long term/academic degree training.

During fiscal years 1975 through 1978, 44 participants were sent for training under the project -- 36 participants for short term training and 8 for long term training. We selected 13 participants to determine whether:

- 1) training was completed,
- 2) the trainee returned to Indonesia, and
- 3) the trainee was still in a position to utilize the training received.

We found that 11 of the 13 participants had completed their training program, returned to Indonesia and were reported to be in positions commensurate with their training. The remaining two participants, were still enrolled in their training programs.

For 11 participants who had returned, the training office had current data on 10 participants and their positions. One trainee, who had returned from a one month observational tour, had not responded to USAID/Indonesia since he had returned in August 1976.

The USAID/Indonesia participant training follow-up program relies heavily on the participant response to a questionnaire. Since only one of the 11 returned participants selected had not responded, we are not making a recommendation on this point.

The Participant Training Handbook (AID Handbook 10) states that successive academic degrees are not programmed, and exceptions require full justification. We found that USAID/Indonesia had programmed one participant, under Assistance to Agriculture, to obtain a masters degree and a doctorate. We were unable to find a written justification for programming the successive degrees.

A senior training official informed us that it has been the practice of USAID/Indonesia to prepare the Project Implementation Order/Participant (PIO/P) showing successive degrees when the position the participant is scheduled to return to benefits by the higher qualification. He pointed out, however, that it is not automatic that

a participant would obtain the successive degree. In the case in point, the participant would have to maintain a high academic standing to warrant acceptance into a doctoral program. Further, this successive training is subject to fund availability.

In our opinion, the requirements of the Handbook must be followed more closely. If successive degrees for participants are warranted, then USAID/Indonesia should back up the merits of its case with a written justification.

Recommendation No. 4

We recommend that USAID/Indonesia identify all participants programmed for successive academic degrees and justify them in writing.

Clarification Needed on Paying Amenity Service Charges on Contractor-Administered Participants

All AID participant trainees are included in compulsory "amenity service" contracts which include: Health insurance, information and motivation materials, education resource materials, training and evaluation, and port of entry reception and orientation. The basic charge for these services has been set at \$50 per month for each trainee, and is payable to the AID master disbursing account.

AID's guidance on this subject is contained in AIDTO Circular A-53 "Participant Training - Cost Procedures for Contractor Administered Participants" dated February 6, 1977. It requires USAIDs to report quarterly on the Summary of Allotment Ledger Transactions and Reconciliation with Disbursing Officer's Account (U-101 Report) the accrued expenditures applicable to participants under contractor-administered programs. These funds are to be identified separately and the "U-101's" footnoted showing the contract number, contractor's name, cost being accrued, and the number of person-months of training.

Under Assistance to Agriculture, two participants were sent to a contractor-administered training program -- Benchmark Soils (AID/TA-C-1108). Respective PIO/P's were completed by USAID/Indonesia, identifying "Assistance to Agriculture" as the project and allocating \$600 for each participant to fund the compulsory services. These PIO/P's cite that the \$600 was transferred to the master disbursing account, in accordance with the AIDTO Circular A-53.

According to the Controller's Office personnel, they had not reported the accrued expenditures on the "U-101 Report"

because they believe that these funds should be charged against the AID/Washington contract or funds. These officials explained that the PIO/P's citing Assistance to Agriculture were memorandum PIO/P's and not sub-obligating PIO/P's. Therefore, no funds were obligated under the project and no funds could be transferred. We were told that no questions have been raised by AID/Washington on either these two PIO/P's or the absence of any accrual on USAID/Indonesia's "U-101 Report."

We believe that USAID/Indonesia should ask AID/Washington whether these funds were transferred to the AID master disbursing account, as advised by these PIO/P's. Further, AID/Washington should be asked if USAID/Indonesia has any procedural requirement to report these charges on its "U-101 Report", as footnoted items.

Recommendation No. 5

We recommend that USAID/Indonesia ask AID/Washington (a) whether the funds for amenity services on contractor-administered programs were transferred to the AID master disbursing account, and (b) if the Mission should be reporting these accrued expenditures on its "U-101 Report."

EXHIBIT AUSAID/Indonesia
Status of Project 497-0189 Related Agricultural Assistance Projects
September 30, 1979

<u>Project Number</u>	<u>Title</u>	<u>Authorized Funding in thousands</u>	<u>Status 09/30/79</u>
497-0198	Agricultural Research	\$ 2,166	on going
497-0236	Brackish Water Fisheries Production	217	on going
497-0265	Agriculture Development Planning and Administration	7,300	on going
497-0286	Small Scale Fisheries Development	1,500	on going
497-0244	Luwu Area and Transmigration Development	15,000	on going
497-0238	Area Development Project Planning	408	completed
497-0242	Sederhana Irrigation and Land Development I	23,700	on going
497-0312	Land Mapping and Titling	500	on going
	Small Scale Agriculture Equipment Extension	(Funded through AID/W)	on going
Planned	Agro-Economic Survey (Studies)	<u>N.A.</u>	Project Paper prepared
	Total	<u>\$50,791</u>	

REPORT RECIPIENTS

USAID/Indonesia

Director 5

AID/W

Deputy Administrator 1

Bureau for Asia:

Assistant Administrator 1

Deputy Assistant Administrator (Audit
Liaison Officer) 1

Office of Indonesia and South Pacific/
ASEAN Affairs 1

Bureau of Development Support:

Office of Development Information
and Utilization (DS/DIU/DI) 4

Office of International Training (DS/IT) 1

Bureau for Program and Management Services:
Assistant Administrator (AA/SER/W) 5

Office of the Auditor General: (AG) 1

Auditor General (AG) 1

Executive Management Staff (AG/EMS) 12

Policy, Plans & Programs (AG/PPP) 1

Office of Legislative Affairs 1

Office of Financial Management (OFM) 1

Office of the General Counsel 1

Area Auditor General:

AAG/Washington 1

AAG/Africa (East) 1

AAG/Egypt 1

AAG/Latin America 1

AAG/Near East 1

OTHER

Auditor General, Inspections and Investigations
Staff (AG/IIS/Manila) 1